

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

Annual Report

For the period ending December 31, 2023 (the “Reporting Period”)

Outstanding Shares

The number of shares outstanding of our Common Stock was:

92,338,283 as of September 30, 2023

92,338,283 as of December 31, 2023

Shell Status

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933, Rule 12b-2 of the Exchange Act of 1934 and Rule 15c2-11 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: ☒

Change in Control

Indicate by check mark whether a Change in Control⁴ of the company has occurred during this reporting period:

Yes: ☐ No: ☒

⁴ “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.

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

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

Talon International, Inc.

Current State and Date of Incorporation or Registration: Delaware on September 30, 1997

Standing in this jurisdiction: (e.g. active, default, inactive): Active

Prior Incorporation Information for the issuer and any predecessors during the past five years:

None

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

None

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

None

Address of the issuer's principal executive office:

21900 Burbank Blvd., Suite 101, Woodland Hills, CA 91367

Address of the issuer's principal place of business:

☒ *Check 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?

No: ☒ Yes: ☐ If Yes, provide additional details below:

2) Security Information

Transfer Agent

Name: EQUINITI TRUST COMPANY, LLC

Phone: 718.921.8300 x6351

Email: admin5@equiniti.com

Address: 6201 15TH AVENUE, BROOKLYN, NY 11219

Publicly Quoted or Traded Securities:

The goal of this section is to provide a clear understanding of the share information for its publicly quoted or traded equity securities. Use the fields below to provide the information, as applicable, for all outstanding classes of securities that are publicly traded/quoted.

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: March 5, 2024
Total shares outstanding:	92,000,000 as of date: March 5, 2024
Total number of shareholders of record:	Above 573 as of date: March 5, 2024

Security Description:

The goal of this section is to provide a clear understanding of the material rights and privileges of the securities issued by the company. Please provide the below information for each class of the company's equity securities, as applicable:

1. **For common equity, describe any dividend, voting and preemption rights.**

N/A

2. **For preferred stock, describe the dividend, voting, conversion, and liquidation rights as well as redemption or sinking fund provisions.**

N/A

3. **Describe any other material rights of common or preferred stockholders.**

N/A

4. **Describe any material modifications to rights of holders of the company's securities that have occurred over the reporting period covered by this report.**

N/A

3) Issuance History

*The goal of this section is to provide disclosure with respect to each event that resulted in any 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 for the two most recently completed fiscal years and any subsequent period.

Indicate by check mark whether there were any changes to the number of outstanding shares within the past two completed fiscal years:

No: ☒ Yes: ☐ (If yes, you must complete the table below)

Shares Outstanding <u>Opening Balance</u> : Date: January 01, 2023 Common: 92,338,283 Preferred: None			*Right-click the rows below and select "Insert" to add rows as needed.						
Date of Transaction	Transaction type (e.g., new issuance, cancellation, shares returned to treasury)	Number of Shares Issued (or cancelled)	Class of Securities	Value of shares issued (\$/per share) at Issuance	Were the shares issued at a discount to market price at the time of issuance? (Yes/No)	Individual/ Entity Shares were issued to. ***You must disclose the control person(s) for any entities listed.	Reason for share issuance (e.g. for cash or debt conversion) - OR- Nature of Services Provided	Restricted or Unrestricted as of this filing.	Exemption or Registration Type.
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Shares Outstanding on Date of This Report: <u>Ending Balance</u> : Date December 31, 2023 Common: 92,338,283 Preferred: None									

Example: A company with a fiscal year end of December 31st 2023, in addressing this item for its Annual Report, would include any events that resulted in changes to any class of its outstanding shares from the period beginning on January 1, 2023 through December 31, 2023 pursuant to the tabular format above.

*****Control persons for any entities in the table above must be disclosed in the table or in a footnote here.**

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

None

B. Promissory and Convertible Notes

Indicate by check mark whether there are any outstanding promissory, convertible notes, convertible debentures, or any other debt instruments that may be converted into a class of the issuer's equity securities:

No: ☒ Yes: ☐ (If yes, you must complete the table below)

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. *** You must disclose the control person(s) for any entities listed.	Reason for Issuance (e.g. Loan, Services, etc.)
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____

***Control persons for any entities in the table above must be disclosed in the table or in a footnote here.

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

None

4) Issuer's Business, Products and Services

The purpose of this section is to provide a clear description of the issuer's current operations. Ensure that these descriptions are updated on the Company's Profile on www.OTCMarkets.com.

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. List any subsidiaries, parent company, 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 Bangladesh Ltd, A Bangladesh corporation, TALON TR TEKSTIL VE AKSESUAR TICARET İTHALAT İHRACAT A.Ş Company, a Turkish corporation, Talon Solution Mexico, a Mexico 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, 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.

5) Issuer's Facilities

The goal of this section is to provide investors 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. Describe the location of office space, data centers, principal plants, and other property of the issuer and describe the condition of the properties. Specify if the assets, properties, or facilities are owned or leased and the terms of their leases. If the issuer does not have complete ownership or control of the property, describe the limitations on the ownership.

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 2024 (*)
Dhaka, Bangladesh	Office	3,209	Lease expires in 2025 (*)
Ho Chi Minh City, Vietnam	Office	754	Lease expires in 2024 (*)
New Albany, Ohio	Office	1,000	Lease expires in 2024 (*)
Canoga Park, CA	Storage	2500	Lease expires in 2026 (*)

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

6) All Officers, Directors, and Control Persons of the Company

Using the table below, please provide information, as of the period end date of this report, regarding all officers and directors of the company, or any person that performs a similar function, regardless of the number of shares they own.

In addition, list all individuals or entities controlling 5% or more of any class of the issuer's securities.

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. Include Company Insiders who own any outstanding units or shares of any class of any equity security of the issuer.

The goal of this section is to provide investors 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 owners.

Names of All Officers, Directors, and Control Persons	Affiliation with Company (e.g. Officer Title /Director/Owner of 5% or more)	Residential Address (City / State Only)	Number of shares owned	Share type/class	Ownership Percentage of Class Outstanding
Kutula Holdings Ltd. (Graham Laine'-Sparks)	Owner of > 5%	Rotterdam, Netherlands	17,800,000	Common	19%
Patz Holdings Limited (Anthony Neumann)	Owner of > 5%	St. Peter, Port Guernsey	16,950,000	Common	18%
Princess Investment Holding Inc. (Anthony Neumann)	Owner of > 5%	Sherman Oaks, CA	9,172,122	Common	10%
Perttech Pty Limited (Kevin Bermeister)	Owner of > 5%	Alexandria, Sydney, Australia	8,333,333	Common	9%
Zipper Holdings LLC (Mark Dyne)	Owner of > 5%	Hidden Hills, CA	8,333,333	Common	9%
Larry Dyne	CEO	Calabasas, CA	7,598,947	Common	8%

Confirm that the information in this table matches your public company profile on www.OTCMarkets.com. If any updates are needed to your public company profile, log in to www.OTCIQ.com to update your company profile.

7) Legal/Disciplinary History

A. Identify and provide a brief explanation as to whether any of the persons or entities listed above in Section 6 have, in the past 10 years:

1. Been the subject of an indictment or conviction in a criminal proceeding or plea agreement or named as a defendant in a pending criminal proceeding (excluding minor traffic violations);

None

2. Been the subject of 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, financial- or investment-related, insurance or banking activities;

None

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

None

4. Named as a defendant or a respondent in a regulatory complaint or proceeding that could result in a "yes" answer to part 3 above; or

None

5. Been the subject 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

6. Been the subject of a U.S Postal Service false representation order, or a temporary restraining order, or preliminary injunction with respect to conduct alleged to have violated the false representation statute that applies to U.S mail.

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 to 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

8) Third Party Service Providers

Provide the name, address, telephone number and email address of each of the following outside providers. You may add additional space as needed.

Confirm that the information in this table matches your public company profile on www.OTCMarkets.com. If any updates are needed to your public company profile, update your company profile.

Securities Counsel (must include Counsel preparing Attorney Letters).

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

Accountant or Auditor

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

Investor Relations

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

All other means of Investor Communication:

X (Twitter): _____
Discord: _____
LinkedIn: _____
Facebook: _____
[Other]: _____

Other Service Providers

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), consultant(s) or any entity/individual that provided assistance or services to the issuer during the reporting period.

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

9) Disclosure & Financial Information

A. This Disclosure Statement was prepared by (name of individual):

Name: Michael Ho
Title: Corporate Controller
Relationship to Issuer: Employee

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

☐ IFRS
☒ U.S. GAAP

C. The following financial statements were prepared by (name of individual):

Name: Michael Ho

Title: Corporate Controller

Relationship to Issuer: Employee

Describe the qualifications of the person or persons who prepared the financial statements:⁵ CPA

Provide the following qualifying financial statements:

- Audit letter, if audited;
- Balance Sheet;
- Statement of Income;
- Statement of Cash Flows;
- Statement of Retained Earnings (Statement of Changes in Stockholders' Equity)
- Financial Notes

Financial Statement Requirements:

- Financial statements must be published together with this disclosure statement as one document.
- Financial statements must be "machine readable". Do not publish images/scans of financial statements.
- Financial statements must be presented with comparative financials against the prior FYE or period, as applicable.
- Financial statements must be prepared in accordance with U.S. GAAP or International Financial Reporting Standards (IFRS) but are not required to be audited.

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 Disclosure Statement for Talon International Inc.:
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.

March 05, 2024

/s/ Larry Dyne

Chief Executive Officer

⁵ The financial statements requested pursuant to this item must be prepared in accordance with US GAAP or IFRS and by persons with sufficient financial skills.

(Digital Signatures should appear as "/s/ [OFFICER NAME]")

Principal Financial Officer:

I, Michael Ho certify that:

1. I have reviewed this Disclosure Statement for Talon International Inc.;
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.

March 05, 2024

/s/ Michael Ho

Corporate Controller

(Digital Signatures should appear as "/s/ [OFFICER NAME]")

TALON INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2023
(Unaudited)

Assets	
Current assets:	
Cash and cash equivalents	\$ 7,130,900
Accounts receivable, net	2,809,837
Inventories, net	559,215
Prepaid expenses and other current assets	316,375
Total current assets	10,816,327
Property and equipment, net	792,718
Operating lease right-of-use assets	1,591,527
Intangible assets, net	4,620,115
Deferred income tax assets, net	2,609,287
Other assets	482,390
Total assets	<u>\$ 20,912,364</u>
Liabilities and Stockholders' Equity	
Current liabilities:	
Current portion of revolving line of credit from related party, net.....	330,000
Accounts payable	4,545,697
Accrued expenses	2,315,381
Current Portion operating lease liabilities.....	341,263
Total current liabilities	7,532,341
Revolving line of credit from related party, net of discounts and deferred financing costs	2,916,625
Operating lease liabilities, net of current portion	1,525,354
Other liabilities	197,988
Total liabilities	<u>\$ 12,172,308</u>
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, 2019 and December 31, 2018, respectively	92,338
Additional paid-in capital	65,721,813
Accumulated other comprehensive income	(313,901)
Accumulated deficit	(57,004,231)
Noncontrolling interests in consolidated subsidiaries.....	244,037
Total stockholders' equity	<u>8,740,056</u>
Total liabilities and stockholders' equity	<u>\$ 20,912,364</u>

See accompanying notes to consolidated financial statements.

TALON INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME / (LOSS)
YEAR ENDED DECEMBER 31, 2023
(Unaudited)

Net sales	\$ 29,427,067
Cost of goods sold	<u>19,293,922</u>
Gross profit	10,133,144
Sales and marketing expenses	3,962,800
General and administrative expenses	<u>6,255,193</u>
Total operating expenses	<u>10,217,994</u>
Income from operations	(84,850)
Interest expense, net	228,589
Income (loss) before provision for income taxes	(313,438)
Provision for income taxes	<u>611,327</u>
Net income (loss).....	<u>\$ (924,766)</u>
Basic and diluted net income (loss) per share	<u>(\$0.01)</u>
Weighted average number of common shares	
outstanding - Basic	<u>92,034,299</u>
Weighted average number of common shares	
outstanding - Diluted	<u>92,034,299</u>
Net income (loss).....	(924,766)
Less: Net income (loss) attributable to noncontrolling interests	(165,945)
Net Income (loss) attributable to parent.....	(758,821)
Other comprehensive income (loss) from	
foreign currency translation	<u>(25,244)</u>
Total comprehensive income (loss).....	<u>\$ (784,065)</u>

See accompanying notes to consolidated financial statements.

TALON INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2023
(Unaudited)

	Common Stock		Additional	Other	Accumulated	
	Shares	Amount	Paid-in	Comprehensive	Deficit	Total
			Capital	Income		
Balance at January 1, 2023.....	92,338,283	\$ 92,338	\$ 66,755,082	\$ (288,657)	\$ (56,829,895)	\$ 9,728,870
Stock based compensation and Dividends from Subsidiaries	-	-	(38,804)	-	-	(38,804)
Issuance of common stocks and warrants to related party subsidiaries..	-	-	-	-	-	-
Foreign currency translation.....	-	-	-	(25,244)	-	(25,244)
Exercise of stock options.....	-	-	-	-	-	-
Net Income (loss) attributable to parent.....	-	-	-	-	(758,821)	(758,821)
Net income (loss) attributable to noncontrolling interests.....	-	-	-	-	(165,945)	(165,945)
Balance at December 31, 2023.....	92,338,283	\$ 92,338	\$ 66,716,278	\$ (313,901)	\$ (57,754,660)	\$ 8,740,056

See accompanying notes to consolidated financial statements.

TALON INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2023
(Unaudited)

Cash flows from operating activities:

Net income (loss).....	\$ (924,766)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:	
Depreciation and amortization	294,178
Stock based compensation	(38,804)
Deferred income taxes, net	(98,754)
Change in provision for bad debt.....	14,688
Inventory valuation provisions (recoveries), net	(19,930)
Changes in operating assets and liabilities:	
Accounts receivable	427,660
Inventories	107,622
Prepaid expenses and other current assets	42,258
Other assets.	153,564
Accounts payable and accrued expenses	(1,263,550)
Other liabilities	(60,335)
Operating lease assets and liabilities, net.....	(5,782)
Net cash provided by (used in) operating activities	<u>(1,371,951)</u>

Cash flows from investing activities:

Acquisitions of property and equipment	(115,600)
Acquisitions of intangibles assets.....	<u>(143,010)</u>
Net cash used in investing activities	<u>(258,610)</u>

Cash flows from financing activities:

Revolving line of credit from related party borrowings.....	<u>(115,415)</u>
Net cash used in financing activities	<u>(115,415)</u>
Net effect of foreign currency exchange translation on cash	(25,245)
Net increase (decrease) in cash and cash equivalents	(1,745,976)
Cash and cash equivalents at beginning of period	<u>8,902,121</u>
Cash and cash equivalents at end of period	<u>\$ 7,130,900</u>

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 Bangladesh Ltd, A Bangladesh corporation, TALON TR TEKSTIL VE AKSESUAR TICARET İTHALAT İHRACAT A.Ş Company, a Turkish corporation, Talon Solution Mexico, a Mexico 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 2023, 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.

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 on December 31, 2023 was \$123,212.

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:

	<u>December 31, 2023</u>
Inventory - Raw Material	\$ 130,701
Finished goods	528,445
Less: Inventory valuation reserves	(99,931)
Inventories, net.....	<u>\$ 559,215</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 on December 31, 2023, 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:

	December 31, 2023	Depreciable Life In Years (1)
Office equipment and computer related.....	\$ 3,406,398	3 - 5
Machinery and production related equipment.....	1,933,173	5 - 10
Leasehold improvements (2).....	312,500	
Furniture and fixtures.....	410,095	5
Total cost.....	6,062,167	
Less: Accumulated depreciation and amortization.....	(5,269,448)	
Property and equipment, net.....	<u>\$ 792,718</u>	

- (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, 2023 was \$268,737.

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, 2023, 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, 2023, the Company made a \$137,000 investment in intellectual property rights.

Intangible assets as of December 31, 2023 are as follows:

Tradename - Talon trademark	\$	4,110,751
Intellectual property rights and exclusive license		844,573
Less: Accumulated amortization (10 to 17 years)		(335,208)
Intellectual property rights, net		509,364
Intangible assets, net	\$	<u>4,620,115</u>

Amortization expense for intangible assets for the year ended December 31, 2023 was \$25,441.

Accrued Expenses

Accrued expenses consist of the following at:

		<u>December 31, 2023</u>
Accrued payroll and related expenses.....	\$	531,560
Accrued commissions.....		261,249
Accrued rebates.....		386,711
Taxes payable.....		(39,962)
Accrued expenses.....		314,332
Other.....		861,491
Total accrued expenses.....	\$	<u>2,315,381</u>

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 the 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 are 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 the 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 achieved 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 adjusts 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 2023 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, Vietnam, Turkey, Mexico, Bangladesh 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, 2023 was \$270,709. Interest income of \$63,612 for the year ended December 31, 2023 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, Bangladesh, Turkey, Mexico 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 on 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 8%. 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 on 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 Agreement, 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.

On December 21, 2023, the Company entered into an amended and restated credit agreement (the “Princess Investment Credit Agreement”) with Princess Investment, which amended the existing amended Loan Agreement, dated December 21, 2023, with Princess Investment to, among other things, extend the maturity date of the loan to December 21, 2026 (the “Maturity Date”). Under the term and condition of the amended agreement, no principal amounts on the Line of Credit Loan shall be payable during 2024. On each Interest Payment Date (the end of each calendar month) commencing in 2025 and continuing until the Interest Payment Date immediately preceding the Stated Maturity Date, payments of \$50,000.00 of principal shall be due. The entire balance of unpaid principal, plus all accrued but unpaid interest thereon and all other non-contingent Obligations due and owing thereunder, shall be due and payable in full in a single payment in immediately available funds, on the Stated Maturity Date.

On December 31, 2023, the Company had an outstanding principal balance of \$3,246,625 under the Revolving Line of Credit, and approximately \$2,753,375 remained in available borrowings under the Revolving Line of Credit as of December 31, 2023. Our debt is summarized below:

	<u>December 31, 2023</u>
\$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, 2026; interest at a rate per annum of 8% as of December 31, 2023.....	3,246,625
Less: Current portion	<u>(330,000)</u>
Revolving line of credit, net of debt discounts, deferred financing costs and current portion	<u>\$ 2,916,625</u>

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

Year ending December 31,	Amount	Principal	Interest
2023	\$ 357,938	\$ 150,000	\$ 207,938
2024	294,853		294,853
Total	<u>\$ 652,790</u>	<u>\$ 150,000</u>	<u>\$ 502,790</u>

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

	December 31, 2023
Revolving line of credit from related party.....	270,709
Other interest expense/(income), net	(42,121)
Interest expense, net	<u>\$ 228,589</u>

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. All 3,250,000 warrants were expired as of December 31, 2023.

On December 19, 2019, the Company issued warrants to purchase 167,324 shares of the subsidiary Stegvison's common stock to an outside services company Originate Inc. The warrants are exercisable immediately upon issuance for a ten-year period at an exercise price of \$0.01 per share.

On January 24, 2020, the Company issued warrants to purchase 55,775 shares of the subsidiary Stegvison's common stock to an outside services company Originate Inc. The warrants are exercisable immediately upon issuance for a ten-year period at an exercise price of \$0.87 per share.

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, 2023.....	11,200,000	\$ 0.13
Granted	25,000	0.91
Exercised	-	-
Cancelled	(800,000)	\$ 0.14
Expired	(300,000)	\$ 0.28
Options outstanding – December 31, 2023.....	<u>10,125,000</u>	\$ 0.13
Granted	223,099	0.23
Exercised	-	-
Cancelled	-	-
Warrants outstanding – December 31, 2023.....	<u>223,099</u>	\$ 0.23

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.

A summary of the Company's stock option and warrants information as of December 31, 2023 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, 2023				
Outstanding.....	10,125,000	\$ 0.13	3.6	\$ 432,582
Vested and expected to vest.....	9,825,000	\$ 0.10	3.4	\$ 432,238
Exercisable.....	10,291,849	\$ 0.12	3.6	\$ 432,238
<i>Non-Employee Warrants</i>				
At December 31, 2023				
Outstanding.....	223,099	\$ 0.23	6.0	143,832
Vested and expected to vest.....	223,099	\$ 0.23	6.0	143,832
Exercisable.....	223,099	\$ 0.23	6.0	143,832

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, 2023. 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 on December 31, 2023.

The total grant date fair value of stock options and warrants that vested during the years ended December 31, 2023, was \$6,601. Stock-based compensation expense for the years ended December 31, 2023, was \$6,660.

There were approximately \$156 of total unrecognized compensation costs related to non-vested stock options as of December 31, 2023. This cost is expected to be recognized over a weighted-average period of 0.07 years.

Restricted Stock Units (RSU's)

There were no outstanding RSU's and no unamortized stock-based compensation expense related to RSU's as of December 31, 2023.

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 2023. 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 \$1.6 million and \$1.9 million, respectively, on our Consolidated Balance Sheet as of December 31, 2023.

The future minimum lease commitments at December 31, 2023, are approximately as follows:

Year Ended December 31,	Amount
2023.....	669,722
2024.....	653,387
2025 and after.....	2,445,318
Total minimum payments.....	<u>\$ 3,768,427</u>

Total rental expense for the year ended December 31, 2023 was \$659,000. Total expense for software as service license agreements for the years ended December 31, 2023, was \$691,000.

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.

For the years ended December 31, 2023, 2022 and 2021, the Company's three largest customers represented approximately 13%, 27%, and 16%, respectively, of consolidated net sales.

Three vendors, each representing more than 4% of the Company's purchases, accounted for approximately 24% of the Company's purchases for the year ended December 31, 2023, approximately 24% of the Company's purchases for the year ended December 31, 2022, and approximately 36% of the Company's purchases for the year ended December 31, 2021. 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, 2023 and 2022 is \$468,691 and \$748,344 due to these vendors, respectively.

NOTE 6 - SUBSEQUENT EVENTS

The Company has evaluated subsequent events after the consolidated balance sheet date of December 31, 2023 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.