idc

protect the freshness™

quarterly report
june 30 2018

contents

management’s discussion and analysis

the company and its mission

International Dispensing Corporation (“IDC” or the “Company”) is incorporated in the state of Delaware and its core product, The Answer® tap, was patented in 2002. A flexible packaging R&D company targeting the food and beverage industry, the Company continues to pursue the original vision on which it was founded: to create and market a cost-effective dispensing system that can keep aseptic liquid contents fresh and uncontaminated (shelf-stable) through the entire dispensing cycle (days, weeks, or months, depending on the product) without recourse to refrigeration or preservatives. In recent years, the Company has broadened its scope over the supply chain and expanded its intellectual property in an effort to offer a complete packaging solution to customers. Its official mission statement reads: “To supply our customers innovative, cost effective, environmentally responsible dispensing solutions while delivering value to our shareholders.”

message from the chairman

“The addition of José Martinez Navarro (“Pepe Martinez”) to our board of directors is a powerful new development. An 18-year veteran of The Coca-Cola Company, Pepe was global director of all Aseptic Procurement, and as such is uniquely qualified both to assess The Answer®’s potential, and to help IDC reach its full potential. Pepe is already proving to be an extremely active director in Mexico/Latin America and China; we believe his character, leadership, and credentials make him a real difference maker. IDC is in serious discussions with two multinational packaging companies - one is USA-based, one Europe-based - regarding potential joint ventures which we believe will meaningfully increase shareholder value. Moreover, IDC is aligning with industry leaders in filling equipment and bags to form the ‘Alliance for Aseptic Foodservice’ (AAF) in order to market a complete system. We look forward to sharing more about this initiative in the coming weeks.”

Greg Abbott

IDC founder & chairman

the global opportunity

vision

To develop and commercialize the world's preeminent aseptic tap for large-format food & beverage packaging and become "the Tetra Pak of Foodservice."

execution & historical company timeline

With the aseptic packaging industry projected to exceed $62 billion by 2020 (Infiniti Research), and with more people consuming food and beverages away from home, a large-format aseptic package for foodservice represents a significant global opportunity, but one that comes with an exceedingly high technical bar. Some major companies tried in vain to design an aseptic tap. Several industry experts with PhD's told us that creating a true aseptic tap defied the laws of physics and was "impossible". Against this backdrop of inertia, and with most packaging companies cutting or eliminating R&D, IDC enlisted some very talented freelance engineers to create a workable design. Ever since, IDC has been committed to perfecting its Intellectual Property by continuously refining and improving the mechanics of The Answer®, protecting its trade secrets with patents for design and use in 22 countries – erecting formidable barriers to entry. Obtaining a U.S. patent in 2002 was just the beginning.

Each of the tap's five parts underwent several refinements and costly tooling modifications before becoming "The Answer®" – which we believe is the only aseptic tap in the world today. The actuator started as a spring and evolved into a snap-action "inverted umbrella" robust enough to withstand the high doses of radiation required in aseptic dairy packaging. The outer hard case or body of The Answer® underwent numerous adjustments to enhance flow and function. The silicone seal, the "brains" of the tap, went through three design and tooling iterations in the U.S. before Austrian-based Starlim-Sterner, the world's preeminent manufacturer of silicone medical parts, improved the strength and suppleness of the seal to robust new levels with a proprietary design and high-cavity tooling. The molds used to produce the body of The Answer® are owned by IDC and the process for producing the silicone seal is patented by IDC. Together they are a considerable source of value for IDC shareholders.

Design alone does not give you an aseptic tap. The manufacturing process must incorporate sophisticated quality control checks to detect microscopic flaws – the aseptic industry, especially the major global brands, will accept nothing less. In 2005, IDC convinced Hoffer Plastics, an injection molding and assembly company supplying several Fortune 500 companies, to be its manufacturer. IDC collaborated with Hoffer to design a state-of-the-art, fully automated assembly machine specifically for The Answer®, which resulted in cutting unit costs in half and obtaining in-plant regulatory approvals from NSF and FDA.

In 2006, IDC commissioned the Institute of Environmental Health (IEH), a leading FDA processing authority, to conduct rigorous sterility protocols. Inoculating spouts with abnormally high concentrations of harmful bacteria, creating a condition that can only exist with sabotage, IEH dispensed volatile growth- promoting liquids to determine if any of the bacteria would migrate into the bags. The process was repeated for 35 days, and just one breach of the 800 bags tested would doom the entire test to failure. Not only did The Answer® pass this stringent protocol, but the IEH test findings were published in the peer-reviewed *Journal of Food Protection* (2008).

Although it was premature, IDC worked in a parallel path on market development. While aseptic was widely accepted and the predominant form of processing overseas, North America remained its smallest market due to an established cold chain; there was no urgency for companies to adopt and plenty of skepticism. Even though The Answer® was ahead of its time and still in the process of being proven, IDC managed to garner strong interest from Hershey's, Coffeecol, and Steuben Foods – all of whom issued press releases, which bolstered IDC's industry exposure. Hershey's used The Answer® to dispense flavored milk at its Chocolate World theme park and at major trade shows; Coffeecol dispensed its dairy- based Juan Valdez coffee beverages from Coca-Cola trade show booths; Steuben Foods featured its own dairy- based coffee beverages at industry events. Lack of suitable manufacturing infrastructure ultimately killed these projects. Bag-in-box (BIB) filling speeds were dramatically slower than other packaging formats. No BIB filler in the U.S. could run The Answer® as a single fitment, and a double fitment bag was cost prohibitive. It was difficult even for Hershey's to get manufacturers to invest time and money in something unproven. Costco agreed to carry orange juice with The Answer® packed by Country Pure Foods, but when Hurricane Katrina wiped out the orange juice crop the project was cancelled. Despite these false starts, clear interest had been demonstrated. Cold Star became a customer in 2009 and has remained one ever since.

Meanwhile, awareness continued to build: In 2007, Jane Goodall endorsed The Answer® for its ability to deliver nutrition in bulk to every needy corner of the world without requiring refrigeration; in 2008, Allied Development released its independent Life Cycle Analysis scientifically proving that a BIB package with The Answer® consumed dramatically less energy, green-house gases, and landfill than other mainstream packaging formats, including aseptic cartons.

In 2009, PepsiCo launched a BIB package in the U.S. using its own tap and experienced widespread sterility breaches; every package had to be recalled. The debacle prompted PepsiCo to conduct a formal global search for an aseptic tap, which found that The Answer® was the world's only bona fide solution. PepsiCo sent several delegations to Hoffer; PepsiCo China ran successful sterility and market tests in numerous foodservice venues and with IDC's guidance procured a filling machine; and in 2012 PepsiCo International signed a global supply agreement with IDC. A mere two weeks later, PepsiCo China announced a sweeping joint venture with Taiwan-based Tingyi, who became its bottler, causing all new projects to be put on hold while the two companies underwent a government approval process followed by a long and complex integration. Despite doing no business, PepsiCo renewed its contract with IDC in early 2015, and in February 2016 PepsiCo began to resurrect the project (see sales & marketing).

Concurrently, IDC was busy addressing infrastructure issues and the handicap stemming from offering a component part rather than a total packaging system. In 2010, IDC partnered with Sealed Air and Alfa- Laval to co-develop the world's fastest BIB filling machine for high volume users. Recently, the Company worked out an arrangement with Elpo, a leading Italian equipment manufacturer, to offer more affordable fillers for business development, and signed bag supply agreements with Sealed Air and Goglio. These and other on-going initiatives have enabled IDC to leverage the sales forces of other companies and negotiate new revenue streams on the package and manufacturing components; but even more significantly, these alliances have bolstered IDC's go-to-market strategy. In a broader sense, IDC's relentless marketing efforts have transformed its industry. Virtually every BIB filling machine made today is faster and capable of running The Answer® as a single fitment, and for older machines conversion kits to run The Answer® are now readily available. Any manufacturer who runs Tetra Pak or SIG Combibloc aseptic cartons is a potential candidate for IDC, and the Company is now in a position to offer them a turnkey solution: bag, filler, and of course The Answer®, which is what makes the large-format aseptic packaging possible.

With the forming of its Industry Advisory Board in 2013, and eyes opened by its exposure to China via PepsiCo, IDC made the decision to pivot its sales focus largely toward the developing world, which besides having less refrigeration and rapid growth is accustomed to aseptic products and more open to adapting new technology with greater speed to market.

Bolstering this global initiative, IDC's sales and business development personnel continues to evolve. Joining Bo Thörn and Li Xin on the IDC team are two senior ex-Tetra Pak executives with a combined 40+ years Tetra Pak experience and universal industry respect. Between them, IDC now has high-level entree to the leading aseptic players in Europe, Russia, Turkey, Pakistan, India, the Middle East and Africa. These individuals have agreed largely to success-based compensation, reflecting their belief in The Answer® and IDC's mission.

sales& marketing

Already operating in the USA (Cold Star), China (Döhler), Germany (Naarmann & Qiagen), and Pakistan (ZAP Logistics), IDC is moving toward commercialization in Mexico (Coca-Cola FEMSA), China (Vitasoy), and further commercialization in the USA (TRU Aseptics & Döhler), among other customers. A product launch with a single major customer could make IDC cash flow positive.

While 45% (and growing) of the world's food & beverage spending is for consumption away from home, foodservice comprises approximately 3% of aseptic packaging – mostly by default -- due to the package size limitations. Therein lies IDC's advantage: to offer the world's only bona fide aseptic foodservice package, which represents a multi-billion-dollar opportunity.

To take full advantage of this opportunity, IDC has formed the "Alliance for Aseptic Foodservice" ("AAF"), bringing leading filling, bag, and dispenser companies under one marketing umbrella. AAF is already generating excitement among its participants; instead of selling fillers, bags, taps, and dispensers separately, the companies joining AAF unite to offer a powerful, purposeful synergistic approach in which the whole is greater than the sum of its parts. IDC has been moving in this direction, and was about to design its own custom unit for a BID™ (Bag-in-Dispenser), but the discovery of the Boxxle dispensing unit makes such development unnecessary, speeds up the time line, and provides the final piece. IDC has negotiated exclusive global aseptic rights to use the Boxxle dispensing unit for all UHT (aseptic) products, and the second-generation unit about to be unveiled offers the smartest and most attractive, compact, and affordable BIB dispensing unit in the world. No longer will potential customers have to visualize what the solution looks like; the solution is now real … and compelling.

IDC is also in separate joint venture negotiations with two of the largest global packaging companies in the world, one based in the USA and one in Europe. The Company is precluded by Confidentiality Agreements from saying more at this time.

china

Vitasoy, a venerated beverage brand based in Hong Kong and respected throughout China, has decided to launch aseptic products using The Answer® this year. The first beverage company to introduce Tetra Pak to China, Vitasoy intends to market soy milk, tea, and juice using The Answer®, and will begin by using Döhler as its co-packer. As the program grows Vitasoy is likely to procure its own BIB fillers with the assistance of IDC and the AAF.

In May 2018, Döhler won the AMCham "Best Food Tech Award" based on its utilization of The Answer tap, one of only two awards granted out of 100 entries. Last year, IDC & Döhler won the Marking Award, a global packaging competition sponsored by the Food & Beverage Innovation Forum (FBIF) in Shanghai, one of six awards out of several hundred entries. In winning the Marking Award for Highest Mark in Practicality, IDC and Döhler shared the winner's podium with Tetra Pak and Coca-Cola.

mexico & latin america

Coca-Cola FEMSA (Coca-Cola's largest global bottler with revenues of $19.5 billion) has told the Company it plans to market a branded line of juice products to hotels and other foodservice venues in Mexico's major cities and resorts. This will be followed by branded milk. The plan is to expand these foodservice product offerings into multiple countries in South & Central America and the Philippines. A FEMSA product launch is likely to have major global implications for IDC, both within The Coca-Cola Company and the aseptic beverage communities. Pepe Martinez Navarro, IDC's newest board member, knows the Coca-Cola FEMSA executives well and has already made contact with them in hopes of expediting the program.

IDC and AAF plan to introduce its turnkey solution and Boxxle dispensing units to a number of companies in Mexico and Latin America, including, but not limited to, Grupo LaLa, Pascual, AJE Group, and Laive.

pakistan (india & bangaladesh)

In late 2017, Naarmann (Europe's largest aseptic foodservice dairy) made its first shipment of milk with The Answer® into Pakistan. IDC's first Pakistan customer, ZAP Logistics (comprised of Pakistan's preeminent marketing company and highly experienced senior dairy executives) arranged for product placement into various venues – primarily "loose milk" shops and private homes – and used this initial shipment to conduct extensive customer research. The data exceeded expectations, revealing a virtually unanimous acceptance of the package as a hygienic, practical solution, one for which the consumer is even willing to pay a premium. Awareness of food safety and nutrition is growing within the country, and the Pakistani government is looking to pass minimum milk sterilization laws. IDC and ZAP Logistics are moving rapidly and successfully to set up local BIB production with 100% farm fresh milk, under the brand MilkEase, which will be distributed to milk shops and through home delivery. Twenty-five percent of the average Pakistani food budget is spent on milk.

Pakistan (as well as India, Turkey, and Bangladesh) represents a unique opportunity for a safe, unadulterated aseptic dairy package – a closed system that cannot be tampered with that offers a farm-fresh aseptic product. Pakistan (pop. 200 million people) is the world's fourth largest dairy consuming country but only 10% of the market is packaged. Virtually all the rest is in the form of "loose milk" sold in shops around the country. Raw, unprocessed milk in open, exposed tubs and loaded with bacteria is ladled into plastic bags; merchants typically dilute the milk with flood water, as well as with toxic chemicals to give it a white appearance. The contents need to be boiled constantly. The Answer® is uniquely suited to transform "loose milk" into a safe, dependable, low maintenance product and transform dairy consumption for millions, and potentially billions of people.

turkey & the middle east

The devaluation of the Turkish lira has slowed progress with Döhler Turkey and Göknur Gida for the time being. However, Döhler continues to makes investment in BIB filling equipment in preparation for eventual product launches. IDC management has forged a close personal relationship with the principals of Döhler Turkey, who have asked the Company to be patient.

europe & new zealand

The Company has entered into a strategic sales-and-marketing alliance with Privatmolkerei Naarmann GmbH, the leading ultra-high temperature (UHT) dairy in Germany specializing in foodservice. A 113-year- old fourth-generation family business known for its high quality and exclusive focus on foodservice, Naarmann will work in concert with IDC to promote Naarmann branded BIB dairy products with The Answer® across Europe and in Pakistan (see above). Other potential markets include India, Bangladesh, Nigeria, China, Mongolia, Malaysia, Vietnam, and Indonesia. After conducting rigorous tests, Naarmann is willing to guarantee 10 days of unrefrigerated dairy dispensing. Its actual tests kept the milk shelf stable for a considerably longer period, but 10 days, while conservative, represents an unprecedented milestone and a significant commercial breakthrough.

As a result of the Naarmann alliance, the Company has been contacted by Arla Food Industries in Denmark, the world's fifth largest diary by milk volumes.

BIBP, a leading bag-in-box producer in Poland is interested in presenting IDC's solution to its various dairy clients in Eastern Europe.

Fonterra, the largest company in New Zealand with $17.2 billion in revenues, all in dairy, has conducted two conference calls with the Company and has sent it a list of further questions. These mega-large companies typically proceed at their own pace, but as IDC shares its success elsewhere with them that pace is likely to quicken.

On a completely unrelated end-use front, Qiagen, a German biotech company with revenues of $1.4 billion, is using The Answer® on 5-liter bags to dispense nuclease-free water for molecular DNA and RNA research. Such research is used for finding cures for diseases, including cancer. Any imperfections in the water's sterility will sabotage such testing, and this is the world's only BIB application for nuclease-free water – and a thunderous proof of concept for The Answer®.

The Company has commenced discussions with one of the biggest global packaging companies in the world, based in Europe.

africa

Pepe Martinez will soon leverage his Coca-Cola background to reach out to House of Chi Ltd., Africa's largest aseptic beverage producer of juice and dairy (and a division of the Dutch- owned TGI conglomerate). The Coca-Cola Company has purchased a 40% stake in House of Chi and is likely to exercise its right to purchase the entire company by year end. House of Chi, has expressed interest in running various products with The Answer® for foodservice, and also possibly expanding its reach into Southeast Asia.

asia pacific

IDC and AAF plan to reach out to the leading aseptic players in Malaysia, Indonesia, and Vietnam with its composite turnkey solution and vision for aseptic foodservice. IDC's awards and success in Pakistan should also help propel interest in the Asia Pacific region.

usa

IDC's relationship with Koch Industries and its independently operated subsidiary Georgia Pacific (GP) continues to deepen. IDC has been re-invited to participate in Georgia Pacific's booth Pack Expo this October, and will be unveiling the Boxxle dispensing units for aseptic use. Meanwhile, negotiations on a commercial collaboration with GP and Koch Disruptive Technologies have progressed significantly with ShoreBridge.

TRU Aseptics (Wisconsin), a Grade A aseptic dairy with organic and kosher capabilities, has announced that its high-speed filler has received FDA approval to run The Answer®. Several projects for animal-based and plant based-milk, cold brewed coffee, and various juices are progressing. TRU Aseptics represents a significant beachhead for IDC in North America.

Döhler Americas has put together a foodservice team to drive sales of juice, tea, and coffee with The Answer® in the USA and Latin America. Döhler has made considerable capital investments in its Cartersville, GA plant. Since Pack Expo, Döhler Americas has garnered the interest of a major multinational beverage brand that wants to test-market The Answer® immediately for an ambitious coffee program.

IDC and AAF will be introducing its new composite solution for aseptic foodservice to retailers and distributors throughout North America.

overhead & personnel

By making some key personnel decisions, IDC has managed to reduce overhead *and* enhance its global reach, thus lowering the threshold for profitability. With this increased operational leverage, the Company believes that the addition of just one new significant customer could result in IDC becoming cash flow positive. One success is likely to trigger many more successes; the interest generated from the Döhler launch is already evidence of this, and we believe it is likely to intensify as more customers deploy The Answer®. IDC believes that its fixed expenses will increase only marginally even as the Company's growth spikes and reaches its global promise.

Greg Abbott, IDC's founder, chairman, and CEO, continues to dedicate his full time to IDC without salary.

Bo Thörn, a 25-year industry veteran with 15 of those years spent in senior positions at Tetra Pak, has had a powerful impact on the Company's business development, management, and organization. As Managing Director of Tetra Pak China, Mr. Thörn was largely responsible for building that business into the world's largest market. He is based on the East Coast in close proximity to New York City and works closely with Mr. Abbott to oversee IDC's business globally.

Prior to joining IDC, Li Xin managed the Cryovac food packaging business for the Asia region and built a large green-field investment in Shanghai before ascending to the Presidency of Sealed Air China. A Chinese national experienced in market entry, strategy, sales/profit growth, food safety, and sustainability, Mr. Xin is responsible for securing IDC's Döhler relationship, managing PepsiCo China, and developing other accounts within China. He is based in Shanghai.

Joining Bo Thörn and Li Xin on the IDC team is Pär Söderlund, another ex-Tetra Pak senior executive who gained a deep experience and understanding of the Middle East and Europe packaging sector from his days at Tetra Pak. He has agreed to be compensated primarily based on success.

Leon Gianneschi PhD, former CEO of the Scholle Corporation, has joined IDC as both advisor and investor.

IDC believes that this core group is world-class, highly respected at all levels throughout the industry, and will accelerate the pace of implementation in their respective regions.

IDC has upgraded its controller function into a CFO position with the hiring of Christopher Westwood. Mr. Westwood has 20+ years' experience in finance and investment banking at UBS, Lehman Brothers, and HSBC.

the answer & industry trends

Food safety, food waste, contamination outbreaks, nutrition, the adverse health effects of preservatives, and sustainability are all recurring issues that The Answer® squarely addresses. In its independent and comprehensive Life Cycle Analysis (2008), Allied Development concluded that the IDC solution expended "significantly less energy and greenhouse gases" and dramatically less landfill than other mainstream packaging formats. Based on these findings, IDC has reason to believe that its packaging solution maybe, arguably, is the most sustainable package in the marketplace.

intellectual property & trade secrets

The Answer® received initial U.S. patent protection in 2002, and additional U.S. patent protection in 2004. Currently, The Answer® has patent protection in Australia, Brazil, Canada, China, Eurasia (consisting of nine countries including Russia), Europe (UK, France, Italy, Germany, Spain, and The Netherlands), Hong Kong, Mexico, New Zealand, South Africa, and Japan. A patent application is currently pending in India.

Strong as these global patents are, IDC believes that its trade secrets constitute at least as much IP protection. Years of refining its various components and the assembly process, and the stringent sterility tests it has successfully conducted, have set an extremely high technical bar that any other competitor must attain in order to lay claim to having an "aseptic tap". There is absolutely no guarantee - in fact, it is highly unlikely – that even a direct knock-off of The Answer® will produce the consistency demanded by the aseptic industry. Any knock-off will be regarded a separate part, and no reputable food & beverage company will risk product recalls on a tap that hasn't been as thoroughly vetted as The Answer®. There are no short-cuts around the years of tooling, re-tooling, inoculated testing, regulatory approvals, and validation that are now in IDC's rear-view mirror. PepsiCo sent three delegations to Hoffer Plastics with the idea of manufacturing in China, only to abandon the notion when they saw the complexity of IDC's assembly process. IDC went through three U.S. silicone manufacturers before Austrian-based Starlim-Sterner designed the definitive seal, one that is proprietary to IDC.

The Company believes that between its patents and trade secrets, the barriers to entry are considerable. The technical standards IDC has set are high enough, and the process expensive enough, to discourage competition.

public relations

IDC has created a new comprehensive video on the virtues and value proposition of The Answer®, which will play continuously at Pack Expo at the Georgia-Pacific booth, and will thereafter be on IDC's website. The Company is in the process of updating its sales materials and website to reflect a shift from proving The Answer® efficacy – which has now been firmly established by micro testing, Naarmann's decision to guarantee 10 days of ambient dairy dispensing, and commercial success – to highlighting its value proposition: lower cost per serving, less handling, no waste, bigger branding surface, and low carbon footprint. This shift represents a major turning point in the Company's marketing thrust and enables the Company to approach more high-level decision makers rather than R&D gate-keepers.

IDC has trademarked the acronym BID™ (Bag-in-Dispenser). While BIB (Bag-in-Box) is the accepted industry terminology, BID™ refers to bags with The Answer® tap that can be loaded like flexible cartridges into a variety of free-standing housing units. BID™ saves the cost of a printed box and arguably makes a large-format bag with The Answer® tap the most economical means of delivering beverages.

financial condition & liquidity

As reflected in the Company's financial statements, the Company has experienced continuing net losses and negative cash flows from operations through June 30, 2018. The Company's continuing existence is dependent upon its ability to obtain additional financing, to generate sufficient cash flows to meet its obligations on a timely basis and to achieve and maintain profitable operations. The Company is attempting to obtain additional contracts to bolster sales of The Answer®. The Company is also seeking equity and/or debt financing. However, there can be no assurance that the Company will be successful in these matters.

During the third quarter of 2015 the Company entered into an agreement for a bank line of credit totaling $350,000 under which $315,757 was outstanding as of June 30, 2018. This line of credit is due on demand with an interest rate of prime plus 1%.

The Company's financial statements have been presented on the basis that it will continue as a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company faces certain risks and uncertainties that are present in many emerging growth companies regarding product development and commercialization: limited working capital, recurring losses and negative cash flow from operations, future profitability, ability to obtain future capital, protection of patents, dependence on third party manufacturing organizations, and low levels of recurring sales. These risks and other factors raise substantial doubt about our ability to continue as a going concern.

The Company's primary source of funds since inception has been from the sales of its common stock ($42.0 million) and preferred stock ($1.5 million) and to a lesser extent from the occasional issuance of debt, much of which has since been repaid. Revenues have been consistently at a low level and stem from individual purchase orders rather than long-term contracts. To date, revenues have been insufficient to cover operating costs and losses are continuing as efforts to market the Company's products progress.

During the second quarter and first half of 2018, several individuals purchased a total of 222,222 and 800,001 shares of the Company's common stock for an aggregate purchase price of $100,000 ($0.45 per share) and $360,000 ($0.45 per share), respectively.

For the six months ended June 30, 2018 the Company incurred a net loss from continuing operations of approximately $1.36 million and used approximately $0.465 million in net cash from operating activities with a negative net working capital of $1.7 million. The Company had total cash and cash equivalents of approximately $0.384 million. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

results of operations

Six Months Ended June 30, 2018 compared to Six Months Ended June 30, 2017

Revenue: For the six months ended June 30, 2018, the Company had net revenues from The Answer® of $111,321 compared to the $238,740 of net revenues generated for the six months ended June 30, 2017, a decrease of $127,419 or 53%. This decrease in net revenues is due to a slowing of orders in Q2 2018 against what was a particularly strong order book in the first six months ended June 30, 2017.

Gross Profit: For the six months ended June 30, 2018, the Company had a gross loss of $(26,497) compared to a gross profit of $38,845 for the six months ended June 30, 2017, a decrease of $65,342 or 168%. The decrease is due to timing differences in the recording of revenue and related production and freight costs in Q4 2017 and Q1 2018.

Operating Expenses: For the six months ended June 30, 2018, the Company had total operating expenses of $1,316,411 representing an increase of $548,361 or 71%, compared to the Company's total operating expenses of $768,050 for the six months ended June 30, 2017. An increase in non-cash compensation was the primary driver of the increase in operating expenses for the six months ended June 30, 2018.

Loss from Operations: For the six months ended June 30, 2018, the Company had a loss from operations of $(1,342,908) representing an increase in loss from operations of $613,703 or 84% compared to the $(729,205) operating loss for the six months ended June 30, 2017. This increase in loss from operations was primarily driven by increased non-cash compensation mentioned in the preceding paragraph about operating expenses.

Interest Expense: Interest expense for the six months ended June 30, 2018 was $25,129 compared to $21,623 for the six months ended June 30, 2017. The increase in interest expense for 2018 is due primarily to higher interest rates on borrowings under our Line of Credit.

Change of Fair Value of Warrant Liability: Change of Fair Value of Warrant Liability for the six months ended June 30, 2018 was $5,682 compared to $(57,584) for the six months ended June 30, 2017. The improvement is due to lower volatility of the Company's share price.

Net Loss: For the six months ended June 30, 2018, the Company had a net loss of $(1,392,355) compared to a net loss of $(838,412) for the six months ended June 30, 2017, representing a increase in net loss of $553,943 or 66%. The majority of the increase in net loss is due to non-cash compensation expenses previously noted in the paragraph about Operating Expenses.

Three Months Ended June 30, 2018 compared to Three Months Ended June 30, 2017

Revenue: For the three months ended June 30, 2018, the Company had net revenues from The Answer® of $32,319 compared to the $102,344 of net revenues generated for the three months ended June 30, 2017, a decrease of $70,025 or 68%. The decrease in net revenues is due to three fewer orders from one customer in Q2 2018 compared to Q2 2017.

Gross Profit: For the three months ended June 30, 2018, the Company had a gross profit of $7,168 compared to a gross profit of $12,780 for the three months ended June 30, 2017, a decrease of $5,612 or 72%. The decrease is due to fewer orders in comparison to the three months ended June 30, 2107.

Operating Expenses: For the three months ended June 30, 2018, the Company had total operating expenses of $281,464 representing a decrease of $90,556 or 24%, compared to the Company's total operating expenses of $372,020 for the three months ended June 30, 2017. The improvement is attributable primarily to lower non-cash compensation charges.

Loss from Operations: For the three months ended June 30, 2018, the Company had a loss from operations of $(274,296) representing a decrease in loss from operations of $84,944 or 24% compared to the $(359,240) loss from operations for the three months ended June 30, 2017. This decrease in loss from operations was primarily driven by lower non-cash compensation charges as previously noted.

Net Interest Expense: Net Interest expense for the three months ended June 30, 2018 was $13,013 compared to $10,081 for the three months ended June 30, 2017. The increase in interest expense for 2018 is due to higher interest rates on borrowings under our Line of Credit.

Change of Fair Value of Warrant Liability: Change of Fair Value of Warrant Liability for the three months ended June 30, 2018 was $(10,990) compared to $(15,099) for the three months ended June 30, 2017. The improvement is due to the impact of lower volatility of the Company's share price on the Black-Scholes model used to calculate the warrant liability.

Net Loss: For the three months ended June 30, 2018 the Company had a net loss of $(313,299) compared to a net loss of $(399,420) for the three months ended June 30, 2017, representing a decrease in net loss of $86,121 or 22%. The majority of the decrease in net loss is due to lower non-cash compensation expenses previously noted in the paragraph about Operating Expenses.

INTERNATIONAL DISPENSING CORPORATION

BALANCE SHEETS
JUNE 30, 2018 (unaudited) AND DECEMBER 31, 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash	$ 383,660	$ 488,638
Accounts Receivable Trade	32,319	144,891
Prepaid expenses	45,776	3,633
Total current assets	461,755	637,162
PROPERTY & EQUIPMENT		
Office equipment	96,593	96,593
Production equipment	3,402,805	3,402,804
	3,499,398	3,499,397
Less accumulated depreciation	(3,354,394)	(3,322,522)
Total property and equipment	145,004	176,875
TOTAL ASSETS	$ 606,759	$ 814,037
LIABILITIES & STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts Payable	$ 266,601	$ 221,025
Accrued expenses	156,125	188,080
Note payable to Stockholders	300,000	300,000
Line of credit	315,757	315,757
Other liabilities w arrants, at fair value	1,159,190	1,164,872
Total current liabilities	2,197,673	2,189,734
Convertible, redeemable preferred stock, $0.001 par value; 1,700,000 shares authorized; 1,500,000 issued and outstanding as of June 30th 2018 and December 31st 2017 respectively	1,500,000	1,500,000
STOCKHOLDERS' DEFICIT		
Common stock, $0.001 par value; 125,000,000 shares authorized; 88,419,611 and 87,619,610 shares issued and outstanding as of June 30, 2018 and December 31, 2017 respectively	88,419	87,619
Additional paid-in capital	42,112,056	40,935,717
Accumulated deficit	(45,291,389)	(43,899,033)
Total stockholders' deficit	(3,090,914)	(2,875,697)
TOTAL LIABILITIES & STOCKHOLDERS' DEFICIT	$ 606,759	$ 814,037

The information in the notes is an integral part of these unaudited financial statements

INTERNATIONAL DISPENSING CORPORATION

STATEMENT OF OPERATIONS (unaudited)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUES	$ 32,319	$ 102,344	$ 111,321	$ 238,740
COST OF GOODS SOLD	25,151	89,564	137,818	199,895
GROSS PROFIT/(LOSS)	7,168	12,780	(26,497)	38,845
OPERATING EXPENSES				
Engineering expenses	618	10,211	45,171	39,648
General & administrative expenses	737	4,761	4,200	11,192
Operational expenses	217,292	276,731	1,134,565	564,144
Selling expenses	48,427	54,920	100,603	97,974
Depreciation	14,390	25,397	31,872	55,092
Total operating expenses	281,464	372,020	1,316,411	768,050
LOSS FROM OPERATIONS	(274,296)	(359,240)	(1,342,908)	(729,205)
NET INTEREST EXPENSE	(13,013)	(10,081)	(25,129)	(21,623)
CHANGE IN FAIR VALUE OF WARRANT LIABILITY	(10,990)	(15,099)	5,682	(57,584)
NET LOSS	(298,299)	(384,420)	(1,362,355)	(808,412)
Preferred stock dividends	(15,000)	(15,000)	(30,000)	(30,000)
Net loss available to common stockholders	$ (313,299)	$ (399,420)	$ (1,392,355)	$ (838,412)
NET LOSS PER COMMON SHARE BASIC & DILUTED	$ (0.00)	$ (0.00)	$ (0.02)	$ (0.01)
BASIC & DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	88,224,786	86,725,668	87,873,126	86,027,038

The information in the notes is an integral part of these unaudited financial statements

INTERNATIONAL DISPENSING CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT (unaudited)
FOR THE SIX MONTHS ENDED JUNE 30, 2018

	Common shares outstanding		Common stock		Additional paid-in capital		Retained earnings		Total stockholders' (deficit)/equity
Balance - December 31, 2017	87,619,610	$	87,619	$	40,935,717	$	(43,899,034)	$	(2,875,698)
Additional shares issued for cash	800,001		800		359,200				360,000
									-
Stock Based Compensation					817,139				817,139
									-
Dividends payable							(30,000)		(30,000)
									-
Net loss June30, 2018							(1,362,355)		(1,362,355)
Balance June 30, 2018	88,419,611	$	88,419	$	42,112,056	$	(45,291,389)	$	(3,090,914)

The Information in the notes is an integral part of these unaudited financial statements

INTERNATIONAL DISPENSING CORPORATION

STATEMENT OF CASHFLOWS (unaudited)
FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

	June 30, 2018	June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	(1,362,355)	$ (808,412)
Depreciation	31,872	55,092
Stock-based compensation	817,139	219,883
Change in fair value of warrant liability	(5,682)	57,584
Net changes in		
Accounts receivable	112,572	(77,209)
Prepaid expenses	(42,143)	10,297
Accounts payable	15,574	50,577
Accrued expenses	(31,955)	2,886
Net cash used in operating activities	(464,978)	(489,302)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	-	(55,049)
Net cash used in investing activities	-	(55,049)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from/(repayment of) notes from stockholders, net	-	(281,056)
Net borrowings on/(repayment of) line of credit	-	208,436
Proceeds from issuance of common stock	360,000	649,980
Net cash provided by/(used in) financing activities	360,000	577,360
NET INCREASE/(DECREASE) IN CASH	(104,978)	33,009
CASH AT BEGINNING OF PERIOD	488,638	666,766
CASH AT END OF PERIOD	$ 383,660	$ 699,775
Supplemental schedule of non-cash activities:		
Accrued interest paid		$ 10,484
Preferred stock dividends accrued but not paid and included in accounts payable	$ 30,000	$ 30,000

The information in the notes is an integral part of these unaudited financial statements

Notes to the Financial Statements

1. the company & organization

International Dispensing Corporation ("IDC" or the "Company") was incorporated in the State of Delaware in October 1995. The Company designs and manufactures proprietary packaging and dispensing solutions for the flowable food, beverage, medical, pharmaceutical and chemical industries. IDC's business model offers companies proven market solutions that offer higher levels of product safety and product performance.

IDC's single focus is on the development of market solutions whose value may be optimized through a joint venture alliance, license agreement or sale of the technology. IDC's business plan is organized on five platforms.

I. Identify emerging packaging and dispensing market trends in the flowable foods, beverages, medical, pharmaceutical and chemical industries.

II. Design and incubate new packaging and dispensing technologies that deliver measurable improvements in product safety and product performance.

III. Demonstrate that the new technology can be mass marketed and mass produced.

IV. Deliver each new technology with the necessary patent and regulatory certifications completed.

V. Partner with leading flexible packaging companies in joint venture alliances, license agreements or sale of the technology to maximize shareholder value.

The Company continued to be subject to a number of on-going risks through June 30, 2018, which risks are continuing. For example, the Company is subject to risks related to the availability of sufficient financing to meet its future cash requirements and the uncertainty of future product development, regulatory approval, and market acceptance of existing and proposed products. Additionally, other significant risk factors such as loss of key personnel, lack of manufacturing capabilities, difficulty in establishing new intellectual property rights and preserving and enforcing existing intellectual property rights, as well as product obsolescence due to the development of competing technologies could impact the future results of the Company.

The results of operations for the six months ended June 30, 2018 are not necessarily indicative of the results that will be achieved for any future period.

2. going concern

The Company's financial statements have been presented on the basis that it will continue as a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company faces certain risks and uncertainties that are present in many emerging growth companies regarding product development and commercialization: limited working capital, recurring losses and negative cash flow from operations, future profitability, ability to obtain future capital, protection of patents, dependence on third party manufacturing organizations, and low levels of recurring sales. These risks and other factors raise substantial doubt about our ability to continue as a going concern.

The Company's primary source of funds since inception has been from the sales of its common stock ($42.0 million) and preferred stock ($1.5 million) and to a lesser extent from the occasional issuance of debt, much of which has since been repaid. Revenues have been consistently at a low level, but they stem from individual Purchase Orders and not long-term contracts. To date, revenues have been insufficient to cover operating costs and losses are continuing as efforts to market the Company's products progress.

For the six months ended June 30, 2018 the Company incurred a net loss from continuing operations of approximately $1.36 million and used approximately $0.465 million in net cash from operating activities with a negative net working capital of $1.7 million. The Company had total cash and cash equivalents of approximately $0.384 million. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company's ability to continue as a going concern is dependent on its ability to obtain additional financing, to generate sufficient cash flows to meet its obligations on a timely basis, and ultimately to attain profitability. The Company continues to raise additional financing and since June 30, 2018 has raised $0.05 million, has entered into a joint marketing arrangement, has entered into negotiations with a strategic partner, and is receiving indications of orders from customers. However, no assurance can be given that the Company will be successful in raising adequate funds needed. If the Company is unable to raise additional capital when required or on acceptable terms, it may have to significantly delay, scale back or discontinue the development or commercialization of one or more of its product candidates, restrict its operations or obtain funds by entering into agreements on unattractive terms, which would likely have a material adverse effect on its business, stock price and its relationships with third parties with whom it has business relationships, at least until additional funding is obtained.

3. significant accounting policies

Cash

Cash consists of cash in banks.

Accounts Receivable

The Company's accounts receivable consist of amounts due from customers operating in the food and beverage industry throughout the United States. Collateral is generally not required. The Company does not have a history of significant uncollectible accounts. For the periods reported, the Company has performed a detailed review of the current status of the existing receivables and determined that an allowance for doubtful accounts is not necessary.

Property and Equipment

Office equipment and production equipment are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives, generally five years.

Impairment of Long-Lived Assets

The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered impaired if its carrying amount exceeds the future net undiscounted cash flows that the asset is expected to generate. If such asset is considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the asset, if any, exceeds its fair value determined using a discounted cash flow model.

Revenue Recognition

Revenue is recognized upon shipment of the product to the customer.

Income Taxes

The Company uses the liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Management considers the likelihood of changes by taxing authorities in its filed income tax returns and recognizes a liability for or discloses potential changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in filed income tax returns that require recognition or disclosure in the accompanying financial statements. Any interest and penalties related to income tax matters is recognized as a component of operating expense. The Company's income tax returns for the past three years are subject to examination by tax authorities and may change upon examination.

Net Loss per Share

Basic net loss per share is computed by dividing net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted loss per share is determined using the weighted-average number of shares of common stock outstanding during the period adjusted for the dilutive effect of common stock equivalents related to preferred stock, outstanding stock options and deferred contingent common stock awards.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from such estimates.

Stock-Based Compensation

Compensation cost for all stock-based awards is measured at fair value on date of grant and recognized over the service period for awards expected to vest. Such value is recognized as expense over the service period, net of estimated forfeitures. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. Management considers many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience.

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of accounts receivable, accounts payable and accrued expenses, bank line of credit, and notes payable to stockholders. In management's opinion, the carrying amounts of these financial instruments approximated their fair value at June 30, 2018 and December 31, 2017.

Business Segments

The Company has determined that its current business and operations consist of one reporting segment.

Advertising

The Company expenses advertising costs as incurred. Advertising expenses totaled $0 for the six months ended June 30, 2018 and 2017 respectively.

Recently Issued Accounting Announcements

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”. The topic of revenue recognition had become broad with several other regulatory agencies issuing standards, which lacked cohesion. The new guidance established a “comprehensive framework” and “reduces the number of requirements to which an entity must consider in recognizing revenue” and yet provides improved disclosures to assist stakeholders reviewing financial statements. Management is currently evaluating the impact of adopting the new guidance on the Company’s financial statements. This statement will be adopted by the Company on January 1, 2019.

In February 2016, FASB issued ASU-2016-02, "Leases (Topic 842)." The guidance requires that a lessee recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right of use asset representing its right to use the underlying asset for the lease term. For finance leases: the right-of-use asset and a lease liability will be initially measured at the present value of the lease payments, in the statement of financial position; interest on the lease liability will be recognized separately from amortization of the right-of-use asset in the statement of comprehensive income; and repayments of the principal portion of the lease liability will be classified within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows. For operating leases: the right-of-use asset and a lease liability will be initially measured at the present value of the lease payments, in the statement of financial position; a single lease cost will be recognized, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis; and all cash payments will be classified within operating activities in the statement of cash flows. Under Topic 842 the accounting applied by a lessor is largely unchanged from that applied under previous GAAP. Management is currently evaluating the impact of adopting the new guidance on the Company’s financial statements. This statement will be adopted by the Company on January 1, 2020.

4. private placements of stock

During the third quarter of 2015 one individual purchased 1,500,000 shares of the Company's Series E Convertible, Redeemable Preferred Stock for a total purchase price of $1,500,000 ($1.00 per share). These shares are redeemable and can be converted to 5,000,000 shares of the Company's Common Stock. The purchase agreement allows for a 4% dividend payable either in cash or in additional shares of Series E Preferred Stock. These dividends are being accrued on the balance sheet in accounts payable and at June 30, 2018 and December 31, 2017 accrued preferred stock dividends amounted to $174,192 and $145,192, respectively. Under the purchase agreement the investor was granted warrants to purchase 5,000,000 shares of common stock at an exercise price of at $0.30 per share, which became exercisable one year after the date of grant and remain exercisable until the fifth anniversary of the date of grant.

As the preferred stock contains a redeemable provision at the shareholder's option, the item is not included with permanent equity, but a component of mezzanine equity and included in the balance sheet as a single line item between liabilities and stockholders' deficit.

In addition, the convertible provision was evaluated to determine if it was subject to a beneficial conversion feature ("BCF"). A BCF was concluded since the effective conversion price was below the per share fair value of the underlying stock into which it is convertible at the issue date. As a result, the Company recognized an asset discount from the BCF and a related credit to additional paid-in capital in the amount of $724,973, which was amortized as a deemed dividend over one year, the redeemable period and was netted against the convertible, redeemable preferred stock in the balance sheet.

In connection with the preferred stock issuance, the Company also issued warrants to purchase an additional 5,000,000 shares of common stock. The warrants are deemed a derivative liability and are measured at fair value at each reporting period. As a result, the Company recognized an asset discount for the warrants and a related credit to warrant liability in the original amount of $724,973. The discount was amortized as a deemed dividend over one year, the redeemable period, and was netted against the convertible, redeemable preferred stock in the balance sheet. The warrants are measured at fair value at each reporting period with changes in fair value recorded in the income statement. In the three months ended June 30, 2018 a loss of $(10,990), compared to a loss for the three months ended June 30, 2017of $(15,099), and in the six months ended June 30, 2018 a gain of $5,682, compared to a loss for the six months ended June 30, 2017 of $(57,584), were recorded under "Change in Fair Value of Warrant Liability" in the statements of operations.

During the three months ended June 30, 2018 and the six months ended June 30, 2018 several individuals purchased 222,222 and 800,001 shares of common stock, respectively, at an average value of $0.45 per share.

5. related party transactions

Beginning in 2012 the CEO made several personal loans to the Company. In 2016 the Company began repaying the principal on these loans with a final installment made in 2017 bringing the principal balance to $0. These loans were all due on demand. The Company accrued the interest associated with these loans as a liability on the balance sheet and after several repayments in 2017 the balance of interest owed the CEO is $28,375 and is included in accrued expenses on the accompanying balance sheet.

During the second quarter of 2014, affiliates of the CEO extended an aggregate of $300,000 in loans to the Company. Promissory notes were issued for these loans at an interest rate of 10% per annum. These loans are due on demand.

6. income taxes

The Company's federal statutory income tax rate was approximately 21%. The Company is also subject to applicable state income taxes, but due to losses, no taxes are paid. As a result of operating losses for the six months ended June 30, 2018, losses incurred since inception, and due to uncertainties surrounding the ability of the Company to realize the tax benefits, as discussed below, associated with its deferred tax assets, there is no provision or benefit for income taxes in the accompanying financial statements. As of June 30, 2018, the Company had a net operating loss carry-forward of approximately $30 million. The Company has established a full valuation allowance against its net deferred tax assets (which consist primarily of net operating loss carry-forwards) as the Company's ability to realize such assets is predicated upon the Company achieving profitability. In addition, the use of net operating loss carryforwards may be limited upon profitability as defined by IRC§382 as a result of ownership changes resulting from stock issuances.

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law. A significant portion of this new law is a reduction of the U.S. corporate tax rate to 21%, effective for years beginning after December 31, 2017. As our deferred tax asset is fully valued, there was no benefit or expense recognized from this change.

7. stock-based compensation

The fair values of stock options granted were estimated at the date of grant using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model was originally developed for use in estimating the fair value of traded options, which have different characteristics from the Company's employee stock options. The model is also sensitive to changes in assumptions, which can materially affect the fair value estimate.

On January 26th, 2018, the Board of Directors modified the maturity of 5,500,927 options and warrants with near term expiration dates to December 31, 2021. The modification resulted in an additional stock-based compensation expense of $500,965.

Total compensation cost charged related to stock-based compensation for the three months ended June 30, 2018, and 2017, amounted to $55,275 and $103,676, respectively, and for the six months ended June 30, 2018, and 2017 amounted to $817,139 and $219,883, respectively. No compensation cost related to share-based payment arrangements was capitalized as part of the cost of any asset during the three months ended June 30, 2018, and 2017 or the six months ended June 30, 2018 and 2017, respectively.

The Company accounts for its stock-based awards issued to non-employees in return for services using the fair value method. The fair value of the award is measured using the Black-Scholes option valuation model on the date that the services have been completed or on the performance commitment date, whichever is earlier (the "measurement date").

The Company has three stock option plans (the "Plans"). The 1998 Stock Option Plan (the "Participant Plan") provides for the granting of stock options to key employees, consultants or other persons ("Participants"). The objective of this Plan includes attracting and retaining the best personnel, providing for additional performance incentives and promoting the success of the Company by providing Participants the opportunity to acquire common stock. The objective of the second plan, the Director Option Plan ("the Director Plan"), is to attract and retain the best available personnel for service as outside directors of the Company, as well as to provide additional incentive to the outside directors of the Company to serve as directors and to encourage their continued service on the Board.

In July 2017 a new plan, the 2017 Stock Incentive Plan, with 6,000,000 shares, was approved by the Board to provide for Options, Stock Appreciation Rights, Restricted Stock, Performance Shares, and Cash Bonus Awards to be granted at the discretion of the Stock Options Committee as performance incentives for targets agreed by the Stock Options Committee.

The Plans provide for the granting of options, stock appreciation rights, restricted stock, performance shares, and cash bonus awards, that will qualify as "incentive stock options" for employees and non-qualified stock options for consultants and external directors.

On June 18, 1999, the Board of Directors approved an increase in shares reserved for grant under the Participant Plan and Director Plan up to 850,000 and 450,000 shares, respectively. On September 11, 2000, the Board of Directors approved an increase in the number of shares reserved for grant under the Participant Plan to 2,500,000 and on December 5, 2001 the Board of Directors approved an increase in the number of shares reserved for grant under the

Participant Plan to 5,000,000. The stockholders at the June 7, 2002 stockholders' meeting approved the increases in shares reserved for grant for both Plans. In December 2016 the Board of Directors approved an increase in the number of shares reserved for grant under the Participant Plan to 11,000,000, which was approved by board consent.

Options expire on such date as the Board of Directors or the Committee may determine at the date of issuance. The term of director stock options issued after January 1, 1998 and scheduled to expire before December 31, 2015 have been extended to expire on December 31, 2021.

The following table summarizes stock option activity for the Company for the six months ended June 30, 2018:

	Number of Shares	Weighted Average Exercise Price	Intrinsic Value
Outstanding at December 31, 2017	8,459,502	0.363	$ 408,720
Granted	-		
Exercised	-		
Cancelled	-		
Outstanding at June 30, 2018	8,459,502	0.363	$ 408,720

The following table summarizes information about stock options outstanding at June 30, 2018:

	Options Outstanding			**Options Exercisable**		
Exercise Price Range	Number Outstanding	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price	Number Outstanding	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price
.20 - .30	3,206,667	3.57	0.2028	3,140,000	3.62	0.2028
.312 - .58	4,821,168	3.72	0.4180	4,747,837	3.72	0.4189
.64 - 1.00	231,667	2.22	0.7727	231,667	2.22	0.7727
1.01 - 2.10	200,000	2.81	1.1340	200,000	2.81	1.1340
	8,459,502	3.60	0.3631	8,319,504	3.62	0.3644

As of June 30, 2018, in addition to the warrants described in Note 4, warrants to purchase 3,901,427 shares of the Company's common stock were outstanding at prices ranging from $0.20 to over $1.00 per share. The weighted average warrant price as of June 30, 2018 was $0.369.

As of June 30, 2018, there was unrecognized compensation expense of $48,689 remaining to be amortized through 2021 relating to all unvested stock options and warrants described above.

8. compensation

Greg Abbott, Chairman and CEO, continues to dedicate his full time to the company without cash compensation.

9. concentration of credit risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and trade receivables. The deposits at a financial institution are guaranteed by the Federal Deposit Insurance Company (FDIC) up to $250,000. At various times during the quarter, the Company had deposits in excess of the FDIC limit. The Company had accounts receivable balances of $32,319 and $144,891 as of June 30, 2018 and December 31, 2017 respectively the majority of which are from a single customer. Sales for the six months ended June 30, 2018 and June 30, 2017 includes sales to one major customer, who accounts for 90% of the total sales of the Company for each of the respective periods.

10. notes payable

Notes payable at June 30, 2018 consist of the following:

During the second quarter of 2014, affiliates of the CEO extended an aggregate of $300,000 in loans to the Company. Promissory notes were issued for these loans at an interest rate of 10% per annum. These loans are due on demand.

During the third quarter of 2015 the Company entered into an agreement for a bank line of credit totaling $350,000, which is due on demand with an interest rate of prime plus 1%, and for which the Company has pledged certain cash amounts as collateral with balances totaling $350,000 as of June 30, 2018. In addition to the cash collateral certain officers of the Company are guarantors of the Line of Credit for which they do not receive compensation. The balance of the line of credit account is $315,717 as of June 30, 2018 and $315,717 as of June 30, 2017.

Net interest expense on the above notes payable and all other obligations of the Company for the three months ended June 30, 2018, and 2017 was $13,013 and $10,081, respectively, and for the six months ended June 30, 2018 and 2017 was $25,129 and $21,623, respectively.

11. fair value measurements

Accounting Standards Codification ("ASC") Topic 820, Fair Value Measurements and Disclosures, defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability assuming an orderly transaction in the most advantageous market at the measurement date. In addition, ASC Topic 820 establishes a hierarchical disclosure framework which prioritizes and ranks the level of observability of inputs used in measuring fair value. These tiers include:

- Level 1—Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2—Observable market-based inputs other than quoted prices in active markets for identical assets or liabilities.
- Level 3—Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In connection with the issuance of convertible, redeemable preferred stock during the third quarter of 2015, the Company issued warrants to purchase an additional 5,000,000 shares of common stock. In accordance with ASC Topic 815, Derivatives and Hedging, the warrants are deemed a derivative liability and are measured at fair value on a recurring basis using the Black Scholes option pricing model, which is considered a Level 2 fair value measurement. This consideration is determined given that inputs used in the calculation, including common stock market value, exercise price, risk free interest rate and volatility are considered observable inputs. The change in the fair value of the warrants of $5,682 and $(57584) for the six month period ended June 31, 2018 and 2017, respectively, is reflected as Change of Fair Value of Warrant Liability in the accompanying statements of operations.

The Company has no other financial assets and liabilities measured at fair value on a recurring basis.

12. commitments & contingencies

From time to time, the Company is involved in legal proceedings arising in the ordinary course of business. We believe there is no litigation pending against the Company that could have a material adverse effect on the Company’s financial position, results of operations or cash flows.

13. subsequent events

The Company continues to raise additional financing and since June 30, 2018 has raised a further $50,000. A Line of Credit, under which $318,194 was outstanding, was repaid from a cash collateral account of $350,000 and closed in July 2018. The balance of $31,806 was transferred into the Company's business funding account. This will result in lowering future interest charges. In July 2018 Jose Luis Martinez Navarro was elected to the Board of Directors.

The Company has evaluated subsequent events for potential recognition and/or disclosure through August 16, 2018, the date the financial statements were available to be issued.

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