The following discussion and analysis should be read in conjunction with the Company’s financial statements and financial information included elsewhere herein.
contents

management's discussion and analysis 3
the global opportunity 4
we have the answer® 4
best-in-class manufacturing partners 5
the answer® has been validated 6
strategic alliance with sealed air corporation 7-8
sales and marketing 9-13
overhead and personnel 14
the answer® and industry trends 15
intellectual property 16
public relations 16
legal proceedings 16
results of operations 17
financial condition and liquidity 17-18
financial statements 19-22
notes to financial statements 23-30
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.”

“I am very pleased to announce the appointment of Dr. Ric Alvarez to our Board of Directors. A highly accomplished, results-oriented executive with over 30 years experience in the food and beverage industry, Dr. Alvarez has a successful record of leading publicly traded, family, and private equity companies to significant sales and EBITDA growth. He has held President & CEO positions at Overhill Farms, Spartan Foods, Frozen Specialties, Juanita’s Foods, and Country Pure Foods. Dr. Alvarez received a B.S. in Microbiology from the University of South Florida and a Ph.D. in Food Science and Human Nutrition from the University of Florida. Ric’s executive background combined with his high-level food safety and microbiology qualifications will significantly contribute our continued success.”

-Greg Abbott
IDC Founder & Chairman
Due primarily to Tetra Pak® and SIG Combibloc®, aseptic cartons account for a significant portion of worldwide retail beverage packaging, with an estimated combined volume of 230 billion cartons generating approximately $24 billion in annual revenue. In almost every country in the world, the aseptic carton is present on the retail shelf.

However, in the growing sectors of foodservice and bulk retail, aseptic packaging is still limited, yielding market position to tubs, pails, large cans, bottles, jars, and many other types of non-sustainable, cumbersome packaging. The Company believes it has an “answer” - The Answer® - which can introduce multi-serve aseptic liquids to foodservice the way Tetra Pak® and SIG Combibloc® introduced aseptic liquids to retail, in a package that is safe and conducive to repeated use.

With over 50% of every food dollar spent for consumption away from home, the target market for The Answer® is vast to be sure, though due to the current fragmented nature of foodservice packaging (as well as eventual opportunities in bulk retail) it is difficult to quantify a market potential for the Company and its technologies with any accuracy other than to say that there is a very significant upside once a large-format aseptic package with dispensing capability (i.e., The Answer®) gets traction.

It is not the Company’s intention to compete with Tetra Pak® and SIG Combibloc®, but rather to take the aseptic packaging concept to a large multi-serve package, one that is beyond the reach of current Tetra Pak® and SIG Combibloc® filling platforms and whose end-use is impractical for a traditional aseptic carton.

We have the answer®

Once an aseptic carton is opened, the contents are exposed to air and must be refrigerated and consumed within a short period of time, or otherwise spoil. This is why aseptic cartons are predominantly single-serve retail packages.
one liter and smaller - and why aseptic foods and beverages have not made commensurate inroads in the foodservice market, where multiple servings require a bulk package that can easily and safely meter out product over an extended period of time.

IDC’s dispensing tap, The Answer®, was created specifically to fill this foodservice void. Attached to a flexible bag or pouch, which is airtight when filled and collapses when product is dispensed, The Answer® takes the bag-in-box (“BIB”) packaging format, primarily associated with highly-preserved, inexpensive wines, into a much broader range of liquid aseptic products. With The Answer®, aseptically processed beverages and liquid foods can be safely dispensed over time from a large-format package (practically speaking, three to twenty liters, and even larger if necessary) without relying on refrigeration and without compromising product integrity.

To IDC’s knowledge, there is no other technology in the world besides The Answer® that can continuously dispense aseptic liquid food products at ambient temperatures while keeping the remaining product safe and secure for days and weeks, as if the package had never been opened. Any competitive solution would have to undergo the same rigorous, time-consuming testing and validation.

best-in-class manufacturing partners

While IDC continues to see itself as an intellectual property and R&D company, it has made the conscious decision to manufacture The Answer® rather than license it. The reasons for this are to maintain product integrity, guard manufacturing know-how (which we believe is at least as valuable as patent protection), and maximize margins by benefitting from economies of scale. The Company owns its tooling and assembly equipment, which are housed, maintained, and run at Hoffer Plastics (“Hoffer”), IDC’s manufacturing partner. An award-winning third generation family business located in South Elgin, IL, Hoffer supplies molded and assembled parts to a number of Fortune 400 companies. Hoffer has proven to be an innovative and reliable partner for IDC, improving quality, reducing costs, making significant investments, and assisting in new product development. IDC and Hoffer have forged a tight working relationship, and Hoffer continues to treat IDC as a first tier customer.

With Hoffer, IDC has developed a fully automated assembly machine for The Answer® with state-of-the-art quality control procedures to detect microscopic flaws. The Company believes that the experience and technical know-how arising from the IDC-Hoffer relationship serves as an even greater protection of its intellectual property than its global patents. Creating the design for an aseptic tap is only the first step in what amounts to many years of validation and honing in on production precision.

Over the past three years, three delegations from Pepsi China have visited Hoffer with the idea of making The Answer® in China, only to come away convinced that the tap manufacture should stay in the U.S. Protecting brand equity, they agree, is paramount, far more important than saving a few pennies. In the event it becomes necessary for whatever reason to consider overseas production, the Company would expect to do so with Hoffer as its partner.
While Hoffer molds four of The Answer® tap’s five parts, the most critical component—the silicone seal—is made elsewhere. Molding silicone is a highly specialized field, and The Answer® silicone seal is “the brains” of the tap, responsible for recreating a hermetic seal after each dispense.

The Company has recently partnered with Starlim-Sterner (“Starlim”), the world’s premier precision molder of silicone, to manufacture the seal and make it as robust as possible. Based in Austria with manufacturing facilities in Ontario, Canada, Starlim manufactures silicone parts for medical devices with microscopic tolerances and brings an unprecedented level of technical expertise, as well as superior cost control. The Company believes that Starlim is a stellar addition to its manufacturing team.

Considering that most foodservice establishments typically go through a bag of product in a few days, or a week at most, the results were extremely successful and, commercially speaking, a home run. The results inspired IEH to write a scientific paper—“Sterility Testing of a Dispensing Valve for Aseptic Function in Food Service”—which it presented in 2007 to the International Association of Food Protection (“IAFP”). The leading body on food safety, IAFP is comprised of scientists, academics, and FDA and...
USDA officials.

The IEH paper was submitted for peer review, allowing leading scientists in the field to challenge its findings before any publication could take place. In 2008, the paper was published in the Journal of Food Protection (“JFP”).

In 2011, Pepsi China also selected IEH to conduct microbiological tests on The Answer®, filling bags in China and shipping them by sea to IEH in Seattle. On a daily basis, spouts were inoculated with bacteria and product was dispensed for 30 days, which was the time standard PepsiCo was seeking. The test was a success—no bags were breached.

After many years of tests and validation, IDC has graduated from the gatekeepers and is now dealing solely with decision makers.

strategic alliance with sealed air corporation

In partnership with Sealed Air Corporation, IDC has completed development of an ultra-high-speed filler for BIB products—the IDC/Cryovac SpeedFlex™ BIB filler—and has begun to co-promote this new system throughout the world.

A global leader in food packaging and food safety, Sealed Air has a presence in 62 countries and serves customers in 175 countries, with over 25,000 employees and annual sales of $8 billion. A Fortune magazine survey conducted in February 2014 recognized Sealed Air as the “World’s Most Admired” packaging company based on such categories as innovation, social responsibility, quality of products, and global competitiveness. This underscores why IDC selected Sealed Air to be its strategic partner. At recent stock analysts’ meetings, while discussing its most important new innovations, Sealed Air’s executive team gave the IDC/Cryovac SpeedFlex™ BIB filler top billing in its presentations. The filler was designed and manufactured for IDC and Sealed Air by Alfa Laval in Parma, Italy.

A Sealed-Air produced video showing the filler in operation can be seen on the Company’s website (www.idcinnovation.com). While conventional BIB fillers fill bags at approximately 6 bags per minute for low-acid products and 10 bags per minute for high-acid products, the IDC/Cryovac SpeedFlex™ can fill a minimum of 30 bags per minute for low-acid products and 40 bags per minute for high-acid products—a quantum advancement.

The prototype filler in the USA has received FDA approval for low-acid food products and has been officially commissioned on meaningful volumes. A global giant in the food and beverage space (which we cannot name) has indicated a strong interest in moving two substantial pieces of business to the prototype and converting all bags to The Answer® (negotiations are underway). Sealed Air and IDC are in the process of marketing the filler and its respective packaging solutions to high-volume customers in Europe, Asia, and the Middle East.

The IDC/Cryovac SpeedFlex™ BIB filler creates a new and potentially explosive profit center for the Company, while also enhancing its ability to market The Answer® with a total supply chain solution that is easier for the customer to digest and deploy. No longer is the Company offering merely a component part; working hand in hand
with its very credible strategic partner, it can now offer a turn-key and highly efficient packaging system.

Virtually every beverage or ingredient dispensed from a machine at a cafeteria, fast-food restaurant, stadium etc. is delivered from a bag or pouch below the counter or in the back of the facility, and represents opportunity for the IDC/Sealed Air alliance. IDC has a financial stake in every Sealed Air bag run over every IDC/Cryovac SpeedFlex™ BIB filler. As more fillers get placed, this can represent a potentially explosive revenue stream for the Company.

The Sealed Air alliance agreement does not preclude the Company from pursuing other packaging industry relationships. In areas where Sealed Air does not yet have a BIB presence, IDC has forged a number of useful working relationships.
During Q4 2014 and into 2015, management continued to build momentum with several major multinational companies in the developing world, where lack of refrigeration, vast populations, acceptance of aseptic packaging, and an openness to adapt new technologies with greater speed to market make opportunities particularly attractive. Since the Q3 2014 report, the Company has driven the process forward in real and significant fashion, moving toward anticipated purchase orders. For aseptic packaging innovation, the process is always a long one, involving strenuous R&D testing as well as sales and marketing buy-in. Acceptance within a big company has to come from ALL departments, and when a company such as PepsiCo qualifies a new technology as it has for The Answer®, this represents a significant validation and accomplishment. The Company is establishing an entirely new packaging format with leading global beverage brands—a format that cuts across multiple food and beverage categories—a complex process where precision and perfection are paramount but where the ultimate rewards are great indeed. It is not unlike a pharmaceutical company conducting years of trials to get a revolutionary new drug approved. Despite this arduous path, once a new aseptic technology is established in the infrastructure as the industry standard, it becomes deeply rooted and virtually impossible to unseat. It should be noted that in all the times over the years that the Company has presented The Answer®, it has never received rejection or failed to generate interest. Below are some of the active opportunities the Company is pursuing by country, though this list is steadily expanding.
China

In October 2014, PepsiCo headquarters in Purchase, NY contacted IDC to renew the supply contract between the parties. Notwithstanding the delays related to the Tingyi integration in China, both PepsiCo headquarters and PepsiCo China have stated that The Answer® will “absolutely” be launched in 2015 and that there would be no reason to renew the contract otherwise. PepsiCo reiterated that a 10-liter bag with The Answer® continues to be its most cost-effective way of delivering beverages anywhere in the world; and that certain products catering to the Chinese palate have been specifically designed for the program. PepsiCo also confirmed that it conducted a comprehensive worldwide search for an aseptic tap and found that only The Answer® worked as promised and passed all their stringent protocols.

(It is almost a truism that once PepsiCo China launches The Answer®, interest and demand will come from all regions within the PepsiCo global community. During the above mentioned contract renewal discussions, PepsiCo headquarters stated this as a virtual given and offered assistance to IDC in drumming up support in other regions and markets.)

Li Xin, IDC’s managing director for China, will be a featured speaker at the Food & Beverage Innovation Forum in Shanghai (early May), attended by all the major beverage brands in China. As a result of Li’s speaking engagement last year, a major multinational food and beverage company is now moving toward a launch of tea, soy, and peanut milk products with The Answer® in China in late 2015.

Management plans to visit China in late May 2015 for a series of meetings, not just with PepsiCo/Tingyi but also with a host of other potential customers that Li Xin has been cultivating, including Doehler, Nestlé, Huiyuan (the largest privately held juice company in China), and Coca-Cola. During this visit, Tom Shaver, IDC’s President & CEO, will be a featured speaker at the Shanghai Food Safety & Innovation Conference, also attended by all the major beverage brands in China.

The Company has established a strategic alliance with Doehler, a German based co-packer with a strong China presence. An approved co-packer of PepsiCo China and Nestlé China, Doehler has invested in BIB fillers for the project and is in the process of actively marketing The Answer® to institutional customers throughout China.

Korea

As a result of PepsiCo China’s enthusiasm for The Answer®, the Company was asked to meet with PepsiCo Korea and its bottler Lotte during its most recent visit to China in Q3 2014. Together, PepsiCo Korea and Lotte market over 80 beverage brands. The meetings resulted in sample requests and considerable follow up, though it is the Company’s sense that real activity in Korea will be set in motion by a launch by PepsiCo China, which remains the prime mover.

India

In May 2014, the Company visited New Delhi, India and met with the senior strategist and senior procurement officer of The Coca-Cola Company India. The meetings verified that India is a potentially explosive market for The Answer® due to the benefits it delivers: safety, cost, carbon footprint, and the opportunity to penetrate new distribution channels. Due to confidentiality agreements, the Company cannot comment further at this time on the details of these meetings or on any follow-up communications it has had.
The Company has recently been contacted by the world’s largest producer of mangoes, based in India and the primary mango supplier to Coca-Cola, for sample bags and taps for a potential project.

The Company has joined the India Dairy Association, which it believes will provide entry to the largest dairy brands in the country. India is the world’s largest dairy-consuming country, followed by the USA, Germany, and Pakistan.

**frieslandcampina**

The Company is working closely with FrieslandCampina Germany, the market leader in dairy products in Germany, Austria, Switzerland, and Spain, to showcase IDC’s technologies and expand them globally throughout FrieslandCampina. The parent company, Royal FrieslandCampina (based in the Netherlands) is the world’s fourth largest dairy company with revenues of $15 billion spread throughout Europe, Asia, and the Middle East. It is Royal FrieslandCampina’s policy that once one region approves a product or technology, product or technology becomes available to all regions throughout the company.

**obeikan industrial group**

Over the past four years the Company has held periodic CEO-level discussions with the Obeikan Industrial Group, one of the largest aseptic carton and pouch purveyors in the Middle East and the regional strategic partner of SIG Combibloc and Elopak. In May, August and November 2014, IDC management flew to Riyadh, London, and Dubai respectively to continue discussions. One of the largest privately held firms in the Kingdom of Saudi Arabia (KSA), Obeikan, has an established track record of deploying complete systems from equipment to packaging, over a sales territory encompassing the Middle East and Africa (a population of roughly 1.4 billion). Obeikan and IDC have forged an informal partnership, in which Obeikan has agreed to lend its name and vast contacts to support and assist IDC in marketing its aseptic foodservice solution throughout the region. As IDC successfully penetrates the region, it expects to establish a more formal relationship with Obeikan with the aim of offering a total systems approach.

**middle east**

The Company met with Al Rabie, the largest juice manufacturer in the Middle East, in November 2014 and again in February 2015. Al Rabie, an exclusive TetraPak producer, continues to express excitement over being able to target institutional customers for the first time thanks to The Answer®. At the February 2015 meeting, Al Rabie shared with the Company a comprehensive formal survey it conducted with key foodservice institutions—mainly hotel and restaurant chains—which showed majority acceptance of the concept in the region.

Al Rabie indicated its desire to be the first in the region to deploy The Answer®, its willingness to invest in infrastructure, and is in the process of getting bags filled with juice to present to customers. Al Rabie’s normal operating procedure is first to establish the solution in the KSA and then aggressively expand it throughout the rest of the Gulf Region and Egypt.

**pakistan**

In February 2015, management traveled to Karachi, headquarters of Engro Foods, the largest dairy in Pakistan. Pakistan is the world’s fourth largest dairy-consuming country, and Engro foods commands 53% of that market and is Tetra Pak’s fifth largest customer worldwide. Since their initial meeting at the Gulfood Show in Dubai (February 2014) the Company and Engro Foods have been
Management continued to build momentum with several major multinational companies in the developing world, where lack of refrigeration, vast populations, acceptance of aseptic packaging, and an openness to adapt to new technologies with greater speed to market make opportunities particularly attractive.

mexico & latin america

In March 2015, the Company and Sealed Air met with Grupo Lala in Mexico City. Grupo Lala is the largest dairy brand in Mexico, and commands the majority of all aseptic milk sold throughout Mexico. The parties discussed placing a IDC/Cryovac SpeedFlex™ ultra-high-speed filler at Grupo Lala’s plant, as well as the opportunities for deploying The Answer® in the region. The meeting generated a letter of intent charting the path forward, including minimum volumes.

cold star

A leading distributor of bulk dairy dispensing systems throughout the United States and Canada, Cold Star continues to order The Answer® taps at a consistent annual rate of just under two-million units. Primary products include coffee whiteners, though Cold Star has made some inroads into ready-to-drink beverages using the IDC tap. The Answer® taps are in approximately 15,000 domestic locations, including truck stops, airports, schools, and other convenience outlets. The Cold Star model—placing bags into permanent cooling units and eliminating the cost of a printed box—is virtually identical to the model PepsiCo will be deploying in China. The Company is promoting this proven low-cost concept around the world and is working with Cold Star on ways it can dramatically expand its distribution throughout the USA through a major brand.

in regular touch—sharing technical, supply chain, and cost information—all of which let up to the visit to Pakistan. The Karachi meeting, an all-day interdisciplinary affair attended by sixteen Engro Foods department heads, underscored that, 1) IDC’s pricing model is competitive, 2) Engro is willing to invest in infrastructure, 3) Engro is willing to convert existing product lines to The Answer® and believes that The Answer® can help it expand other product lines into new distribution channels for the first time.

In March 2015, the Company and Sealed Air met with Grupo Lala in Mexico City. Grupo Lala is the largest dairy brand in Mexico, and commands the majority of all aseptic milk sold throughout Mexico. The parties discussed placing a IDC/Cryovac SpeedFlex™ ultra-high-speed filler at Grupo Lala’s plant, as well as the opportunities for deploying The Answer® in the region. The meeting generated a letter of intent charting the path forward, including minimum volumes.

brazil

The CEO of Ebba, the largest juice company in Brazil, has expressed interest in deploying a bulk aseptic package with The Answer® for both retail and foodservice. IDC has completed much of the cost analysis and logistical planning for a market test and is in the process of organizing a Brazil visit when time and schedules permit.

“The management continued to build momentum with several major multinational companies in the developing world, where lack of refrigeration, vast populations, acceptance of aseptic packaging, and an openness to adapt to new technologies with greater speed to market make opportunities particularly attractive.”
Several of the largest dairy producers in the United States have told the Company that they are convinced by the testing conducted by IEH and believe The Answer® works as advertised. However, because the government food code does not allow for the dispensing of dairy products at ambient temperatures in the United States, these potential customers require something in writing from the US government stating that The Answer® is suitable for the ambient dispensing of dairy products. The largest and most identifiable opportunities are for coffee creamers (to replace open pitchers, which are vulnerable to tampering, mishandling, and spoilage) and dairy-based coffee beverages served over ice. A federal regulatory agency has approved in writing IDC’s proposed test-protocols jointly developed by IDC and the agency, which represents a major step in clearing this final regulatory hurdle. Currently the Company is researching which dairy product is the most advantageous to test, based on a number of relevant factors. Assuming The Answer® passes the tests (a reasonable assumption given that the original IEH protocols were more stringent), the Company has been assured that a document amounting to a variance to the food code will be issued. While the Company has been methodically pursuing the arduous regulatory path in the US, opportunities outside the US, where regulations aren’t nearly as rigid, continue to proliferate. Conducting the tests is expensive, and the Company believes that the variance ultimately granted (while commercially viable) will still be encumbered with time limits based less on science than on bureaucratic prejudice. Nonetheless, the opportunity to convert US coffee shop condiment bars to a closed system with The Answer® is certainly worth pursuing.
Management believes that these basic expenses will increase only marginally even as the Company’s growth significantly ramps up and reaches its global promise.

With the Hoffer and Sealed Air strategic alliances in full flower and the establishment of its Industry Advisory Board, the Company is effectively leveraging these and other relationships to keep its annual burn rate down to approximately $860,000, which includes the recent (1/1/14) hiring of Li Xin in China.

Management believes that these basic expenses will increase only marginally even as the Company’s growth significantly ramps up and reaches its global promise. The discipline and efficiencies inherent in remaining an R&D company and forging strategic partnerships, the Company believes, is one of the strengths of its business model.

The Advisory Board, established in early 2013, consists of William Hickey (CEO of Sealed Air Corporation for 12 years before officially retiring in mid-2013), Markus Brettschneider (President & CEO of FrieslandCampina Germany), Dr. Aaron Brody Ph.D. (one of the world’s foremost academic experts in food packaging), and most recently Li Xin (former President of Sealed Air China). It is proving to be a very active, collegial, and dynamic board, conferring with management on a regular basis both formally and informally and expanding the Company’s international reach and scope of opportunity.

In addition to his advisory capacity, Li Xin also serves as Managing Director of IDC China. A Chinese national experienced in market entry strategy, sales and profit growth, food safety, and sustainability, Mr. Xin managed the Cryovac food packaging business units for the Asia region and built a large greenfield investment in Shanghai before progressing to the Presidency of Sealed Air China. For thirteen years prior to his China assignment, Mr. Xin held marketing and sales management responsibilities for Sealed Air in the US and Canada. Besides overseeing the PepsiCo/Tingyi relationship, he is leveraging his connections to land other potential customers within China for IDC.

Tom Shaver continues to make stellar contributions and was promoted to President & CEO by the Board of Directors in March 2015.
A highly accomplished sales and marketing executive in the packaging industry, Mr. Shaver spent seven very successful years at SIG Combibloc, heading up marketing for North and Central America. Mr. Shaver is a results-oriented, collaborative leader with proven capabilities in strategic planning, business development, brand management, key accounts, and negotiations.

Greg Abbott is IDC's founder and Chairman, and continues to serve without salary. Prior to IDC, Mr. Abbott was CEO of Ithaca Industries, the largest private label-producer of underwear, pantyhose, and t-shirts in the US, which under his leadership tripled in size and was eventually sold in a successful leveraged buyout. Ithaca Industries was a case study for The Harvard Business School. Mr. Abbott was also one of the founding investors of EarthLink, the ISP, and played an instrumental role in securing major funding, which led directly to EarthLink's public offering.

The Company believes that this management team and Advisory Board alignment, coupled with the leveraging of its strategic partners, constitutes a strong, effective, streamlined approach going forward, one that will accomplish more while spending less.

With refrigeration accounting for six percent of the world’s carbon footprint, the energy savings afforded by The Answer® offers a clear-cut, Earth-friendly advantage. While it sounds logical that a bulk format uses less packaging material per fluid ounce of product and therefore expends less energy in the package's life cycle, the Company decided to test those assumptions by commissioning Allied Development, the leader in packaging sustainability studies, to conduct a comprehensive independent study. Comparing the carbon footprint of a BIB package with The Answer® to those of milk jugs, aseptic cartons, and plastic bottles, Allied Development measured in scrupulous detail energy usage and greenhouse gas (GHG) emissions through each stage of the supply chain (from material transport to resin production to package manufacture to filling to shipping). The study found that IDC’s BIB package expended “significantly less energy and GHG” than the other formats tested. The study also verified that the IDC BIB package takes up significantly less landfill: 1/2 that of milk jugs, 1/3 that of aseptic cartons, and 1/6 that of plastic bottles. Based on this study, the Company believes that the package format it is promoting may be, arguably, the most sustainable package currently in the marketplace.

Food safety, food waste, contamination outbreaks, nutrition, the adverse health effects of preservatives, and sustainability are all recurring issues year after year that The Answer® addresses in one way or another.

A 2010 study conducted by Tetra Pak® cited the three most important deliverables that consumers want in the packaged foods they buy: 1) protection from spoilage before and after opening, 2) taste and product integrity, 3) safety barriers that eliminate the need for preservatives. While The Answer® is more of a food service solution, it speaks directly to these issues.

**the answer & industry trends**

“The Company believes that the package format it is promoting may be, arguably, the most sustainable package currently in the marketplace.”
The Answer® received initial United States patent protection in 2002, and additional US patent protection in 2004. Currently The Answer® has patent protection in Australia, Brazil, Canada, China, Eurasia (consisting of nine countries including Russia), Europe (United Kingdom, France, Italy, Germany, Spain, and the Netherlands), Hong Kong, Mexico, New Zealand, and South Africa. Patent applications are currently pending in India and Japan.

While the basic patent for The Answer® is effective until 2022, the Company is working to extend it through continued refinements. It cannot be overstated that the protection provided by manufacturing know-how gained through years of experience with Hoffer and Starlim is of even greater importance than the patents, especially for this kind of product where microscopic failure is not an option.

As stated earlier in this report, any competitive solution must endure equal years of testing and validation; even a direct knock-off must prove that it can maintain an aseptic result through stringent inoculated testing, and without the proper know-how there is no guarantee that even a direct knock-off can succeed at this. No matter how you slice it, there is always a long validation process and learning curve in the world of aseptic packaging. By the time The Answer® patent expires, it is the Company’s expectation that the economies of scale achieved by volume are likely to provide an even more daunting barrier to entry to any aseptic dispensing competitors.

The Answer® became a registered trademark in 2010.

The strategic alliance of IDC-Sealed Air-Alfa Laval has applied for various patents on the IDC/Cryovac SpeedFlex™ BIB filler.

public relations

In early August 2013 the Company launched its newly designed website: www.idcinnovation.com. The new site, designed primarily for business to business, is easy to navigate and very scalable, and now features short videos about The Answer®, and the IDC/Cryovac SpeedFlex® BIB filler.

legal proceedings

The Company may be involved in litigation and other legal proceedings from time to time in the ordinary course of business.

forward looking statements

This Report contains forward-looking statements. Forward-looking statements reflect current expectations, as of the date of this Annual Report, and involve certain risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors.

No assurance can be given that any of the current or future introductions, discussions, negotiations, development projects or confidentiality agreements with potential customers, companies or partners will lead to additional sales, contracts, longer term partnerships or buyouts of the technology in the future. Additionally, the success of the Company may be subject to the
Three Months Ended March 31, 2015 compared to Three Months Ended March 31, 2014

Revenue: For the three months ended March 31, 2015, the Company had net revenue from The Answer™ of $125,685 compared to the $77,135 of net revenues generated for the three months ended March 31, 2014. This increase in net revenues is due to the timing of shipments to customers.

Gross Profit/(Loss): For the three months ended March 31, 2015, the Company had a gross profit of $17,327 compared to a gross loss of ($29,205) for the three months ended March 31, 2014. Decreased costs per unit and one-time tooling costs incurred in 2014 contributed to the increase in gross profit.

Operating Expenses: For the three months ended March 31, 2015, the Company had total operating expenses of $318,066 representing a decrease of $109,417 or 25.6% compared to the Company’s total operating expenses of $427,483 for the three months ended March 31, 2014. Decreases in marketing supplies, travel expenses and patent fees are the primary drivers to the total decease of operating expenses.

Loss from Operations: For the three months ended March 31, 2015, the Company had a loss from operations of ($300,739) representing a decrease in loss from operations of $155,949 or 34.2% compared to the ($456,688) for the three months ended March 31, 2014. This decrease in loss from operations was primarily driven by decreases to operating expenses and increased gross profit as noted above.

Interest Expense: Interest expense for the three months ended March 31, 2015 was $60,921 compared to $9,866 for the three months ended March 31, 2014. The increase in interest expense is due primarily to the accounting for warrants issued in conjunction with loans to the Company and to the loans acquired by the Company during 2014.

Net Loss: For the three months ended March 31, 2015, the Company had a net loss of ($361,660) as compared to ($466,554) for the three months ended March 31, 2014, representing a decrease in net loss of $104,894 or 22.5% compared to the three months ended March 31, 2014. The decrease in net loss was primarily driven by decreased in loss from operations and increases to gross profit as discussed above.

results of operations

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 March 31, 2015. 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 this regard.

During the first half of 2013 the Board of Directors approved the terms of Mr. Abbott’s cumulative
$400,000 investments during 2012 as loans. Additionally, Mr. Abbott loaned the Company $300,000 during 2013. Promissory notes were issued for these loans at an interest rate of 6%. Affiliates of Mr. Abbott also extended an aggregate of $150,000 in loans to the Company during 2013. Promissory notes were issued for these loans at an interest rate of 4% per annum.

During the second quarter of 2014 affiliates of Mr. Abbott 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.

During the third quarter of 2014 a shareholder extended a loan to the Company in the amount of $200,000. A promissory note was issued for this loan at a rate of 6% with a payback date no later than January 1, 2015. This loan is currently being renegotiated by the Company.

During the fourth quarter of 2014 several individuals extended loans to the Company totaling $140,000. Promissory notes were issued for these loans at a rate of 6% with a maturity date on or before May 31, 2015. One individual investor purchased 238,095 shares for a purchase price of $100,000 ($0.42 per share).

The Company believes that it has sufficient capital and access to funding to continue operations through June 30, 2015. However, there is no assurance that the Company will raise sufficient capital or otherwise generate sufficient cash flows to enable the Company to continue as a going concern beyond such time. 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.
International Dispensing Corporation

Balance Sheets
March 31, 2015 (Unaudited) and December 31, 2014

Assets

<table>
<thead>
<tr>
<th>Current Assets</th>
<th>March 31, 2015</th>
<th>December 31, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ 2,740</td>
<td>$ 15,434</td>
</tr>
<tr>
<td>Accounts Receivable-Trade</td>
<td>101,871</td>
<td>94,675</td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td>28,782</td>
<td>33,333</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td><strong>133,393</strong></td>
<td><strong>143,442</strong></td>
</tr>
</tbody>
</table>

Property and Equipment:

<table>
<thead>
<tr>
<th>Equipment</th>
<th>March 31, 2015</th>
<th>December 31, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Equipment</td>
<td>95,351</td>
<td>95,351</td>
</tr>
<tr>
<td>Production Equipment</td>
<td>3,336,268</td>
<td>3,323,768</td>
</tr>
<tr>
<td>Less Accumulated Depreciation</td>
<td>(3,017,388)</td>
<td>(2,982,455)</td>
</tr>
<tr>
<td>Total Property and Equipment</td>
<td><strong>414,230</strong></td>
<td><strong>436,664</strong></td>
</tr>
</tbody>
</table>

Total Assets: $547,624 $580,106

Liabilities & Stockholders’ (Deficit) / Equity

Current Liabilities:

<table>
<thead>
<tr>
<th>Liability</th>
<th>March 31, 2015</th>
<th>December 31, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>$ 399,068</td>
<td>$ 203,970</td>
</tr>
<tr>
<td>Accrued Expenses</td>
<td>163,537</td>
<td>137,123</td>
</tr>
<tr>
<td>Note Payable to Stockholders</td>
<td>1,223,269</td>
<td>1,203,269</td>
</tr>
<tr>
<td>Bank Term Loan</td>
<td>-</td>
<td>27,778</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td><strong>1,785,874</strong></td>
<td><strong>1,572,140</strong></td>
</tr>
</tbody>
</table>

Stockholders’ (Deficit) / Equity:

<table>
<thead>
<tr>
<th>Stockholders’ (Deficit) / Equity</th>
<th>March 31, 2015</th>
<th>December 31, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Stock, $.001 par value; 100,000,000 shares authorized; 80,813,758 shares issued and outstanding as of March 31, 2014, and December 31, 2014</td>
<td>80,813</td>
<td>80,813</td>
</tr>
<tr>
<td>Additional Paid-In Capital</td>
<td>36,685,712</td>
<td>36,570,268</td>
</tr>
<tr>
<td>Accumulated Deficit</td>
<td>(38,004,775)</td>
<td>(37,643,115)</td>
</tr>
<tr>
<td>Total Stockholders’ (Deficit) / Equity</td>
<td><strong>(1,238,250)</strong></td>
<td><strong>992,034</strong></td>
</tr>
</tbody>
</table>

Total Liabilities and Stockholders’ (Deficit) / Equity: $547,624 $580,106

See accompanying notes.
# International Dispensing Corporation

## Statements of Operations

for the three months ended March 31, 2015 and 2014

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td>$125,685</td>
<td>$77,135</td>
</tr>
<tr>
<td><strong>Cost of Goods Sold:</strong></td>
<td>108,358</td>
<td>106,340</td>
</tr>
<tr>
<td><strong>Gross Profit/(Loss):</strong></td>
<td>17,327</td>
<td>(29,205)</td>
</tr>
<tr>
<td><strong>Operating Expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engineering Expenses</td>
<td>24,795</td>
<td>31,202</td>
</tr>
<tr>
<td>General &amp; Administrative Expenses</td>
<td>5,251</td>
<td>5,712</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>202,460</td>
<td>269,954</td>
</tr>
<tr>
<td>Selling Expenses</td>
<td>50,627</td>
<td>86,237</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>34,933</td>
<td>34,378</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>318,066</td>
<td>427,483</td>
</tr>
<tr>
<td><strong>Loss from Operations:</strong></td>
<td>(300,739)</td>
<td>(456,688)</td>
</tr>
<tr>
<td><strong>Interest Expense:</strong></td>
<td>(60,921)</td>
<td>(9,866)</td>
</tr>
<tr>
<td><strong>Net (Loss)/Income:</strong></td>
<td>(361,660)</td>
<td>(466,554)</td>
</tr>
<tr>
<td><strong>Net (Loss)/Income Per Common Share (Basic &amp; Diluted):</strong></td>
<td>(0.01)</td>
<td>(0.01)</td>
</tr>
<tr>
<td><strong>Basic &amp; Diluted Weighted Average Shares Outstanding:</strong></td>
<td>80,813,758</td>
<td>80,575,663</td>
</tr>
</tbody>
</table>

See accompanying notes.
**International Dispensing Corporation**

**Statements of Cash Flows (Unaudited)**

For the three months ended March 31, 2015 and 2014

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Flows from Operating Activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net (loss)/income</td>
<td>($361,660)</td>
<td>($466,554)</td>
</tr>
<tr>
<td>Non-cash items:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>34,933</td>
<td>34,378</td>
</tr>
<tr>
<td>Stock-based compensation</td>
<td>76,012</td>
<td>108,350</td>
</tr>
<tr>
<td>Warrants Valuation</td>
<td>39,432</td>
<td>-</td>
</tr>
<tr>
<td>Net changes in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>($7,196)</td>
<td>($1,775)</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>4,551</td>
<td>10,842</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>195,098</td>
<td>($33,506)</td>
</tr>
<tr>
<td>Accrued Expenses</td>
<td>26,414</td>
<td>(1,555)</td>
</tr>
<tr>
<td><strong>Net Cash (Used in)/Provided by Operating Activities</strong></td>
<td>$7,583</td>
<td>$349,820</td>
</tr>
<tr>
<td><strong>Cash Flows from Investing Activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions to Property and Equipment</td>
<td>($12,500)</td>
<td>($784)</td>
</tr>
<tr>
<td><strong>Net Cash Used in Investing Activities</strong></td>
<td>($12,500)</td>
<td>($784)</td>
</tr>
<tr>
<td><strong>Cash Flows from Financing Activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayment of Bank Term Loan</td>
<td>($27,778)</td>
<td>($41,666)</td>
</tr>
<tr>
<td>Proceeds/ (Repayment) of Notes from Stockholders, Net</td>
<td>20,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net Cash Provided by/ (Used in) Financing Activities</strong></td>
<td>($7,778)</td>
<td>($41,666)</td>
</tr>
<tr>
<td><strong>Net (Decrease)/ Increase in Cash</strong></td>
<td>($12,695)</td>
<td>($392,270)</td>
</tr>
<tr>
<td><strong>Cash at Beginning of Period</strong></td>
<td>15,434</td>
<td>465,203</td>
</tr>
<tr>
<td><strong>Cash at End of Period</strong></td>
<td>($2,740)</td>
<td>$72,933</td>
</tr>
<tr>
<td>Supplemental Disclosure of Cash Flow Information:</td>
<td>$440</td>
<td>$1,417</td>
</tr>
<tr>
<td>Cash paid for interest</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

See accompanying notes.
**International Dispensing Corporation**

**Statements of Changes in Stockholders’ (Deficit) / Equity**

for the three months ended March 31, 2015 (unaudited) and the fiscal year ended December 31, 2014

<table>
<thead>
<tr>
<th></th>
<th>Common Shares</th>
<th>Common Stock Amount</th>
<th>Additional Paid-In Capital</th>
<th>Accumulated Deficit</th>
<th>Total Stockholders’ Equity / (Deficit)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at January 1, 2014</strong></td>
<td>80,575,663</td>
<td>$ 80,575</td>
<td>$ 35,942,715</td>
<td>$ (35,941,122)</td>
<td>$ 82,168</td>
</tr>
<tr>
<td>Stock-based compensation expense</td>
<td>-</td>
<td>-</td>
<td>396,647</td>
<td>-</td>
<td>396,647</td>
</tr>
<tr>
<td>Valuation of notes payable common stock warrants</td>
<td>-</td>
<td>-</td>
<td>131,144</td>
<td>-</td>
<td>131,144</td>
</tr>
<tr>
<td>Additional shares issued</td>
<td>238,095</td>
<td>238</td>
<td>99,762</td>
<td>-</td>
<td>100,000</td>
</tr>
<tr>
<td>Net loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1,701,993)</td>
<td>(1,701,993)</td>
</tr>
<tr>
<td><strong>Balance at December 31, 2014</strong></td>
<td>80,813,758</td>
<td>$ 80,813</td>
<td>$ 36,570,268</td>
<td>$ (37,643,115)</td>
<td>$ (992,034)</td>
</tr>
<tr>
<td>Stock-based compensation expense</td>
<td>-</td>
<td>-</td>
<td>76,012</td>
<td>-</td>
<td>76,012</td>
</tr>
<tr>
<td>Valuation of notes payable common stock warrants</td>
<td>-</td>
<td>-</td>
<td>39,432</td>
<td>-</td>
<td>39,432</td>
</tr>
<tr>
<td>Additional shares issued</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(361,660)</td>
<td>(361,660)</td>
</tr>
<tr>
<td><strong>Balance at March 31, 2015</strong></td>
<td>80,813,758</td>
<td>$ 80,813</td>
<td>$ 36,685,712</td>
<td>$ (38,004,775)</td>
<td>$ (1,238,250)</td>
</tr>
</tbody>
</table>

See accompanying notes.
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 delivers 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 March 31, 2015, 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 interim financial statements as of March 31, 2015 and for the three months ended March 31, 2015 and 2014 are unaudited, but include all adjustments, consisting only of normal recurring adjustments, which we consider necessary for a fair presentation of financial position and results of operations for those periods. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results that will be achieved for the entire year or any future interim period.

2. going concern

The Company’s financial statements have been presented on the basis that it will continue as a going concern. The Company’s activities have resulted in an accumulated deficit from inception to March 31, 2015, of $38,004,775. Losses are continuing as efforts to market the Company’s products continue to develop. The Company’s primary source of funds since inception has been from the sales of its common and preferred stock and to a lesser extent from the issuance of debt.

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.

As of March 31, 2015, the Company had a negative working capital of $1,652,481. 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.

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 productive equipment are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives, generally five years. Depreciation expense for the three months ended March 31, 2015 and 2014 was $34,933 and $34,378, respectively.

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.
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 term loan, and notes payable to stockholders. In management's opinion, the carrying amounts of these financial instruments approximated their fair value at March 31, 2015 and December 31, 2014.

Net Income/(Loss) per Share

Basic net income/(loss) per share is computed by dividing net income/(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. Such incremental shares were antidilutive for the periods presented.

Patents

Costs to develop patents are expensed when incurred.

Revenue Recognition

Revenue is recognized upon shipping of the product to the customer. Terms are FOB the Company's loading dock.

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 Income/(Loss) per Share

Basic net income/(loss) per share is computed by dividing net income/(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. Such incremental shares were antidilutive for the periods presented.
During the fourth quarter of 2014, one individual investor purchased 238,095 shares for a purchase price of $100,000 ($0.42 per share).

5. related party transactions

During the first half of 2013 the Board of Directors approved the terms of Mr. Abbott’s cumulative $400,000 investments during 2012 as loans. Additionally, Mr. Abbott loaned the Company $300,000 during 2013. Promissory notes were issued for these loans at an interest rate of 6%. Affiliates of Mr. Abbott also extended an aggregate of $150,000 in loans to the Company during 2013. Promissory notes were issued for these loans at an interest rate of 4%. These notes are due on demand.

During the second quarter of 2014, affiliates of Mr. Abbott 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.

During the third quarter of 2014, a shareholder extended a loan to the Company in the amount of $200,000. A promissory note was issued for this loan at a rate of 6% with a payback date no later than January 1, 2015. This loan is currently being renegotiated by the Company.

Included in the accounts payable balance as of March 31, 2015 are payables owed to Mr. Abbott totaling $5,690.

6. income taxes

The Company’s federal statutory income tax rate is approximately 34%. The Company is also subject to applicable state income taxes. As a result of operating losses at March 31, 2015 and losses incurred since inception, and due to uncertainties surrounding the ability of the Company to realize the tax benefits associated with these losses, there is no provision or benefit for income taxes in the accompanying financial statements. As of March 31, 2015, the Company had a net operating loss carryforward of approximately $27.8 million, which expire in 2018 through 2034. The Company has established a full valuation allowance against its net deferred tax assets (which consists primarily of net operating losses carryforward) 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 as a result of ownership changes resulting from stock issuances.

7. stock-based compensation

Stock-Based Compensation Expense

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. The Company used the following assumptions for determining the fair value of options granted under the Black-Scholes option-pricing model for the fiscal year ended December 31, 2014. No options were granted during the three months ended March 31, 2015.
Total compensation cost charged related to employee stock options amounted to $76,012 and $108,350 for the three months ended March 31, 2015 and 2014, respectively. No compensation cost related to share-based payment arrangements was capitalized as part of the cost of any asset at March 31, 2015 and December 31, 2014.

The weighted average grant-date fair values of the options granted during the three months ended March 31, 2014 was $0.16. The weighted average inception to date exercise price of these options was $0.20 during the three months ended March 31, 2014.

Stock Options Granted To Non-Employees

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 fair value of the award is estimated on the date of grant and the measurement date and is recognized as an expense in the accompanying statements of operations over the vesting period.

Stock Options

The Company has two 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 the Plans 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 Plans provide for the granting of both options that will qualify as “incentive stock options” and options that are non-qualified stock options. The objectives 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.

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 increase in the Plan. Options expire on such date as the Board of Directors or the Committee may determine. 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 June 30, 2018.

The stockholders at the June 7, 2002 stockholders' meeting approved the increase in the Plan. Options expire on such date as the Board of Directors or the Committee may determine. 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 June 30, 2018.

In addition, 200,000 options scheduled to expire on June 30, 2009 have been extended to expire on June 30, 2018; 80,000 options scheduled to expire in 2012 and 100,000 options scheduled to expire in
2014 have been extended to expire on September 30, 2016. Director stock options granted to Gregory Abbott, George Kriste and William Hudson with an original expiration date prior to December 31, 2015 have been extended to June 30, 2018. Also, 50,000 options granted on August 12, 2014 have been extended to January 6, 2017 and a total of 281,250 warrants have been extended to May 20, 2017. These expiration dates extensions are reflected in the calculations below.

The following table summarizes stock option activity for the Company for the three months ended March 31, 2015 and the fiscal year ended December 31, 2014:

<table>
<thead>
<tr>
<th>Year</th>
<th>number of shares</th>
<th>weighted average exercise price</th>
<th>intrinsic value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>outstanding at january 1, 2014:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>granted</td>
<td>7,059,501</td>
<td>$0.376</td>
<td></td>
</tr>
<tr>
<td>exercised</td>
<td>910,000</td>
<td>0.211</td>
<td></td>
</tr>
<tr>
<td>cancelled</td>
<td>(300,000)</td>
<td>0.950</td>
<td></td>
</tr>
<tr>
<td><strong>outstanding at december 31, 2014:</strong></td>
<td>7,669,501</td>
<td>0.334</td>
<td>$797,270</td>
</tr>
<tr>
<td>granted</td>
<td>-</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>exercised</td>
<td>-</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>cancelled</td>
<td>(19,999)</td>
<td>0.347</td>
<td></td>
</tr>
<tr>
<td><strong>outstanding at march 31, 2015:</strong></td>
<td>7,649,502</td>
<td>$0.334</td>
<td>$36,000</td>
</tr>
</tbody>
</table>

The following table summarizes information about stock options outstanding at March 31, 2015:

<table>
<thead>
<tr>
<th>Exercise price range</th>
<th>number outstanding</th>
<th>weighted-average remaining life (years)</th>
<th>weighted-average exercise price</th>
<th>number outstanding</th>
<th>weighted-average remaining life (years)</th>
<th>weighted-average exercise price</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.20 - 0.30</td>
<td>4,736,667</td>
<td>5.52</td>
<td>$0.2233</td>
<td>4,353,334</td>
<td>5.66</td>
<td>$0.2254</td>
</tr>
<tr>
<td>$0.312 - 0.58</td>
<td>2,441,168</td>
<td>3.14</td>
<td>0.4210</td>
<td>2,361,170</td>
<td>2.94</td>
<td>0.4228</td>
</tr>
<tr>
<td>$0.60 - 1.00</td>
<td>231,667</td>
<td>3.85</td>
<td>0.7727</td>
<td>231,667</td>
<td>3.85</td>
<td>0.7727</td>
</tr>
<tr>
<td>$1.01 - 2.10</td>
<td>240,000</td>
<td>2.07</td>
<td>1.2042</td>
<td>240,000</td>
<td>2.07</td>
<td>1.2042</td>
</tr>
<tr>
<td></td>
<td>7,649,502</td>
<td>4.60</td>
<td>$0.3338</td>
<td>7,186,171</td>
<td>4.59</td>
<td>$0.3406</td>
</tr>
</tbody>
</table>

As of March 31, 2015, warrants to purchase 4,916,962 shares of the Company's stock were outstanding at prices ranging from $0.20 to $0.80 per share. The weighted average warrant price as of March 31, 2015 was $0.38.

As of March 31, 2015, there was unrecognized compensation expense of $560,769 remaining to be amortized through 2020.

No stock options were exercised during 2014.
8. 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 year, the Company had deposits in excess of the FDIC limit. The Company had accounts receivable balances of $101,871 and $94,675 as of March 31, 2015 and December 31, 2014, respectively.

Sales for the three months ended March 31, 2015 and for the fiscal year ended December 31, 2014 includes sales to one major customer, which accounts for most of the total sales of the Company for each of the respective years.

9. notes payable

Notes payable at March 31, 2015 consist of the following:

Gregory Abbott, Chairman & CEO, has continued to invest in the Company. During the first half of 2013 the Board of Directors approved the terms of Mr. Abbott’s cumulative $400,000 investments during 2012 as loans. Additionally, Mr. Abbott loaned the Company $300,000 during 2013. Promissory notes were issued for these loans at an interest rate of 6%. Affiliates of Mr. Abbott also extended an aggregate of $150,000 in loans to the Company during 2013. Promissory notes were issued for these loans at an interest rate of 4%.

Partial payment of Mr. Abbott’s 2012 and 2013 loans was made, bringing the aggregate principal balance of such loans down to $563,269.

During the second quarter of 2014, affiliates of Mr. Abbott 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 April 30, 2015.

During the third quarter of 2014, a shareholder extended a loan to the Company in the amount of $200,000. A promissory note was issued for this loan at a rate of 6% with a payback date no later than January 1, 2015. This loan is currently being renegotiated by the Company.

During the fourth quarter of 2014 several individuals extended loans to the Company totaling $140,000. Promissory notes were issued for these loans at a rate of 6% with a maturity date on or before May 31, 2015.

Interest expense on the above notes payable and all other obligations of the Company was $60,921 and $9,866 for the three months ended March 31, 2015 and 2014, respectively.

In connection with the notes payable issued in 2014, the Company issued warrants to purchase 640,000 of the Company’s common stock at per share exercise prices ranging from $.32 through $.43 expiring three to five years from date of issuance. The Company valued the warrants issued at inception of the loans using the Black-Scholes option pricing model, including the assumptions described in Note 7, and which resulted in total fair value of $189,562. This value is being recognized as interest expense over the life of the loans. Interest expense recognized during 2014 associated with these warrants totaled $131,144. Unamortized interest expense from these warrants totaling $18,986 is expected to be recognized during 2015. Interest expense of $39,432 was recognized as of March 31, 2015.

10. 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.
11. subsequent events

The Company has evaluated subsequent events for potential recognition and/or disclosure through May 15, 2015, the date the financial statements were available to be issued.
international dispensing corporation
1020 fifth avenue
new york, ny 10028

www.idcinnovation.com