

TALON INTERNATIONAL, INC.  
Form 10-Q  
November 12, 2015

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934.

For the quarterly period ended September 30, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934.

Commission file number 1-13669

**TALON INTERNATIONAL, INC.**

(Exact Name of Issuer as Specified in its Charter)

<b>Delaware</b>	<b>95-4654481</b>
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

**21900 Burbank Boulevard, Suite 270**

**Woodland Hills, California 91367**

(Address of Principal Executive Offices)

**(818) 444-4100**

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer (do not check if smaller reporting company)  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At November 11, 2015, the issuer had 92,267,831 shares of Common Stock, \$.001 par value, issued and outstanding.

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**TALON INTERNATIONAL, INC.**

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**TALON INTERNATIONAL, INC.****CONSOLIDATED BALANCE SHEETS**

	<b>September 30,</b>	<b>December 31,</b>
	<b>2015</b>	<b>2014</b>
	<b>(Unaudited)</b>	
Assets		
Current assets:		
Cash and cash equivalents	\$2,565,626	\$2,603,138
Accounts receivable, net	3,449,269	3,019,749
Inventories, net	563,728	506,272
Current deferred income tax assets, net	894,282	746,370
Prepaid expenses and other current assets	581,563	551,775
Total current assets	8,054,468	7,427,304
Property and equipment, net	747,420	584,586
Intangible assets, net	4,313,169	4,300,084
Deferred income tax assets, net	5,248,912	5,374,468
Other assets	415,717	416,035
Total assets	\$18,779,686	\$18,102,477
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$6,275,647	\$6,191,954
Accrued severance payments	704,588	-
Other accrued expenses	2,473,231	2,403,563
Revolving credit loan	1,600,000	1,500,000
Current portion of revolving term loan from related party	83,333	-
Current portion of term loan payable	-	1,816,667
Current portion of capital lease obligations	21,509	-
Total current liabilities	11,158,308	11,912,184
Revolving term loan from related party, net of discounts and current portion	1,805,218	-
Term loan payable, net of current portion	-	1,016,667
Capital lease obligations, net of current portion	66,433	-
Deferred income tax liabilities	7,318	13,961
Other liabilities	207,080	26,077
Total liabilities	13,244,357	12,968,889

Commitments and contingencies (Note 11)

Stockholders' Equity:

Common Stock, \$0.001 par value, 300,000,000 shares authorized; 92,267,831 shares issued and outstanding at September 30, 2015 and December 31, 2014	92,268	92,268
Additional paid-in capital	64,387,694	64,175,254
Accumulated deficit	(59,051,178)	(59,250,109)
Accumulated other comprehensive income	106,545	116,175
Total stockholders' equity	5,535,329	5,133,588
Total liabilities and stockholders' equity	\$18,779,686	\$18,102,477

See accompanying notes to consolidated financial statements.

## TALON INTERNATIONAL, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
Net sales	\$9,992,091	\$11,749,970	\$36,587,791	\$39,052,257
Cost of goods sold	6,618,550	8,031,238	24,617,384	26,193,109
Gross profit	3,373,541	3,718,732	11,970,407	12,859,148
Sales and marketing expenses	1,494,693	1,636,759	4,778,754	4,754,723
General and administrative expenses	1,715,617	1,766,851	6,401,400	6,165,544
Total operating expenses	3,210,310	3,403,610	11,180,154	10,920,267
Income from operations	163,231	315,122	790,253	1,938,881
Interest expense, net	127,966	96,871	328,527	317,756
Loss on extinguishment of debt	134,049	-	134,049	-
Income (loss) before provision for income taxes	(98,784 )	218,251	327,677	1,621,125
Provision for (benefit from) income taxes, net	(8,431 )	161,165	128,746	732,299
<b>Net income (loss)</b>	<b>\$(90,353 )</b>	<b>\$57,086</b>	<b>\$198,931</b>	<b>\$888,826</b>
<b>Basic and diluted net income (loss) per share</b>	<b>\$(0.00 )</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.01</b>
Weighted average number of common shares outstanding - Basic	92,267,831	92,267,831	92,267,831	92,115,167
Weighted average number of common shares outstanding - Diluted	92,267,831	94,431,171	93,519,892	94,411,036
<b>Net income (loss)</b>	<b>\$(90,353 )</b>	<b>\$57,086</b>	<b>\$198,931</b>	<b>\$888,826</b>
Other comprehensive income (loss) from foreign currency translation	(10,220 )	(1,141 )	(9,630 )	716
<b>Total comprehensive income (loss)</b>	<b>\$(100,573 )</b>	<b>\$55,945</b>	<b>\$189,301</b>	<b>\$889,542</b>

See accompanying notes to consolidated financial statements.



## TALON INTERNATIONAL, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2015</b>	<b>2014</b>
<i>Cash flows from operating activities:</i>		
Net income	\$ 198,931	\$ 888,826
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	189,309	207,195
Loss on extinguishment of debt	134,049	-
Loss (gain) on disposal of property and equipment	281	(2,130 )
Amortization of deferred financing cost and debt discounts	109,117	67,708
Stock based compensation	92,808	181,410
Deferred income taxes (benefits), net	(29,590 )	321,867
Bad debt recoveries, net	(7,370 )	(4,720 )
Inventory valuation provisions, net	10,882	9,436
Changes in operating assets and liabilities:		
Accounts receivable	(446,813 )	42,178
Inventories	(69,326 )	215,452
Prepaid expenses and other current assets	(32,923 )	(4,592 )
Other assets.	(97,293 )	(16,727 )
Accounts payable and accrued expenses	943,966	(541,082 )
Other liabilities	47,670	(9,377 )
Net cash provided by operating activities	1,043,698	1,355,444
<i>Cash flows from investing activities:</i>		
Proceeds from sale of equipment	350	2,783
Acquisitions of property and equipment	(121,393 )	(148,989 )
Acquisitions of intangibles	(22,898 )	(40,037 )
Net cash used in investing activities	(143,941 )	(186,243 )
<i>Cash flows from financing activities:</i>		
Revolving term loan from related party borrowings	2,000,000	-
Payments of term loan payable	(2,833,334)	(1,250,000)
Revolving credit loan borrowings	700,000	500,000
Payment of revolving credit loan	(600,000 )	(500,000 )
Payment of financing costs associated with credit facilities	(138,715 )	-
Payment of capital leases	(6,799 )	-
Payments related to taxes on the exercise of stock options and settlement of RSUs	-	(143,537 )
Proceeds from exercise of stock options	-	29,709
Net cash used in financing activities	(878,848 )	(1,363,828)



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Net effect of foreign currency exchange translation on cash	(58,421 )	(4,377 )
Net decrease in cash and cash equivalents	(37,512 )	(199,004 )
Cash and cash equivalents at beginning of period	2,603,138	3,779,508
Cash and cash equivalents at end of period	\$2,565,626	\$3,580,504

See accompanying notes to consolidated financial statements.

**TALON INTERNATIONAL, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

Supplemental disclosures of cash flow information:

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2015</b>	<b>2014</b>
Cash received (paid) during the period for:		
Interest paid	\$(203,919)	\$(253,124)
Interest received	\$1,998	\$2,867
Income tax paid (refunded), net (principally foreign)	\$9,858	\$(70,316 )
Non-cash financing activities:		
Warrants issued to related party	\$119,632	\$-
Lease incentives	\$133,333	\$-
Capital lease obligation	\$94,741	\$-
Non-cash exercise of stock options and settlement of RSUs in common stock	\$-	\$649
Effect of foreign currency translation on net assets	\$(9,630 )	\$716

See accompanying notes to consolidated financial statements.

**Note 1. Presentation of Interim Information**

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and in accordance with the instructions to Form 10-Q and Article 8 of Regulation S-X. Certain information and footnote disclosures normally included in comprehensive financial statements have been condensed or omitted pursuant to such rules and regulations, although the management of Talon International, Inc. and its consolidated subsidiaries (collectively, the “Company”) believes that the disclosures made are adequate to make the information not misleading. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

**Note 2. Summary of Significant Accounting Policies**

A complete description of the Company’s Significant Accounting Policies is included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, and should be read in conjunction with these unaudited consolidated financial statements. The Significant Accounting Policies noted below are only those policies that have changed materially or have supplemental information included for the periods presented here.

***Allowance for Accounts Receivable Doubtful Accounts***

The Company is required to make judgments as to the collectibility of accounts receivable based on established aging policy, historical experience and future expectations. The allowances for doubtful accounts represent allowances for customer trade accounts that are estimated to be partially or entirely uncollectible. These allowances are used to reduce gross trade receivables to their net realizable value. The Company records these allowances based on estimates related to the following factors: (i) customer specific allowances; (ii) amounts based upon an aging schedule; and (iii) an estimated amount, based on the Company’s historical experience, for issues not yet identified. Bad debt expense (recoveries), net for the three and nine months ended September 30, 2015 were \$7,487 and \$(7,370), respectively. Bad debt expense (recoveries), net for the three and nine months ended September 30, 2014 were \$4,374 and \$(4,720), respectively.

***Fair Value Measurements***

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement

that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, the guidance under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 820, “*Fair Value Measurements and Disclosures*”, establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Includes other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company's financial instruments include cash and cash equivalents, accounts receivable, other assets, accounts payable, accrued expenses, revolving credit loan, revolving term loan from related party, net of discounts, term loan payable, capital lease obligations and other liabilities. The book value of the financial instruments is representative of their fair values. In accordance with this guidance, the Company measures its cash equivalents at fair value. The Company's cash equivalents are classified within Level 1. Cash equivalents are valued primarily using quoted market prices utilizing market observable inputs. At September 30, 2015 and December 31, 2014, cash equivalents consisted of money market funds measured at fair value on a recurring basis; fair value of the Company's money market funds was approximately \$791,000 and \$1,018,000, respectively.

### *Intangible Assets*

Intangible assets consist of the *Talon* trade name acquired in a purchase business combination, patents, licenses, intellectual property rights and technology. Intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead are tested for impairment at least annually in accordance with the provisions of ASC 350, "*Intangibles - Goodwill and Other*". Intangible assets with estimable useful lives are amortized over their respective estimated useful lives using the straight-line method, and are reviewed for impairment in accordance with the provisions of ASC 360, "*Property, Plant and Equipment*". Costs incurred to renew or extend the term of recognized intangible assets are capitalized and amortized over the useful life of the asset.

The Company applies Accounting Standards Update ("ASU") 2012-02, "*Intangibles – Goodwill and Other - Testing Indefinite-lived Intangible Assets for Impairment*" to determine whether an impairment is required. The guidance gives companies the option to first perform a qualitative assessment to determine whether it is more likely than not, defined as a likelihood of more than 50%, that an indefinite-lived intangible asset is impaired. If it is determined that it is more likely than not that an impairment exists, then the company is required to estimate the fair value of the indefinite-lived intangible assets and perform a quantitative impairment test in accordance with ASC 350-30. The Company completed the required assessment as of September 30, 2015 and December 31, 2014, and noted no impairment.

From time to time the Company makes investments in product and technical opportunities that are complimentary to or enhancements to its apparel accessories business. During the three and nine months ended September 30, 2015, the Company invested \$2,460 and \$22,898, respectively in the acquisition of intellectual property rights complimentary to the Company's *Talon Zipper* products. During the three and nine months ended September 30, 2014, the Company invested \$37,737 and \$40,037, respectively in the acquisition of intellectual property rights complimentary to the Company's *Talon Zipper* products.. As of September 30, 2015 and December 31, 2014 the Company had accumulated investments of \$68,955 and \$46,057, respectively, for intellectual property rights complimentary to the Company's *Talon Zipper* products, which were not yet in service.



Intangible assets as of September 30, 2015 and December 31, 2014 are as follows:

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
Tradenname - Talon trademark	\$4,110,751	\$4,110,751
Intellectual property rights	247,677	224,779
Less: Accumulated amortization (10 to 17 years)	(45,259 )	(35,446 )
Intellectual property rights, net	202,418	189,333
Intangible assets, net	\$4,313,169	\$4,300,084

Amortization expense for intangible assets was \$3,271 and \$9,813, respectively for the three and nine months ended September 30, 2015 and 2014.

### ***Classification of Expenses***

*Costs of Goods Sold* – Cost of goods sold primarily includes expenses related to inventory purchases, customs, duty, freight, overhead expenses and reserves for obsolete inventory. Overhead expenses primarily consist of quality assurance costs, warehouse and operations salaries, and other warehouse expense.

*Sales and Marketing Expenses* – Sales and marketing expenses primarily include sales salaries and commissions, travel and entertainment, marketing, advertising and other sales and product development related costs. Marketing and advertising efforts are expensed as incurred.

*General and Administrative Expenses* – General and administrative expenses primarily include administrative salaries, employee benefits, professional service fees, facility expenses, information technology costs, investor relations, travel and entertainment, depreciation and amortization, bad debts and other general corporate expenses.

*Interest Expense, net* – Interest expense reflects the cost of borrowings, amortization of deferred financing costs and amortization of debt discounts. Interest expense for the three and nine months ended September 30, 2015 totaled \$128,988 and \$330,525, respectively. Interest expense for the three and nine months ended September 30, 2014 totaled \$98,402 and \$320,623, respectively. Interest income consists of earnings from cash held in interest bearing accounts. Interest income for the three and nine months ended September 30, 2015 totaled \$1,022 and \$1,998, respectively. Interest income for the three and nine months ended September 30, 2014 totaled \$1,531 and \$2,867, respectively.

### ***Foreign Currency Translation***

The Company has operations and holds assets in various foreign countries. The local currency is the functional currency for the Company's subsidiaries in China and India. Assets and liabilities are translated at end-of-period exchange rates while revenues and expenses are translated at the average exchange rates in effect during the period. Equity is translated at historical rates and the resulting cumulative translation adjustments are included as a component of accumulated other comprehensive income (loss) until the translation adjustments are realized. Included in accumulated other comprehensive income was a cumulative foreign currency translation gain of \$106,545 and \$116,175 as of September 30, 2015 and December 31, 2014, respectively.



### ***Comprehensive Income (loss)***

Comprehensive income (loss) consists of net income (loss) and unrealized income (loss) on foreign currency translation adjustments. The foreign currency translation adjustment represents the net currency translation gains and losses related to our China and India subsidiaries, which have not been reflected in the net income for the periods presented.

The Company reports comprehensive income (loss) in accordance with Topic 220 “*Comprehensive Income*”, and uses the option provided under ASU 2011-05 “*Presentation of Comprehensive Income*” to present the total of comprehensive income, the components of net income and the components of other comprehensive income in a single continuous statement.

### ***Use of Estimates***

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. The accounting estimates that require the Company’s most significant, difficult and subjective judgments include the valuation allowance for accounts receivable and inventory, the assessment of recoverability of long-lived assets and intangible assets, stock-based compensation and the recognition and measurement of current and deferred income taxes (including the measurement of uncertain tax positions). Actual results could differ materially from the Company’s estimates.

### ***Presentation***

In order to facilitate the comparison of financial information, certain amounts reported in the prior year have been reclassified to conform to the current year presentation.

### **Note 3. New Accounting Pronouncements**

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory, to reduce the complexity in accounting for inventory. This ASU requires entities to measure inventory at the lower of cost or net realizable value,

replacing the market value approach that required floor and ceiling considerations. This guidance for public entities is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. We are in the process of evaluating the adoption of this ASU, but do not expect this to have a material effect on our financial position, results of operations or cash flows.

In April 2015, the FASB issued ASU No. 2015-03, “*Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*” (“ASU 2015-03”). The amendment simplifies debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction of the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendment. ASU 2015-03 is effective for fiscal years, and interim reporting periods within those fiscal years, beginning December 15, 2015. Other than reclassification of debt issuance costs net of amortization from assets to liabilities, no other effect is expected to be included on the Company’s financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The effective date for the ASU 2014-09 is deferred by ASU No. 2015-14, “*Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*,” to annual reporting periods beginning after December 15, 2018. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The new standard will replace most existing revenue recognition guidance in U.S. GAAP. The standard permits the use of either the retrospective or cumulative effect transition method. The Company does not expect that the adoption of this pronouncement will have a material impact on its Consolidated Financial Statements.

#### Note 4. Net Income (Loss) Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted net income (loss) per share computations:

	Net income	Shares	Per Share
	(loss)		Amount
<b><u>Three months ended September 30, 2015:</u></b>			
Basic net loss -			
Net loss	\$(90,353)	92,267,831	\$ (0.00 )
Effect of Dilutive Securities -			
Options and warrants	-	-	-
Diluted net loss	\$(90,353)	92,267,831	\$ (0.00 )
<b><u>Three months ended September 30, 2014:</u></b>			
Basic net income -			
Net income	\$57,086	92,267,831	\$ 0.00
Effect of Dilutive Securities -			
Options	-	2,163,340	0.00
Diluted net income	\$57,086	94,431,171	\$ 0.00

	Net income	Shares	Per Share  Amount
<b><u>Nine months ended September 30, 2015:</u></b>			
Basic net income -			
Net income	\$ 198,931	92,267,831	\$ 0.00
Effect of Dilutive Securities -			
Options and warrants	-	1,252,061	0.00
Diluted net income	\$ 198,931	93,519,892	\$ 0.00
<b><u>Nine months ended September 30, 2014:</u></b>			
Basic net income -			
Net income	\$ 888,826	92,115,167	\$ 0.01
Effect of Dilutive Securities -			
Options	-	2,295,869	0.00
Diluted net income	\$ 888,826	94,411,036	\$ 0.01

For the three months ended September 30, 2015, options to purchase 8,485,287 shares of common stock exercisable between \$0.04 and \$1.33 per share and warrants to purchase 1,000,000 shares of common stock exercisable at \$0.18 per share, were outstanding but were not included in the computation of diluted net loss per share because they would have an antidilutive effect on the net loss per share.

For the nine months ended September 30, 2015, options to purchase 2,691,667 shares of common stock exercisable between \$0.04 and \$0.11 per share were included in the computation of diluted net income per share, while options to purchase 5,793,600 shares of common stock exercisable between \$0.11 and \$1.33 per share and warrants to purchase 1,000,000 shares of common stock exercisable at \$0.18 per share, were outstanding but were not included in the computation of diluted net income per share because they would have an antidilutive effect on the net income per share.

For the three and nine months ended September 30, 2014, options to purchase 5,066,667 shares of common stock exercisable between \$0.04 and \$0.20 per share were included in the computation of diluted net income per share. For the three and nine months ended September 30, 2014, options to purchase 4,683,600 shares of common stock exercisable between \$0.21 and \$5.23 per share, were outstanding but were not included in the computation of diluted net income per share because they would have an antidilutive effect on the net income per share.

#### **Note 5. Accounts Receivable**

Accounts receivable are included on the consolidated balance sheets net of the allowance for doubtful accounts. The allowance for doubtful accounts at September 30, 2015 and December 31, 2014 was \$39,981 and \$50,563, respectively.

**Note 6. Inventories**

Inventories are stated at the lower of cost, determined using the first-in, first-out basis, or market value and are all categorized as finished goods. The costs of inventory include the purchase price, inbound freight and duties, conversion costs and certain allocated production overhead costs. Inventory valuation reserves are recorded for damaged, obsolete, excess and slow-moving inventory. The Company uses estimates to record these reserves. Slow-moving inventory is reviewed by category and may be partially or fully reserved depending on the type of product and the length of time the product has been included in inventory. Reserve adjustments are made for the difference between the cost of the inventory and the estimated market value, if lower, and charged to operations in the period in which the facts that give rise to these adjustments become known. Market value of inventory is estimated based on the impact of market trends, an evaluation of economic conditions and the value of current orders relating to the future sales of this inventory.

Inventories consist of the following:

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
Finished goods	\$ 628,850	\$ 705,368
Less: Reserves	(65,122 )	(199,096 )
Total inventories	\$ 563,728	\$ 506,272

**Note 7. Credit Facilities and Related Party Transactions*****Union Bank Credit Facilities***

On December 31, 2013, the Company entered into a Commercial Credit Agreement (the "Credit Agreement") with MUFG Union Bank, N.A. (formerly Union Bank, N.A., "Union Bank"). The Credit Agreement initially provided for a 24 month revolving loan commitment and a 36 month term loan. While the revolving loan commitment with Union Bank remains available through December 31, 2015, the term loan was extinguished during the quarter ended September 30, 2015 using proceeds from related party borrowings (See Revolving Term Loan from related party).

The revolving loan commitment includes available borrowings of up to \$3,500,000 (the "Revolving Credit Loan"), consisting of revolving loans and a sublimit of letters of credit not to exceed a maximum aggregate principal amount

of \$1,000,000. Borrowings under the Revolving Credit Loan initially carried interest at a per annum rate of two and one-half percent (2.50%) in excess of a reference rate ("Reference Rate"), which is an index rate determined by Union Bank from time to time as a means of pricing certain extensions of credit. The Reference Rate was 3.25% as of September 30, 2015 and December 31, 2014.

The Credit Agreement initially provided for a term loan in the amount of \$5,000,000 (the “Term Loan Payable” and together with the Revolving Credit Loan, the “Union Bank Credit Facilities”). The Term Loan Payable was originally payable in 36 monthly payments of \$138,889 beginning January 31, 2014 with interest payable at a per annum rate of two and three-quarters percent (2.75%) in excess of the Reference Rate. The Company paid \$250,000 in financing costs associated with the Credit Agreement and used all of the proceeds of the Term Loan and \$827,490 of the proceeds of the Revolving Credit Loan to repay in full at December 31, 2013, a promissory note entered into in July 2013 with CVC California, LLC in the principal amount of \$5,800,000 plus accrued interest. The Credit Agreement contains representations and warranties, affirmative, negative and events of default, applicable to the Company and its subsidiaries which are customary for Union Bank Credit Facilities of this type. The Credit Agreement initially contained financial covenants applicable to the Company and its subsidiaries including maintaining a Fixed Charge Coverage Ratio between Adjusted EBITDA and principal and interest payments (as defined in the Credit Agreement) of not less than 1.25:1.00 as of the close of each fiscal quarter and an EBITDA (as defined in the Credit Agreement) of at least \$2,750,000 as of the close of each fiscal quarter, for the 12-month period ended as of the last day of the quarter. The Company did not satisfy the previous minimum Fixed Charge Coverage Ratio requirement (1.25:1.00) and the previous minimum EBITDA requirement of \$2,750,000 for the 12-month periods ended September 30, 2014 and December 31, 2014, and in connection therewith obtained waivers of such non-compliance from Union Bank for those periods. In exchange for the waivers, the Company paid Union Bank a waiver fee of \$10,000, and at December 31, 2014 a prepayment in the amount of \$500,000 was made and applied to the principal of the Term Loan Payable and certain provisions of the Credit Agreement were amended.

On March 3, 2015, the Credit Agreement was further amended to change various contractual terms as follows: the Fixed Charge Coverage Ratio requirement was reduced for the periods ended March 31, 2015 to 0.70:1.00 and for June 30, 2015 to 1.00:1.00; the minimum EBITDA requirement for the 12-month period ended as of the last day of each of these quarters during 2015 was reduced from \$2,750,000 to \$1,750,000; the requirement of no incurrence of a net loss after taxes for more than two consecutive fiscal quarters was changed to be effective January 1, 2015; net principal repayments totaling \$600,000 in 2015 were added to the Term Loan Payable scheduled payments (\$400,000 were paid during the second quarter of 2015 and the remaining \$200,000 were paid during the third quarter of 2015), and excluded from the Fixed Charge Coverage Ratio calculation; the interest rate on the Term Loan Payable and Revolving Credit Loan was increased by 1% effective March 1, 2015; and the Company paid a loan modification fee of \$50,000, half of which was paid on March 31, 2015 and the other half was paid on June 30, 2015. Additional legal fees were charged by Union Bank during the first quarter of 2015 in the amount of \$6,915. The Company did not satisfy the minimum EBITDA requirement for the 12-month period ended June 30, 2015, due primarily to a \$715,000 one-time accrual for severance payments to Lonnie D. Schnell, the Company’s former CEO and board member, that was recognized upon separation during the three months ended June 30, 2015. On August 4, 2015, the Company obtained a waiver from Union Bank of this minimum EBITDA requirement non-compliance and paid Union Bank a waiver fee of \$25,000 as a condition to the waiver.

The payment and performance of all indebtedness and other obligations under the Union Bank Credit Facilities are secured by liens on substantially all of the Company assets pursuant to the terms and conditions of security agreements and guaranties executed by the Company and its principle operating subsidiaries including Talon Technologies, Inc. (U.S. operation) and Tag-It Pacific Limited (Hong Kong operation).





On August 10, 2015, the Company entered into an amendment to the Credit Agreement with Union Bank, which provided for the elimination of financial covenants for the remaining term of the Credit Agreement, permitted the Company to incur \$3,000,000 of subordinated indebtedness, and required the repayment of the outstanding Term Loan Payable in the principal amount of \$1,440,278 plus accrued and unpaid interest by August 31, 2015. In connection with the amendment, the Company incurred approximately \$18,000 in legal fees, representing additional financing costs to the Union Bank Credit Facilities. On August 11, 2015, the Company received an advance from Princess Investment Holdings Inc. (“Princess Investment”) (which is a related company of Kutula Holdings, a major stockholder and related party to our Company), and on August 12, 2015 we paid off the outstanding Term Loan Payable from Union Bank as well as the unpaid interest.

The Company has accounted for the payment in full of the Term Loan Payable as a debt extinguishment in accordance with FASB ASC No. 405 “*Liabilities*” and FASB ASC No. 470-50 “*Debt, Modifications and Extinguishments*”, resulting in a loss on extinguishment of debt of \$134,049 included as non-operating expenses in the Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and nine months ended September 30, 2015. The loss on extinguishment was equal to the difference between the funded amount and the fair value of the debt extinguished at the transaction date.

The Company had outstanding borrowings as of September 30, 2015 and December 31, 2014 of \$1,600,000 and \$4,333,334, respectively, under the Union Bank Credit Facilities, of which \$1,600,000 and \$1,500,000, respectively, relates to obligations under the Revolving Credit Loan and at December 31, 2014 the remainder relates to the Term Loan Payable. During the nine months ended September 30, 2015, the Company obtained advances under the Revolving Credit Loan of \$700,000, with no borrowings during the three months ended September 30, 2015, and repayments of \$600,000 during the three and nine months ended September 30, 2015, resulting in a net increase in the outstanding borrowings to \$1,600,000 at September 30, 2015. Approximately \$331,000 remained in available borrowings under the Revolving Credit Loan as of September 30, 2015.

The Revolving Term Loan commitment with Union Bank will terminate on December 31, 2015 and the Company intends to refinance its loan with Union Bank by such date using proceeds from an alternate financing source.

#### ***Revolving Term Loan from Related Party***

On August 10, 2015, the Company entered into a loan and reimbursement agreement (“Loan Agreement”) with Princess Investment (which is a related company of Kutula Holdings, a major stockholder and related party to our Company), pursuant to which Princess Investment agreed to make available to the Company a loan of up to \$3,000,000 (“Revolving Term Loan”). Advances under the Loan Agreement will accrue interest on the unpaid principal balance at an annual rate of 12.5%. Accrued interest on the Revolving Term Loan is payable monthly beginning September 1, 2015, and the principal amount is payable in monthly installments beginning September 1, 2016 and continuing through the maturity date of August 10, 2018.

On August 11, 2015, the Company received an advance from Princess Investment under the Loan Agreement in the amount of \$1,500,000, of which \$1,440,278 was used to pay off the Term Loan Payable to Union Bank on August 12, 2015. The Company borrowed an additional \$500,000 during the three months ended September 30, 2015, and had an outstanding balance of \$2,000,000 under the Revolving Term Loan from Princess Investment at September 30, 2015 (reflecting a balance of \$1,888,551 net of debt discounts). Approximately \$1,000,000 remained in available borrowings under the Revolving Term Loan as of September 30, 2015.

The payment and performance of all our indebtedness and other obligations to Princess Investment, including all borrowings under the Loan Agreement, are guaranteed by the Company's subsidiaries Talon Technologies, Inc. and Tag-It Pacific Limited pursuant to a Guaranty Agreement. The payment and performance of all of our indebtedness and other obligations to Princess Investment under the Loan Agreement and related agreements are secured by liens on substantially all of the assets of the Company and its subsidiary guarantors pursuant to the terms and conditions of a Pledge and Security Agreement executed by the Company and guarantors in favor of Princess Investment.

Total interest related to the Revolving Term Loan for the three and nine months ended September 30, 2015 amounted to \$27,397. Total financing costs related to the Revolving Term Loan during the three and nine months ended September 30, 2015 amounted to \$99,011, of which \$60,000 will be paid upon maturity. The financing costs are being amortized over the three year term of the Loan.

Pursuant to the Loan Agreement, the Company issued Princess Investment warrants to purchase 1,000,000 shares of the Company's common stock. The warrants are exercisable immediately upon issuance for a five-year period at an exercise price of \$0.18 per share on a cashless basis. After consideration of FASB ASC 480 "*Distinguishing Liability and Equity*" and ASC 815 "*Derivatives and Hedging*", the Company concluded that the warrants should be recorded as an equity instrument. The fair value of the warrants of \$130,000 issued with this debt facility was valued using the Black-Scholes model, and the portion of the warrants and the Revolving Term Note were allocated using the relative fair value method in accordance with ASC 470-20-25-2. As a result, the allocated amount for the warrants amounted to \$119,632 and were recorded as additional paid in capital, and reflected as a debt discount to the face value of the Revolving Term Note. The discount is being amortized over the term of the Loan and recognized as additional interest cost as amortized.

Interest expense, net, included on the Company's Consolidated Statements of Operations and Comprehensive Income is comprised as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2015</b>	<b>September 30, 2014</b>	<b>September 30, 2015</b>	<b>September 30, 2014</b>
Revolving credit loan	\$35,841	\$14,695	\$96,543	\$45,441
Revolving term loan from related party	27,397	-	27,397	-
Term loan payable	12,257	60,743	93,280	201,831
Amortization of deferred financing cost	43,021	22,569	100,935	67,708
Amortization of debt discounts	8,183	-	8,183	-
Total Credit Facilities related interest expense	126,699	98,007	326,338	314,980
Other interest expense, net	1,267	(1,136)	2,189	2,776
Interest expense , net	\$127,966	\$96,871	\$328,527	\$317,756



**Note 8. Stockholders' Equity**

***Private Placement of Common Stock***

In July 2013 the Company raised \$5,500,000 of new equity through the sale, in a private placement transaction, of 61,111,109 shares of the Company's common stock at a price of \$0.09 per share. Zipper Holdings, LLC, a related party company controlled by Mark Dyne, the Chairman of the Company's Board of Directors, acquired 8,333,333 shares of common stock in the private placement.

In connection with the private placement, the Company entered into a series of Subscription Agreements (the "Subscription Agreements") and a Registration Rights Agreement (the "Registration Rights Agreement") with the investors in the transaction. The Subscription Agreement entered into with Kutula Holdings Ltd. ("Kutula") grants Kutula the right to nominate one member of the Company's Board of Directors, so long as Kutula continues to hold at least 15,500,000 of the shares (as adjusted for stock splits and the like) purchased pursuant to its Subscription Agreement, subject to certain disclosure requirements and other limitations. The Registration Rights Agreement provides for demand registration rights, such that upon the demand of holders of at least 25% of the shares issued in the private placement and subject to certain conditions, the Company will then file a registration statement covering the shares issued in the private placement that requested to be included in such registration. The Registration Rights Agreement also provides certain piggyback rights, in which the holders of shares acquired in the private placement have the right to include those shares in a Company-initiated registration.

Pursuant to its obligations under the Registration Rights Agreement, the Company filed a registration statement on Form S-1 with the SEC on November 20, 2014 to register for resale all of the 61,111,109 shares issued in the private placement. The registration statement was declared effective on December 4, 2014.

***Authorized Common Stock and Preferred Stock***

On November 8, 2013, the Company's stockholders approved an amendment to the Company's Certificate of Incorporation to increase the number of shares of common stock authorized to be issued from 100,000,000 to 300,000,000. At the Company's 2015 Annual Meeting of Stockholders, the stockholders approved an amendment to the Company's Certificate of Incorporation to allow for a reverse split of the Company's outstanding shares of common stock any time prior to the 2016 Annual Meeting authorizing the Board of Directors, when and if the Board of Directors determine that such action is appropriate.

The Company's Certificate of Incorporation presently authorizes the issuance of 3,000,000 shares of Preferred Stock, having a par value of \$0.001 per share. No shares of Preferred Stock were outstanding at September 30, 2015 or December 31, 2014.

**Note 9. Stock-Based Compensation and Other Share-Based Grants**

The Company accounts for stock-based awards to employees and directors in accordance with FASB ASC 718, "*Compensation - Stock Compensation*", which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. Options issued to all other non-employee parties are accounted for in accordance with the provisions of FASB ASC 505-50, "*Equity-Based Payments to Non-Employees*".

### *Stock Options and Warrants*

The Company's 2008 Stock Incentive Plan initially authorized the issuance of up to 2,500,000 shares of common stock in awards to individuals under the plan. On November 19, 2010, an amendment to the 2008 Stock Incentive Plan increased the authorized shares from 2,500,000 to 4,810,000. On November 8, 2013, the Company's stockholders approved a further amendment to the 2008 Stock Incentive Plan to increase from 4,810,000 to 15,000,000 the number of shares of common stock that may be issued pursuant to awards under the plan.

The Company's 2007 Stock Plan was approved by the Company's stockholders in 2007, and replaced the 1997 Stock Plan that had previously authorized the granting of a variety of stock-based incentive awards. The 2007 Stock Plan authorizes up to 2,600,000 shares of common stock for issuance pursuant to awards granted to individuals under the plan.

The Board of Directors, who determines the recipients and terms of the awards granted, administers the Company's stock plans. Awards under the Company's stock plans are generally granted with an exercise price equal to the average market price of the Company's stock for the five trading days following the date of approval of the grant. Those option awards generally vest over periods determined by the Board of Directors from immediate to 4 years of continuous service and have 10 year contractual terms.

During the three and nine months ended September 30, 2015, 300,000 and 700,000 options, respectively were granted. During the three and nine months ended September 30, 2014, 3,645,000 and 4,045,000 options, respectively were granted.

During the nine months ended September 30, 2014, options were exercised to acquire 186,458 shares of common stock under the 2007 and 2008 Stock Incentive Plans, and 148,820 shares were retained by the Company in payment of the exercise price of \$0.18 weighted average per share and the tax associated with the exercise of the options. At the time of exercise, the intrinsic value of the options exercised was \$0.27 per share, and the retained shares had a value of \$40,181. During the nine months ended September 30, 2014, options were also exercised to acquire 277,084 shares of common stock under the 2008 Stock Incentive Plan. Cash received upon exercise was \$29,709 at a weighted average of \$0.11 per share. At the time of exercise, the intrinsic value of the options exercised was \$0.23 per share. No options were exercised during the three months ended September 30, 2014, and the three and nine months ended September 30, 2015.

As of September 30, 2015, the Company had \$410,288 of unamortized stock-based compensation expense related to options issued to employees and directors, which will be recognized over the remaining weighted average period of 2.9 years. As of September 30, 2014, unamortized stock-based compensation expense related to options issued to



employees and directors was \$769,045, which was to be recognized over the weighted average period of approximately 3.72 years.

Pursuant to the Loan Agreement, the Company issued Princess Investment warrants to purchase 1,000,000 shares of the Company's common stock. The warrants are exercisable immediately upon issuance for a five-year period at an exercise price of \$0.18 per share on a cashless basis (See Note 7).

The following table summarizes the activity in the Company's share-based compensation plans and other share-based grants during the nine months ended September 30, 2015.

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>
<b><i>Employees and Directors</i></b>		
Options outstanding - January 1, 2015	9,747,767	\$ 0.20
Granted	400,000	\$ 0.17
Exercised	-	\$ -
Cancelled	(1,832,500)	\$ 0.28
Options outstanding - June 30, 2015	8,315,267	\$ 0.19
Granted	300,000	\$ 0.12
Exercised	-	\$ -
Cancelled	(130,000 )	\$ 0.19
Options outstanding - September 30, 2015	8,485,267	\$ 0.18
<b><i>Non Employees</i></b>		
Warrants outstanding – January 1, 2015 and June 30, 2015	-	\$ -
Granted	1,000,000	\$ 0.18
Exercised	-	\$ -
Cancelled	-	\$ -
Warrants outstanding - September 30, 2015	1,000,000	\$ 0.18

***Restricted Stock Units (RSUs)***

On July 30, 2010, the Company awarded each of Lonnie D. Schnell (the Company's Chief Executive Officer through April 10, 2015) and Larry Dyne (the Company's Chief Executive Officer effective April 13, 2015 and President at the time) a restricted stock unit award (an "RSU Award") for 5,778,500 shares of the Company's common stock. Each RSU Award vested 50% on August 30, 2011, and 10% on each date which is 18, 24, 30, 36 and 42 months following the grant date, subject to partial acceleration of vesting as part of the executives' severance benefits and full acceleration of vesting upon a change in control of the Company. As of July 30, 2010, the RSUs were valued at \$2,263,884, which was reduced by the fair value of the options surrendered by the employees in connection with these grants.

On August 30, 2010, Mr. Schnell and Mr. Dyne elected to defer the settlement in common shares of 5,434,200 RSUs beyond the vesting dates.

On January 30, 2014, 610,894 shares of common stock were issued upon final settlement of vested restricted stock units, and the equivalent of 544,806 shares were retained by the Company in payment of the tax associated with the vesting of restricted stock units previously granted to the reporting persons. During the three and nine months ended September 30, 2015 no shares were issued upon settlement of vested restricted stock units.

There were no outstanding RSUs and no unamortized stock-based compensation expense related to RSUs as of September 30, 2015 and December 31, 2014.

**Note 10. Income taxes**

Provision for (benefit from) income taxes, net, for the three and nine months ended September 30, 2015 was \$(8,431) and \$128,746, respectively. Provision for income taxes, net, for the three and nine months ended September 30, 2014 was \$161,165 and \$732,299, respectively.

Current income taxes receivable were associated with foreign and domestic prepayments net of income tax payable, and totaled \$8,503 and \$66,270 as of September 30, 2015 and December 31, 2014, respectively.

Current income taxes payable were principally associated with foreign withholdings, funds transfers, and income tax payable from the Company's Asia operations. Current income taxes payable as of September 30, 2015 and December 31, 2014 totaled \$184,734 and \$78,455, respectively, and were included in accrued expenses.

Deferred income tax assets, net, totaled \$6,143,193 and \$6,120,838 as of September 30, 2015 and December 31, 2014, respectively, are included in long term deferred income tax assets, net, and in current deferred income tax assets, net.

Deferred income tax liabilities totaled \$7,318 and \$13,961 as of September 30, 2015 and December 31, 2014, respectively.

#### **Note 11. Commitments and Contingencies**

The Company currently has pending claims and complaints that arise in the ordinary course of the Company's business. The Company believes that it has meritorious defenses to these claims and that the claims are either covered by insurance or would not have a material effect on the Company's consolidated financial position or results of operations if adversely determined against the Company.

In November 2002, the FASB issued Topics of the FASB ASC 460-10, "*Guarantees*" ("ASC 460-10") and FASB ASC 850-10, "*Related Party Disclosures*" ("ASC 850-10"). The following is a summary of the Company's agreements that it has determined are within the scope of ASC 460-10 and ASC 850-10:

In accordance with the bylaws of the Company, and indemnification agreements entered into with the members of the Board of Directors and executive officers, the Company's officers and directors are indemnified for certain events or occurrences arising as a result of the officer or director serving in such capacity. The term of the indemnification period is for the lifetime of the officer or director. The maximum potential amount of future payments the Company could be required to make under the indemnification provisions of its bylaws and indemnification agreements is unlimited. However, the Company has a director and officer liability insurance policy that reduces its exposure and enables it to recover a portion of any future amounts paid. As a result of its insurance policy coverage, the Company believes the estimated fair value of the indemnification provisions of its bylaws and indemnification agreements is minimal and therefore, the Company has not recorded any related liabilities.

The Company enters into indemnification provisions under its agreements with investors and its agreements with other parties in the normal course of business, typically with suppliers, customers and landlords. Under these provisions, the Company generally indemnifies and holds harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of the Company's activities or, in some cases, as a result of the indemnified party's activities under the agreement. These indemnification provisions often include indemnifications relating to representations made by the Company with regard to intellectual property rights, and generally survive termination of the underlying agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is unlimited. The Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal and accordingly, the Company has not recorded any related liabilities.

**Note 12. Segment Reporting and Geographic Information**

The Company manufactures and distributes a full range of zipper (Talon Zipper), trim (Talon Trim) and waistband, shirt collars and other apparel components utilizing proprietary stretch technology (Talon Tekfit) to manufacturers of fashion apparel, specialty retailers and mass merchandisers. The Company's organization is based on divisions representing the major product lines, and the Company's operating decisions use these divisions to assess performance, allocate resources and make other operating decisions. Within these product lines there is not enough difference between the types of products to justify segmented reporting by product type or to account for these products separately. The net revenues and operating margins for the three primary product groups are as follows:

**Three Months ended September 30, 2015**

	<b>Talon</b>	<b>Talon</b>	<b>Talon</b>	<b>Talon</b>
	<b>Zipper</b>	<b>Trim</b>	<b>Tekfit</b>	<b>Consolidated</b>
Net sales	\$3,981,191	\$5,516,407	\$494,493	\$ 9,992,091
Cost of goods sold	2,888,204	3,414,912	315,434	6,618,550
Gross profit	\$1,092,987	\$2,101,495	\$179,059	3,373,541
Operating expenses				3,210,310
Income from operations				\$ 163,231

**Three Months ended September 30, 2014**

	<b>Talon</b>	<b>Talon</b>	<b>Talon</b>	<b>Talon</b>
	<b>Zipper</b>	<b>Trim</b>	<b>Tekfit</b>	<b>Consolidated</b>
Net sales	\$6,011,455	\$5,669,249	\$69,266	\$ 11,749,970
Cost of goods sold	4,402,750	3,562,909	65,579	8,031,238
Gross profit	\$1,608,705	\$2,106,340	\$3,687	3,718,732
Operating expenses				3,403,610
Income from operations				\$ 315,122

**Nine Months ended September 30, 2015**

	<b>Talon</b>	<b>Talon</b>	<b>Talon</b>	<b>Talon</b>
	<b>Zipper</b>	<b>Trim</b>	<b>Tekfit</b>	<b>Consolidated</b>
Net sales	\$17,924,116	\$17,133,223	\$1,530,452	\$36,587,791
Cost of goods sold	13,099,723	10,574,619	943,042	24,617,384
Gross profit	\$4,824,393	\$6,558,604	\$587,410	11,970,407
Operating expenses				11,180,154
Income from operations				\$790,253

**Nine Months ended September 30, 2014**

	<b>Talon</b>	<b>Talon</b>	<b>Talon</b>	<b>Talon</b>
	<b>Zipper</b>	<b>Trim</b>	<b>Tekfit</b>	<b>Consolidated</b>
Net sales	\$20,420,661	\$18,538,867	\$92,729	\$39,052,257
Cost of goods sold	14,569,223	11,532,952	90,934	26,193,109
Gross profit	\$5,851,438	\$7,005,915	\$1,795	12,859,148
Operating expenses				10,920,267
Income from operations				\$1,938,881

The Company distributes its products internationally and has reporting requirements based on geographic regions. Revenues are attributed to countries based upon customer delivery locations and the net book value of long-lived assets (consisting of property and equipment and intangibles) is attributed to countries based on the location of the assets, as follows:

<b>Sales:</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>
<i>Country / Region</i>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
United States	\$738,342	\$928,465	\$2,411,853	\$3,326,100
China	2,741,111	3,903,834	10,235,769	12,923,325
Hong Kong	2,456,406	2,858,004	7,889,511	9,079,162
Bangladesh	556,210	585,929	3,033,607	1,693,452
Vietnam	672,265	434,491	2,320,113	1,544,686
India	749,785	718,903	2,182,377	1,983,872
Other	2,077,972	2,320,344	8,514,561	8,501,660
Total	\$9,992,091	\$11,749,970	\$36,587,791	\$39,052,257





	<b>September 30, 2015</b>	<b>December 31, 2014</b>
<b><i>Long-lived Assets:</i></b>		
United States	\$4,785,588	\$4,554,831
China	172,746	178,873
Hong Kong	102,255	150,966
Total	\$5,060,589	\$4,884,670

**Note 13. Subsequent Events**

The Company evaluated subsequent events after the balance sheet date of September 30, 2015 through the date of the filing of this report, and determined that there were no reportable subsequent events.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Forward Looking Statements

### Overview

This report and other documents we file with the Securities and Exchange Commission contain forward looking statements that are based on current expectations, estimates, forecasts and projections about us, our future performance, our business or others on our behalf, our beliefs and our management's assumptions. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. We describe our respective risks, uncertainties, and assumptions that could affect the outcome or results of operations below. We have based our forward looking statements on our management's beliefs and assumptions based on information available to our management at the time the statements are made. We caution you that actual outcomes and results may differ materially from what is expressed, implied, or forecast by our forward looking statements. Reference is made in particular to forward looking statements regarding projections or estimates concerning our business, including adequate liquidity to fund our operations and meet our other cash requirements, demand for our products and services, mix of revenue streams, ability to control or reduce operating expenses, anticipated gross margins and operating results, cost savings, product development efforts, general outlook of our business and industry, international businesses, and competitive position.

The following management's discussion and analysis is intended to assist the reader in understanding our consolidated financial statements and our business. This management's discussion and analysis is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and accompanying notes.

Talon International, Inc. designs, manufactures, sells and distributes apparel zippers, various apparel trim products and specialty waistbands, shirt collars, shape slimming panels and other apparel components to manufacturers of fashion apparel, specialty retailers and mass merchandisers. We sell and market these products under various branded names including *Talon*® and *Tekfit*®. As a result, we operate the business globally under three product groups - Talon Zipper, Talon Trim and Talon Tekfit.

We pursue the global expansion of our business through the establishment of Talon owned sales and distribution locations, and strategic manufacturing relationships. The manufacturing arrangements, in combination with Talon owned and affiliated facilities under the Talon brand, improve our time-to-market throughout the world by sourcing, finishing and distributing to apparel manufacturers in their local markets.

Our primary business focus is on serving as an outsourced apparel zipper, trim and inner lining supplier, product design and development, sampling and sourcing department for the most demanding brands and retailers. We believe

that design differentiation among brands and retailers is a critical marketing tool for our customers. By assisting our customers in the design, development, sampling and sourcing of all apparel components other than fabric and thread, we generally achieve higher margins for our products, create long-term relationships with our customers, grow our sales to a particular customer by serving a larger proportion of their brands and better differentiate our sales and services from those of our competitors. We are expanding our business globally, to better serve our apparel customers at the factory level, in addition to global brands and retailers. We believe we can lead the industry in apparel accessories by having strong relationships with our brand and retail customers and having a distributed service organization to serve our factory customers globally.

Our Talon Tekfit business provides manufacturers with Talon's patented fabric stretch technology, manufacturing know-how, proprietary equipment and materials necessary to produce expandable waistbands, shirt collars, shape slimming panels and various other stretch technology apparel inner lining components. In recent years we have begun to actively expand our marketing and selling efforts of this unique product within the industry.

The adoption of new and innovative technology by major retailers, particularly where it modifies the style, design or performance of a garment, is a complicated and time-consuming process. New product innovations by major retailers can require 10 to 12 months to complete the design, marketing and manufacturing of the new item, and depending upon the seasonal aspect of the garment, introduction of the product to the market could require several additional months. Accordingly, the re-introduction of the Talon Tekfit technology requires significant time to accomplish adoption within the retailers' products. However, once adopted we anticipate the production volumes will continue to build as the technology is accepted across multiple styles with a retailer.

## Seasonality

We typically experience seasonal fluctuations in sales volume consistent with the purchase demands of the apparel industry. In most years, these seasonal fluctuations result in lower sales volumes for our business in the first and fourth quarters of each year due to the seasonal buying patterns by the majority of our customers. Sales of our products typically precede the retail sales patterns by approximately 90 to 150 days, with this cycle pattern closer to 45 to 75 days for our more generic products sold to mass merchandisers. The apparel retailers typically experience their highest sales volumes during the fourth quarter in association with year-end holiday purchases. Backlogs of sales orders are not considered material in the industries in which we compete, which reduces the predictability of our sales and reinforces the volatility of these cyclical buying patterns on our sales volume. Operating expenses typically follow our seasonal sales patterns fluctuating with the quarterly sales. However our first quarter is typically burdened with higher costs associated with year-end audits, legal reviews, and costs associated with SEC filings, resulting in proportionally higher costs in the first quarter. Because of these fluctuations in our sales and operating costs, results for any quarter are not necessarily indicative of the results that may be achieved for the full year.

## Results of Operations

The following table sets forth selected statements of operations data shown as a percentage of net sales for the periods indicated:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2015</b>	<b>2014</b>	<b>September 30, 2015</b>	<b>2014</b>
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	66.2	68.4	67.3	67.1
Gross profit	33.8	31.6	32.7	32.9
Sales and marketing expenses	15.0	13.9	13.0	12.2
General and administrative expenses	17.2	15.0	17.5	15.7

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Interest expense, net	1.3	0.8	0.9	0.8
Loss on extinguishment of debt	1.3	0.0	0.4	0.0
Provision for (benefit from) income taxes, net	(0.1 )			