



Shareholder Meeting
August 15, 2018

www.talonzippers.com

Fellow Shareholders:

With market conditions changing dramatically in the retail space along with evolving US governmental policies, Talon International had to make modifications to its corporate strategy to adjust to the new environment. Our financial results for 2017 reflect increasingly challenging market conditions, but we remained committed to delivering value with our focus on targeted growth segments, maintaining our solid financial position and supporting our team of great people. The many important decisions that we have made reflect the way we keep our key stakeholders, especially our shareholders, at the center of everything we do.

In 2017, we made strategic investments in IT, marketing, product development, and patent-related activities in order to differentiate ourselves and be more market relevant. In IT, we embarked on the implementation of a NetSuite One World ERP System to replace our aging ERP and sub-systems. Having a more efficient and integrated system will improve our efficiency and productivity. Based on the current implementation plan, we anticipate launching the system in the third quarter of 2018. In marketing, we have started active campaigns on social media to target specific customer groups and publicize sponsored zipper events at LA Fashion Week and Fashion Institute of Design and Merchandising, to expose our brand to up and coming designers and fashionistas. We believe continuous investment in marketing is a must to keep our brand relevant and inform the public about our Company's product lines.

In product development, we invested in a sustainable product line -- oxo-biodegradable bags -- and a new zipper line called the Character Zip. Our sustainable product line will cater to the current "green" movement and our customers' desire to be more conscious about the environment. This initiative has garnered positive feedback from our customers and more brands are adopting our oxo-biodegradable bags. The Character Zip is our next generation zipper with a proprietary design that allows consumers to display brand loyalty. The traditional zipper pull is replaced with an intuitively engineered mechanism that is crafted in the shape of a character or other three-dimensional images. The Character Zip meets all strength and compliance requirements but functions differently than a standard zipper. This new and innovative design allows kids to show off their favorite animated characters, fans to indulge their sports obsessions, designers to flaunt bling on a garment and corporations and colleges to display their logos. This groundbreaking product has great market potential for toy licensing, character licensing, sports marketing and creating awareness in general. We plan to launch this product in Q3 of 2018.

Finally, we have been awarded patents on our stretch technology, relating to expandable and flexible shirt collars, continuous folded waistbands and collar stands, and abdominal support. We expect that these patents will be pivotal in protecting our inventions and generating future revenue from our Tekfit/Adjustec division. In addition, we have filed for a number of other patents (including Character Zip) as well as patent continuations. We firmly believe in innovating new products and processes as well as protecting our intellectual property.

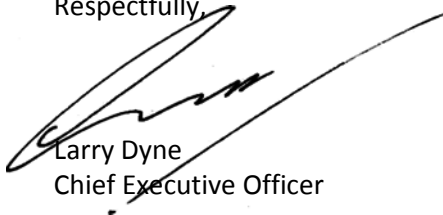
After a detailed analysis and thoughtful deliberation of the advantages and disadvantages of being an SEC reporting company, the Company's Board of Directors unanimously determined to voluntarily deregister our common stock and suspend our reporting obligations with the SEC. The Board considered many elements in reaching its decision, including: the substantial costs associated with being a public reporting company, the amount of time management spends on securities compliance, the nature and extent of trading in the Company's common stock, and the views of the Company's largest stockholders.

We believe that suspending our SEC reporting obligations will allow us to better direct our financial and management resources to support the long term growth of our business, including by focusing and developing our proprietary technologies, for the benefit of our stockholders.

We operate in an environment that is rapidly changing with compressed lead-times and just-in-time ordering to capture the latest trends and fashion cycles. This requires continuous and ongoing improvements in our customer service and supply chain management and the way in which we approach our daily business. In 2017, we continued to collaborate with our customers and suppliers to reduce lead times and provided training to our employees to enhance their productivity.

In closing, I want to thank all of our employees whose creativity, hard work and customer dedication have made this year's achievements possible. I would also like to thank our shareholders for their continued support. Our strong connection with customers continues to be a key asset in an increasingly competitive marketplace. While the economy remains challenging, we are well prepared to meet our customers' changing needs, pursue continued growth and maximize shareholder value.

Respectfully,

A handwritten signature in black ink, appearing to read 'Larry Dyne', is written over a thin horizontal line. The signature is stylized and extends above and below the line.

Larry Dyne
Chief Executive Officer

TALON INTERNATIONAL, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS To Be Held August 15, 2018

The 2018 annual meeting of the stockholders (the “Meeting”) of Talon International, Inc. (the “Company”) will be held on Wednesday, August 15, 2018, at 2 p.m. (local time), at the Company’s corporate headquarters located at 21900 Burbank Boulevard, Suite 270, Woodland Hills, California 91367, for the following purposes:

1. ***Election of Directors.*** To elect four persons to the Board of Directors of the Company to serve until the annual meeting of stockholders to be held in 2019, or until their respective successors have been elected and qualified. The following persons are the Board of Directors’ nominees: Mark Dyne, Larry Dyne, David Ellis and Robert L. Golden.
2. ***Ratification of the Appointment of Independent Registered Public Accounting Firm.*** To ratify the selection of SingerLewak LLP as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2018.
3. ***Talon International, Inc. 2018 Omnibus Incentive Plan.*** To approve the Talon International, Inc. 2018 Omnibus Incentive Plan.
4. ***Other Business.*** To transact such other business as properly may come before the Meeting or any continuation, adjournment or postponement thereof.

Only holders of record of Common Stock of the Company at the close of business on Monday, June 25, 2018 (the “Stockholders”) will be entitled to notice of and to vote, in person or by proxy, at the Meeting or any continuation, adjournment or postponement thereof.

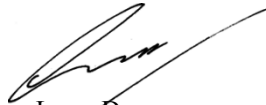
The Proxy Statement, which accompanies this Notice, contains additional information regarding the proposals to be considered at the Meeting, and Stockholders are encouraged to read it in its entirety.

IN ORDER TO ENSURE YOUR REPRESENTATION AT THE ANNUAL MEETING, PLEASE COMPLETE, DATE, SIGN AND RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED ENVELOPE AS PROMPTLY AS POSSIBLE. IF YOU RECEIVE MORE THAN ONE PROXY CARD BECAUSE YOU OWN SHARES REGISTERED IN DIFFERENT NAMES OR AT DIFFERENT ADDRESSES, EACH CARD SHOULD BE COMPLETED AND RETURNED.

As set forth in the enclosed Proxy Statement, proxies are being solicited by and on behalf of the Board of Directors of the Company. All proposals set forth above are proposals of the Board of Directors.

To ensure that your shares may be represented at the Meeting and to assure the presence of a quorum, please vote by following the instructions contained in the Proxy Materials or complete, date and sign the enclosed Proxy and return it **promptly** in the self-addressed, stamped envelope enclosed for that purpose, whether or not you expect to attend the Meeting in person.

Woodland Hills, California
June 22, 2018



Larry Dyne
Chief Executive Officer

IT IS IMPORTANT THAT ALL STOCKHOLDERS VOTE. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING IN PERSON, PLEASE COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE IF YOU DO ATTEND THE MEETING, YOU MAY WITHDRAW YOUR PROXY AND VOTE IN PERSON, AS FURTHER DESCRIBED IN THE PROXY MATERIALS. THE PROXY MAY BE REVOKED AT ANY TIME PRIOR TO ITS EXERCISE.

TALON INTERNATIONAL, INC.
21900 Burbank Blvd., Suite 270
Woodland Hills, CA 91367
(818) 444-4100

PROXY STATEMENT

GENERAL INFORMATION

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Talon International, Inc. (the “Company”) for use at the 2018 annual meeting of the Stockholders of the Company (the “Meeting”) to be held at the Company’s corporate headquarters, 21900 Burbank Blvd., Suite 270, Woodland Hills, California 91367, on Wednesday, August 15, 2018, at 2 p.m. (local time) and at any continuation, adjournment or postponement thereof, for the purposes set forth herein and in the attached Notice of Annual Meeting of Stockholders.

Only holders of record of the Company’s Common Stock (the “Stockholders”) at the close of business on Monday, June 25, 2018 (the “Record Date”) are entitled to notice of and to vote, in person or by proxy, at the Meeting and any continuation, adjournment or postponement thereof.

The Notice of Annual Meeting, this Proxy Statement and the accompanying proxy card (the “Proxy”) will first be mailed to Stockholders on or about July 9, 2018.

Matters to be Considered

The matters to be considered and voted upon at the Meeting will be:

1. ***Election of Directors.*** To elect four persons to the Board of Directors of the Company to serve until the annual meeting of Stockholders to be held in 2019, or until their respective successors have been elected and qualified. The following persons are the Board of Directors’ nominees:

Mark Dyne
Larry Dyne
David Ellis
Robert L. Golden

2. ***Ratification of the Appointment of Independent Registered Public Accounting Firm.*** To ratify the selection of SingerLewak LLP as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2018.
3. ***Talon International, Inc. 2018 Omnibus Incentive Plan.*** To approve the Talon International, Inc. 2018 Omnibus Incentive Plan.
4. ***Other Business.*** To transact such other business as properly may come before the Meeting or any continuation, adjournment or postponement thereof.

Method of Voting

Stockholders whose shares are registered in their own names may vote by mailing a completed proxy card. Stockholders whose shares are registered in their own names may also vote at the Meeting. To vote by mailing a proxy card, sign and return the enclosed proxy card in the enclosed prepaid and addressed envelope and your shares will be voted at the Meeting in the manner you direct. In the event no directions are specified, such proxies will be voted FOR each of the nominees of the Board of Directors (Proposal No. 1), FOR the ratification of the appointment of SingerLewak LLP as the Company’s independent registered public accounting firm for the Company’s fiscal year

ended December 31, 2018 (Proposal No. 2), FOR the approval of the Talon International, Inc. 2018 Omnibus Incentive Plan and in the discretion of the proxyholders as to any other matters that may properly come before the Meeting. Larry Dyne and Daniel Ryu, or either of them, are the designated proxyholders (the “Proxyholders”) and are each a member of the Company’s management.

If you hold Common Stock in “street name,” you must either instruct your broker or nominee as to how to vote such shares or obtain a proxy, executed in your favor by your broker or nominee, to be able to vote at the Meeting. If your Common Stock is held in “street name”, you may be eligible to vote your shares over the Internet or by telephone rather than by mailing a completed voting instruction card provided by the bank or brokerage firm. Please check the voting instruction card provided by your bank or brokerage house for availability of telephone and/or Internet voting and related voting instructions. If Internet or telephone voting is unavailable from your bank or brokerage house, please complete and return the enclosed voting instruction card in the self-addressed postage paid envelope provided.

Revocation of Proxies

Stockholders of Record. If you are a Stockholder of Record, you may revoke your proxy or change your proxy instructions at any time before your proxy is voted at the Meeting by:

- entering a new vote;
- signing and returning a new proxy card with a later date;
- delivering a written revocation to our Secretary at the address listed on the front page of this proxy statement; or
- attending the Annual Meeting and voting in person.

Beneficial Owners who hold shares in “street name”. If you are the beneficial owner of your shares, you must contact the broker or other nominee holding your shares and follow their instructions to change your vote or revoke your proxy.

Voting Rights

At the close of business on the Record Date, there were 92,338,283 shares of Common Stock outstanding, which constitute all of the outstanding voting securities of the Company.

A majority of the shares of Common Stock, issued and outstanding and entitled to vote at the Meeting, represented in person or by proxy (including by telephone or internet voting), will constitute a quorum for the transaction of business at the Meeting. Votes withheld, abstentions and “broker non-votes” (as defined below) will be counted for purposes of determining the presence of a quorum. If by the date of the Meeting we do not receive proxies representing sufficient shares to constitute a quorum, the Chairman of the Meeting, or the stockholders entitled to vote at the meeting, shall have power to adjourn the meeting, without notice other than announcement at the meeting, until a quorum is present or represented. At such adjourned meeting at which a quorum is present, any business may be transacted that might have been transacted at the meeting as originally noticed.

Each Stockholder is entitled to one vote, in person or by proxy (including by telephone or internet voting), for each share of Common Stock standing in his, her or its name on the books of the Company at the close of business on the Record Date, on each matter presented to the Stockholders at the Meeting. Stockholders will not be have the right to cumulate votes in the election of directors.

If a quorum is present, a plurality of the shares voting will be sufficient to elect the director nominees (Proposal No. 1). This means that the four nominees for director receiving the highest number of votes “for” election will be elected. Each matter described in this Proxy Statement, other than the election of directors, requires the affirmative vote of a majority of the outstanding shares of Common Stock present, in person or by proxy (including

by telephone or internet voting if available), and entitled to vote on that proposal at the Meeting, unless otherwise required by law. An abstention with respect to any matter presented to the Stockholders, other than the election of directors, and a broker non-vote with respect to any matter presented to the Stockholders, will not be included in the number of shares counted as being present for the purposes of voting on such proposal and, accordingly, will have the effect of reducing the number of affirmative votes required to approve the proposal.

Brokers holding Common Stock in “street name” who are members of a stock exchange are required by the rules of the exchange to transmit this Proxy Statement to the beneficial owner of the Common Stock and to solicit voting instructions with respect to the matters submitted to the Stockholders. If any such broker has not received instructions from the beneficial owner by the date specified in the statement accompanying such material, the broker may give or authorize the giving of a proxy to vote such Common Stock in his discretion in the ratification of the appointment of the Company’s independent registered public accounting firm. However, brokers or nominees do not have discretion to vote on the election of nominees to the Board of Directors or certain other proposals, including the proposed adoption of the Company’s 2018 Omnibus Incentive Plan, without specific instructions from the beneficial owner. When a broker or nominee votes a client’s shares on some but not all proposals, the missing votes are referred to as “broker non-votes.” If you hold Common Stock in “street name” and you fail to instruct your broker or nominee as to how to vote such shares, your broker or nominee may, in its discretion, vote such shares “FOR” the ratification of SingerLewak LLP as the Company’s independent registered public accounting firm for the fiscal year ended December 31, 2018, but may not vote on the election of nominees to the Board of Directors or the approval of the Company’s 2018 Omnibus Incentive Plan.

Solicitation of Proxies

This proxy solicitation is made by the Board of Directors of the Company, and the Company will bear the costs of this solicitation, including the expense of preparing, printing, assembling and mailing this Proxy Statement and any other material used in this solicitation of Proxies. If it appears desirable to do so to ensure adequate representation at the Meeting, officers and regular employees may communicate with Stockholders, banks, brokerage houses, custodians, nominees and others by telephone, facsimile, e-mail or in person to request that Proxies be furnished. No additional compensation will be paid for these services. The Company will furnish copies of solicitation materials to banks, brokerage houses, custodians, nominees, and others to be forwarded to the beneficial owners of Common Stock held in their names. The Company will reimburse banks, brokerage firms and other persons representing beneficial owners of Common Stock for their reasonable expenses in forwarding solicitation materials to the beneficial owners. The cost of soliciting Proxies for the Meeting is estimated at \$7,500.

Other Business

As of the date of this Proxy Statement, the Board of Directors knows of no business to be presented for consideration at the Meeting other than as stated in the Notice of Annual Meeting. If, however, other matters are properly brought before the Meeting, including a motion to adjourn the Meeting to another time or place in order to solicit additional Proxies in favor of the recommendations of the Board of Directors, the Proxyholders intend to vote the shares represented by the Proxies on such matters in accordance with the recommendation of the Board of Directors, and the authority to do so is included in the Proxy. Such authorization includes authority to appoint a substitute nominee for any Board of Directors’ nominee identified herein where death, illness or other circumstances arise which prevent such nominee from serving in such position and to vote such Proxy for such substitute nominee.

**PROPOSAL 1
ELECTION OF DIRECTORS**

Proposal No. 1 is the re-election of four members of our Board of Directors.

Our bylaws provide that the authorized number of directors is a minimum of two and a maximum of nine, with the exact number set by our Board. Currently, the authorized number of directors of the Company is four and there are four Board members.

The four nominees for director receiving the highest number of votes at the Meeting will be elected. The term of office of each person elected as a director will continue until the next annual meeting of Stockholders, or until a successor has been elected and qualified, or until his or her earlier resignation or removal.

Unless otherwise instructed, the proxy holders will vote the proxies received by them for the nominees named below. Each nominee has consented to be named a nominee in this Proxy Statement and to serve as a director if elected. If any nominee becomes unable or declines to serve as a director, or if additional persons are nominated at the meeting, the proxy holders intend to vote all proxies received by them in such a manner as will ensure the election of as many of the nominees listed below as possible, and the specific nominees to be voted for will be determined by the proxy holders. We are not aware of any reason that any nominee will be unable or will decline to serve as a director. There are no arrangements or understandings between any director and any other person pursuant to which he or she is or was to be selected as a director.

The Board of Directors proposes the election of each of the following nominees as directors, all of whom currently serve on the Board of Directors:

Mark Dyne
Larry Dyne
David Ellis
Robert L. Golden

If elected, Mark Dyne, Larry Dyne, David Ellis and Robert L. Golden are expected to serve until the 2019 annual meeting of stockholders. The principal occupation and certain other information about the nominees are set forth on the following pages.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE “FOR” THE ELECTION OF
THE NOMINEES LISTED ABOVE.**

Board of Director Nominees:

Mark Dyne Mr. Dyne, 57, has served as Chairman of the Board of Directors since 1997. Mr. Dyne currently serves as the Chief Executive Officer and the Managing Partner of Europlay Capital Advisors, LLC, a merchant banking and advisory firm. Mr. Dyne previously served on the Board of Directors of Skype Global S.a.r.l. the world's leader in V.O.I.P. communications. Mr. Dyne was also previously Chairman and Chief Executive Officer of Sega Gaming Technology Inc. (USA), and Chairman and Chief Executive Officer of Virgin Interactive Entertainment Ltd. Mr. Dyne was a founder and former director of Sega Ozisoft Pty Ltd. Mr. Dyne was nominated to our Board of Directors for his extensive domestic and international management experience.

Larry Dyne Larry Dyne, 45, is our Chief Executive Officer and has served as our interim Chief Financial Officer since July 22, 2016. Mr. Dyne previously served as our President from 2009 until his appointment as Chief Executive Officer in April 2015. Mr. Dyne has been our employee since 1997, and an employee of a predecessor company since 1992. Over his tenure, Mr. Dyne has filled a number of roles with us including Executive Vice President of Sales as well as Vice President of Product Development and Global Sourcing, and Vice President of Trim Sales with responsibility for all domestic print production. Through these positions, Mr. Dyne has established extensive and long-term relationships with the world's top brands and clothing retailers.

David Ellis David Ellis, 54, has served on our Board of Directors since October 2010. Mr. Ellis is a co-founder of GemCap, a provider of asset-based loans, ranging from \$1 million to \$10 million, as a senior-secured lender. Through 2006, Mr. Ellis served as the President of Buxbaum Group. Mr. Ellis has twenty years of experience in the acquisition, insolvency and turnaround management businesses during which he built several international businesses, with an emphasis in the apparel industry. Mr. Ellis was nominated to our Board of Directors for his extensive domestic and international management experience, and knowledge of associated industry practices and trends, and for his financial and investment management expertise.

Robert L. Golden Robert Golden, 55, joined our Board of Directors in September 2013. Mr. Golden has served as a partner at the accounting firm of Cohen, Bender & Golden, LLP in Los Angeles, California since 2015. Previously, Mr. Golden served as a partner at the accounting firm of Fenton & Ross in Los Angeles, California during 2013-2015. Mr. Golden has also served as Chief Financial Officer, since 2008, for Promo Shop, Inc., a promotional merchandising and marketing services company that provides creative branded merchandise and custom premiums. From 2004 to 2012, Mr. Golden was a Principal with the accounting firm of Saffer & Flint A.C. in Los Angeles. Prior to 2004, Mr. Golden spent nearly 20 years with national and regional accounting firms beginning with Ernst & Young in 1984. Mr. Golden is licensed as a Certified Public Accountant. Mr. Golden earned his Bachelor of Science in Business Administration with an emphasis in Accounting from the University of Southern California. Mr. Golden was nominated to our Board of Directors for his extensive management experience, knowledge of associated industry practices and trends, and for his financial management expertise.

PROPOSAL 2
RATIFICATION OF APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors has appointed SingerLewak LLP to serve as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2018.

Although this appointment is not required to be submitted to a vote of the Stockholders, the Board of Directors believes it is appropriate as a matter of policy to request that the Stockholders ratify the appointment. If the Stockholders do not ratify the appointment, which requires the affirmative vote of a majority of the outstanding shares of the Common Stock present, in person or by proxy, and entitled to vote at the Meeting, the Board of Directors will consider the selection of another independent registered public accounting firm.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS
VOTE "FOR" THE APPOINTMENT OF SINGERLEWAK LLP AS THE COMPANY'S INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM FOR 2018.

PROPOSAL 3
APPROVAL OF TALON INTERNATIONAL, INC. 2018 OMNIBUS INCENTIVE PLAN

On June 20, 2018, our board of directors approved the Talon International, Inc. 2018 Omnibus Incentive Plan (the “2018 Plan”), subject to approval of the 2018 Plan by our stockholders at the Meeting. A copy of the 2018 Plan is attached to this proxy statement as Annex A.

Our board of directors believes that the continued growth of the Company depends, in large part, upon our ability to attract and motivate key employees, directors, consultants and/or advisors and that equity incentive awards are an important means of attracting, retaining and motivating such individuals. Accordingly, to ensure that we may continue to attract key employees, directors, consultants and/or advisors who are expected to contribute to our success, on June 20, 2018, our board of directors adopted the 2018 Plan. The 2018 Plan is subject to approval by our stockholders at the Meeting. If the 2018 Plan is not approved by our stockholders, it will not be implemented in the form proposed. For information about our outstanding stock options prior to the adoption of the 2018 Plan, please see “Note 3 – Stock Based Compensation” included in our Consolidated Financial Statements for the years ended December 31, 2017 and 2016.

Summary of the 2018 Plan

The following summary of the principal features of the 2018 Plan is qualified in its entirety by reference to the full text of the 2018 Plan.

Shares Available. A total of 15,000,000 shares of our common stock have been reserved for issuance pursuant to the 2018 Plan. Any shares of common stock that are subject to awards shall be counted against this limit on a one-for-one basis. If any shares of common stock subject to an award under the 2018 Plan are forfeited, expire or are settled for cash, the shares subject to the award may be used again for awards under the 2018 Plan to the extent of the forfeiture, expiration or cancellation on a one-for-one basis. In the event that any option or other award granted under the 2018 Plan is exercised through the tendering of shares of common stock (either actually or by attestation) or by the withholding of shares of common stock by us, then in each such case the shares so tendered or withheld shall again be available for awards under the 2018 Plan on a one-for-one basis. In addition, in the event that withholding tax liabilities arising from any option or other award under the 2018 Plan are satisfied by the tendering of shares of common stock (either actually or by attestation) or by the withholding of shares of common stock by us, then in each such case the shares of common stock so tendered or withheld shall again be available for awards under the 2018 Plan on a one-for-one basis.

Plan Administration. The 2018 Plan will be administered by our Board of Directors, or upon its formation by our Board of Directors, the compensation committee of our Board of Directors which shall consist of at least two members of our Board, each of whom must qualify as a “non-employee director” under Rule 16b-3 under the Securities Exchange Act of 1934, as amended, or Rule 16b-3, an “outside director” under Section 162(m) of the Code and an “independent director” under NASDAQ rules. The Board of Directors has the authority to determine the terms and conditions of awards, and to interpret and administer the 2018 Plan. The Board of Directors may (i) delegate to a committee of one or more directors the right to make awards and to cancel or suspend awards and otherwise take action on its behalf under the 2018 Plan (to the extent not inconsistent with applicable law, including Section 162(m) of the Code, and the rules of the principal U.S. national securities exchange on which the common stock is traded, if any), and (ii) to the extent permitted by law, delegate to an executive officer or a committee of executive officers the right to make awards to employees who are not directors or executive officers and the authority to take action on behalf of the Board of Directors pursuant to the 2018 Plan to cancel or suspend awards under the 2018 Plan to key employees who are not directors or executive officers.

Stock Options. Stock options may be granted under our 2018 Plan. The exercise price of options granted under our 2018 Plan must at least be equal to the fair market value of our common stock on the date of grant. The term of an incentive stock option may not exceed 10 years, except that with respect to any participant who owns more than 10% of the voting power of all classes of our outstanding stock, the term must not exceed five years and the exercise price must equal at least 110% of the fair market value on the grant date. Our Board of Directors will determine the methods of payment of the exercise price of an option, which may include cash, shares or other property acceptable to the Board of Directors, as well as other types of consideration permitted by applicable law. After the termination of service of an employee, director or consultant, he or she may exercise his or her option for the period of time stated in his or

her option agreement. Generally, if termination is due to death or disability, the option will remain exercisable for 12 months. In all other cases, the option will generally remain exercisable for three months following the termination of service. However, in no event may an option be exercised later than the expiration of its term. Subject to the provisions of our 2018 Plan, the Board of Directors determines the other terms of options.

Stock Appreciation Rights. Stock appreciation rights may be granted under our 2018 Plan. Stock appreciation rights allow the recipient to receive a cash payment equal to the appreciation in the fair market value of our common stock between the exercise date and the date of grant. Pursuant to the 2018 Plan, Stock appreciation rights may not have a term exceeding 10 years. After the termination of service of an employee, director or consultant, he or she may exercise his or her stock appreciation right for the period of time stated in his or her option agreement. However, in no event may a stock appreciation right be exercised later than the expiration of its term. Subject to the provisions of our 2018 Plan, the Board of Directors determines the other terms of stock appreciation rights, including when such rights become exercisable and whether to pay any increased appreciation in cash or with shares of our common stock, or a combination thereof, except that the per share exercise price for the shares to be issued pursuant to the exercise of a stock appreciation right will be no less than 100% of the fair market value per share on the date of grant.

Restricted Stock. Restricted stock may be granted under our 2018 Plan. Restricted stock awards are grants of shares of our common stock that vest in accordance with terms and conditions established by the Board of Directors. The Board of Directors will determine the number of shares of restricted stock granted to any employee, director or consultant and, subject to the provisions of our 2018 Plan, will determine the terms and conditions of such awards. The Board of Directors may impose whatever conditions to vesting it determines to be appropriate (for example, the Board of Directors may set restrictions based on the achievement of specific performance goals or continued service to us); provided, however, that the Board of Directors, in its sole discretion, may accelerate the time at which any restrictions will lapse or be removed. Recipients of restricted stock awards generally will have voting and dividend rights with respect to such shares upon grant without regard to vesting, unless the Board of Directors provides otherwise. Shares of restricted stock that do not vest are subject to our right of repurchase or forfeiture.

Restricted Stock Units. Restricted stock units may be granted under our 2018 Plan. Restricted stock units are bookkeeping entries representing an amount equal to the fair market value of one share of our common stock. Subject to the provisions of our 2018 Plan, the Board of Directors will determine the terms and conditions of restricted stock units, including the vesting criteria (which may include accomplishing specified performance criteria or continued service to us) and the form and timing of payment. Notwithstanding the foregoing, the Board of Directors, in its sole discretion, may accelerate the time at which any restrictions will lapse or be removed.

Performance Units and Performance Shares. Performance units and performance shares may be granted under our 2018 Plan. Performance units and performance shares are awards that will result in a payment to a participant only if performance goals established by the Board of Directors are achieved or the awards otherwise vest. The Board of Directors will establish organizational or individual performance goals or other vesting criteria in its discretion, which, depending on the extent to which they are met, will determine the number and/or the value of performance units and performance shares to be paid out to participants. After the grant of a performance unit or performance share, the Board of Directors, in its sole discretion, may reduce or waive any performance criteria or other vesting provisions for such performance units or performance shares. Performance units shall have an initial dollar value established by the Board of Directors prior to the grant date. Performance shares shall have an initial value equal to the fair market value of our common stock on the grant date. The Board of Directors, in its sole discretion, may pay earned performance units or performance shares in the form of cash, in shares or in some combination thereof.

Outside Directors. Our 2018 Plan provides that all non-employee directors are eligible to receive all types of awards (except for incentive stock options) under the 2018 Plan.

No Repricing. Our 2018 Plan prohibits repricing of options and stock appreciation rights (other than to reflect stock splits, spin-offs or similar corporate events) unless stockholder approval is obtained. A “repricing” means a reduction in the exercise price of an option or the grant price of a stock appreciation right, the cancellation of an option or stock appreciation right in exchange for cash or another award under the 2018 Plan, or any other action with respect to an option or stock appreciation right that may be treated as a repricing under the rules of the principal U.S. national securities exchange on which the common stock is traded, if any.

Non-transferability of Awards. Unless the Board of Directors provides otherwise, our 2018 Plan generally does not allow for the transfer of awards and only the recipient of an award may exercise an award during his or her lifetime.

Certain Adjustments. In the event of certain changes in our capitalization, to prevent diminution or enlargement of the benefits or potential benefits available under our 2018 Plan, the Board of Directors will adjust the number and class of shares that may be delivered under our 2018 Plan and/or the number, class and price of shares covered by each outstanding award and the numerical share limits set forth in our 2018 Plan. In the event of our proposed liquidation or dissolution, the Board of Directors will notify participants as soon as practicable and all awards will terminate immediately prior to the consummation of such proposed transaction.

Merger or Change in Control. Our 2018 Plan provides that in the event of a merger or change in control, as defined under the 2018 Plan, each outstanding award will be treated as provided for in the individual award agreement, except that the Board of Directors in its discretion, may determine that, upon the occurrence of a merger or change in control, each option and stock appreciation right shall terminate within a specified number of days after notice to the participant, or that the participant shall receive, with respect to each share of common stock subject to such option or stock appreciation right, an amount equal to the excess of the fair market value of such share immediately prior to the occurrence of the merger or change in control over the exercise price per share of such option or stock appreciation right.

Unless otherwise provided in an individual award agreement, in the event of a merger or change in control in which the successor company assumes or substitutes for an award granted under the 2018 Plan, if a participant's employment with the successor company or a subsidiary thereof terminates within 12 months following such merger or change in control, (i) the options and stock appreciation rights outstanding as of the date of such termination of employment will immediately vest, become fully exercisable, and may thereafter be exercised for 12 months, and (ii) the restrictions, limitations and other conditions applicable to restricted stock and restricted stock units outstanding as of the date of such termination of employment shall lapse and the restricted stock and restricted stock units shall become free of all restrictions, limitations and conditions and become fully vested.

Unless otherwise provided in an individual award agreement, in the event of a merger or change in control in which the successor company does not assume or substitute for an award granted under the 2018 Plan, then immediately prior to the merger or change in control, (i) those options and stock appreciation rights outstanding as of the date of the merger or change in control that are not assumed or substituted for shall immediately vest and become fully exercisable, and (ii) restrictions, limitations and other conditions applicable to restricted stock and restricted stock units that are not assumed or substituted for shall lapse and the restricted stock and restricted stock units shall become free of all restrictions, limitations and conditions and become fully vested.

Amendment, Termination. Our Board of Directors will have the authority to amend, suspend or terminate the 2018 Plan provided such action does not require stockholder approval and will not impair the existing rights of any participant. Our 2018 Plan will automatically terminate in 2028, unless we terminate it sooner.

Federal Income Tax Consequences

The following discussion summarizes certain federal income tax considerations of awards under the 2018 Plan. However, it does not purport to be complete and does not describe the state, local or foreign tax considerations or the consequences for any particular individual.

Stock Options. A participant does not realize ordinary income on the grant of a stock option. Upon exercise of a non-qualified stock option, the participant will realize ordinary income equal to the excess of the fair market value of the shares of common stock over the option exercise price. The cost basis of the shares acquired for capital gain treatment is their fair market value at the time of exercise. Upon exercise of an incentive stock option, the excess of the fair market value of the shares of common stock acquired over the option exercise price will be an item of tax preference to the participant, which may be subject to an alternative minimum tax for the year of exercise. If no disposition of the shares is made within two years from the date of granting of the incentive stock option or within one year after the transfer of the shares to the participant, the participant does not realize taxable income as a result of exercising the incentive stock option; the tax basis of the shares received for capital gain treatment is the option exercise price; any gain or loss realized on the sale of the shares is long-term capital gain or loss. If the participant disposes of the shares within the two-year or one-year periods referred to above, the participant will realize ordinary income at that time in an amount equal to the excess of the fair market value of the shares at the time of exercise (or the net proceeds of disposition, if less) over the option exercise price. For capital gain treatment on such a disposition, the tax basis of the shares will be their fair market value at the time of exercise.

Stock Appreciation Rights. No ordinary income will be realized by a participant in connection with the grant of a SAR. When the SAR is exercised, the participant will realize ordinary income in an amount equal to the sum of the amount of any cash received and the fair market value of the shares of common stock or other property received upon the exercise.

Restricted Stock, Performance and Restricted Stock Unit Awards. The participant will not realize ordinary income on the grant of a restricted stock award (or a performance award if the shares of common stock are issued on grant), but will realize ordinary income when the shares subject to the award become vested in an amount equal to the excess of (i) the fair market value of the shares on the vesting date over (ii) the purchase price, if any, paid for the shares. The participant may, however, elect under Section 83(b) of the Code to include as ordinary income in the year the shares are granted an amount equal to the excess of (i) the fair market value of the shares on the date of issuance, over (ii) the purchase price, if any, paid for the shares. If the Section 83(b) election is made, the participant will not realize any additional taxable income when the shares become vested.

The participant will not realize ordinary income on the grant of a restricted stock unit award (or a performance award under which shares of common stock are not issued on grant), but will realize ordinary income when the shares subject to the award are issued to the participant after they become vested. The amount of ordinary income will be equal to the excess of (i) the fair market value of the shares on the date they are issued over (ii) the purchase price, if any, paid for the award.

Upon disposition of shares of common stock acquired under a restricted stock award, performance award or restricted stock unit award, the participant will realize a capital gain or loss equal to the difference between the selling price and the sum of the amount paid for the shares plus any amount realized as ordinary income upon grant (or vesting) of the shares.

Company Tax Deduction. We generally will be entitled to a tax deduction, subject to the general requirements for deducting compensation, in connection with an award under the 2018 Plan, subject to the provisions of Section 162(m) of the Code, in an amount equal to the ordinary income realized by a participant and at the time the participant realizes such income (for example, on the exercise of a nonqualified stock option). We generally will not be entitled to a deduction for compensation on the exercise of an incentive stock option. Section 162(m) of the Code may limit the deductibility of compensation paid to our chief executive officer, chief financial officer and to each of the next three most highly compensated executive officers. Under Section 162(m), the annual compensation paid to any of these executives will be deductible to the extent that it does not exceed \$1,000,000 or if the compensation is treated as performance-based compensation under Section 162(m) of the Code. Compensation attributable to stock options and SARs under the 2018 Plan should qualify as performance-based compensation if the awards are made by the Board of Directors and the exercise or grant price of the award is no less than the fair market value of the common stock on the date of grant. Compensation attributable to restricted stock awards, restricted stock unit awards and performance awards should qualify as performance-based compensation if (i) the compensation is approved by the Board of Directors, (ii) the compensation is paid only upon the achievement of an objective performance goal established in writing by the Board of Directors while the outcome is substantially uncertain, and (iii) the Board of Directors certifies in writing prior to the payment of the compensation that the performance goal has been satisfied.

Vote Required

The affirmative vote of a majority of the shares present in person or by proxy at the Meeting and entitled to vote is required to adopt the proposed 2018 Omnibus Incentive Plan.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE ADOPTION OF THE 2018 OMNIBUS INCENTIVE PLAN

STOCKHOLDERS ARE URGED IMMEDIATELY TO COMPLETE, DATE AND SIGN THE ENCLOSED PROXY AND RETURN IT IN THE ENVELOPE PROVIDED, TO WHICH NO POSTAGE NEED BE AFFIXED IF MAILED IN THE UNITED STATES OR VOTE AS DESCRIBED IN THE PROXY MATERIALS.

On behalf of the Board of Directors

TALON INTERNATIONAL, INC.

A handwritten signature in black ink, appearing to read "Larry Dyne", written over a horizontal line.

Larry Dyne
Chief Executive Officer

Woodland Hills, California
June 22, 2018

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TALON INTERNATIONAL, INC.

2018 OMNIBUS INCENTIVE PLAN

Talon International, Inc. (the “*Company*”), a Delaware corporation, hereby establishes and adopts the following 2018 Omnibus Incentive Plan (the “*Plan*”).

1. PURPOSE OF THE PLAN

The purpose of the Plan is to assist the Company and its Subsidiaries in attracting and retaining selected individuals to serve as employees, directors, consultants and/or advisors who are expected to contribute to the Company’s success and to achieve long-term objectives that will benefit stockholders of the Company through the additional incentives inherent in the Awards hereunder.

2. DEFINITIONS

2.1 “*Award*” shall mean any Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award, Other Share-Based Award, Performance Award or any other right, interest or option relating to Shares or other property (including cash) granted pursuant to the provisions of the Plan.

2.2 “*Award Agreement*” shall mean any agreement, contract or other instrument or document evidencing any Award hereunder, whether in writing or through an electronic medium.

2.3 “*Board*” shall mean the board of directors of the Company.

2.4 “*Business Combination*” shall have the meaning set forth in Section 11.3(c).

2.5 “*Change in Control*” shall have the meaning set forth in Section 11.3.

2.6 “*Code*” shall mean the Internal Revenue Code of 1986, as amended.

2.7 “*Committee*” shall mean (i) the Board, or (ii) upon its formation by the Board and so long as such committee is in existence, the Compensation Committee of the Board (or a subcommittee thereof formed by the Compensation Committee to act as the Committee hereunder). In the event the Plan is administered by the Compensation Committee of the Board or a subcommittee thereof, the Committee shall at such time consist of no fewer than two Directors, each of whom is (i) a “non-employee director” within the meaning of Rule 16b-3 under the Exchange Act, (ii) an “outside director” within the meaning of Section 162(m) of the Code, and (iii) an “independent director” for purpose of the rules of the principal U.S. national securities exchange on which the Shares are traded, to the extent required by such rules.

2.8 “*Company Voting Securities*” shall have the meaning set forth in Section 11.3(b).

2.9 “*Consultant*” shall mean any consultant or advisor who is a natural person and who provides services to the Company or any Subsidiary, so long as such person (i) renders bona fide services that are not in connection with the offer and sale of the Company’s securities in a

capital-raising transaction, (ii) does not directly or indirectly promote or maintain a market for the Company's securities and (iii) otherwise qualifies as a consultant under the applicable rules of the SEC for registration of shares of stock on a Form S-8 registration statement.

2.10 “*Covered Employee*” shall mean an employee of the Company or its Subsidiaries who is a “covered employee” within the meaning of Section 162(m) of the Code.

2.11 “*Data*” shall have the meaning set forth in Section 13.17.

2.12 “*Director*” shall mean a member of the Board who is not an employee.

2.13 “*Dividend Equivalents*” shall have the meaning set forth in Section 12.5.

2.14 “*Employee*” shall mean any employee of the Company or any Subsidiary and any prospective employee conditioned upon, and effective not earlier than, such person becoming an employee of the Company or any Subsidiary.

2.15 “*Exchange Act*” shall mean the Securities Exchange Act of 1934, as amended.

2.16 “*Fair Market Value*” shall mean, with respect to Shares as of any date, (i) the closing price of the Shares as reported on the principal U.S. national securities exchange on which the Shares are listed and traded on such date, or, if there is no closing price on that date, then on the last preceding date on which such a closing price was reported; (ii) if the Shares are not listed on any U.S. national securities exchange but are quoted in an inter-dealer quotation system on a last sale basis, the final ask price of the Shares reported on the inter-dealer quotation system for such date, or, if there is no such sale on such date, then on the last preceding date on which a sale was reported; or (iii) if the Shares are neither listed on a U.S. national securities exchange nor quoted on an inter-dealer quotation system on a last sale basis, the amount determined by the Committee to be the fair market value of the Shares as determined by the Committee in its sole discretion. The Fair Market Value of any property other than Shares shall mean the market value of such property determined by such methods or procedures as shall be established from time to time by the Committee.

2.17 “*Incentive Stock Option*” shall mean an Option which when granted is intended to qualify as an incentive stock option for purposes of Section 422 of the Code.

2.18 “*Incumbent Directors*” shall have the meaning set forth in Section 11.3(a).

2.19 “*Maximum Plan Shares*” shall have the meaning set forth in Section 3.1(a).

2.20 “*Non-Qualifying Transaction*” shall have the meaning set forth in Section 11.3(c).

2.21 “*Option*” shall mean any right granted to a Participant under the Plan allowing such Participant to purchase Shares at such price or prices and during such period or periods as the Committee shall determine.

2.22 “*Other Share-Based Award*” shall have the meaning set forth in Section 8.1.

- 2.23** “*Parent Corporation*” shall have the meaning set forth in Section 11.3(c).
- 2.24** “*Participant*” shall mean an Employee, Director or Consultant who is selected by the Committee to receive an Award under the Plan.
- 2.25** “*Performance Award*” shall mean any Award of Performance Cash, Performance Shares or Performance Units granted pursuant to Article 9.
- 2.26** “*Performance Cash*” shall mean any cash incentives granted pursuant to Article 9 payable to the Participant upon the achievement of such performance goals as the Committee shall establish.
- 2.27** “*Performance Period*” shall mean the period established by the Committee during which any performance goals specified by the Committee with respect to a Performance Award are to be measured.
- 2.28** “*Performance Share*” shall mean any grant pursuant to Article 9 of a unit valued by reference to a designated number of Shares, which value may be paid to the Participant upon achievement of such performance goals as the Committee shall establish.
- 2.29** “*Performance Unit*” shall mean any grant pursuant to Article 9 of a unit valued by reference to a designated amount of cash or property other than Shares, which value may be paid to the Participant upon achievement of such performance goals during the Performance Period as the Committee shall establish.
- 2.30** “*Permitted Assignee*” shall have the meaning set forth in Section 12.3.
- 2.31** “*Restricted Stock*” shall mean any Share issued with the restriction that the holder may not sell, transfer, pledge or assign such Share and with such other restrictions as the Committee, in its sole discretion, may impose, which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Committee may deem appropriate.
- 2.32** “*Restricted Stock Award*” shall have the meaning set forth in Section 7.1.
- 2.33** “*Restricted Stock Unit*” means an Award that is valued by reference to a Share, which value may be paid to the Participant in Shares or cash as determined by the Committee in its sole discretion upon the satisfaction of vesting restrictions as the Committee may establish, which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Committee may deem appropriate.
- 2.34** “*Restricted Stock Unit Award*” shall have the meaning set forth in Section 7.1.
- 2.35** “*SEC*” means the Securities and Exchange Commission.
- 2.36** “*Shares*” shall mean the shares of common stock of the Company, par value \$0.001 per share.

2.37 “*Stock Appreciation Right*” shall mean the right granted to a Participant pursuant to Article 6.

2.38 “*Subsidiary*” shall mean any entity (other than the Company) in an unbroken chain of entities beginning with the Company if, at the relevant time each of the entities other than the last entity in the unbroken chain owns equity and/or interests possessing 50% or more of the total combined voting power of all equity in one of the other corporations in the chain.

2.39 “*Substitute Awards*” shall mean Awards granted or Shares issued by the Company in assumption of, or in substitution or exchange for, awards previously granted, or the right or obligation to make future awards, in each case by a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines.

2.40 “*Surviving Corporation*” shall have the meaning set forth in Section 11.3(c).

2.41 “*Vesting Period*” shall mean the period of time specified by the Committee during which vesting restrictions for an Award are applicable.

3. SHARES SUBJECT TO THE PLAN

3.1 *Number of Shares.* (a) Subject to adjustment as provided in Section 12.2, a total of 15,000,000 Shares shall be authorized for grant under the Plan (the “*Maximum Plan Shares*”). Any Shares that are subject to Awards shall be counted against this limit as one (1) Share for every one (1) Share granted.

(b) If any Shares subject to an Award are forfeited, an Award expires or an Award is settled for cash (in whole or in part), then in each such case the Shares subject to such Award shall, to the extent of such forfeiture, expiration or cash settlement, again be available for Awards under the Plan on a one-for-one basis. In the event that any Award granted hereunder is exercised through the tendering of Shares (either actually or by attestation) or by the withholding of Shares by the Company, then in each such case the Shares so tendered or withheld shall again be available for Awards under the Plan on a one-for-one basis. In addition, in the event that withholding tax liabilities arising from any Award are satisfied by the tendering of Shares (either actually or by attestation) or by the withholding of Shares by the Company, then in each such case the Shares so tendered or withheld shall again be available for Awards under the Plan on a one-for-one basis.

(c) Substitute Awards shall not reduce the Shares authorized for grant under the Plan or the applicable limitations applicable to a Participant under Section 10.5, nor shall Shares subject to a Substitute Award again be available for Awards under the Plan as provided in paragraph (b) above. Additionally, in the event that a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines has shares available under a pre-existing plan approved by stockholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the Shares authorized for grant under the Plan;

provided that Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not Employees or Directors prior to such acquisition or combination.

3.2 *Character of Shares.* Any Shares issued hereunder may consist, in whole or in part, of authorized and unissued shares, treasury shares or shares purchased in the open market or otherwise.

4. ELIGIBILITY AND ADMINISTRATION

4.1 *Eligibility.* Any Employee, Director or Consultant shall be eligible to be selected as a Participant.

4.2 *Administration.* (a) The Plan shall be administered by the Committee. The Committee shall have full power and authority, subject to the provisions of the Plan and subject to such orders or resolutions not inconsistent with the provisions of the Plan as may from time to time be adopted by the Board, to: (i) select the Employees, Directors and Consultants to whom Awards may from time to time be granted hereunder; (ii) determine the type or types of Awards to be granted to each Participant hereunder; (iii) determine the number of Shares (or dollar value) to be covered by each Award granted hereunder; (iv) determine the terms and conditions, not inconsistent with the provisions of the Plan, of any Award granted hereunder; (v) determine whether, to what extent and under what circumstances Awards may be settled in cash, Shares or other property; (vi) determine whether, to what extent, and under what circumstances cash, Shares, other property and other amounts payable with respect to an Award made under the Plan shall be deferred either automatically or at the election of the Participant; (vii) determine whether, to what extent and under what circumstances any Award shall be canceled or suspended; (viii) interpret and administer the Plan and any instrument or agreement entered into under or in connection with the Plan, including any Award Agreement; (ix) correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent that the Committee shall deem desirable to carry it into effect; (x) establish such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; (xi) determine whether any Award, other than an Option or Stock Appreciation Right, will have Dividend Equivalents; and (xii) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan.

(b) Decisions of the Committee shall be final, conclusive and binding on all persons or entities, including the Company, any Participant, and any Subsidiary. A majority of the members of the Committee may determine its actions, including fixing the time and place of its meetings.

(c) To the extent not inconsistent with applicable law, including Section 162(m) of the Code with respect to Awards intended to comply with the performance-based compensation exception under Section 162(m), or the rules and regulations of the principal U.S. national securities exchange on which the Shares are traded, the Committee may (i) delegate to a committee of one or more directors of the Company any of the authority of the Committee under the Plan, including the right to grant, cancel or suspend Awards and (ii) to the extent permitted by

law, authorize one or more executive officers to do one or more of the following with respect to Employees who are not directors or executive officers of the Company: (A) designate Employees (including officers) to be recipients of Awards, (B) determine the number of Shares subject to such Awards to be received by such Employees and (C) cancel or suspend Awards to such Employees; provided that (x) any resolution of the Committee authorizing such officer(s) must specify the total number of Shares subject to Awards that such officer(s) may so award and (y) the Committee may not authorize any officer to designate himself or herself as the recipient of an Award.

5. OPTIONS

5.1 *Grant of Options.* Options may be granted hereunder to Participants either alone or in addition to other Awards granted under the Plan. Any Option shall be subject to the terms and conditions of this Article and to such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall deem desirable.

5.2 *Award Agreements.* All Options shall be evidenced by an Award Agreement in such form and containing such terms and conditions as the Committee shall determine which are not inconsistent with the provisions of the Plan. The terms and conditions of Options need not be the same with respect to each Participant. Granting an Option pursuant to the Plan shall impose no obligation on the recipient to exercise such Option. Any Participant who is granted an Option pursuant to this Article may hold more than one Option granted pursuant to the Plan at the same time.

5.3 *Option Price.* Other than in connection with Substitute Awards, the option price per Share purchasable under any Option granted pursuant to this Article shall not be less than 100% of the Fair Market Value of one Share on the date of grant of such Option; provided, however, that in the case of an Incentive Stock Option granted to a Participant who, at the time of the grant, owns stock representing more than 10% of the voting power of all classes of stock of the Company or any Subsidiary, the option price per share shall be no less than 110% of the Fair Market Value of one Share on the date of grant. Other than pursuant to Section 12.2, the Committee shall not without the approval of the Company's stockholders (a) lower the option price per Share of an Option after it is granted, (b) cancel an Option in exchange for cash or another Award (other than in connection with a Change in Control as defined in Section 11.3), or (c) take any other action with respect to an Option that would be treated as a repricing under the rules and regulations of the principal U.S. national securities exchange on which the Shares are traded.

5.4 *Option Term.* The term of each Option shall be fixed by the Committee in its sole discretion; provided that no Option shall be exercisable after the expiration of ten (10) years from the date the Option is granted, except in the event of death or disability; provided, however, that the term of the Option shall not exceed five (5) years from the date the Option is granted in the case of an Incentive Stock Option granted to a Participant who, at the time of the grant, owns stock representing more than 10% of the voting power of all classes of stock of the Company or any Subsidiary. Notwithstanding the foregoing, in the event that on the last business day of the term of an Option (i) the exercise of the Option, other than an Incentive Stock Option, is prohibited by applicable law or (ii) Shares may not be purchased or sold by certain employees or directors of the Company due to the "black-out period" of a Company policy or a "lock-up" agreement undertaken in connection with an issuance of securities by the Company, the term shall be extended for a period of thirty (30) days following the end of the legal prohibition, black-out period or lock-up agreement.

5.5 *Exercise of Options.* (a) Vested Options granted under the Plan shall be exercised by the Participant (or by a Permitted Assignee thereof or the Participant's executors, administrators, guardian or legal representative, as may be provided in an Award Agreement) as to all or part of the Shares covered thereby, by giving notice of exercise to the Company or its designated agent, specifying the number of Shares to be purchased. The notice of exercise shall be in such form, made in such manner, and shall comply with such other requirements consistent with the provisions of the Plan as the Committee may prescribe from time to time.

(b) Unless otherwise provided in an Award Agreement, full payment of such purchase price shall be made at the time of exercise and shall be made (i) in cash or cash equivalents (including certified check or bank check or wire transfer of immediately available funds), (ii) by tendering previously acquired Shares (either actually or by attestation) valued at their then Fair Market Value, (iii) with the consent of the Committee, by delivery of other consideration having a Fair Market Value on the exercise date equal to the total purchase price, (iv) with the consent of the Committee, by withholding Shares otherwise issuable in connection with the exercise of the Option, (v) through any other method specified in an Award Agreement (including same-day sales through a broker), or (vi) any combination of any of the foregoing. The notice of exercise, accompanied by such payment, shall be delivered to the Company at its principal business office or such other office as the Committee may from time to time direct, and shall be in such form, containing such further provisions consistent with the provisions of the Plan, as the Committee may from time to time prescribe. In no event may any Option granted hereunder be exercised for a fraction of a Share.

(c) Notwithstanding the foregoing, an Award Agreement may provide that if on the last day of the term of an Option the Fair Market Value of one Share exceeds the option price per Share, the Participant has not exercised the Option (or a tandem Stock Appreciation Right, if applicable) and the Option has not expired, the Option shall be deemed to have been exercised by the Participant on such day with payment made by withholding Shares otherwise issuable in connection with the exercise of the Option. In such event, the Company shall deliver to the Participant the number of Shares for which the Option was deemed exercised, less the number of Shares required to be withheld for the payment of the total purchase price and required withholding taxes; provided, however, any fractional Share shall be settled in cash.

5.6 *Form of Settlement.* In its sole discretion, the Committee may provide that the Shares to be issued upon an Option's exercise shall be in the form of Restricted Stock or other similar securities.

5.7 *Incentive Stock Options.* The Committee may grant Incentive Stock Options to any Employee subject to the requirements of Section 422 of the Code. Solely for purposes of determining whether Shares are available for the grant of Incentive Stock Options under the Plan, the maximum aggregate number of Shares that may be issued pursuant to Incentive Stock Options granted under the Plan shall be the Maximum Plan Shares, subject to adjustment as provided in Section 12.2.

6. STOCK APPRECIATION RIGHTS

6.1 *Grant and Exercise.* The Committee may grant Stock Appreciation Rights (a) in tandem with all or part of any Option granted under the Plan or at any subsequent time during the term of such Option, (b) in tandem with all or part of any Award (other than an Option) granted under the Plan or at any subsequent time during the term of such Award, or (c) without regard to any Option or other Award in each case upon such terms and conditions as the Committee may establish in its sole discretion.

6.2 *Terms and Conditions.* Stock Appreciation Rights shall be subject to such terms and conditions, not inconsistent with the provisions of the Plan, as shall be determined from time to time by the Committee, including the following:

(a) Upon the exercise of a Stock Appreciation Right, the holder shall have the right to receive the excess of (i) the Fair Market Value of one Share on the date of exercise (or such amount less than such Fair Market Value as the Committee shall so determine at any time during a specified period before the date of exercise) over (ii) the grant price of the Stock Appreciation Right.

(b) The Committee shall determine in its sole discretion whether payment on exercise of a Stock Appreciation Right shall be made in cash, in whole Shares or other property, or any combination thereof.

(c) The terms and conditions of Stock Appreciation Rights need not be the same with respect to each recipient.

(d) The Committee may impose such other terms and conditions on the exercise of any Stock Appreciation Right as it shall deem appropriate. A Stock Appreciation Right shall (i) have a grant price per Share of not less than the Fair Market Value of one Share on the date of grant or, if applicable, on the date of grant of an Option with respect to a Stock Appreciation Right granted in exchange for or in tandem with, but subsequent to, the Option (subject to the requirements of Section 409A of the Code) except in the case of Substitute Awards or in connection with an adjustment provided in Section 12.2, and (ii) have a term not greater than ten (10) years, except in the event of death or disability. Notwithstanding clause (ii) of the preceding sentence, in the event that on the last business day of the term of a Stock Appreciation Right (x) the exercise of the Stock Appreciation Right is prohibited by applicable law or (y) Shares may not be purchased or sold by certain employees or directors of the Company due to the “black-out period” of a Company policy or a “lock-up” agreement undertaken in connection with an issuance of securities by the Company, the term shall be extended for a period of thirty (30) days following the end of the legal prohibition, black-out period or lock-up agreement.

(e) An Award Agreement may provide that if on the last day of the term of a Stock Appreciation Right the Fair Market Value of one Share exceeds the grant price per Share of the Stock Appreciation Right, the Participant has not exercised the Stock Appreciation Right or the tandem Option (if applicable), and the Stock Appreciation Right has not expired, the Stock Appreciation Right shall be deemed to have been exercised by the Participant on such day. In such event, the Company shall make payment to the Participant in accordance with this Section, reduced

by the number of Shares (or cash) required for withholding taxes; provided, however, any fractional Share shall be settled in cash.

(f) Without the approval of the Company's stockholders, other than pursuant to Section 12.2, the Committee shall not (i) reduce the grant price of any Stock Appreciation Right after the date of grant, (ii) cancel any Stock Appreciation Right in exchange for cash or another Award (other than in connection with a Change in Control as defined in Section 11.3), or (iii) take any other action with respect to a Stock Appreciation Right that would be treated as a repricing under the rules and regulations of the principal U.S. national securities exchange on which the Shares are traded.

7. RESTRICTED STOCK AND RESTRICTED STOCK UNITS

7.1 *Grants.* Awards of Restricted Stock and of Restricted Stock Units may be granted hereunder to Participants either alone or in addition to other Awards granted under the Plan (a "*Restricted Stock Award*" or "*Restricted Stock Unit Award*" respectively), and such Restricted Stock Awards and Restricted Stock Unit Awards shall also be available as a form of payment of Performance Awards and other earned cash-based incentive compensation. The Committee has absolute discretion to determine whether any consideration (other than services) is to be received by the Company or any Subsidiary as a condition precedent to the grant of Restricted Stock or Restricted Stock Units, subject to such minimum consideration as may be required by applicable law.

7.2 *Award Agreements.* The terms of any Restricted Stock Award or Restricted Stock Unit Award granted under the Plan shall be set forth in an Award Agreement which shall contain provisions determined by the Committee and not inconsistent with the Plan. The terms of Restricted Stock Awards and Restricted Stock Unit Awards need not be the same with respect to each Participant.

7.3 *Rights of Holders of Restricted Stock and Restricted Stock Units.* Unless otherwise provided in the Award Agreement, beginning on the date of grant of the Restricted Stock Award and subject to execution of the Award Agreement, the Participant shall become a stockholder of the Company with respect to all Shares subject to the Award Agreement and shall have all of the rights of a stockholder, including the right to vote such Shares and the right to receive distributions made with respect to such Shares. A Participant who holds a Restricted Stock Unit Award shall only have those rights specifically provided for in the Award Agreement; provided, however, in no event shall the Participant have voting rights with respect to such Award. Except as otherwise provided in an Award Agreement, any Shares or any other property distributed as a dividend or otherwise with respect to any Restricted Stock Award or Restricted Stock Unit Award as to which the restrictions have not yet lapsed shall be subject to the same restrictions as such Restricted Stock Award or Restricted Stock Unit Award. Notwithstanding the provisions of this Section, cash dividends, stock and any other property (other than cash) distributed as a dividend or otherwise with respect to any Restricted Stock Award or Restricted Stock Unit Award that vests based on achievement of performance goals shall either (i) not be paid or credited or (ii) be accumulated, shall be subject to restrictions and risk of forfeiture to the same extent as the Restricted Stock or Restricted Stock Units with respect to which such cash, stock or other property has been distributed and shall be paid at the time such restrictions and risk of forfeiture lapse.

7.4 *Issuance of Shares.* Any Restricted Stock granted under the Plan may be evidenced in such manner as the Board may deem appropriate, including book-entry registration or issuance of a stock certificate or certificates, which certificate or certificates shall be held by the Company. Such book entry registration, certificate or certificates shall be registered in the name of the Participant and shall bear an appropriate legend referring to the restrictions applicable to such Restricted Stock.

8. OTHER SHARE-BASED AWARDS

8.1 *Grants.* Other Awards of Shares and other Awards that are valued in whole or in part by reference to, or are otherwise based on, Shares or other property (“**Other Share-Based Awards**”), including deferred stock units, may be granted hereunder to Participants either alone or in addition to other Awards granted under the Plan. Other Share-Based Awards shall also be available as a form of payment of other Awards granted under the Plan and other earned cash-based compensation.

8.2 *Award Agreements.* The terms of Other Share-Based Awards granted under the Plan shall be set forth in an Award Agreement which shall contain provisions determined by the Committee and not inconsistent with the Plan. The terms of such Awards need not be the same with respect to each Participant. Notwithstanding the provisions of this Section, Dividend Equivalents with respect to the Shares covered by an Other Share-Based Award that vests based on achievement of performance goals shall be subject to restrictions and risk of forfeiture to the same extent as the Shares covered by an Other Share-Based Award with respect to which such cash, stock or other property has been distributed.

8.3 *Payment.* Except as may be provided in an Award Agreement, Other Share-Based Awards may be paid in cash, Shares, other property, or any combination thereof, in the sole discretion of the Committee. Other Share-Based Awards may be paid in a lump sum or in installments or, in accordance with procedures established by the Committee, on a deferred basis subject to the requirements of Section 409A of the Code.

8.4 *Deferral of Director Fees.* Directors shall, if determined by the Board, receive Other Share-Based Awards in the form of deferred stock units in lieu of all or a portion of their annual retainer. In addition Directors may elect to receive Other Share-Based Awards in the form of deferred stock units in lieu of all or a portion of their annual and committee retainers and annual meeting fees, provided that such election is made in accordance with the requirements of Section 409A of the Code. The Committee shall, in its absolute discretion, establish such rules and procedures as it deems appropriate for such elections and for payment in deferred stock units.

9. PERFORMANCE AWARDS

9.1 *Grants.* Performance Awards in the form of Performance Cash, Performance Shares or Performance Units, as determined by the Committee in its sole discretion, may be granted hereunder to Participants, for no consideration or for such minimum consideration as may be required by applicable law, either alone or in addition to other Awards granted under the Plan. The performance goals to be achieved for each Performance Period shall be conclusively

determined by the Committee and may be based upon the criteria set forth in Section 10.2 or such other criteria as determined by the Committee in its discretion.

9.2 *Award Agreements.* The terms of any Performance Award granted under the Plan shall be set forth in an Award Agreement (or, if applicable, in a resolution duly adopted by the Committee) which shall contain provisions determined by the Committee and not inconsistent with the Plan, including whether such Awards shall have Dividend Equivalents. The terms of Performance Awards need not be the same with respect to each Participant.

9.3 *Terms and Conditions.* The performance criteria to be achieved during any Performance Period and the length of the Performance Period shall be determined by the Committee upon the grant of each Performance Award. The amount of the Award to be distributed shall be conclusively determined by the Committee.

9.4 *Payment.* Except as provided in Article 11, as provided by the Committee or as may be provided in an Award Agreement, Performance Awards will be distributed only after the end of the relevant Performance Period. Performance Awards may be paid in cash, Shares, other property, or any combination thereof, in the sole discretion of the Committee. Performance Awards may be paid in a lump sum or in installments following the close of the Performance Period or, in accordance with procedures established by the Committee, on a deferred basis subject to the requirements of Section 409A of the Code.

10. CODE SECTION 162(m) PROVISIONS

10.1 *Covered Employees.* Notwithstanding any other provision of the Plan, if the Committee determines at the time a Restricted Stock Award, a Restricted Stock Unit Award, a Performance Award or an Other Share-Based Award is granted to a Participant who is, or is likely to be, as of the end of the tax year in which the Company would claim a tax deduction in connection with such Award, a Covered Employee, then the Committee may provide that this Article 10 is applicable to such Award.

10.2 *Performance Criteria.* If the Committee determines that a Restricted Stock Award, a Restricted Stock Unit, a Performance Award or an Other Share-Based Award is intended to be subject to this Article 10, the lapsing of restrictions thereon and the distribution of cash, Shares or other property pursuant thereto, as applicable, shall be subject to the achievement of one or more objective performance goals established by the Committee, which shall be based on the attainment of specified levels of one or any combination of the following: net sales; revenue; revenue growth or product revenue growth; operating income (before or after taxes); pre- or after-tax income or loss (before or after allocation of corporate overhead and bonus); earnings or loss per share; net income or loss (before or after taxes); return on equity; total stockholder return; return on assets or net assets; appreciation in and/or maintenance of the price of the Shares or any other publicly-traded securities of the Company; market share; gross profits; earnings or losses (including earnings or losses before taxes, before interest and taxes, or before interest, taxes, depreciation and amortization); economic value-added models or equivalent metrics; comparisons with various stock market indices; reductions in costs; cash flow or cash flow per share (before or after dividends); return on capital (including return on total capital or return on invested capital); cash flow return on investment; improvement in or attainment of expense levels or working capital

levels, including cash, inventory and accounts receivable; operating margin; gross margin; year-end cash; cash margin; debt reduction; stockholders equity; operating efficiencies; market share; customer satisfaction; customer growth; employee satisfaction; regulatory achievements (including submitting or filing applications or other documents with regulatory authorities or receiving approval of any such applications or other documents and passing pre-approval inspections (whether of the Company or the Company's third-party manufacturer) and validation of manufacturing processes (whether the Company's or the Company's third-party manufacturer's)); strategic partnerships or transactions (including in-licensing and out-licensing of intellectual property; establishing relationships with commercial entities with respect to the marketing, distribution and sale of the Company's products (including with group purchasing organizations, distributors and other vendors); supply chain achievements (including establishing relationships with manufacturers or suppliers of component materials and manufacturers of the Company's products); co-development, co-marketing, profit sharing, joint venture or other similar arrangements; financial ratios, including those measuring liquidity, activity, profitability or leverage; cost of capital or assets under management; financing and other capital raising transactions (including sales of the Company's equity or debt securities, factoring transactions, sales or licenses of the Company's assets, including its intellectual property, whether in a particular jurisdiction or territory or globally, or through partnering transactions); implementation, completion or attainment of measurable objectives with respect to research, development, manufacturing, commercialization, products or projects, production volume levels, acquisitions and divestitures; and recruiting and maintaining personnel. Such performance goals also may be based solely by reference to the Company's performance or the performance of a Subsidiary, division, business segment or business unit of the Company, or based upon the relative performance of other companies or upon comparisons of any of the indicators of performance relative to other companies. The Committee may also exclude charges related to an event or occurrence which the Committee determines should appropriately be excluded, including (a) restructurings, discontinued operations, extraordinary items, and other unusual or non-recurring charges, (b) an event either not directly related to the operations of the Company or not within the reasonable control of the Company's management, or (c) the cumulative effects of tax or accounting changes in accordance with U.S. generally accepted accounting principles. Such performance goals shall be set by the Committee within the time period prescribed by, and shall otherwise comply with the requirements of, Section 162(m) of the Code, and the regulations thereunder.

10.3 *Adjustments.* Notwithstanding any provision of the Plan (other than Article 11), with respect to any Restricted Stock Award, Restricted Stock Unit Award, Performance Award or Other Share-Based Award that is subject to this Section 10, the Committee may adjust downwards, but not upwards, the amount payable pursuant to such Award, and the Committee may not waive the achievement of the applicable performance goals except in the case of the death or disability of the Participant or as otherwise determined by the Committee in special circumstances.

10.4 *Restrictions.* The Committee shall have the power to impose such other restrictions on Awards subject to this Article as it may deem necessary or appropriate to ensure that such Awards satisfy all requirements for "performance-based compensation" within the meaning of Section 162(m) of the Code.

10.5 *Limitations on Grants to Individual Participants.* Subject to adjustment as provided in Section 12.2, no Participant may (i) be granted Options or Stock Appreciation Rights during any 12-month period with respect to more than 35% of the Maximum Plan Shares and (ii) earn more than 35% of the Maximum Plan Shares for each twelve (12) months in the vesting period or Performance Period with respect to Restricted Stock Awards, Restricted Stock Unit Awards, Performance Awards and/or Other Share-Based Awards that are intended to comply with the performance-based exception under Code Section 162(m) and are denominated in Shares (provided that any Shares that would have been earned after such twelve (12) month period that are earned due to an acceleration as a result of a Change in Control of the Company shall not count against such limitation). In addition to the foregoing, the maximum dollar value that may be earned by any Participant for each twelve (12) months in a Performance Period with respect to Performance Awards that are intended to comply with the performance-based exception under Code Section 162(m) and are denominated in cash is \$2,000,000 (provided that any amount that would have been earned after such twelve (12) month period that is earned due to an acceleration as a result of a Change in Control of the Company shall not count against such limitation). If an Award is cancelled, the cancelled Award shall continue to be counted toward the applicable limitation in this Section.

11. CHANGE IN CONTROL PROVISIONS

11.1 *Impact on Certain Awards.* Award Agreements may provide that in the event of a Change in Control of the Company (as defined in Section 11.3): (i) Options and Stock Appreciation Rights outstanding as of the date of the Change in Control shall be cancelled and terminated without payment if the Fair Market Value of one Share as of the date of the Change in Control is less than the per Share Option exercise price or Stock Appreciation Right grant price, and (ii) all Performance Awards shall be (x) considered to be earned and payable based on achievement of performance goals or based on target performance (either in full or pro rata based on the portion of Performance Period completed as of the date of the Change in Control), and any limitations or other restrictions shall lapse and such Performance Awards shall be immediately settled or distributed or (y) converted into Restricted Stock Awards or Restricted Stock Unit Awards based on achievement of performance goals or based on target performance (either in full or pro rata based on the portion of Performance Period completed as of the date of the Change in Control) that are subject to Section 11.2.

11.2 *Assumption or Substitution of Certain Awards.* (a) Unless otherwise provided in an Award Agreement, in the event of a Change in Control of the Company in which the successor company assumes or substitutes for an Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Share-Based Award (or in which the Company is the ultimate parent corporation and continues the Award), if a Participant's employment with such successor company (or the Company) or a subsidiary thereof terminates within 12 months following such Change in Control (or such other period set forth in the Award Agreement, including prior thereto if applicable) and under the circumstances specified in the Award Agreement: (i) Options and Stock Appreciation Rights outstanding as of the date of such termination of employment will immediately vest, become fully exercisable, and may thereafter be exercised for 12 months (or the period of time set forth in the Award Agreement), (ii) the restrictions, limitations and other conditions applicable to Restricted Stock and Restricted Stock Units outstanding as of the date of such termination of employment shall lapse and the Restricted

Stock and Restricted Stock Units shall become free of all restrictions, limitations and conditions and become fully vested, and (iii) the restrictions, limitations and other conditions applicable to any Other Share-Based Awards or any other Awards shall lapse, and such Other Share-Based Awards or such other Awards shall become free of all restrictions, limitations and conditions and become fully vested and transferable to the full extent of the original grant. For the purposes of this Section 11.2, an Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Share-Based Award shall be considered assumed or substituted for if following the Change in Control the Award confers the right to purchase or receive, for each Share subject to the Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Share-Based Award immediately prior to the Change in Control, the consideration (whether stock, cash or other securities or property) received in the transaction constituting a Change in Control by holders of Shares for each Share held on the effective date of such transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the transaction constituting a Change in Control is not solely common stock of the successor company, the Committee may, with the consent of the successor company, provide that the consideration to be received upon the exercise or vesting of an Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Share-Based Award, for each Share subject thereto, will be solely common stock of the successor company substantially equal in fair market value to the per Share consideration received by holders of Shares in the transaction constituting a Change in Control. The determination of such substantial equality of value of consideration shall be made by the Committee in its sole discretion and its determination shall be conclusive and binding.

(b) Unless otherwise provided in an Award Agreement, in the event of a Change in Control of the Company to the extent the successor company does not assume or substitute for an Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Share-Based Award (or in which the Company is the ultimate parent corporation and does not continue the Award), then immediately prior to the Change in Control: (i) those Options and Stock Appreciation Rights outstanding as of the date of the Change in Control that are not assumed or substituted for (or continued) shall immediately vest and become fully exercisable, (ii) restrictions, limitations and other conditions applicable to Restricted Stock and Restricted Stock Units that are not assumed or substituted for (or continued) shall lapse and the Restricted Stock and Restricted Stock Units shall become free of all restrictions, limitations and conditions and become fully vested, and (iii) the restrictions, other limitations and other conditions applicable to any Other Share-Based Awards or any other Awards that are not assumed or substituted for (or continued) shall lapse, and such Other Share-Based Awards or such other Awards shall become free of all restrictions, limitations and conditions and become fully vested and transferable to the full extent of the original grant.

(c) The Committee, in its discretion, may determine that, upon the occurrence of a Change in Control of the Company, each Option and Stock Appreciation Right outstanding shall terminate within a specified number of days after notice to the Participant, and/or that each Participant shall receive, with respect to each Share subject to such Option or Stock Appreciation Right, an amount equal to the excess of the Fair Market Value of such Share immediately prior to the occurrence of such Change in Control over the exercise price per Share of such Option and/or Stock Appreciation Right; such amount to be payable in cash, in one or more kinds of stock or

property (including the stock or property, if any, payable in the transaction) or in a combination thereof, as the Committee, in its discretion, shall determine.

11.3 Change in Control. For purposes of the Plan, unless otherwise provided in an Award Agreement, Change in Control means the occurrence of any one of the following events:

(a) During any 12-month period, individuals who, as of the beginning of such period, constitute the Board (the “**Incumbent Directors**”) cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the beginning of such period whose election or nomination for election was approved by a vote of at least a majority of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without written objection to such nomination) shall be an Incumbent Director; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to directors or as a result of any other actual or threatened solicitation of proxies by or on behalf of any person other than the Board shall be deemed to be an Incumbent Director;

(b) Any “person” (as such term is defined in the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) is or becomes a “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company’s then outstanding securities eligible to vote for the election of the Board (the “**Company Voting Securities**”); provided, however, that the event described in this paragraph (b) shall not be deemed to be a Change in Control by virtue of any of the following acquisitions: (i) by the Company or any Subsidiary, (ii) by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary, (iii) by any underwriter temporarily holding securities pursuant to an offering of such securities, (iv) pursuant to a Non-Qualifying Transaction, as defined in paragraph (c), or (v) by any person of Voting Securities from the Company, if a majority of the Incumbent Board approves in advance the acquisition of beneficial ownership of 50% or more of Company Voting Securities by such person;

(c) The consummation of a merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company or any of its Subsidiaries that requires the approval of the Company’s stockholders, whether for such transaction or the issuance of securities in the transaction (a “**Business Combination**”), unless immediately following such Business Combination: (i) more than 50% of the total voting power of (A) the corporation resulting from such Business Combination (the “**Surviving Corporation**”), or (B) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of 100% of the voting securities eligible to elect directors of the Surviving Corporation (the “**Parent Corporation**”), is represented by Company Voting Securities that were outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares into which such Company Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among the holders thereof immediately prior to the Business Combination, (ii) no person (other than any employee benefit plan (or related trust) sponsored or maintained by the Surviving Corporation or the Parent Corporation), is or becomes the beneficial owner, directly

or indirectly, of 50% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) and (iii) at least a majority of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) following the consummation of the Business Combination were Incumbent Directors at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination (any Business Combination which satisfies all of the criteria specified in (i), (ii) and (iii) above shall be deemed to be a "*Non-Qualifying Transaction*"); or

(d) The stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or the consummation of a sale of all or substantially all of the Company's assets.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any person acquires beneficial ownership of more than 50% of the Company Voting Securities as a result of the acquisition of Company Voting Securities by the Company which reduces the number of Company Voting Securities outstanding; provided, that if after such acquisition by the Company such person becomes the beneficial owner of additional Company Voting Securities that increases the percentage of outstanding Company Voting Securities beneficially owned by such person, a Change in Control of the Company shall then occur.

12. GENERALLY APPLICABLE PROVISIONS

12.1 *Amendment and Termination of the Plan.* The Board may, from time to time, alter, amend, suspend or terminate the Plan as it shall deem advisable, subject to any requirement for stockholder approval imposed by applicable law, including the rules and regulations of the principal U.S. national securities exchange on which the Shares are traded; provided that the Board may not amend the Plan in any manner that would result in noncompliance with Rule 16b-3 under the Exchange Act; and further provided that the Board may not, without the approval of the Company's stockholders, amend the Plan to (a) increase the number of Shares that may be the subject of Awards under the Plan (except for adjustments pursuant to Section 12.2), (b) expand the types of awards available under the Plan, (c) materially expand the class of persons eligible to participate in the Plan, (d) amend Section 5.3 or Section 6.2(f) to eliminate the requirements relating to minimum exercise price, minimum grant price and stockholder approval, (e) increase the maximum permissible term of any Option specified by Section 5.4 or the maximum permissible term of a Stock Appreciation Right specified by Section 6.2(d), or (f) increase any of the limitations in Section 10.5. The Board may not (except pursuant to Section 12.2 or in connection with a Change in Control), without the approval of the Company's stockholders, cancel an Option or Stock Appreciation Right in exchange for cash or take any action with respect to an Option or Stock Appreciation Right that would be treated as a repricing under the rules and regulations of the principal U.S. national securities exchange on which the Shares are traded, including a reduction of the exercise price of an Option or the grant price of a Stock Appreciation Right or the exchange of an Option or Stock Appreciation Right for another Award. In addition, no amendments to, or termination of, the Plan shall impair the rights of a Participant in any material respect under any Award previously granted without such Participant's consent.

12.2 Adjustments. In the event of any merger, reorganization, consolidation, recapitalization, dividend or distribution (whether in cash, shares or other property, other than a regular cash dividend), stock split, reverse stock split, spin-off or similar transaction or other change in corporate structure affecting the Shares or the value thereof, such adjustments and other substitutions shall be made to the Plan and to Awards as the Committee deems equitable or appropriate taking into consideration the accounting and tax consequences, including such adjustments in the aggregate number, class and kind of securities that may be delivered under the Plan, the limitations in Section 10.5 (other than to Awards denominated in cash), the maximum number of Shares that may be issued pursuant to Incentive Stock Options and, in the aggregate or to any Participant, in the number, class, kind and option or exercise price of securities subject to outstanding Awards granted under the Plan (including, if the Committee deems appropriate, the substitution of similar options to purchase the shares of, or other awards denominated in the shares of, another company) as the Committee may determine to be appropriate; provided, however, that the number of Shares subject to any Award shall always be a whole number.

12.3 Transferability of Awards. Except as provided below, no Award and no Shares that have not been issued or as to which any applicable restriction, performance or deferral period has not lapsed, may be sold, assigned, transferred, pledged or otherwise encumbered, other than by will or the laws of descent and distribution, and such Award may be exercised during the life of the Participant only by the Participant or the Participant's guardian or legal representative. To the extent and under such terms and conditions as determined by the Committee, a Participant may assign or transfer an Award without consideration (each transferee thereof, a "**Permitted Assignee**") (i) to the Participant's spouse, children or grandchildren (including any adopted and step children or grandchildren), parents, grandparents or siblings, (ii) to a trust for the benefit of one or more of the Participant or the persons referred to in clause (i), (iii) to a partnership, limited liability company or corporation in which the Participant or the persons referred to in clause (i) are the only partners, members or shareholders or (iv) for charitable donations; provided that such Permitted Assignee shall be bound by and subject to all of the terms and conditions of the Plan and the Award Agreement relating to the transferred Award and shall execute an agreement satisfactory to the Company evidencing such obligations; and provided further that such Participant shall remain bound by the terms and conditions of the Plan. The Company shall cooperate with any Permitted Assignee and the Company's transfer agent in effectuating any transfer permitted under this Section.

12.4 Termination of Employment or Services. The Committee shall determine and set forth in each Award Agreement whether any Awards granted in such Award Agreement will continue to be exercisable, continue to vest or be earned and the terms of such exercise, vesting or earning, on and after the date that a Participant ceases to be employed by or to provide services to the Company or any Subsidiary (including as a Director), whether by reason of death, disability, voluntary or involuntary termination of employment or services, or otherwise. The date of termination of a Participant's employment or services will be determined by the Committee, which determination will be final.

12.5 Deferral; Dividend Equivalents. The Committee shall be authorized to establish procedures pursuant to which the payment of any Award may be deferred. Subject to the provisions of the Plan and any Award Agreement, the recipient of an Award other than an Option or Stock Appreciation Right may, if so determined by the Committee, be entitled to receive, currently or on

a deferred basis, amounts equivalent to cash, stock or other property dividends on Shares (“*Dividend Equivalents*”) with respect to the number of Shares covered by the Award, as determined by the Committee, in its sole discretion. The Committee may provide that the Dividend Equivalents (if any) shall be deemed to have been reinvested in additional Shares or otherwise reinvested and may provide that the Dividend Equivalents are subject to the same vesting or performance conditions as the underlying Award. Notwithstanding the foregoing, Dividend Equivalents credited in connection with an Award that vests based on the achievement of performance goals shall be subject to restrictions and risk of forfeiture to the same extent as the Award with respect to which such Dividend Equivalents have been credited.

13. MISCELLANEOUS

13.1 *Award Agreements.* Each Award Agreement shall either be (a) in writing in a form approved by the Committee and executed by the Company by an officer duly authorized to act on its behalf, or (b) an electronic notice in a form approved by the Committee and recorded by the Company (or its designee) in an electronic recordkeeping system used for the purpose of tracking one or more types of Awards as the Committee may provide; in each case and if required by the Committee, the Award Agreement shall be executed or otherwise electronically accepted by the recipient of the Award in such form and manner as the Committee may require. The Committee may authorize any officer of the Company to execute any or all Award Agreements on behalf of the Company. The Award Agreement shall set forth the material terms and conditions of the Award as established by the Committee consistent with the provisions of the Plan.

13.2 *Tax Withholding.* The Company shall have the right to make all payments or distributions pursuant to the Plan to a Participant (or a Permitted Assignee thereof) net of any applicable federal, state and local taxes required to be paid or withheld as a result of (a) the grant of any Award, (b) the exercise of an Option or Stock Appreciation Right, (c) the delivery of Shares or cash, (d) the lapse of any restrictions in connection with any Award or (e) any other event occurring pursuant to the Plan. The Company or any Subsidiary shall have the right to withhold from wages or other amounts otherwise payable to a Participant (or Permitted Assignee) such withholding taxes as may be required by law, or to otherwise require the Participant (or Permitted Assignee) to pay such withholding taxes. If the Participant (or Permitted Assignee) shall fail to make such tax payments as are required, the Company or its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to such Participant (or Permitted Assignee) or to take such other action as may be necessary to satisfy such withholding obligations. The Committee shall be authorized to establish procedures for election by Participants (or Permitted Assignee) to satisfy such obligation for the payment of such taxes by tendering previously acquired Shares (either actually or by attestation, valued at their then Fair Market Value), or by directing the Company to retain Shares (up to the minimum required tax withholding rate for the Participant (or Permitted Assignee) or such other rate, including a higher rate specified by the Participant, that will not cause an adverse accounting consequence or cost) otherwise deliverable in connection with the Award.

13.3 *Right of Discharge Reserved; Claims to Awards.* Nothing in the Plan nor the grant of an Award hereunder shall confer upon any Employee, Director or Consultant the right to continue in the employment or service of the Company or any Subsidiary or affect any right that the Company or any Subsidiary may have to terminate the employment or service of (or to demote

or to exclude from future Awards under the Plan) any such Employee, Director or Consultant at any time for any reason. The Company shall not be liable for the loss of existing or potential profit from an Award granted in the event of termination of an employment or other relationship. No Employee, Director or Consultant shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Employees, Directors or Consultants under the Plan.

13.4 *Substitute Awards.* Notwithstanding any other provision of the Plan, the terms of Substitute Awards may vary from the terms set forth in the Plan to the extent the Committee deems appropriate to conform, in whole or in part, to the provisions of the awards in substitution for which they are granted.

13.5 *Cancellation of Award; Forfeiture of Gain.* Notwithstanding anything to the contrary contained herein, an Award Agreement may provide that:

(a) In the event of a restatement of the Company's financial statements, the Committee shall have the right to review any Award, the amount, payment or vesting of which was based on an entry in the financial statements that are the subject of the restatement. If the Committee determines, based on the results of the restatement, that a lesser amount or portion of an Award should have been paid or vested, it may (i) cancel all or any portion of any outstanding Awards and (ii) require the Participant or other person to whom any payment has been made or shares or other property have been transferred in connection with the Award to forfeit and pay over to the Company, on demand, all or any portion of the gain (whether or not taxable) realized upon the exercise of any Option or Stock Appreciation Right and the value realized (whether or not taxable) on the vesting or payment of any other Award during the period beginning twelve months preceding the date of the restatement and ending with the date of cancellation of any outstanding Awards.

(b) If the Participant, without the consent of the Company, while employed by or providing services to the Company or any Subsidiary or after termination of such employment or service, violates a non-competition, non-solicitation or non-disclosure covenant or agreement or otherwise engages in activity that is in conflict with or adverse to the interest of the Company or any Subsidiary, as determined by the Committee in its sole discretion, then (i) any outstanding, vested or unvested, earned or unearned portion of the Award may, at the Committee's discretion, be canceled and (ii) the Committee, in its discretion, may require the Participant or other person to whom any payment has been made or Shares or other property have been transferred in connection with the Award to forfeit and pay over to the Company, on demand, all or any portion of the gain (whether or not taxable) realized upon the exercise of any Option or Stock Appreciation Right and the value realized (whether or not taxable) on the vesting or payment of any other Award during the time period specified in the Award Agreement.

13.6 *Stop Transfer Orders.* All certificates for Shares delivered under the Plan pursuant to any Award shall be subject to such stop-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the SEC, any U.S. national securities exchange upon which the Shares are then listed, and any applicable federal or state securities law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

13.7 *Nature of Payments.* All Awards made pursuant to the Plan are in consideration of services performed or to be performed for the Company or any Subsidiary, division or business unit of the Company. Any income or gain realized pursuant to Awards under the Plan constitutes a special incentive payment to the Participant and shall not be taken into account, to the extent permissible under applicable law, as compensation for purposes of any of the employee benefit plans of the Company or any Subsidiary except as may be determined by the Committee or by the Board or board of directors of the applicable Subsidiary.

13.8 *Other Plans.* Nothing contained in the Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

13.9 *Severability.* The provisions of the Plan shall be deemed severable. If any provision of the Plan shall be held unlawful or otherwise invalid or unenforceable in whole or in part by a court of competent jurisdiction or by reason of change in a law or regulation, such provision shall (a) be deemed limited to the extent that such court of competent jurisdiction deems it lawful, valid and/or enforceable and as so limited shall remain in full force and effect, and (b) not affect any other provision of the Plan or part thereof, each of which shall remain in full force and effect. If the making of any payment or the provision of any other benefit required under the Plan shall be held unlawful or otherwise invalid or unenforceable by a court of competent jurisdiction, such unlawfulness, invalidity or unenforceability shall not prevent any other payment or benefit from being made or provided under the Plan, and if the making of any payment in full or the provision of any other benefit required under the Plan in full would be unlawful or otherwise invalid or unenforceable, then such unlawfulness, invalidity or unenforceability shall not prevent such payment or benefit from being made or provided in part, to the extent that it would not be unlawful, invalid or unenforceable, and the maximum payment or benefit that would not be unlawful, invalid or unenforceable shall be made or provided under the Plan.

13.10 *Construction.* As used in the Plan, the words “include” and “including,” and variations thereof, shall not be deemed to be terms of limitation, but rather shall be deemed to be followed by the words “without limitation.”

13.11 *Unfunded Status of the Plan.* The Plan is intended to constitute an “unfunded” plan for incentive compensation. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company. In its sole discretion, the Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver the Shares or payments in lieu of or with respect to Awards hereunder; provided, however, that the existence of such trusts or other arrangements is consistent with the unfunded status of the Plan.

13.12 *Governing Law.* The Plan and all determinations made and actions taken thereunder, to the extent not otherwise governed by the Code or the laws of the United States, shall be governed by the laws of the State of California, without reference to principles of conflict of laws, and construed accordingly.

13.13 *Effective Date of Plan; Termination of Plan.* The Plan shall be effective on the date of the approval of the Plan by the holders of the shares entitled to vote thereon. The Plan shall be null and void and of no effect if the foregoing condition is not fulfilled and in such event each Award shall, notwithstanding any of the preceding provisions of the Plan, be null and void and of no effect. Awards may be granted under the Plan at any time and from time to time on or prior to the tenth anniversary of the effective date of the Plan, on which date the Plan will expire except as to Awards then outstanding under the Plan; provided, however, in no event may Incentive Stock Options be granted more than ten (10) years after the earlier of (i) the date of the adoption of the Plan by the Board or (ii) the effective date of the Plan as provided in the first sentence of this Section. Such outstanding Awards shall remain in effect until they have been exercised or terminated, or have expired.

13.14 *Foreign Employees and Consultants.* Awards may be granted to Participants who are foreign nationals or employed or providing services outside the United States, or both, on such terms and conditions different from those applicable to Awards to Employees or Consultants providing services in the United States as may, in the judgment of the Committee, be necessary or desirable in order to recognize differences in local law or tax policy. The Committee also may impose conditions on the exercise or vesting of Awards in order to minimize the Company's obligation with respect to tax equalization for Employees or Consultants on assignments outside their home country.

13.15 *Compliance with Section 409A of the Code.* This Plan is intended to comply and shall be administered in a manner that is intended to comply with Section 409A of the Code and shall be construed and interpreted in accordance with such intent. To the extent that an Award or the payment, settlement or deferral thereof is subject to Section 409A of the Code, the Award shall be granted, paid, settled or deferred in a manner that will comply with Section 409A of the Code, including regulations or other guidance issued with respect thereto, except as otherwise determined by the Committee. Any provision of this Plan that would cause the grant of an Award or the payment, settlement or deferral thereof to fail to satisfy Section 409A of the Code shall be amended to comply with Section 409A of the Code on a timely basis, which may be made on a retroactive basis, in accordance with regulations and other guidance issued under Section 409A of the Code.

13.16 *No Registration Rights; No Right to Settle in Cash.* The Company has no obligation to register with any governmental body or organization (including, without limitation, the SEC) any of (a) the offer or issuance of any Award, (b) any Shares issuable upon the exercise of any Award, or (c) the sale of any Shares issued upon exercise of any Award, regardless of whether the Company in fact undertakes to register any of the foregoing. In particular, in the event that any of (x) any offer or issuance of any Award, (y) any Shares issuable upon exercise of any Award, or (z) the sale of any Shares issued upon exercise of any Award are not registered with any governmental body or organization (including, without limitation, the SEC), the Company will not under any circumstance be required to settle its obligations, if any, under this Plan in cash.

13.17 *Data Privacy.* As a condition of acceptance of an Award, the Participant explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of personal data as described in this Section by and among, as applicable, the Company and its Subsidiaries for the exclusive purpose of implementing, administering and managing the Participant's participation in the Plan. The Participant understands that the Company and its

Subsidiaries hold certain personal information about the Participant, including the Participant's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company or any Subsidiary, details of all Awards or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding in the Participant's favor, for the purpose of implementing, managing and administering the Plan (the "**Data**"). The Participant further understands that the Company and its Subsidiaries may transfer the Data amongst themselves as necessary for the purpose of implementation, management and administration of the Participant's participation in the Plan, and that the Company and its Subsidiaries may each further transfer the Data to any third parties assisting the Company in the implementation, management and administration of the Plan. The Participant understands that these recipients may be located in the Participant's country, or elsewhere, and that the recipient's country may have different data privacy laws and protections than the Participant's country. The Participant understands that he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative. The Participant, through participation in the Plan and acceptance of an Award under the Plan, authorizes such recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing the Participant's participation in the Plan, including any requisite transfer of such Data as may be required to a broker or other third party with whom the Participant may elect to deposit any Shares. The Participant understands that the Data will be held only as long as is necessary to implement, manage, and administer the Participant's participation in the Plan. The Participant understands that he or she may, at any time, view the Data, request additional information about the storage and processing of the Data, require any necessary amendments to the Data, or refuse or withdraw the consents herein in writing, in any case without cost, by contacting his or her local human resources representative. The Participant understands that refusal or withdrawal of consent may affect the Optionee's ability to participate in the Plan. For more information on the consequences of refusal to consent or withdrawal of consent, the Optionee understands that he or she may contact his or her local human resources representative.

13.18 Indemnity. To the extent allowable pursuant to applicable law, each member of the Committee or of the Board and any person to whom the Committee has delegated any of its authority under the Plan shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such person in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her; provided he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled pursuant to the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

13.19 Captions. The captions in the Plan are for convenience of reference only, and are not intended to narrow, limit or affect the substance or interpretation of the provisions contained herein.

TALON INTERNATIONAL, INC.

**CONSOLIDATED FINANCIALS STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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REPORT OF MANAGEMENT

To the Board of Directors and Stockholders
Talon International, Inc. and Subsidiaries
Woodland Hills, California

The following is a report prepared by the Management of Talon International Inc. and our Subsidiaries (collectively, “the Company”) and includes the balance sheets of the Company as of December 31, 2017 and 2016, and the related consolidated statements of income and comprehensive income, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2017. These statements were prepared without audit from the books and records of the Company.

We believe the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.



Chief Executive Officer
Talon International Inc.
June 22, 2018

TALON INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,816,331	\$ 4,913,577
Accounts receivable, net	4,340,705	4,315,608
Inventories, net	442,579	500,482
Prepaid expenses and other current assets	<u>627,454</u>	<u>702,906</u>
Total current assets	10,227,069	10,432,573
Property and equipment, net	690,790	884,208
Intangible assets, net	4,253,513	4,266,596
Deferred income tax assets, net	2,618,102	5,224,018
Other assets	<u>452,667</u>	<u>347,638</u>
Total assets	<u>\$ 18,242,141</u>	<u>\$ 21,155,033</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of revolving line of credit from related party, net.....	\$ 190,667	\$ -
Current portion of capital lease obligations	25,707	23,749
Accounts payable	5,716,412	6,378,896
Accrued expenses	<u>2,600,338</u>	<u>2,972,689</u>
Total current liabilities	8,533,124	9,375,334
Revolving line of credit from related party, net of discounts and deferred deferred financing costs	3,960,356	4,041,345
Capital lease obligations, net of current portion	11,328	37,035
Deferred income tax liabilities	-	3,037
Other liabilities	<u>194,078</u>	<u>236,088</u>
Total liabilities	<u>12,698,886</u>	<u>13,692,839</u>
Commitments and contingencies (Note 7)		
Stockholders' Equity:		
Common Stock, \$0.001 par value, 300,000,000 shares authorized; 92,338,283 and 92,274,255 shares issued and outstanding at December 31, 2017 and December 31, 2016, respectively	92,338	92,274
Additional paid-in capital	65,256,851	65,040,432
Accumulated other comprehensive income	88,685	73,392
Accumulated deficit	<u>(59,894,619)</u>	<u>(57,743,904)</u>
Total stockholders' equity	<u>5,543,255</u>	<u>7,462,194</u>
Total liabilities and stockholders' equity	<u>\$ 18,242,141</u>	<u>\$ 21,155,033</u>

See accompanying notes to consolidated financial statements.

TALON INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME / (LOSS)

	Years Ended December 31,		
	2017	2016	2015
Net sales	\$ 43,569,450	\$ 48,259,855	\$ 48,352,699
Cost of goods sold	27,951,670	30,631,070	32,069,601
Gross profit	15,617,780	17,628,785	16,283,098
Sales and marketing expenses	5,982,306	6,785,592	6,414,932
General and administrative expenses	8,323,885	8,131,560	8,447,694
Total operating expenses	14,306,191	14,917,152	14,862,626
Income from operations	1,311,589	2,711,633	1,420,472
Interest expense, net	626,061	619,430	513,435
Loss on extinguishment of debt.....	-	-	134,049
Income before provision for income taxes	685,528	2,092,203	772,988
Provision for income taxes	2,836,243	1,097,325	261,661
Net income (loss).....	\$ (2,150,715)	\$ 994,878	\$ 511,327
Basic and diluted net income per share	\$ (0.02)	\$ 0.01	\$ 0.01
Weighted average number of common shares			
outstanding - Basic	92,314,075	92,271,868	92,267,831
Weighted average number of common shares			
outstanding - Diluted	92,314,075	93,324,691	93,521,809
Net income (loss).....	\$ (2,150,715)	\$ 994,878	\$ 511,327
Other comprehensive income (loss) from			
foreign currency translation	15,293	(28,997)	(13,786)
Total comprehensive income (loss).....	\$ (2,135,422)	\$ 965,881	\$ 497,541

See accompanying notes to consolidated financial statements.

TALON INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

	Common Stock		Additional Paid-in Capital	Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount				
Balance at January 1, 2015.....	92,267,831	\$ 92,268	\$ 64,175,254	\$ 116,175	\$ (59,250,109)	\$ 5,133,588
Stock based compensation.....	-	-	129,052	-	-	129,052
Foreign currency translation.....	-	-	-	(13,786)	-	(13,786)
Issuance of warrants to related party	-	-	450,000	-	-	450,000
Net income.....	-	-	-	-	511,327	511,327
Balance at December 31, 2015.....	92,267,831	92,268	64,754,306	102,389	(58,738,782)	6,210,181
Stock based compensation.....	-	-	286,833	-	-	286,833
Foreign currency translation.....	-	-	-	(28,997)	-	(28,997)
Issuance of warrants to related party	6,424	6	(707)	-	-	(701)
Net income.....	-	-	-	-	994,878	994,878
Balance at December 31, 2016.....	92,274,255	92,274	65,040,432	73,392	(57,743,904)	7,462,194
Stock based compensation.....	-	-	216,483	-	-	216,483
Foreign currency translation.....	-	-	-	15,293	-	15,293
Exercise of stock options.....	64,028	64	(64)	-	-	-
Net loss.....	-	-	-	-	(2,150,715)	(2,150,715)
Balance at December 31, 2017.....	92,338,283	\$ 92,338	\$ 65,256,851	\$ 88,685	\$ (59,894,619)	\$ 5,543,255

See accompanying notes to consolidated financial statements.

TALON INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2017	2016	2015
<i>Cash flows from operating activities:</i>			
Net income (loss).....	\$ (2,150,715)	\$ 994,878	\$ 511,327
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	308,371	301,008	257,376
Loss on disposal of property and equipment	-	602	122
Loss on extinguishment of debt.....	-	-	134,049
Amortization of deferred financing cost and debt discounts	109,678	104,276	174,474
Stock based compensation	216,483	286,833	129,052
Deferred income taxes, net	2,602,879	817,025	68,186
Change in provision for bad debt.....	23,855	(26,918)	19,938
Inventory valuation provisions (recoveries), net	(31,236)	(5,505)	19,973
Adjustment to intangible asset cost.....	-	34,268	-
Changes in operating assets and liabilities:			
Accounts receivable	12,408	(537,688)	(826,936)
Inventories	91,538	156,622	(170,788)
Prepaid expenses and other current assets	83,024	(155,539)	(7,660)
Other assets.	(101,542)	(83,113)	(22,847)
Accounts payable and accrued expenses	(1,175,181)	728,028	748,445
Other liabilities	(46,759)	(19,914)	38,493
Net cash provided by (used in) operating activities	<u>(57,197)</u>	<u>2,594,863</u>	<u>1,073,204</u>
<i>Cash flows from investing activities:</i>			
Proceeds from sale of equipment	-	475	509
Acquisitions of property and equipment	(92,449)	(404,102)	(224,046)
Acquisitions of intangibles assets.....	-	-	(26,948)
Net cash used in investing activities	<u>(92,449)</u>	<u>(403,627)</u>	<u>(250,485)</u>
<i>Cash flows from financing activities:</i>			
Payments related to taxes on exercise of stock options and settlement of RSU's.....	-	(700)	-
Revolving line of credit from related party borrowings.....	-	-	4,000,000
Revolving credit loan borrowings	-	-	700,000
Financing costs associated with credit facilities.....	-	-	(147,669)
Repayments of revolving credit loan.....	-	-	(2,200,000)
Payments of term loan payable.....	-	-	(2,833,334)
Payment of capital leases	(23,749)	(21,940)	(12,017)
Net cash used in financing activities	<u>(23,749)</u>	<u>(22,640)</u>	<u>(493,020)</u>
Net effect of foreign currency exchange translation on cash	76,149	(107,334)	(80,522)
Net increase (decrease) in cash and cash equivalents	(97,246)	2,061,262	249,177
Cash and cash equivalents at beginning of period	4,913,577	2,852,315	2,603,138
Cash and cash equivalents at end of period	<u>\$ 4,816,331</u>	<u>\$ 4,913,577</u>	<u>\$ 2,852,315</u>

See accompanying notes to consolidated financial statements.

TALON INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2017	2016	2015
Cash received (paid) during the period for:			
Interest paid	\$ (518,550)	\$ (73,196)	\$ (310,379)
Income tax paid, net (principally foreign)	\$ (80,350)	\$ (232,492)	\$ (150,818)
Non-cash financing activities:			
Warrants issued to related party.....	\$ -	\$ -	\$ 450,000
Lease incentives	\$ -	\$ -	\$ 133,333
Capital lease obligation	\$ -	\$ -	\$ 94,741
Non-cash exercise of stock options and settlements of RSU's in common stock.....	\$ 64	\$ 6	\$ -
Effect of foreign currency translation on net assets	\$ 15,293	\$ 15,973	\$ (28,997)

See accompanying notes to consolidated financial statements.

TALON INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Talon International, Inc. (together with its subsidiaries, the “Company”) is an apparel company that specializes in the distribution of trim items to manufacturers of fashion apparel, specialty retailers and mass merchandisers. The Company acts as a full service outsourced trim management department for manufacturers, a specified supplier of trim items to owners of specific brands, brand licensees and retailers, a manufacturer and distributor of zippers under the *Talon* brand name and a distributor of stretch waistbands that utilize licensed patented technology under the *Tekfit/Adjustec* brand name.

Organization and Basis of Presentation

Talon International, Inc. is the parent holding company of Talon Technologies, Inc., a California corporation (“Talon Tech”), formerly A.G.S. Stationery, Inc., Tag-It Pacific Limited, a Hong Kong corporation (“Tag-It HK”), Talon Zipper (Shenzhen) Co. Ltd., a China corporation, Talon International Private Limited, an India corporation and Talon Trims India Private Limited, an India corporation (collectively, the “Subsidiaries”), all of which are wholly-owned operating subsidiaries of the Company.

All significant intercompany accounts and transactions have been eliminated in consolidation. Assets and liabilities of foreign subsidiaries are translated at rates of exchange in effect at the close of the period. Revenues and expenses are translated at the weighted average of exchange rates in effect during the year. The resulting translation gains and losses are deferred and are shown as a separate component of stockholders’ equity, if material, and transaction gains and losses, if any, are recorded in the consolidated statement of operations in the period incurred. During 2017, 2016 and 2015, foreign currency translation and transaction gains and losses were not material. The Company does not engage in hedging activities with respect to exchange rate risk.

On December 28, 2017, the Company voluntarily filed a Form 15 with the United States Securities and Exchange Commission to deregister its common stock and suspend its reporting obligations under the Securities Exchange Act of 1934. The Company’s common stock will continue to trade on the OTC Pink marketplace.

Use of Estimates

The preparation of consolidated 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 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 of allowances 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.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. The Company had approximately \$4.5 million and \$4.6 million at financial institutions in excess of governmentally insured limits at December 31, 2017 and 2016.

TALON INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Allowance for Accounts Receivable Doubtful Accounts

The Company is required to make judgments as to the collectability 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. The Company writes off an account when it is considered to be uncollectible. The total allowance for accounts receivable doubtful accounts at December 31, 2017 and 2016 was \$64,154 and \$40,299, respectively.

Inventories

Inventories are stated at the lower of cost, determined using the first-in, first-out basis, or market value and are all substantially finished goods. The costs of inventory include the purchase price, inbound freight and duties, conversion costs and certain allocated production overhead costs. Inventory 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 for 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 type of inventory.

Inventories consist of the following at:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Finished goods	\$ 474,849	\$ 563,989
Less: Inventory valuation reserves	<u>(32,270)</u>	<u>(63,507)</u>
Inventories, net.....	<u>\$ 442,579</u>	<u>\$ 500,482</u>

Impairment of Long-Lived Assets

The Company records impairment charges when the carrying amounts of long-lived assets are determined not to be recoverable. Impairment is measured by assessing the usefulness of an asset or by comparing the carrying value of an asset to its fair value. Fair value is typically determined using quoted market prices, if available, or an estimate of undiscounted future cash flows expected to result from the use of the asset and its eventual disposition. The amount of impairment loss is calculated as the excess of the carrying value over the fair value. Changes in market conditions and management strategy have historically caused us to reassess the carrying amount of the Company's long-lived assets. The Company completed the required assessment at December 31, 2017 and 2016, and noted no impairments.

TALON INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property and Equipment

Property and equipment are recorded at historical cost. Maintenance and repairs are expensed as incurred. Upon retirement or other disposition of property and equipment, the related cost and accumulated depreciation or amortization are removed from the accounts and any gains or losses are included in results of operations.

Property and equipment consist of the following at:

	<u>December 31,</u>		Depreciable Life In Years (1)
	<u>2017</u>	<u>2016</u>	
Office equipment and computer related.....	\$ 3,782,882	\$ 3,875,051	3 - 5
Machinery and production related equipment.....	1,218,979	1,262,490	5 - 10
Leasehold improvements (2).....	560,427	638,613	
Furniture and fixtures.....	327,341	353,418	5
Total cost.....	<u>5,889,629</u>	<u>6,129,572</u>	
Less: Accumulated depreciation and amortization.....	<u>(5,198,839)</u>	<u>(5,245,364)</u>	
Property and equipment, net.....	<u>\$ 690,790</u>	<u>\$ 884,208</u>	

(1) Depreciation of property and equipment is computed using the straight-line method based on estimated useful lives as shown above.

(2) Depreciable life for leasehold improvements represents the term of the lease or the estimated life of the related improvements, whichever is shorter.

Depreciation expense for the years ended December 31, 2017, 2016 and 2015 was \$295,287, \$287,924, and \$244,292 respectively.

Intangible Assets, net

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 Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“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. Per ASC 350 the Company has 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 December 31, 2017 and 2016, and noted no impairments.

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 year ended December 31, 2017 the Company made no investment in intellectual property rights. As of December 31, 2017 and December 31,

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2016 the Company had accumulated investments of \$38,738 for intellectual property rights complimentary to the Company's Talon Zipper products, which were not yet in service.

Intangible assets as of December 31, 2017 and 2016 are as follows:

	December 31,	
	2017	2016
Tradename - Talon trademark	\$ 4,110,751	\$ 4,110,751
Intellectual property rights and exclusive license	217,459	217,459
Less: Accumulated amortization (10 to 17 years)	(74,697)	(61,614)
Intellectual property rights, net	142,762	155,845
Intangible assets, net	\$ 4,253,513	\$ 4,266,596

Amortization expense for intangible assets was \$13,083 for each of the years ended December 31, 2017 and 2016.

Accrued Expenses

Accrued expenses consist of the following at:

	December 31,	
	2017	2016
Accrued payroll and related expenses.....	\$ 1,418,703	\$ 1,532,734
Accrued commissions.....	322,685	557,369
Accrued rebates.....	222,826	316,287
Taxes payable.....	20,222	184,232
Accrued expenses.....	498,764	268,330
Other.....	117,138	113,737
Total accrued expenses.....	\$ 2,600,338	\$ 2,972,689

Revenue Recognition

Sales are recognized when persuasive evidence of an arrangement exists, product delivery has occurred, pricing is fixed or determinable and collection is reasonably assured. Sales resulting from customer buy-back agreements, or associated inventory storage arrangements, are recognized upon delivery of the products to the customer, the customer's designated manufacturer, or upon notice from the customer to destroy or dispose of the goods. Sales, provisions for estimated sales returns and the cost of goods sold are recorded at the time title transfers to customers. Actual product returns are charged against estimated sales return allowances.

Sales rebates and discounts are common practice in the industries in which the Company operates. Volume, promotional, price, cash and other discounts and customer incentives are accounted for as a reduction to gross sales. Rebates and discounts are recorded based upon estimates at the time products are sold. These estimates are

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based upon historical experience for similar programs and products. The Company reviews such rebates and discounts on an ongoing basis and accruals for rebates and discounts are adjusted, if necessary, as additional information becomes available.

Shipping and Handling Costs

The Company records shipping and handling costs billed to customers as a component of revenue and shipping and handling costs incurred by the Company for outbound freight are recorded as a component of cost of goods sold.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax benefit carry-forwards. Deferred tax liabilities and assets at the end of each period are determined using enacted tax rates. The Company records deferred tax assets arising from temporary timing differences between recorded net income and taxable net income when and if the Company believes that future earnings will be sufficient to realize the tax benefit. For those jurisdictions where the expiration date of tax benefit carry-forwards or the projected taxable earnings indicate that realization is not likely, a valuation allowance is provided.

The provisions of FASB ASC 740, "Income Taxes," ("ASC 740") require the establishment of a valuation allowance when, based on currently available information and other factors, it is more likely than not that all or a portion of a deferred tax asset will not be realized. ASC 740 provides that an important factor in determining whether a deferred tax asset will be realized is whether there has been sufficient income in recent years and whether sufficient income is expected in future years in order to utilize the deferred tax asset.

The Company believes that its estimate of deferred tax assets and determination to record a valuation allowance against such assets are critical accounting estimates because they are subject to, among other things, an estimate of future taxable income, which is susceptible to change and dependent upon events that may or may not occur, and because the impact of recording a valuation allowance may be material to the assets reported on the balance sheet and results of operations.

Stock-Based Compensation

The Company has employee equity incentive plans, which are described more fully in Note 3. The Company measures and recognizes compensation expense for all share-based payment awards made to employees and directors based on estimated fair values in accordance with FASB ASC 718 "*Compensation - Stock Compensation*" ("ASC 718"). Accordingly, the Company measures share-based compensation at the grant date based on the fair value of the award.

ASC 718 requires companies to estimate the fair value of share-based payment awards to employees and directors on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Statements of Operations. For stock-based awards issued to employees and directors, stock-based compensation is attributed to expense using the straight-line single option method. As stock-based compensation expense recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss) for 2017, 2016 and 2015 is based on awards expected to vest, in accordance with ASC 718, forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

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The Company's determination of fair value of share-based payment awards to employees and directors on the date of grant uses the Black-Scholes model, which is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables. These variables include, but are not limited to, the expected stock price volatility over the expected term of the awards and actual and projected employee stock option exercise behaviors. The Company estimates expected volatility using historical data. The expected option term is estimated using the "safe harbor" provisions under ASC 718.

Foreign Currency Translation

The Company's reporting currency is US dollars. 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 until the translation adjustments are realized. Gains and losses resulting from foreign currency transactions and remeasurement adjustments of monetary assets and liabilities not held in an entity's functional currency, which primarily affects the Company's subsidiary in Hong Kong where the local currency of the Hong Kong Dollar is not the functional currency, are included in earnings.

Classification of Expenses

Cost 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 warehouse and operations salaries and other warehouse expenses.

Sales and Marketing Expense - Sales and marketing expenses primarily include sales salaries and commissions, travel and entertainment, marketing and other sales-related costs.

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 and Interest Income - Interest expense reflects the cost of borrowing, amortization of deferred financing costs and amortization of debt discounts. Interest expense for the years ended December 31, 2017, 2016 and 2015 was \$628,288, \$621,768, and \$516,199, respectively. Interest income of \$2,168, \$2,338, and \$2,764 for the years ended December 31, 2017, 2016 and 2015, respectively, consists of earnings from interest bearing receivables.

Comprehensive Income

Comprehensive income consists of net income and unrealized income 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 in accordance with Topic 220 "*Comprehensive Income*," and utilizing 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.

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Litigation

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

Fair Value of Financial Instruments

FASB ASC 820, “*Fair Value Measurements and Disclosures*” defines fair value 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 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—Include 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 and revolving line of credit from related party. In accordance with ASC 820, the Company measures its cash equivalents at fair value. The Company has determined that the book value of the financial instruments is representative of their fair values. The Company’s cash equivalents are classified within Level 1 and valued primarily using quoted market prices utilizing market observable inputs. At December 31, 2017 and 2016, cash equivalents consisted of money market fund balances measured at fair value on a recurring basis; fair value of the Company’s money market funds was approximately \$456,000 and \$1,125,000, respectively.

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.

New Accounting Pronouncements

In May 2017, the FASB issued ASU 2017-09, “Compensation —Stock Compensation (Topic 718): Scope of Modification Accounting.” ASU 2017-09 clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance is intended to reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications. Under ASU 2017-09, an entity will not apply modification accounting to a share-based payment award if the award’s fair value, vesting conditions and classification as an equity or liability instrument are the same immediately before and after the change. ASU 2017-09 will be applied prospectively to awards modified on or after the adoption date. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Management does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

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In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-03, "*Accounting Changes and Error Corrections (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323)*." This ASU responds to SEC staff announcements made in 2016 as it relates to the disclosure of the future impact of the effects of the new FASB guidance on revenue, leases and credit losses on financial instruments in accordance with Staff Accounting Bulletin 74. This ASU was effective upon issuance in January 2017. Management has adopted ASU 2017-03 effective for the first quarter of 2017. The adoption of ASU 2017-03 did not have a material impact on the Company's consolidated financial statements.

In December 2016, the FASB issued ASU No. 2016-20, "*Technical Corrections and Improvements (Topic 606): Revenue from Contracts with Customers*." This ASU provides amendments to Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers, allows entities not to make quantitative disclosures about remaining performance obligations in certain cases and requires entities that use any of the new or previously existing optional exemptions to expand their qualitative disclosures. It also makes 12 additional technical corrections and improvements to the new revenue standard. The effective date and transition requirements are the same as those in ASC 606. Management is currently evaluating the impact of this accounting standard on the Company's consolidated financial statements.

In December 2016, the FASB issued ASU No. 2016-19, "*Technical Corrections and Improvements*". This ASU clarifies guidance, corrects errors and makes minor improvements affecting a variety of topics in the Accounting Standards Codification. Most of the amendments are not expected to have a significant effect on practice, but some of them could change practice for some entities. Transition guidance and a delayed effective date are provided for amendments that the FASB deemed more substantive. The other amendments are effective immediately. Management has implemented as necessary and is currently evaluating the impact of this accounting standard on the Company's consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, "*Income Taxes*" (Topic 740): *Intra-Entity Transfers of Assets Other Than Inventory*." This ASU improves the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual reporting period for which interim or annual financial statements have not been issued. Management is currently evaluating the impact of this accounting standard on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, "*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*." This ASU provides amendments to specific statement of cash flows classification issues. The guidance is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. Management is currently evaluating the impact of this accounting standard on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments – Credit Losses*" (Topic 326), which replaces the incurred loss impairment methodology in current generally accepted accounting principles ("GAAP") with a methodology that reflects expected credit losses. The update is intended to provide financial statement users with more useful information about expected credit losses. The amended guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, with early adoption permitted for the fiscal years, and interim periods within those fiscal years, beginning December 15, 2018. Management does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "*Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*." The updated accounting guidance simplifies the accounting for share-based payment award transactions including income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Management has

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adopted this guidance for the first quarter of 2017. As required by the update, on a prospective basis, the Company will recognize excess tax benefits related to share-based payments in the provision for income taxes in the consolidated statements of income. Also, on a prospective basis, cash flows related to excess tax benefits recognized on stock-based compensation expense will be classified as an operating activity in the Company's consolidated statements of cash flows. Cash paid on employees' behalf related to shares withheld for tax purposes continues to be classified as a financing activity. Management elected to continue estimating stock-based compensation award forfeitures in determining the amount of compensation cost to be recognized each period.

In February 2016, the FASB issued ASU No. 2016-02 "Leases" (Topic 842). The new standard requires lessee recognition on the balance sheet of a right-of-use asset and a lease liability, initially measured at the present value of the lease payments. It further requires recognition in the income statement of a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis. Finally, it requires classification of all cash payments within operating activities in the statement of cash flows. It is effective for fiscal years commencing after December 15, 2018 and early adoption is permitted. In accordance with this standard, the Company will be establishing a right-of-use asset and an offsetting lease liability. Once adopted, management expects to report higher assets and liabilities as a result of including additional lease information on the consolidated balance sheet.

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, 2017. 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. Management intends to adopt this standard in the first quarter of 2018 and anticipates using the modified retrospective implementation method, whereby a cumulative effect adjustment is recorded to retained earnings as of the date of initial application, if needed. As a result of adoption, management anticipates expanding the consolidated financial statement disclosures in order to comply with the ASU. Management does not expect a material impact on results of operations, cash flows or financial position.

Other pronouncements issued by the FASB or other authoritative accounting standards groups with future effective dates are either not applicable or are not expected to be significant to the Company's financial position, results of operations or cash flows.

NOTE 2 - CREDIT FACILITIES, LONG TERM OBLIGATIONS AND RELATED PARTY TRANSACTIONS

Revolving Line of Credit from Related Party

On August 10, 2015, the Company entered into a loan and reimbursement agreement ("Loan Agreement") with Princess Investment Holdings Inc. ("Princess Investment"). Princess Investment may be deemed an affiliate of Kutula Holdings, Ltd., a significant stockholder of the Company, which also has the contractual right to designate a director to the Company's Board of Directors. Pursuant to the Loan Agreement, Princess Investment agreed to make available to the Company a loan of up to \$3,000,000 ("Revolving Line of Credit"). Advances under the Loan Agreement accrued interest initially on the unpaid principal balance at an annual rate of 12.5%. Accrued interest on the Revolving Line of Credit was payable monthly beginning September 1, 2015, and the principal amount was payable in monthly installments beginning September 1, 2016 and continuing through the maturity date of August 10, 2018. Pursuant to the Loan Agreement, the Company issued Princess Investment warrants to purchase

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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 and include a "cashless" exercise option. 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 MUFG Union Bank N.A. on August 12, 2015. The Company borrowed an additional \$500,000 through December 21, 2015, and had an outstanding balance of \$2,000,000 under the Revolving Line of Credit from Princess Investment at December 21, 2015.

On December 21, 2015, the Company entered into an amended and restated credit agreement (the "Princess Investment Credit Agreement") with Princess Investment, which amended the existing Loan Agreement, dated August 10, 2015, with Princess Investment to, among other things, increase the borrowing availability under the Loan Agreement from \$3,000,000 to \$6,000,000 and extend the maturity date of the loan to December 21, 2020 (the "Maturity Date"). The Princess Investment Credit Agreement requires the Company to comply with certain financial covenants, including a requirement not to incur a loss after taxes (as calculated in accordance with GAAP) of more than \$1,000,000 in the aggregate for any two consecutive fiscal quarters, not to incur a loss after taxes for any three consecutive fiscal quarters and not to incur a loss after taxes for any trailing twelve month period ending at the end of any fiscal quarter. For the year ended December 31, 2017, the Company was not in compliance with all covenants due to the tax effects related to the Tax Cuts and Jobs Act of 2017. Princess Investments granted the Company a waiver for the areas of non-compliance for the period ended December 31, 2017 and all future periods where the effect of the 2017 Tax Act results in the Company becoming out of compliance.

Princess Investment will make advances under the Revolving Line of Credit from time to time as requested by the Company. The Company may prepay the Revolving Line of Credit at any time, and amounts prepaid may be re-borrowed through November 21, 2020. Under the amended terms, the Revolving Line of Credit will accrue interest on the unpaid principal balance at an annual rate of 11.5%. Interest on the Revolving Line of Credit for the period from December 21, 2015 through December 1, 2016 was accrued and added to principal on December 1, 2016, and thereafter interest will be payable monthly in arrears. No principal payments were due during the period ending December 31, 2017. Thereafter, principal will be payable \$25,000 per month during the twelve months ended December 31, 2018, \$35,000 per month during the twelve months ended December 31, 2019 and \$50,000 per month during the twelve months ended December 31, 2020, with the remaining outstanding principal amount payable on the Maturity Date. The Princess Investment Credit Agreement continues to require payment of a \$60,000 loan fee at maturity.

The payment and performance of all the indebtedness and other obligations to Princess Investment, including all borrowings under the Princess Investment Credit Agreement, are guaranteed by the subsidiaries Talon Technologies, Inc. and Tag-It Pacific Limited pursuant to a Guaranty Agreement entered into on August 10, 2015, as amended on December 21, 2015. The payment and performance of all of the indebtedness and other obligations to Princess Investment under the Princess Investment Credit Agreement and related agreements are secured by liens on substantially all of the Company's assets and the assets of the Company's subsidiary guarantors pursuant to a Pledge and Security Agreement entered into on August 10, 2015, as amended on December 21, 2015.

Pursuant to the Princess Investment Credit Agreement, the Company issued to Princess Investment warrants to purchase 2,000,000 shares of its common stock. The warrants are exercisable immediately upon issuance for a five-year period at an exercise price of \$0.18 per share, and include a "cashless" exercise option.

In 2015, the Company received advances from Princess Investment under the Princess Investment Credit Agreement in the amount of \$2,000,000, of which \$1,622,000 was used to pay in full all indebtedness outstanding under the Commercial Credit Agreement, dated December 31, 2013, with MUFG Union Bank N.A., which indebtedness was scheduled to mature on December 31, 2015.

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After consideration of FASB ASC 480 “*Distinguishing Liability and Equity*” and ASC 815 “*Derivatives and Hedging*”, the Company concluded that the warrants issued to Princess Investment should be recorded as an equity instrument. The fair value of the first one million warrants of \$130,000 issued with the debt facility at August 10, 2015 and the fair value of the additional two million warrants of \$320,000 issued with the debt facility at December 21, 2015 were valued using the Black-Scholes model. The fair value of the warrants was recorded as additional paid in capital and reflected as a debt discount to the face value of the Revolving Line of Credit, which discount will be amortized over the term of the Loan and recognized as additional interest costs as amortized.

At December 31, 2017, the Company had an outstanding principal balance of \$4,455,643 under the Revolving Line of Credit, and approximately \$1,544,357 remained in available borrowings under the Revolving Line of Credit as of December 31, 2017.

	December 31,	
	2017	2016
\$6,000,000 revolving line of credit from related party and interest payable per terms under Princess Investment Credit Agreement through maturity date of December 21, 2020; interest at a rate per annum of 11.5% as of December 31, 2017.....	\$ 4,455,643	\$ 4,455,643
Less: Debt discounts net of related amortization	(250,540)	(342,028)
Less: Deferred financing costs net of related amortization	(54,080)	(72,270)
Revolving line of credit, net of debt discounts and deferred financing costs	4,151,023	4,041,345
Less: Current portion	(190,667)	-
Revolving line of credit, net of debt discounts, deferred financing costs and current portion	<u>\$ 3,960,356</u>	<u>\$ 4,041,345</u>

Future minimum annual payments under the Revolving Line of Credit obligation are as follows:

Years ending December 31,	Amount	Principal (1)	Interest
2018.....	\$ 796,512	\$ 300,000	\$ 496,512
2019.....	875,646	420,000	455,646
2020.....	4,124,592	3,735,643	388,949
Total	<u>\$ 5,796,750</u>	<u>\$ 4,455,643</u>	<u>\$ 1,341,107</u>

(1) Includes \$455,643 compounded interest from December 21, 2015 through November 30, 2016.

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

	<u>2017</u>	<u>2016</u>	<u>2015 (1)</u>
Revolving line of credit from related party.....	\$512,399	\$487,816	\$120,883
Revolving credit loan	-	-	93,280
Term loan payable	-	-	94,907
Amortization of deferred financing costs.....	18,190	18,190	152,589
Amortization of debt discounts.....	<u>91,489</u>	<u>86,086</u>	<u>21,885</u>
Total credit facilities related interest expense	622,078	592,092	483,544
Other interest expense, net	<u>3,983</u>	<u>27,338</u>	<u>29,891</u>
Interest expense, net	<u><u>\$626,061</u></u>	<u><u>\$619,430</u></u>	<u><u>\$513,435</u></u>

(1) Interest expense related to a retired Debt Facility.

Capital Leases

The Company has financed purchases of furniture and fixtures through various capital lease obligations, which bear interest at a rate of 8% per annum. Under these obligations, the Company is required to make monthly payments of principal and interest through May 2019.

At December 31, 2017, total property and equipment under capital lease obligations and related accumulated depreciation was \$94,739 and \$50,529 respectively. At December 31, 2016, total property and equipment under capital lease obligations and related accumulated depreciation was \$94,739 and \$31,580. respectively.

Future minimum annual payments under these capital lease obligations are as follows:

2018.....	27,728
2019.....	<u>11,554</u>
Total payments.....	39,282
Less amount representing interest.....	<u>(2,247)</u>
Balance at December 31, 2017.....	37,035
Less current portion.....	<u>(25,707)</u>
Long-term portion.....	<u><u>\$ 11,328</u></u>

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NOTE 3 - STOCK-BASED COMPENSATION

The Company accounts for stock-based awards to employees and directors in accordance with FASB ASC 718, "*Compensation - Stock Compensation*" ("ASC 718"), 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 (which was adopted on October 1, 1997) 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. No further awards will be granted under the 2007 Stock 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.

Options granted for the years ended December 31, 2017, 2016 and 2015 totaled 5,000, 4,525,000, and 800,000, respectively.

During the year ended December 31, 2017, options were exercised to acquire 64,028 shares of common stock under the 2008 Stock Incentive Plan, and 35,972 shares were retained by the Company in payment of the weighted average exercise price per share of \$0.05. At the time of exercise, the intrinsic value of the options exercised was \$0.14 per share, and the retained shares had a value of \$5,000.

During the year ended December 31, 2016, options were exercised to acquire 20,000 shares of common stock under the 2008 Stock Incentive Plan, and 13,576 shares were retained by the Company in payment of the weighted average exercise per share of \$0.06 and the tax associated with the exercise of the options. At the time of exercise, the intrinsic value of the options exercised was \$0.14 per share, and the retained shares had a value of \$1,900.

On February 10, 2016, the Company issued warrants to purchase 250,000 shares of the Company's common stock to an outside services company. The warrants are exercisable immediately upon issuance for a five-year period at an exercise price of \$0.14 per share and include a "cashless" exercise provision. The issuance of these securities was exempt from registration pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended.

Pursuant to the Princess Investment Loan Agreement and Credit Agreement, during the year ended December 31, 2015, the Company issued Princess Investment warrants to purchase 3,000,000 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 2).

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The following table summarizes the activity in the Company’s share-based compensation plans and other share-based grants:

	Number of Shares	Weighted Average Exercise Price
<i>Employees and Directors</i>		
Options outstanding - January 1, 2015.....	9,747,767	\$ 0.20
Granted	800,000	\$ 0.15
Exercised	-	\$ -
Cancelled	<u>(2,112,500)</u>	\$ 0.25
Options outstanding – December 31, 2015	8,435,267	\$ 0.18
Granted	4,525,000	\$ 0.14
Exercised	(20,000)	\$ 0.06
Cancelled	<u>(3,007,000)</u>	\$ 0.19
Options outstanding – December 31, 2016	9,933,267	\$ 0.16
Granted	5,000	\$ 0.10
Exercised	(100,000)	\$ 0.05
Cancelled	<u>(481,392)</u>	\$ 0.24
Options outstanding – December 31, 2017	<u>9,356,875</u>	\$ 0.16
<i>Non Employees</i>		
Warrants outstanding – January 1, 2015.....	-	\$ -
Granted	3,000,000	\$ 0.18
Exercised	-	\$ -
Cancelled	<u>-</u>	\$ -
Warrants outstanding – December 31, 2015	3,000,000	\$ 0.18
Granted	250,000	\$ 0.14
Exercised	-	\$ -
Cancelled	<u>-</u>	\$ -
Warrants outstanding – December 31, 2016	3,250,000	\$ 0.18
Granted	-	\$ -
Exercised	-	\$ -
Cancelled	<u>-</u>	\$ -
Warrants outstanding – December 31, 2017	<u>3,250,000</u>	\$ 0.18

The Company’s determination of fair value of share-based payment awards on the date of grant uses the Black-Scholes model and the assumptions noted in the following table for the years indicated. Expected volatilities are based on the historical volatility of the Company’s stock price and other factors. These variables include, but are not limited to, the expected stock price volatility over the expected term of the awards and actual and projected employee stock option exercise behaviors. The expected option term is estimated using the “safe harbor” provisions under ASC 718. The risk free rate for periods within the contractual life of the option is based on the U.S. Treasury yield in effect at the time of the grant.

TALON INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Years Ended December 31,		
	2017	2016	2015
<i>Stock Options and Warrants</i>			
Expected volatility.....	254%	246-262%	242-266%
Expected term (yrs).....	6.1	5.0-6.1	5.0-6.1
Expected dividends.....	-	-	-
Risk-free rate.....	2.1%	1.1-1.6%	1.6-2.0%

A summary of the Company's stock option and warrants information as of December 31, 2017 and 2016 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Intrinsic Value
<i>Employees and Directors Stock Options</i>				
At December 31, 2017				
Outstanding.....	9,356,875	\$ 0.16	5.7	\$ 0.00
Vested and expected to vest.....	9,311,625	\$ 0.16	5.7	\$ 0.00
Exercisable.....	7,102,083	\$ 0.17	5.0	\$ 0.00
At December 31, 2016				
Outstanding.....	9,933,267	\$ 0.16	6.7	\$ 0.01
Vested and expected to vest.....	9,836,988	\$ 0.16	6.7	\$ 0.01
Exercisable.....	5,316,181	\$ 0.17	4.8	\$ 0.02
<i>Non-Employee Warrants</i>				
At December 31, 2017				
Outstanding.....	3,250,000	\$ 0.18	2.9	\$ -
Vested and expected to vest.....	3,250,000	\$ 0.18	2.9	\$ -
Exercisable.....	3,250,000	\$ 0.18	2.9	\$ -
At December 31, 2016				
Outstanding.....	3,250,000	\$ 0.18	3.9	\$ -
Vested and expected to vest.....	3,250,000	\$ 0.18	3.9	\$ -
Exercisable.....	3,250,000	\$ 0.18	3.9	\$ -

The aggregate intrinsic value of the stock options and warrants was calculated as the difference between the exercise price of a stock option or a warrant, as applicable, and the quoted price of the Company's common stock at December 31, 2017 and 2016. The aggregate intrinsic value excludes stock options or warrants that have exercise prices in excess of the quoted price of the Company's common stock at December 31, 2017 and 2016.

The total grant date fair value of stock options and warrants that vested during the years ended December 31, 2017, 2016 and 2015 was \$301,822, \$209,850, and \$651,024, respectively. Stock-based compensation expense for the years ended December 31, 2017, 2016 and 2015 was \$216,483, \$286,833, and \$129,052, respectively.

TALON INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

There were approximately \$305,732 of total unrecognized compensation costs related to non-vested stock options as of December 31, 2017. This cost is expected to be recognized over a weighted-average period of 1.8 years. There were approximately \$551,946 of total unrecognized compensation costs related to non-vested stock options as of December 31, 2016. This cost was expected to be recognized over the weighted-average period of 2.7 years.

Restricted Stock Units (RSU's)

There were no outstanding RSUs and no unamortized stock-based compensation expense related to RSUs as of December 31, 2017, 2016 and 2015.

NOTE 4 - INCOME TAXES

The components of the provision for income taxes included in the consolidated statements of operations are as follows:

	Years Ended December 31,		
	2017	2016	2015
<i>Current:</i>			
Federal.....	\$ 87,495	\$ -	\$ -
State.....	(10,101)	(129)	3,294
Foreign.....	157,330	280,429	190,181
Total current.....	234,724	280,300	193,475
<i>Deferred:</i>			
Federal.....	2,576,320	491,014	56,835
State.....	29,640	328,380	4,051
Foreign.....	(4,441)	(2,369)	7,300
Total deferred.....	2,601,519	817,025	68,186
Total	\$ 2,836,243	\$ 1,097,325	\$ 261,661

TALON INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of foreign earnings. The Company has estimated its provision for income taxes in accordance with the Act and guidance available as of the date of this filing and as a result have recorded \$1.2 million as additional income tax expense in the fourth quarter of 2017, the period in which the legislation was enacted. The provisional amount related to the remeasurement of certain deferred tax assets and liabilities, based on the rates at which they are expected to reverse in the future, was \$1.1 million. The provisional amount related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings was \$ 0.1 million based on cumulative foreign earnings of \$0.7 million.

On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of US GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. In accordance with SAB 118, the Company has determined that the \$1.1 million of the deferred tax expense recorded in connection with the remeasurement of certain deferred tax assets and liabilities and the \$0.1 million of current tax expense recorded in connection with the transition tax on the mandatory deemed repatriation of foreign earnings was a provisional amount and a reasonable estimate at December 31, 2017.

A reconciliation of the statutory Federal income tax rate with the Company's effective income tax rate is as follows:

	Years Ended December 31,		
	2017	2016	2015
<i>Current:</i>			
Federal statutory rate.....	34.0 %	34.0 %	34.0
State taxes, net of federal benefit.....	4.6	10.4	0.6
Change in effective foreign tax rate.....	19.9	3.1	(4.1)
Foreign dividend, net of foreign tax credit.....	12.8	-	3.8
Other permanent differences.....	18.5	3.6	6.2
Change in valuation allowance.....	182.3	1.4	(14.6)
Change in uncertainty in income taxes.....	-	-	-
Change in statutory federal and state tax rate.....	152.7	-	-
Other	(11.0)	(0.1)	8.0
Total.....	<u>413.7 %</u>	<u>52.4 %</u>	<u>33.9</u>

Net income before income taxes is as follows:

	Years Ended December 31,		
	2017	2016	2015
Domestic.....	\$ 784,096	\$ 1,466,325	\$ 574,028
Foreign.....	(98,568)	625,878	198,960
Total.....	<u>\$ 685,528</u>	<u>\$ 2,092,203</u>	<u>\$ 772,988</u>

TALON INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The primary components of temporary differences which give rise to the Company's deferred tax being presented as part of Deferred income tax assets, net (in long term assets), or Deferred income tax liabilities (in long term liabilities) in the Company's Consolidated Balance Sheet are as follows:

	December 31,	
	2017	2016
<i>Net deferred income taxes:</i>		
Net operating loss carry-forward.....	\$ 3,442,688	\$ 4,989,624
Intangible assets, net.....	(1,042,819)	(1,426,909)
Property and equipment, net.....	(8,425)	(16,058)
Related party interest.....	102,078	127,779
Credit carryforwards.....	1,265,851	1,212,818
Stock awards expense.....	222,048	317,041
Payroll.....	34,284	52,664
Other.....	31,041	62,303
Total.....	4,046,746	5,319,262
Less: Valuation allowance.....	(1,428,644)	(98,281)
Net deferred income taxes.....	\$ 2,618,102	\$ 5,220,981
<u>Presented as part of:</u>		
Current deferred income tax assets, net.....	\$ -	\$ -
Deferred income tax assets, net.....	\$ 2,616,698	\$ 5,224,018
Deferred income tax liabilities.....	\$ 1,404	\$ (3,037)

For the years ended December 31, 2017 and 2016 there were no unrecognized tax benefits as a result of tax positions taken during a prior period or during the current period, and there were no decreases in the unrecognized tax benefits relating to settlements with taxing authorities.

At December 31, 2017 and 2016, the Company had Federal net operating loss carry-forwards (or "NOLs") of approximately \$11.8 million and \$12.6 million, respectively, and State NOLs of \$13.1 million and \$15.0 million, respectively. The Federal NOL and State NOL are available to offset future taxable income through 2032. Section 382 of the Internal Revenue Code places a limitation on the ability to realize net operating losses in future periods if the ownership of the Company has changed more than 50% within a three-year period.

The provisions of ASC 740 require the establishment of a valuation allowance unless, based on currently available information and other factors, it is more likely than not that all or a portion of a deferred tax asset will be realized. An important factor in determining whether a deferred tax asset will be realized in accordance with ASC 740 is whether there has been sufficient income realized in recent years and whether sufficient income is expected to be realized in future years to utilize the deferred tax asset.

The Company maintains a valuation allowance for its deferred tax assets until evidence exists to support the modification of the allowance. At the end of each period, the Company reviews supporting evidence, including the performance against sales and income projections, to determine if a modification of the valuation allowance is warranted. If it is determined that it is more likely than not that the Company will be not be able to recognize all or a greater portion of its deferred tax assets, the Company will at that time increase the valuation allowance.

In 2017 and 2016 the Company did not include in its consolidated U.S. federal tax provision a deemed dividend and related gross-up due to earnings from the Company's Hong Kong foreign subsidiary.

TALON INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company is a party to a number of non-cancelable operating lease agreements involving buildings, equipment, and software as a service license agreements which expire at various dates through 2021. The Company accounts for its leases in accordance with FASB ASC 840 "Leases," whereby step provisions, escalation clauses, tenant improvement allowances, increases based on an existing index or rate, and other lease concessions are accounted for in the minimum lease payments and are charged to the statement of operations on a straight-line basis over the related lease term.

The future minimum lease commitments at December 31, 2017, are approximately as follows:

<u>Years Ended December 31,</u>	<u>Amount</u>
2018.....	\$ 632,585
2019.....	479,604
2020.....	191,066
2021.....	<u>7,920</u>
Total minimum payments.....	<u>\$ 1,311,175</u>

Total rental expense for the years ended December 31, 2017, 2016 and 2015 aggregated \$999,246, \$949,897, and \$878,518, respectively. Total expense for software as a service license agreements for the years ended December 31, 2017 and 2016 were \$204,777 and \$51,194, respectively. There was no expense for software as a service license agreement in the year ended December 31, 2015.

Profit Sharing Plan

In October 1999, the Company established a 401(k) profit-sharing plan for the benefit of eligible employees. The Company may make annual contributions to the plan as determined by the Board of Directors. The Company matched contributions for all employees under the Company's 401(k) plan up to a maximum of 50% of an employee's contribution to a maximum of \$2,000 beginning in January 2014, subject to any limitations imposed by ERISA.

Total contributions for the years ended December 31, 2017, 2016 and 2015 amounted to \$52,955, \$50,430, and \$60,055, respectively.

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 condition 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:

TALON INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- In accordance with the bylaws of the Company, officers and directors are indemnified for certain events or occurrences arising as a result of the officer or director's 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 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 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. Accordingly, the Company has not recorded any related liabilities.

NOTE 6 - MAJOR CUSTOMERS AND VENDORS

Our sales depend to a significant extent upon the Company's customers. If we lose our significant brand nominations, or these customers fail to purchase our products at anticipated levels, or our relationship with these customers or the brands and retailers they serve diminishes, it may have an adverse effect on our results from operations.

For the years ended December 31, 2017, 2016 and 2015, the Company's three largest customers represented approximately 11%, 8%, and 6%, respectively, of consolidated net sales.

Three vendors, each representing more than 10% of the Company's purchases, accounted for approximately 46% of the Company's purchases for the year ended December 31, 2017, approximately 67% of the Company's purchases for the year ended December 31, 2016, and approximately 74% of the Company's purchases for the year ended December 31, 2015. The vendors are replaceable and the Company believes that changing vendors poses minimal risk to the Company.

Included in accounts payable and accrued expenses at December 31, 2017 and 2016 is \$2,457,193 and \$4,006,087 due to these vendors, respectively.

NOTE 7 - SUBSEQUENT EVENTS

The Company evaluated subsequent events after the balance sheet date of December 31, 2017 through the date of the filing of this report, and determined that there were no reportable subsequent events.

CORPORATE INFORMATION

COUNSEL

STUBBS ALDERTON & MARKILES, LLP
LOS ANGELES, CA

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

SINGERLEWAK, LLP
LOS ANGELES, CA

TRANSFER AGENT - REGISTRAR

AMERICAN STOCK TRANSFER & TRUST COMPANY
6201 15TH AVENUE, BROOKLYN, NY 11219

STOCK LISTING

THE COMPANY'S COMMON STOCK IS TRADED OTC PINK
SYMBOL: TALN

ANNUAL MEETING

THE ANNUAL MEETING OF SHAREHOLDERS WILL BE HELD
AT 2:00 PM ON AUGUST 15, 2018 IN THE CONFERENCE
CENTER OF THE TALON INTERNATIONAL CORPORATE
OFFICE, 21900 BURBANK BLVD., STE 270, WOODLAND
HILLS, CALIFORNIA.

INVESTOR RELATIONS

ANY SHAREHOLDER WISHING TO OBTAIN A COPY OF THE
COMPANY'S ANNUAL REPORT MAY OBTAIN SUCH REPORTS, WITHOUT CHARGE, UPON
WRITTEN REQUEST TO THE COMPANY'S CORPORATE OFFICE.
ATTN: INVESTOR RELATIONS

DIRECTORS AND OFFICERS

MARK DYNE

DIRECTOR, CHAIRMAN

LARRY DYNE

CHIEF EXECUTIVE OFFICER & CHIEF
FINANCIAL OFFICER, DIRECTOR

DAVID ELLIS

DIRECTOR

DANIEL RYU

CHIEF STRATEGY OFFICER

ROBERT GOLDEN

DIRECTOR

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