Disclosure Statement Pursuant to the Pink Basic Disclosure Guidelines

Talon International, Inc.

21900 Burbank Blvd, Suite 101
Woodland Hills, CA 91367
(818) 444-4100
www.taloninternational.com
SIC Code: 5130

Annual Report
For the Period Ending: December 31, 2020
(the "Reporting Period")

As of December 31, 2020, the number of shares outstanding of our Common Stock was: **92,338,283**

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Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: ☐ No: ☒

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: ☐ No: ☒

Indicate by check mark whether a Change in Control[1] of the company has occurred over this reporting period:

Yes: ☐ No: ☒

1) Name and address(es) of the issuer and its predecessors (if any)

In answering this item, provide the current name of the issuer any names used by predecessor entities, along with the dates of the name changes.

Talon International, Inc.

[1] "Change in Control" shall mean any events resulting in:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becoming the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities;

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;

(iii) A change in the composition of the Board occurring within a two (2)-year period, as a result of which fewer than a majority of the directors are directors immediately prior to such change; or

(iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

The state of incorporation or registration of the issuer and of each of its predecessors (if any) during the past five years; Please also include the issuer's current standing in its state of incorporation (e.g. active, default, inactive):

The issuer was incorporated in Delaware on September 30, 1997, and currently is active.

Describe any trading suspension orders issued by the SEC concerning the issuer or its predecessors since inception:

None

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

None

The address(es) of the issuer's principal executive office:

21900 Burbank Blvd Suite 101, Woodland Hills, CA 91367

The address(es) of the issuer's principal place of business:

Check box if principal executive office and principal place of business are the same address: ☒

Has the issuer or any of its predecessors been in bankruptcy, receivership, or any similar proceeding in the past five years?

Yes: ☐ No: ☒

If this issuer or any of its predecessors have been the subject of such proceedings, please provide additional details in the space below:

None

2) Security Information

Trading symbol:	TALN	
Exact title and class of securities outstanding:	Common Stock	
CUSIP:	87484F10-8	
Par or stated value:	0.001	
Total shares authorized:	300,000,000	as of date: August 16, 2021
Total shares outstanding:	92,338,283	as of date: August 16, 2021

Transfer Agent

Name: AST Financial
Phone: (718) 921-8300
Email: admin5@astfinancial.com
Address: 6201 15th AVE., BROOKLYN, NY 11219

Is the Transfer Agent registered under the Exchange Act?[2] Yes: ☒ No: ☐

[2] To be included in the Pink Current Information tier, the transfer agent must be registered under the Exchange Act.

3) Issuance History

The goal of this section is to provide disclosure with respect to each event that resulted in any direct changes to the total shares outstanding of any class of the issuer's securities **in the past two completed fiscal years and any subsequent interim period**.

Disclosure under this item shall include, in chronological order, all offerings and issuances of securities, including debt convertible into equity securities, whether private or public, and all shares, or any other securities or options to acquire such securities, issued for services. Using the tabular format below, please describe these events.

A. Changes to the Number of Outstanding Shares

Check this box to indicate there were no changes to the number of outstanding shares within the past two completed fiscal years and any subsequent periods: ☒

<table>
<tr><td colspan="3">Shares Outstanding as of Second Most Recent Fiscal Year End:
<u>Opening Balance</u>

Date: <u>December 31, 2019</u>
Common: <u>92,338,283</u>
Preferred: <u>None</u></td><td colspan="7">*Right-click the rows below and select "Insert" to add rows as needed.</td></tr>
<tr><th>Date of Transaction</th><th>Transaction type (e.g. new issuance, cancellation, shares returned to treasury)</th><th>Number of Shares Issued (or cancelled)</th><th>Class of Securities</th><th>Value of shares issued ($/per share) at Issuance</th><th>Were the shares issued at a discount to market price at the time of issuance? (Yes/No)</th><th>Individual/ Entity Shares were issued to (entities must have individual with voting / investment control disclosed).</th><th>Reason for share issuance (e.g. for cash or debt conversion) -OR- Nature of Services Provided</th><th>Restricted or Unrestricted as of this filing.</th><th>Exemption or Registration Type.</th></tr>
<tr><td>______</td><td>______</td><td>______</td><td>______</td><td>______</td><td>______</td><td>______</td><td>______</td><td>______</td><td>______</td></tr>
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<tr><td colspan="3">Shares Outstanding on Date of This Report:
<u>Ending Balance:</u>

Date: <u>December 31, 2020</u>
Common: <u>92,338,283</u>
Preferred: <u>None</u></td><td colspan="7"></td></tr>
</table>

Example: A company with a fiscal year end of December 31st, in addressing this item for its quarter ended September 30, 2020, would include any events that resulted in changes to any class of its outstanding shares from the period beginning on January 1, 2018 through September 30, 2020 pursuant to the tabular format above.

Use the space below to provide any additional details, including footnotes to the table above:

B. Debt Securities, Including Promissory and Convertible Notes

Use the chart and additional space below to list and describe all outstanding promissory notes, convertible notes, convertible debentures, or any other debt instruments that may be converted into a class of the issuer's equity securities.

Check this box if there are no outstanding promissory, convertible notes or debt arrangements: ☒

Date of Note Issuance	Outstanding Balance ($)	Principal Amount at Issuance ($)	Interest Accrued ($)	Maturity Date	Conversion Terms (e.g. pricing mechanism for determining conversion of instrument to shares)	Name of Noteholder (entities must have individual with voting / investment control disclosed).	Reason for Issuance (e.g. Loan, Services, etc.)
______	______	______	______	______	______	______	______
______	______	______	______	______	______	______	______
______	______	______	______	______	______	______	______
______	______	______	______	______	______	______	______

Use the space below to provide any additional details, including footnotes to the table above:

4) Financial Statements

A. The following financial statements were prepared in accordance with:

☒ U.S. GAAP
☐ IFRS

B. The financial statements for this reporting period were prepared by (name of individual)[3]:

Name: **Larry Dyne**
Title: **CEO**

Provide the financial statements described below for the most recent fiscal year or quarter. For the initial disclosure statement (qualifying for Pink Current Information for the first time) please provide reports for the two previous fiscal years and any subsequent interim periods.

C. Balance sheet;
D. Statement of income;
E. Statement of cash flows;
F. Statement of Retained Earnings (Statement of Changes in Stockholders' Equity)
G. Financial notes; and
H. Audit letter, if audited

You may either (i) attach/append the financial statements to this disclosure statement or (ii) file the financial statements through OTCIQ as a separate report using the appropriate report name for the applicable period end. ("Annual Report," "Quarterly Report" or "Interim Report").

If you choose to publish the financial statements in a separate report as described above, you must state in the accompanying disclosure statement that such financial statements are incorporated by reference. You may reference the document(s) containing the required financial statements by indicating the document name, period end date, and the date that it was posted to OTCIQ in the field below. Financial Statements must be compiled in one document.

[3] The financial statements requested pursuant to this item must be prepared in accordance with US GAAP or IFRS by persons with sufficient financial skills.

The Company's financial statements for its fiscal year ended 2020 are attached to this disclosure statement.

Financial statement information is considered current until the due date for the subsequent report (as set forth in the qualifications section above). To remain qualified for Current Information, a company must post its Annual Report within 90 days from its fiscal year-end date and Quarterly Reports within 45 days of each fiscal quarter-end date.

5) Issuer's Business, Products and Services

The purpose of this section is to provide a clear description of the issuer's current operations. In answering this item, please include the following:

A. Summarize the issuer's business operations (If the issuer does not have current operations, state "no operations")

Talon International, Inc. and subsidiaries, (collectively, 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.

B. Please list any subsidiaries, parents, or affiliated companies.

Talon International, Inc. is the parent holding company of Talon Technologies, Inc., a California corporation ("Talon Tech"), formerly A.G.S. Stationery, Inc., Stegvision Corp., a Delaware corporation, Tag-It Pacific Limited, a Hong Kong corporation ("Tag-It HK"), Tag-It Pacific Vietnam Limited, a Vietnam corporation ("Tag-It VN"), 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.

C. Describe the issuers' principal products or services.

Talon Zipper - We offer a full line of custom metal, coil and plastic zippers bearing the *Talon* brand name or logo. Talon zippers are used primarily by manufacturers in the apparel industry and are distributed through our distribution facilities in the United States, Europe, Hong Kong and China and through these designated offices to other international markets, including Taiwan, India, Bangladesh, Indonesia, Vietnam, Dominican Republic and others.

We expand our distribution of Talon zippers through the establishment of a combination of Talon owned sales and distribution locations, and strategic manufacturing and distribution relationships. These distribution and manufacturing relationships, in combination with Talon owned and affiliated facilities, improve our time-to-market by allowing us to source, finish and distribute to apparel manufacturers within their local markets. The branded apparel zipper market is dominated by one company and we have positioned *Talon* to be a viable global alternative to this competitor and capture an increased market share position. We leverage the brand awareness of the *Talon* name by branding other products in our line with the *Talon* name.

Talon Trim Group - We consider our high level of customer service as a fully integrated single-source supplier essential to our success. We combine our quality customer service within our Talon Trim solutions with a history of design and manufacturing expertise to offer our customers a complete trim solution product. We believe this full-service product gives us a competitive edge over companies that only offer selected trim components because our full service solutions save our customers substantial time in ordering, designing, sampling and managing trim sourcing from several different suppliers. Our tracking and order management systems allow us to seamlessly supply Talon Trim solutions and products to apparel brands, retailers and manufacturers around the world. We produce custom hang tags, metal fasteners, woven, leather, synthetic, embroidered and novelty labels and tapes, which can be printed on or woven into a wide range of fabrics, as well as interlining and stretch technology components and other materials using specialized equipment. Our *Tekfit* products, which are a part of the Talon Trim Group, provide manufacturers with fabric interlinings and patented technology, manufacturing know-how, proprietary equipment and materials necessary to produce expandable waistbands, shirt collars and various other stretch technology apparel interlining components. All of Talon Trim Group products are sold to a similar class of customers, sourced from specialty trim suppliers, are distributed using similar distribution methods and are sold by a shared salesforce; these similarities support the aggregation of the operating results into a combined Talon Trim Group.

6) Issuer's Facilities

The goal of this section is to provide a potential investor with a clear understanding of all assets, properties or facilities owned, used or leased by the issuer and the extent in which the facilities are utilized.

In responding to this item, please clearly describe the assets, properties or facilities of the issuer, give the location of the principal plants and other property of the issuer and describe the condition of the properties. If the issuer does not have complete ownership or control of the property (for example, if others also own the property or if there is a mortgage on the property), describe the limitations on the ownership.

If the issuer leases any assets, properties or facilities, clearly describe them as above and the terms of their leases.

Location	Function	Approximate Square Footage	Term (In Calendar Year)
Woodland Hills, California	Corporate Office	9,340	Lease expires in 2030 (*)
Shenzhen, China	Office and warehouse	1,826	Lease expires in 2024 (*)
Kowloon, Hong Kong	Office and warehouse	7,640	Lease expires in 2022(*)
Dhaka, Bangladesh	Office	1,616	Lease expires in 2023 (*)
Ho Chi Minh City, Vietnam	Office	754	Monthly

(*) Leases have the option to be renewed by us at fixed terms.

7) Company Insiders (Officers, Directors, and Control Persons)

The goal of this section is to provide an investor with a clear understanding of the identity of all the persons or entities that are involved in managing, controlling or advising the operations, business development and disclosure of the issuer, as well as the identity of any significant or beneficial shareholders.

Using the tabular format below, please provide information, as of the period end date of this report, regarding any person or entity owning 5% of more of any class of the issuer's securities, as well as any officer, and any director of the company, or any person that performs a similar function, regardless of the number of shares they own. If any insiders listed are corporate shareholders or entities, provide the name and address of the person(s) beneficially owning or controlling such corporate shareholders, or the name and contact information (City, State) of an individual representing the corporation or entity in the note section.

Name of Officer/Director or Control Person	Affiliation with Company (e.g. Officer Title /Director/Owner of more than 5%)	Residential Address (City / State Only)	Number of shares owned	Share type/class	Ownership Percentage of Class Outstanding	Note
Kutula Holdings Ltd.	Owner of > 5%	Rotterdam, Netherlands	17,800,000	Common	19%	
Patz Holdings Limited	Owner of > 5%	St. Peter, Port Guernsey	16,950,000	Common	18%	
Princess Investment Holding Inc.	Owner of > 5%	Sherman Oaks, CA	9,172,122	Common	10%	
Perrtech Pty Limited	Owner of > 5%	Alexandria, Sydney, Australia	8,333,333	Common	9%	
Zipper Holdings LLC	Owner of > 5%	Hidden Hills, CA	8,333,333	Common	9%	
Larry Dyne	CEO	Calabasas, CA	7,598,947	Common	8%	

8. Legal/Disciplinary History

A. Please identify whether any of the persons or entities listed above have, in the past 10 years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

None

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

None

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

None

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended, or otherwise limited such person's involvement in any type of business or securities activities.

None

B. Describe briefly any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party or of which any of their property is the subject. Include the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and the relief sought. Include similar information as to any such proceedings known to be contemplated by governmental authorities.

None

9) Third Party Providers

Please provide the name, address, telephone number and email address of each of the following outside providers:

<u>Securities Counsel</u>

Name: _____
Firm: _____
Address 1: _____
Address 2: _____
Phone: _____
Email: _____

<u>Accountant or Auditor</u>

Name: _____
Firm: _____
Address 1: _____
Address 2: _____
Phone: _____
Email: _____

<u>Investor Relations</u>

Name: _____
Firm: _____
Address 1: _____
Address 2: _____
Phone: _____
Email: _____

<u>Other Service Providers</u>

Provide the name of any other service provider(s) that **that assisted, advised, prepared or provided information with respect to this disclosure statement**. This includes counsel, broker-dealer(s), advisor(s) or consultant(s) or provided assistance or services to the issuer during the reporting period.

Name: _____
Firm: _____
Nature of Services: _____
Address 1: _____
Address 2: _____
Phone: _____
Email: _____

10) Issuer Certification

Principal Executive Officer:

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles but having the same responsibilities) in each Quarterly Report or Annual Report.

The certifications shall follow the format below:

I, Larry Dyne certify that:

1. I have reviewed this Annual disclosure statement of Talon International, Inc. for the financial year ended December 31, 2020;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: August 16, 2021

By: /s/ Larry Dyne
Chief Executive Officer

TALON INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2020

	Unaudited 2020
Assets	
Current assets:	
Cash and cash equivalents	$6,030,689
Accounts receivable, net	2,890,421
Inventories, net	892,773
Prepaid expenses and other current assets	2,031,236
Total current assets	11,845,119
Property and equipment, net	1,095,959
Operating lease right-of-use assets	2,284,580
Intangible assets, net	4,400,724
Deferred income tax assets, net	2,926,897
Other assets	690,024
Total assets	$23,243,303
Liabilities and Stockholders' Equity	
Current liabilities:	
Current portion of revolving line of credit from related party, net	390,000
Accounts payable	5,013,680
Accrued expenses	2,685,393
Current Portion operating lease liabilities	527,840
Total current liabilities	8,616,913
PPP liability	697,546
Revolving line of credit from related party, net of discounts and deferred financing costs	3,872,040
Operating lease liabilities, net of current portion	1,961,600
Other liabilities	404,796
Total liabilities	15,552,895
Commitments and contingencies (Note 5)	
Stockholders' Equity:	
Common Stock, $0.001 par value, 300,000,000 shares authorized; 92,338,283 and 92,338,283 shares issued and outstanding at December 31, 2020 and December 31, 2019, respectively	$92,338
Additional paid-in capital	65,674,049
Accumulated other comprehensive income	(38,424)
Accumulated deficit	(58,649,744)
Noncontrolling interests in consolidated subsidiaries	612,189
Total stockholders' equity	7,690,408
Total liabilities and stockholders' equity	$23,243,303

See accompanying notes to consolidated financial statements.

TALON INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME / (LOSS)
YEAR ENDED DECEMBER 31, 2020

	Unaudited 2020
Net sales	$44,493,703
Cost of goods sold	31,017,027
Gross profit	13,476,676
Sales and marketing expenses	4,422,534
General and administrative expenses	6,549,844
Total operating expenses	10,972,378
Income from operations	2,504,298
Interest expense, net	373,041
Income (loss) before provision for income taxes	2,131,257
Provision for income taxes	118,205
Net income (loss)	$2,013,052
Basic and diluted net income (loss) per share	$0.02
Weighted average number of common shares outstanding - Basic	92,034,299
Weighted average number of common shares outstanding - Diluted	92,034,299
Net income (loss)	2,013,052
Less: Net income (loss) attributable to noncontrolling interests	(158,292)
Net Income (loss) attributable to parent	2,171,344
Other comprehensive income (loss) from foreign currency translation	37,285
Total comprehensive income (loss)	$2,208,629

See accompanying notes to consolidated financial statements.

TALON INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2020

Unaudited	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Other Comprehensive Income	Accumulated Deficit	Total
Balance at December 31, 2019	**92,338,283**	**$92,338**	**$66,582,351**	**($75,709)**	**($60,821,088)**	**$5,777,892**
Stock based compensation	-	-	75,914	-	-	75,914
Issuance of common stocks and warrants to related party subsidiaries			10,250			10,250
Foreign currency translation	-	-	-	37,285	-	37,285
Net loss	-	-	-	-	2,013,052	2,013,052
Less: Net income (loss) attributable to noncontrolling interests					(158,293)	(158,293)
Balance at December 31, 2020	**92,338,283**	**$92,338**	**$66,668,515**	**($38,424)**	**($58,649,744)**	**$8,072,685**

See accompanying notes to consolidated financial statements.

TALON INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2020

	Unaudited 2020
Cash flows from operating activities :	
Net income (loss)	$2,013,051
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:	
Depreciation and amortization	337,316
Stock based compensation	75,914
Deferred income taxes, net	(101,987)
Change in provision for bad debt	84,185
Inventory valuation provisions (recoveries), net	24,467
Changes in operating assets and liabilities:	
Accounts receivable	1,730,407
Inventories	(237,150)
Prepaid expenses and other current assets	(1,488,955)
Other assets.	4,066
Accounts payable and accrued expenses	(2,242,277)
Other liabilities	232,162
Operating lease assets and liabilities, net	164,326
Net cash provided by (used in) operating activities	595,525
Cash flows from investing activities:	
Proceeds from sale of equipment	12,296
Acquisitions of property and equipment	(553,049)
Acquisitions of intangibles assets	(14,696)
Net cash used in investing activities	(555,449)
Cash flows from financing activities :	
Proceed from PPP loan	697,546
Proceed from the issuance of common stock	10,251
Revolving line of credit from related party borrowings	518,133
Net cash used in financing activities	1,225,930
Net effect of foreign currency exchange translation on cash	37,284
Net increase (decrease) in cash and cash equivalents	1,266,006
Cash and cash equivalents at beginning of period	4,727,399
Cash and cash equivalents at end of period	$6,030,689

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. and subsidiaries, (collectively, 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., Stegvision Corp., a Delaware corporation, Tag-It Pacific Limited, a Hong Kong corporation ("Tag-It HK"), Tag-It Pacific Vietnam Limited, a Vietnam corporation ("Tag-It VN"), 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 2020, 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 $5.8 million at financial institutions in excess of governmentally insured limits at December 31, 2020.

Concentration of Credit Risk

The Company sells its apparel components to manufacturers of fashion apparel, specialty retailers and mass merchandisers and extends credit based on an evaluation of each customer's financial capacity and condition, usually without requiring collateral. In the Company's business, concentration of credit risk is relatively limited due to the large number of customers and their dispersion across many geographic areas.

Allowance for Accounts Receivable Doubtful Accounts

The Company is required to make judgments as to the collectability of accounts receivable based on an 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, 2020 was $249,182.

Inventories

Inventories are stated at the lower of cost, determined using the first-in, first-out basis, or net realizable 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:

	2020
Raw Materials	$420,732
Finished goods	597,067
Less: Inventory valuation reserves	(125,026)
Inventories, net	$892,773

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, 2020, and noted no impairments.

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:

	2020	Depreciable Life In Years (1)
Office equipment and computer related	$3,270,363	3 - 5
Machinery and production related equipment	1,733,041	5 - 10
Leasehold improvements (2)	254,958	
Furniture and fixtures	391,701	5
Total cost	5,650,063	
Less: Accumulated depreciation and amortization	(4,554,104)	
Property and equipment, net	$1,095,959	

(1) Depreciation of property and equipment is computed using the straight-line method based on the 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, 2020 was $317,109.

Intangible Assets, net

Intangible assets consist of the *Talo*n 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, 2020, 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, 2020, the Company made a $75,448 investment in intellectual property rights.

Intangible assets as of December 31, 2020 are as follows:

	2020
Tradename - Talon trademark	$4,110,751
Intellectual property rights and exclusive license	$478,155
Less: Accumulated amortization (10 to 17 years)	($188,181)
Intellectual property rights, net	289,974
Intangible assets, net	$4,400,724

Amortization expense for intangible assets for the year ended December 31, 2020 was $80,856.

Accrued Expenses

Accrued expenses consist of the following at:

	2020
Accrued payroll and related expenses.............................	$966,336
Accrued commissions..	578,977
Accrued rebates..	592,619
Taxes payable...	38,224
Accrued expenses...	356,656
Other...	152,582
Total accrued expenses...	$2,685,393

Revenue Recognition

On January 1, 2018, the Company adopted ASU No. 2014-09, Revenue from Contracts with Customers, including subsequent updates and amendments, using the modified retrospective method. The ASU 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 standard provides a five-step analysis of transactions to determine when and how revenue is recognized.

The adoption of the new standard did not lead to a material impact on Company's results of operations, cash flows or financial position.

The Company recognizes revenue as the respective performance obligations are satisfied. When the customer arranges for product transportation, revenue is recorded at the time when garment components are dispatched from Company's warehouse (FOB shipping point). In cases when the transportation is arranged for by Talon, revenue is recognized when the delivery is complete (FOB destination). The Company records majority of its revenue on FOB shipping terms.

The Company records shipping and handling cost as revenue when it recognizes product revenue and bills respective shipping and handling costs to customers. Shipping and handling is considered fulfillment activities, not a distinct service or a performance obligation.

The Company transfers certain zipper parts to its vendors on a consignment basis. The Company reports transferred parts on its balance sheet until the whole product (zippers) is sold to Company's customers in the normal course of business.

Sales rebates and discounts are common practice in the industry in which the Company operates. The Company offers discounts determined as a fixed percentage or dollar value off of the price (fixed discounts) and cash-settled volume discounts (variable discounts). Fixed discounts reduce the respective transaction price and recognized revenue. Variable discounts are paid in cash based on sales volumes archived during a specified term (generally, a year). The discounts are considered a variable consideration as Company's price for goods delivered within the specified term is subject to an adjustment contingent on future events. The Company determines variable consideration using estimated sales volumes subject to variable consideration constraint. The estimates are based on historical experience for similar programs and products. The Company reviews variable consideration estimates on an ongoing basis and adjust them, if necessary, as additional information becomes available.

Sales provision for estimated sales returns and the cost of goods sold is recorded at the time when revenue is recognized. Actual product returns are charged against estimated sales return allowances.

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. 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 2020 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.

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. Interest expense for the years ended December 31, 2020 was $379,489. Interest income of $6,448 for the year ended December 31, 2020 consists of earnings from interest bearing bank checking accounts.

Comprehensive Income (Loss)

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

The Company reports comprehensive income (loss) 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 (loss), the components of net income (loss) and the components of other comprehensive income (loss) in a single continuous statement.

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.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") established Accounting Standards Codification ("ASC") Topic 842, Leases ("ASC 842"), by issuing Accounting Standards Update ("ASU") No. 2016-02 ("ASU 2016-02"). ASU 2016-02 was subsequently amended by ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements. The standard establishes a right-of-use ("ROU") model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. The Company adopted ASC 842 on December 31, 2019 using the optional transition method, which allows for the prospective application of the standard. The adoption of ASC 842 resulted in the recording of operating lease assets and operating lease liabilities of $0.6 million and $0.6 million, respectively, on our Consolidated Balance Sheet as of December 31, 2019. In addition, the Company recognized a transition adjustment of $57K to beginning retained earnings related to the impairment of newly recognized operating lease ROU assets (See note 4).

Accounting Pronouncements Not Yet Adopted

The Company has considered all recent accounting pronouncements and has concluded that there are no recent accounting pronouncements that may have a material impact on its Consolidated Financial Statements, based on current information.

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 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, 2018 and all future periods where the effect of the 2018 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.

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 warrants on one million shares of $130,000 issued with the debt facility at August 10, 2015 and the fair value of the additional warrants on two million shares 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 is being amortized over the term of the Loan and recognized as additional interest costs as amortized.

On November 14, 2019, the Company entered into an amended and restated credit agreement (the "Princess Investment Credit Agreement") with Princess Investment, which amended the existing Loan Aagreement, dated December

15, 2015, with Princess Investment to, among other things, reduce the interest rate from 11.5% per annum to 8.0% per annum after November 30, 2019, extend the maturity date of the loan to December 21, 2023 (the "Maturity Date"). Under the term and condition of the amended agreement, the Company borrowed an additional $700,000 through April 7, 2020.

At December 31, 2020, the Company had an outstanding principal balance of $4,262,040 under the Revolving Line of Credit, and approximately $1,737,959 remained in available borrowings under the Revolving Line of Credit as of December 31, 2020. Our debt is summarized below:

	2020
$6,000,000 revolving line of credit from related party and accrued interest payable per terms under Princess Investment Credit Agreement through maturity date of December 21, 2020; interest at a rate per annum of 8.5% as of December 31, 2020	$4,262,040
Less: Current portion	(390,000)
Revolving line of credit, net of debt discounts, deferred financing costs and current portion	$3,872,040

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

Years ending December 31,	**Amount**	**Principal**	**Interest**
2021	$745,490	$420,000	$325,490
2022	769,680	480,000	289,680
Total	$1,515,170	$900,000	$615,170

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

	2020
Revolving line of credit from related party	$353,750
Other interest expense/(income), net	19,291
Interest expense, net	$373,041

Debt

On May 3, 2020, the Company entered into a Paycheck Protection Program Promissory Note and Agreement (the "PPP Loan Agreement") with Celtic Bank Corporation under the Paycheck Protection Program ("PPP") established under the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") to receive loan proceeds of approximately $0.7 million (the "PPP Loan"), which the Company received on May 3, 2020. The PPP Loan matures on May 3, 2022 and bears interest at a fixed rate of 1.00% per annum, payable monthly. Monthly payments in the amount of $37,660 will be due and payable beginning at such time as is in accordance with the terms of the Paycheck Protection Flexibility Act of 2020 and continuing each month thereafter until maturity of the PPP Loan. There is no prepayment penalty. Under the terms of the PPP, all or a portion of the principal may be forgiven if the PPP Loan proceeds are used for qualifying expenses as described in the

CARES Act, such as payroll costs, benefits, rent, and utilities. No assurance is provided that the Company will obtain forgiveness of the PPP Loan in whole or in part. With respect to any portion of the PPP Loan that is not forgiven, the PPP Loan will be subject to customary provisions for a loan of this type, including customary events of default relating to, among other things, payment defaults and breaches of the provisions of the PPP Loan Agreement. The Company expects to apply for forgiveness of the PPP loan during the fiscal year ending December 31, 2021.

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 2017 Omnibus Stock Plan was approved by the Company's stockholders in 2018, and replaced the 2008 and 2007 Stock Incentive Plan. No awards were granted under the Omnibus Stock Plan during 2018.

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.

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 fair value of the warrants was recorded as additional paid in capital and reflected as stock option expense on the income statement. 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).

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
Employees and Directors		
Options outstanding - January 1, 2020	11,593,542	$ 0.12
Granted	450,000	$ 0.04
Exercised	-	$ -
Cancelled	(3,200,000)	$ 0.14
Options outstanding – December 31, 2020	8,843,542	$ 0.11
Non Employees		
Warrants outstanding – January 1, 2020	3,250,000	$ 0.18
Granted	-	$ -
Exercised	-	$ -
Cancelled	-	$ -
Warrants outstanding – December 31, 2020	3,250,000	$ 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.

	2020
Stock Options and Warrants	
Expected volatility	215%
Expected term (yrs)	6
Expected dividends	-
Risk-free rate	1.7%

A summary of the Company's stock option and warrants information as of December 31, 2020 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Intrinsic Value
Employees and Directors Stock Options				
At December 31, 2020				
Outstanding	8,843,542	$ 0.11	5.7	$ 54,500
Vested and expected to vest	8,199,920	$ 0.11	5.5	$ 48,064
Exercisable	6,277,917	$ 0.12	5.0	$ 28,844
Non-Employee Warrants				
At December 31, 2020				
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	$ -

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, 2020. 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, 2020.

The total grant date fair value of stock options and warrants that vested during the years ended December 31, 2020 was $66,090. Stock-based compensation expense for the years ended December 31, 2020 was $75,914.

There were approximately $72,147 of total unrecognized compensation costs related to non-vested stock options as of December 31, 2020. This cost is expected to be recognized over a weighted-average period of 2.6 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, 2020.

NOTE 4 - 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 842 "*Leases*," whereby the standard establishes a right-of-use ("ROU") model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement**.** On March 1, 2020, the Company entered into an amended lease agreement to extend the lease of the corporate office in Woodland Hills until October 21, 2030. The adoption of ASC 842 resulted in the recording of operating lease assets and operating lease liabilities of $2.3 million and $2.5 million, respectively, on our Consolidated Balance Sheet as of December 31, 2020.

The future minimum lease commitments at December 31, 2020, are approximately as follows:

Years Ended December 31,	Amount
2021	$623,584
2022	520,836
2023	498,158
2024 and after	2,474,259
Total minimum payments	$4,116,837

Total rental expense for the year ended December 31, 2020 was $895,044. Total expense for software as service license agreements for the years ended December 31, 2020, was $415,059.

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, 2020 amounted to $35,343.

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:

- 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 directors 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 5 - 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.

During the year ended December 31, 2020, the Company has mobilized all of its resources and strengths against COVID-19 to save lives. The Company supplied Personal Protected Equipment PPE products for health care providers, company employees, supermarkets, drug stores, medical facilities, doctors, and nurses. The Company generated $15.2 million in revenue and $3.4 million in gross margin for the year ended December 31, 2020.

For the years ended December 31, 2020, 2019 and 2018, the Company's three largest customers represented approximately 30%, 8%, and 11%, respectively, of consolidated net sales.

Three vendors, each representing more than 10% of the Company's purchases, accounted for approximately 34% of the Company's purchases for the year ended December 31, 2020, approximately 29% of the Company's purchases for the year ended December 31, 2019, and approximately 44% of the Company's purchases for the year ended December 31, 2018. 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, 2020 and 2019 is $870,958 and $1,644,125 due to these vendors, respectively.

NOTE 6 - SUBSEQUENT EVENTS

The Company has evaluated subsequent events after the consolidated balance sheet date of December 31, 2020 through the date of filing. Based upon its evaluation, management has determined that no subsequent events have occurred that would require recognition in the accompanying consolidated financial statements or disclosure in the notes thereto.