

TALON INTERNATIONAL, INC.  
Form PRE 14A  
September 06, 2013  
**SCHEDULE 14A**  
**(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**  
**Proxy Statement Pursuant to Section 14(a) of the Securities**  
**Exchange Act of 1934**

Filed by the Registrant  
Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, For Use of the Commission Only

Definitive Proxy Statement(as permitted by Rule 14a-6(e)(2))

Definitive Additional Materials

Soliciting Material Pursuant to Rule  
14a-12

TALON INTERNATIONAL, INC.  
(Name of Registrant)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No Fee Required  
Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transactions applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing party:

(4) Date Filed:

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TALON INTERNATIONAL, INC.

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NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

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TIME 3:00 p.m. Pacific Daylight Time on October 18, 2013

PLACE TALON INTERNATIONAL, INC.  
Corporate Conference Center  
21900 Burbank Boulevard, Suite 270  
Woodland Hills, California 91367

ITEMS OF BUSINESS

- (1) To approve an amendment to the Company's Certificate of Incorporation to increase the number of shares of common stock authorized to be issued by the Company from 100,000,000 to 300,000,000;
- (2) To approve an amendment to the Company's Certificate of Incorporation to allow for a reverse split of our outstanding shares of common stock as described in the enclosed proxy statement;
- (3) To approve an amendment to the Amended and Restated Talon International, Inc. 2008 Stock Incentive Plan to increase the maximum number of shares of common stock that may be issued pursuant to awards granted under the plan from 4,810,000 to 15,000,000 shares of common stock; and
- (4) To transact such other business as may properly come before the Special Meeting and any adjournment or postponement.

RECORD DATE You can vote if you were a stockholder of the Company at the close of business on September 9, 2013.

PROXY VOTING All stockholders are cordially invited to attend the Special Meeting in person. However, to ensure your representation at the Special Meeting, you are urged to vote promptly by signing and returning the enclosed Proxy card. **If your shares are held in street name, you must obtain a proxy (a "Proxy"), executed in your favor, from the holder of record in order to be able to vote at the Special Meeting.**

Woodland Hills, California /s/ Lonnie D. Schnell  
September 6, 2013 Lonnie D. Schnell  
Chief Executive Officer

ATTACHED PROXY STATEMENT IS AVAILABLE AT

**[WWW.TALONZIPPERS.COM/CORPORATE/INVESTORS/](http://WWW.TALONZIPPERS.COM/CORPORATE/INVESTORS/)**

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

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**TALON INTERNATIONAL, INC.  
21900 BURBANK BOULEVARD, SUITE 270  
WOODLAND HILLS, CALIFORNIA 91367**

***PROXY STATEMENT***

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These Proxy materials are being delivered in connection with the solicitation by the board of directors (the “Board” or the “Board of Directors”) of Talon International, Inc., a Delaware corporation (“Talon,” the “Company,” “we,” or “us”), of Proxies to be voted at a special meeting of the Company’s stockholders (the “Special Meeting”) and at any adjournments or postponements.

You are invited to attend our Special Meeting on October 18, 2013, beginning at 3:00 p.m. Pacific Daylight Time. The meeting will be held at our Corporate Conference Center located at 21900 Burbank Boulevard, Suite 270, Woodland Hills, California 91367.

**Stockholders Entitled to Vote**

Holders of our common stock (the “Common Stock”) at the close of business on September 9, 2013 are entitled to receive this notice and to vote their shares at the Special Meeting. As of September 9, 2013, there were 91,913,217 shares of Common Stock entitled to vote, which are the only securities entitled to vote at the Special Meeting.

**Mailing of Proxy Statements**

We anticipate mailing this proxy statement and the accompanying Proxy to stockholders on or about September 23, 2013.

**Proxies**

Your vote is important. If your shares are registered in your name, you are a stockholder of record. If your shares are in the name of your broker or bank, your shares are held in street name. We encourage you to vote by Proxy so that

your shares will be represented and voted at the meeting even if you cannot attend. All stockholders can vote by written Proxy card. Your submitting the enclosed Proxy will not limit your right to vote at the Special Meeting if you later decide to attend in person. If your shares are held in street name, you must obtain a Proxy, executed in your favor, from the holder of record in order to be able to vote at the Special Meeting. If you are a stockholder of record, you may revoke your Proxy at any time before the meeting either by filing with our Secretary, at its principal executive office, a written notice of revocation or a duly executed Proxy bearing a later date, or by attending the Special Meeting and expressing a desire to vote your shares in person. All shares entitled to vote and represented by properly executed Proxies received prior to the Special Meeting, and not revoked, will be voted at the Special Meeting in accordance with the instructions indicated on those Proxies. If no instructions are indicated on a properly executed Proxy, the shares represented by that Proxy will be voted as recommended by the Board of Directors.

## **Quorum**

The presence, in person or by Proxy, of a majority of the votes entitled to be cast by the stockholders entitled to vote at the Special Meeting is necessary to constitute a quorum. Abstentions and broker non-votes will be included in the number of shares present at the Special Meeting for determining the presence of a quorum. Broker non-votes occur when a broker holding customer securities in street name has not received voting instructions from the customer on certain non-routine matters, and, therefore, is barred by the rules of the applicable securities exchange from exercising discretionary authority to vote those securities.

**Voting**

Each share of Common Stock is entitled to one vote on each matter properly brought before the Special Meeting. Abstentions will be counted toward the tabulation of votes cast on proposals submitted to stockholders and will have the same effect as negative votes, while broker non-votes will not be counted as votes cast for or against such matters.

***PROPOSAL NUMBER 1: APPROVAL OF AMENDMENT TO THE CERTIFICATE OF INCORPORATION***

The Board of Directors is requesting stockholder approval of an amendment to the Company's Certificate of Incorporation to increase the number of shares of Common Stock authorized for issuance from 100,000,000 to 300,000,000.

The additional shares of Common Stock would become part of the existing class of Common Stock, and the additional shares, when issued, would have the same rights and privileges as the shares of Common Stock now issued. There are no preemptive rights relating to the Common Stock.

The Company's Certificate of Incorporation presently authorizes the issuance of 100,000,000 shares of Common Stock and 3,000,000 shares of Preferred Stock, each having a par value of \$0.001 per share. Of the 100,000,000 presently authorized shares of Common Stock, 91,913,217 shares were issued and outstanding on September 9, 2013, the record date for the Special Meeting. An aggregate of 7,340,300 shares of Common Stock have been reserved for issuance as of the record date pursuant to outstanding options and RSUs and an additional 1,185,625 shares remain available for issuance pursuant to the Company's 2008 Plan. In addition, pursuant to this Proxy Statement, the Company is seeking stockholder approval to amend the Company's 2008 Plan to increase the number of authorized shares by 10,190,000. The Board of Directors considers it advisable to have additional shares available for issuance under the Company's employee benefit plans, for possible future stock dividends or stock splits and for other corporate purposes. In addition, the Board of Directors believes it is desirable that the Company has the flexibility to issue shares of Common Stock without further stockholder action, except as required by law. The Board of Directors has unanimously adopted a resolution setting forth the following proposed amendment to the Company's Certificate of Incorporation pursuant to which the first paragraph of Article IV of the certificate will be amended to read in its entirety as follows:

“This Corporation is authorized to issue two classes of shares, designated, respectively, “Preferred Stock” and “Common Stock.” Each class of stock shall have a par value of \$.001 per share. The number of shares of Preferred Stock authorized to be issued is 3,000,000 and the number of shares of Common Stock authorized to be issued is **300,000,000.**”

The only change in Article IV which will be affected if the proposal is approved is the change to the one number set forth in bold face type above. Presently, Article IV provides that the shares of Common Stock which the Company may issue is 100,000,000. All other provisions of Article IV will remain unchanged.





**Certain Effects of the Amendment.**

If this amendment is adopted, the additional shares of Common Stock may be issued by direction of the Board of Directors at such times, in such amounts and upon such terms as the Board of Directors may determine, without further approval of the stockholders unless, in any instance, such approval is expressly required by regulatory agencies or otherwise. The proposal to increase the authorized capital of the Company may affect the rights of existing holders of Common Stock to the extent that future issuances of Common Stock reduce each existing shareholder's proportionate ownership and voting rights in the Company. In addition, possible dilution caused by future issuances of Common Stock could lead to a decrease in the Company's net income per share in future periods and a resulting decline in the market price of the Company's Common Stock. The issuance of such additional shares might be disadvantageous to current stockholders in that any additional issuances would potentially reduce per share dividends, if any. Stockholders should consider, however, that the possible impact upon dividends is likely to be minimal in view of the fact that the Company has never paid dividends, has never adopted any policy with respect to the payment of dividends and does not intend to pay any cash dividends in the foreseeable future. It is not anticipated that adoption of the amendment would have any other effect on the holders of the Company's Common Stock. The adoption of the amendment will not of itself cause any change in the capital accounts of the Company.

*Anti-Takeover Provisions.*

We are not introducing this proposal with the intent that it be utilized as a type of anti-takeover device. However, the ability of the Board of Directors to issue additional shares of common stock without additional stockholder approval may be deemed to have an anti-takeover effect because unissued shares of common stock could be issued by the Board of Directors in circumstances that may have the effect of deterring takeover bids. For example, without further stockholder approval, the Board of Directors could strategically sell shares of common stock in a private transaction to purchasers who would oppose a takeover. In addition, because stockholders do not have preemptive rights under the Certificate of Incorporation, the rights of existing stockholders may be diluted by any such issuance and increase the potential cost to acquire control of the Company. Although the Board of Directors is motivated by business and financial considerations in proposing this amendment, and not by the threat of any attempt to accumulate shares or otherwise gain control of the Company, stockholders should nevertheless be aware that approval of the amendment could facilitate efforts by the Company to deter or prevent changes of control in the future. The Board of Directors does not intend to issue any additional shares of common stock except on terms that it deems to be in the best interest of the Company and its stockholders.

The following is a description of other anti-takeover provisions in our charter documents and other agreements. We have no current plans or proposals to enter into any other arrangement that could have material anti-takeover consequences:

*Certificate of Incorporation.* Our Certificate of Incorporation allows our Board of Directors to issue up to 3,000,000 shares of preferred stock and to determine the price, rights, preferences and privileges of those shares without any further vote or action by our stockholders. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. Issuance of preferred stock, while providing desired flexibility in connection with possible acquisitions and other corporate purposes, could make it more difficult for a third party to acquire a majority of our outstanding voting stock. We have no current plans to issue shares of preferred stock.

*Delaware Law.* In addition, the Company is subject to the anti-takeover provisions of Section 203 of Delaware General Corporation Law, which prohibit us from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in the prescribed manner. The application of Section 203 may have the effect of delaying or preventing changes in control of our management, which could adversely affect the market price of our common stock by discouraging or preventing takeover attempts that might result in the payment of a premium price to our stockholders.

#### **Effective Date of the Authorized Share Increase.**

If the Amendment is approved by the requisite vote of our stockholders, the increase in the authorized shares of Common Stock will be effective upon the close of business on the date of filing of the Certificate Amendment with the Delaware Secretary of State, which filing is expected to take place shortly after the Special Meeting. However, the exact timing of the filing of the Certificate Amendment will be determined by the Board of Directors based upon its evaluation as to when such action will be most advantageous to our stockholders, and the Board of Directors reserves the right to delay filing the Amendment for up to twelve months following stockholder approval thereof. In addition, the Board of Directors reserves the right, notwithstanding stockholder approval and without further action by the stockholders, to elect not to proceed with the Amendment if, at any time prior to filing the Certificate of Amendment, the Board of Directors, in its sole discretion, determines that it is no longer in the best interests of the Company and the stockholders. If this proposal is not approved by the stockholders, then the Certificate of Amendment will not be filed.

#### **Required Vote and Board Recommendation**

The approval of this amendment to the Certificate of Incorporation will require the affirmative vote of a majority of the outstanding shares of Common Stock as of the record date.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE “FOR” THE APPROVAL OF THE AMENDMENT TO THE COMPANY’S CERTIFICATE OF INCORPORATION.**

***PROPOSAL NUMBER 2: APPROVAL OF AN AMENDMENT TO OUR CERTIFICATE OF INCORPORATION TO ALLOW FOR A REVERSE STOCK SPLIT***

The Board of Directors has approved an amendment to our Certificate of Incorporation, as amended (the “Certificate of Incorporation”) to allow for a reverse stock split of all our outstanding shares of common stock at a ratio within a range of 1-for-1.5 to 1-for-20. The Board of Directors is submitting the proposed amendment to the stockholders for approval at the Special Meeting.

If this proposal is approved, the Board of Directors will have the authority to determine, within twelve months from the Special Meeting, whether to implement a reverse stock split and the exact amount of the reverse stock split within the range noted.. If the Board of Directors determines to implement the reverse stock split, it will become effective after filing the amendment to the Certificate of Incorporation with the Secretary of State of the State of Delaware. The Board’s determination if and when to affect a reverse split, and at what ratio, will be based upon many factors, including existing and expected marketability and liquidity of our shares of common stock, prevailing market trends and conditions and the likely effect of the reverse stock split on the market price of our shares of common stock. If the reverse split is implemented, the number of issued and outstanding shares of common stock would be reduced in accordance with the exchange ratio selected by Board of Directors.

If Proposal Number 1 of this Proxy is approved by the stockholders and effectuated by the Board of Directors, then if the reverse stock split is also approved and implemented, the number of authorized shares of Common Stock will be reduced in the same ratio as the reverse stock split. In this case, the bracketed language in the text of the amendment below (or similar language) will be included in the amendment.

In the event however, the Proposal Number 1 of this Proxy is not approved, or has not been effectuated by the Board at the time of implementing the reverse stock split, the reverse stock split would not affect the number of authorized shares of common stock as designated by our Certificate of Incorporation.

The Board of Directors has unanimously adopted a resolution setting forth the following proposed amendment to the Company’s Certificate of Incorporation pursuant to which the following new paragraph shall be inserted immediately following the first paragraph of Article IV:

“ Without regard to any other provision of this Certificate of Incorporation, each one (1) share of Common Stock, either issued and outstanding or held by the Corporation as treasury stock[, and the number of total shares of the Common Stock the Corporation is authorized to issue], immediately prior to the time this amendment becomes effective shall be and is hereby automatically reclassified and changed (without any further act) into \_\_\_\_\_ (\_\_\_\_\_) of a fully-paid and nonassessable share of Common Stock, without increasing or decreasing the amount of stated

capital or paid-in surplus of the Corporation, provided that no fractional shares shall be issued to any holder of fewer than \_\_\_ shares of Common Stock immediately prior to the time this amendment becomes effective, and that instead of issuing such fractional shares, the Corporation shall pay in cash the fair value of such fractions of a share as of the time when this amendment becomes effective.”

The text of the amendment included above is, however, subject to amendment to reflect the ratio selected by our Board of Directors within the approved range, and to reflect any changes that may be required by the office of the Secretary of State of the State of Delaware or that the Board of Directors may determine to be necessary or advisable ultimately to comply with applicable law and to effect the reverse stock split.

### **Purpose of a Reverse Stock Split**

The purpose for seeking approval to provide for a reverse stock split is to increase the market price per share of our common stock. We believe that the increased market price of our common stock expected as a result of implementing a reverse stock split will improve the marketability and liquidity of our common stock and will encourage interest and trading in our common stock. Because of the trading volatility often associated with low-priced stocks, many brokerage houses and institutional investors have internal policies and practices that either prohibit them from investing in low-priced stocks or tend to discourage individual brokers from recommending low-priced stocks to their customers. Some of those policies and practices may function to make the processing of trades in low-priced stocks economically unattractive to brokers. Additionally, because brokers' commissions on low-priced stocks generally represent a higher percentage of the stock price than commissions on higher-priced stocks, the current average price per share of our common stock can result in individual stockholders paying transaction costs representing a higher percentage of their total share value than would be the case if the share price were substantially higher. It should be noted, however, that the liquidity of our common stock may in fact be adversely affected by a reverse stock split given the reduced number of shares that would be outstanding and available for trading after a reverse stock split.

The purpose of seeking stockholder approval for a range of exchange ratios from 1-for-1.5 to 1-for-20 (rather than a fixed exchange ratio) is to provide us with the flexibility to achieve the desired results of a reverse stock split. If the stockholders approve this proposal, the Board of Directors would be able to implement a reverse stock split upon its determination that it would be in our best interests at that time. If the Board of Directors were to effect a reverse stock split, the Board of Directors would set the timing for the reverse stock split and select the specific ratio within the range of ratios described in this proxy statement. No further action on the part of stockholders would be required to either implement or approve the reverse stock split. If the stockholders approve the proposal, and the Board of Directors determines to effect the reverse stock split, we would communicate to the public, prior to the effective date, additional details regarding the reverse split, including the specific ratio selected by the Board of Directors. If the Board of Directors does not implement the reverse stock split within twelve months from the Special Meeting, the authority granted in this proposal will terminate. The Board of Director reserves its right to elect not to proceed with the reverse stock split if it determines, in its sole discretion, that this proposal is no longer in our best interests.

For the above reasons, we believe that having the ability to effect the reverse stock split will help us improve the marketability and liquidity of our common stock, and is therefore in the best interests of the Company and our stockholders. However, we cannot assure you that the reverse stock split will have the desired effect of proportionately raising our common stock price over the long term, or at all. The effect of a reverse split upon the market price of our common stock cannot be predicted with any certainty, and the history of similar stock splits for companies in similar circumstances to ours is varied. The market price of our common stock may vary based on other factors which are unrelated to the number of shares outstanding, including our future performance.

### Principal Effects of a Reverse Stock Split

*Common Stock Holdings.* If this proposal to amend the Certificate of Incorporation to allow for a reverse stock split is approved and effectuated, a certificate of amendment to the Certificate of Incorporation will be filed with the Secretary of State of the State of Delaware. Each issued share of common stock immediately prior to the effective time of the reverse stock split will automatically be changed, as of the effective time of the reverse stock split, into a fraction of a share of common stock based on the exchange ratio determined by the Board of Directors. In addition, proportional adjustments will be made to the maximum number of shares issuable under, and other terms of, our stock plans, as well as to the number of shares issuable under, and the exercise price of, our outstanding options and warrants.

Because the reverse stock split would apply to all of our issued shares of common stock, the proposed reverse stock split would not alter the relative rights and preferences of existing stockholders nor affect any stockholder's proportionate equity interest in the Company, except to the extent the reverse stock split results in any of the stockholders owning a fractional share.

The following table sets forth the approximate percentage reduction in our outstanding shares of common stock and the approximate number of shares of common stock that would be outstanding as a result of the reverse stock split at various ratios that the Board of Directors may determine in its discretion, based on 91,913,217 shares of our common stock issued and outstanding as of September 9, 2013. The number of authorized shares after the reverse stock split set forth below assumes that Proposal Number 1 of this Proxy Statement requesting the number of authorized shares of the Company's common stock be increased to 300,000,000 was approved and effectuated by the Board of Directors:

<b>Proposed Reverse Stock Split Ratio</b>	<b>Percentage Reduction Shares Outstanding Authorized Shares</b>		
	<b><u>In Outstanding</u> Shares</b>	<b><u>After Reverse Stock</u></b>	<b><u>after Reverse Stock</u></b>
1-for-1.5	33%	61,275,478	200,000,000
1-for-2	50%	45,956,608	150,000,000
1-for-3	67%	30,637,739	100,000,000
1-for-4	75%	22,978,304	75,000,000
1-for-5	80%	18,382,643	60,000,000
1-for-6	83%	15,318,869	50,000,000
1-for-7	86%	13,130,459	42,857,142
1-for-8	88%	11,489,152	37,500,000
1-for-9	89%	10,212,579	33,333,333
1-for-10	90%	9,191,321	30,000,000
1-for-11	91%	8,355,747	27,272,727
1-for-12	92%	7,659,434	25,000,000



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1-for-13	92%	7,070,247	23,076,923
1-for-14	93%	6,565,229	21,428,571
1-for-15	93%	6,127,547	20,000,000
1-for-16	94%	5,744,576	18,750,000
1-for-17	94%	5,406,659	17,647,058
1-for-18	94%	5,106,289	16,666,666
1-for-19	95%	4,837,537	15,789,473
1-for-20	95%	4,595,660	15,000,000

\* Approximate; does not account for elimination of fractional shares.

Stockholders should note that it is not possible to accurately predict the effect of the reverse stock split on the market prices for the shares of common stock, and the history of reverse stock splits is varied. In particular, there is no assurance that the price per share of common stock after the reverse stock split will increase in an amount proportionate to the decrease in the number of issued and outstanding shares, or will increase at all. In addition, there can be no assurance that the market price of the shares of common stock immediately after the reverse stock split will be maintained for any period of time. Even if an increased share price can be maintained, the reverse stock split may not achieve some or all of the other desired results summarized above. Further, because some investors may view the reverse stock split negatively, there can be no assurance that approval of this proposal or the actual implementation of the reverse stock split would not adversely affect the market price of the shares of common stock.

*“Public Company” Status.* Our shares of common stock are currently registered under Section 12(g) of the Securities Exchange Act of 1934, as amended (the Exchange Act), and we are subject to the “public company” periodic reporting and other requirements of the Exchange Act. The proposed reverse stock split will not affect our status as a public company or this registration under the Exchange Act. The reverse stock split is not intended as, and will not have the effect of, a “going private transaction” covered by Rule 13e-3 under the Exchange Act.

*Odd Lot Transactions.* It is likely that some of our stockholders will own “odd-lots” of less than 100 shares following a reverse stock split. A purchase or sale of less than 100 shares (an “odd lot” transaction) may result in incrementally higher trading costs through certain brokers, and generally may be more difficult than a “round lot” sale. Therefore, those stockholders who own less than 100 shares following a reverse stock split may be required to pay somewhat higher transaction costs and may experience some difficulties or delays should they then determine to sell their shares of common stock.

*Authorized but Unissued Shares; Potential Anti-Takeover Effects.* Our Certificate of Incorporation presently authorizes 100,000,000 shares of common stock and 3,000,000 preferred shares. If the proposal to increase the number of the Company’s authorized shares of common stock to 300,000,000 is approved by the stockholders and effectuated by the Board of Directors, then the number of authorized shares of common stock will be reduced by the ratio of the reverse stock split and the number of shares remaining available for issuance by us in the future would remain the same. However, if the number of authorized shares of the Company’s common stock has not been increased to 300,000,000 at the time of the reverse stock split, the reverse stock split would not change the number of authorized shares of common stock or preferred shares as designated by our Certificate of Incorporation. Therefore, because the number of issued and outstanding shares of common stock would decrease, the number of shares remaining available for issuance by us in the future would increase.

These additional shares would be available for issuance from time to time for corporate purposes such as issuances of shares of common stock in connection with capital-raising transactions and acquisitions of companies or other assets, as well as for issuance upon conversion or exercise of securities such as convertible preferred shares, convertible debt, warrants or options convertible into or exercisable for shares of common stock. We believe that the availability of the additional shares will provide us with the flexibility to meet business needs as they arise, to take advantage of favorable opportunities and to respond effectively in a changing corporate environment. For example, we may elect to

issue shares of common stock to raise equity capital, to make acquisitions through the use of stock, to establish strategic relationships with other companies, to adopt additional employee benefit plans or reserve additional shares for issuance under such plans, where the Board of Directors determines it advisable to do so, without the necessity of soliciting further stockholder approval, subject to applicable stockholder vote requirements under Delaware corporation law. If we issue additional shares for any of these purposes, the aggregate ownership interest of our current stockholders, and the interest of each such existing stockholder, would be diluted, possibly substantially. Although we continually examine these potential favorable opportunities as they arise, we have no current plans or arrangements to issue any additional shares of common stock, except in connection with compensation matters in the ordinary course.

Assuming the number of shares of common stock immediately prior to the reverse stock split remained at 100,000,000, the additional shares of common stock that would become available for issuance upon an effective reverse stock split, could also be used by us to oppose a hostile takeover attempt or delay or prevent a change of control or changes in or removal of our management, including any transaction that may be favored by a majority of our stockholders or in which our stockholders might otherwise receive a premium for their shares over then-current market prices or benefit in some other manner. For example, without further stockholder approval, the Board of Directors could strategically sell shares of common stock in a private transaction to purchasers who would oppose a takeover or favor our current Board of Directors. Although the increased proportion of authorized but unissued shares to issued shares could, under certain circumstances, have an anti-takeover effect, the reverse stock split is not being proposed in order to respond to a hostile takeover attempt or to an attempt to obtain control of the Company.

### **Criteria to be Used for Decision to Apply the Reverse Stock Split**

If the stockholders approve Proposal Number 2 of this Proxy, the Board of Directors will be authorized to proceed with a reverse stock split in their sole determination. In determining whether to proceed with the reverse split and setting the exact amount of split, if any, the Board of Directors will consider a number of factors, including market conditions, existing and expected trading prices of our shares of common stock, our additional funding requirements and the amount of our authorized but unissued shares of common stock.

### **Fractional Shares**

No fractional shares of common stock will be issued as a result of any effectuated reverse stock split. In lieu of issuing fractional shares, we will pay each stockholder who would otherwise have been entitled to a fraction of a share an amount in cash equal to the closing sales price of the shares of common stock, as quoted on the OTCQB on the effective date of the reverse stock split, multiplied by the fractional share amount. The number of shares which will result in fractional interests cannot be precisely predicted, as we cannot determine in advance the number of stockholders whose total holdings will not be evenly divisible by the applicable ratio at which the reverse stock split may be implemented.

### **No Dissenters' Rights**

Under Delaware law, our stockholders would not be entitled to dissenters' rights or rights of appraisal in connection with the implementation of the reverse stock split, and we will not independently provide our stockholders with any such rights.



## **Certain United States Federal Income Tax Consequences**

The following is a summary of certain United States federal income tax consequences of the reverse stock split. It does not address any state, local or foreign income or other tax consequences, which may vary significantly depending upon the jurisdiction and the status of the stockholder/taxpayer. This summary tax information applies to you only if you hold common stock prior to any effectuated stock split, and if you hold your post-reverse stock split common stock, as capital assets for tax purposes. This discussion does not apply to you if you are a member of a class of holders subject to special rules, such as (a) a dealer in securities or currencies, (b) a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings, (c) a bank, (d) a life insurance company, (e) a tax-exempt organization, (f) a person that owns shares of common stock that are a hedge, or that are hedged, against interest rate risks, (g) a person who owns shares of common stock as part of a straddle or conversion transaction for tax purposes or (h) a person whose functional currency for tax purposes is not the U.S. dollar. The discussion is based on the Internal Revenue Code of 1986, as amended (the Internal Revenue Code), its legislative history, existing, temporary and proposed regulations under the Internal Revenue Code, published rulings and court decisions, all as currently in effect. These laws, regulations and other guidance are subject to change, possibly on a retroactive basis. We have not sought and will not seek an opinion of counsel or a ruling from the Internal Revenue Service regarding the federal income tax consequences of a reverse stock split.

**PLEASE CONSULT YOUR OWN TAX ADVISOR CONCERNING THE CONSEQUENCES OF A REVERSE STOCK SPLIT IN YOUR PARTICULAR CIRCUMSTANCES UNDER THE INTERNAL REVENUE CODE AND THE LAWS OF ANY OTHER TAXING JURISDICTION.**

*Tax Consequences to United States Holders of Common Stock.* A United States holder, as used herein, is a stockholder who or that is: (a) a citizen or resident of the United States, (b) a domestic corporation, (c) an estate whose income is subject to United States federal income tax regardless of its source, or (d) a trust, if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust. This discussion applies only to United States holders.

No gain or loss should be recognized by a stockholder upon such stockholder's exchange of pre-reverse stock split shares for post-reverse stock split shares pursuant to a reverse stock split (except to the extent of cash received in lieu of a fractional share). The aggregate adjusted basis of the new shares of common stock will be the same as the aggregate adjusted basis of the shares of common stock exchanged for such new shares, reduced by the amount of the adjusted basis of any shares of common stock exchanged for such new shares that is allocated to the fractional share for which cash is received. The stockholder's holding period for the post-reverse stock split shares will include the period during which the stockholder held the pre-reverse stock split shares surrendered. A stockholder who receives cash in lieu of a fractional share of new shares of common stock generally will recognize taxable gain or loss equal to the difference, if any, between the amount of cash received and the portion of the stockholder's aggregate adjusted tax basis in the old shares of common stock allocated to the fractional share. If the old shares of common stock allocated to the fractional shares were held by the stockholder as capital assets, the gain or loss resulting from the payment of cash in lieu of the issuance of a fractional share will be taxed as capital gain or loss. Such capital gain or loss will be

short term if the pre-reverse split shares were held for one year or less and long term if held more than one year.

Payment of cash in lieu of fractional shares within the United States or through certain U.S. related financial intermediaries is subject to both backup withholding and information reporting unless the beneficial owner certifies under penalties of perjury that it is not a U.S. holder (and the payor does not have actual knowledge or reason to know that the beneficial owner is a U.S. holder) or the stockholder otherwise establishes an exemption. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against such stockholder's U.S. federal income tax liability provided the required information is furnished to the Internal Revenue Service.

*Tax Consequences to the Company.* We do not expect to recognize any gain or loss as a result of the reverse stock split.

### **Accounting Consequences**

Following the effective date of the reverse stock split, if any, the net income or loss and net book value per share of common stock will be increased because there will be fewer shares of the common stock outstanding. We do not anticipate that any other accounting consequences would arise as a result of the reverse stock split.

### **Effective Date**

If the proposed amendment to the Certificate of Incorporation to allow for a reverse stock split is approved and the Board of Directors determines to effect a reverse stock split, a reverse stock split will become effective on the effective date of the applicable certificate of amendment to our Certificate of Incorporation with the office of the Secretary of State of the State of Delaware, which we would expect to be the date of filing.

### **Exchange of Stock Certificates**

As of the Effective Date, each certificate representing shares of common stock outstanding before the reverse stock split will be deemed, for all corporate purposes, to evidence ownership of the reduced number of shares of common stock resulting from the reverse stock split. All shares underlying options, warrants and other securities exchangeable or exercisable for or convertible into shares of common stock also automatically will be adjusted on the Effective Date.

Our transfer agent, American Stock Transfer & Trust Company, will act as the exchange agent for purposes of exchanging stock certificates subsequent to the reverse stock split. Shortly after the Effective Date, stockholders of record will receive written instructions requesting them to complete and return a letter of transmittal and surrender their old stock certificates for new stock certificates reflecting the adjusted number of shares as a result of the reverse stock split. Certificates representing shares of common stock issued in connection with the reverse stock split will continue to bear the same restrictive legends, if any, that were borne by the surrendered certificates representing the shares of common stock outstanding prior to the reverse stock split. No new certificates will be issued until such stockholder has surrendered any outstanding certificates, together with the properly completed and executed letter of transmittal, to the exchange agent. Until surrendered, each certificate representing shares of common stock outstanding before the reverse stock split would continue to be valid and would represent the adjusted number of



shares, based on the ratio of the reverse stock split.

Any stockholder whose stock certificates are lost, destroyed or stolen will be entitled to a new certificate or certificates representing post-reverse stock split shares upon compliance with the requirements that we and our transfer agent customarily apply in connection with lost, destroyed or stolen certificates. Instructions as to lost, destroyed or stolen certificates will be included in the letter of instructions from the exchange agent.

Upon a reverse stock split, we intend to treat stockholders holding our common stock in “street name”, through a bank, broker or other nominee, in the same manner as registered stockholders whose shares are registered in their names. Banks, brokers and other nominees will be instructed to effect the reverse stock split for their beneficial holders holding our common stock in “street name.” However, such banks, brokers and other nominees may have different procedures than registered stockholders for processing the reverse stock split. If you hold your shares in “street name” with a bank, broker or other nominee, and if you have any questions in this regard, we encourage you to contact your bank, broker or nominee.

Stockholders should be aware that, under the escheat laws of various jurisdictions, sums due for fractional interests that are not timely claimed after the effective date of the reverse stock split may be required to be paid to the designated agent for each such jurisdiction, unless correspondence has been received by the Company or our transfer agent concerning ownership of such funds within the time permitted in such jurisdiction. Thereafter, if applicable, stockholders otherwise entitled to receive such funds, but who do not receive them due to, for example, their failure to timely comply with the transfer agent's instructions, will have to seek to obtain such funds directly from the state to which they were paid.

**YOU SHOULD NOT DESTROY YOUR STOCK CERTIFICATES AND YOU SHOULD NOT SEND THEM NOW. YOU SHOULD SEND YOUR STOCK CERTIFICATES ONLY AFTER YOU HAVE RECEIVED INSTRUCTIONS FROM THE EXCHANGE AGENT AND IN ACCORDANCE WITH THOSE INSTRUCTIONS.**

No service charges, brokerage commissions or transfer taxes will be payable by any holder of any certificate that, prior to approval of the reverse stock split, represented any shares of common stock, except that, if any certificates for shares of common stock are to be issued in a name other than that in which the certificates for shares of common stock surrendered are registered, the stockholder requesting the reissuance will be required to pay to us any transfer taxes or establish to our satisfaction that such taxes have been paid or are not payable and, in addition, (a) the transfer must comply with all applicable federal and state securities laws, and (b) the surrendered certificate must be properly endorsed and otherwise be in proper form for transfer.

### **Vote Required and Board Recommendation**

The laws of Delaware and our Certificate of Incorporation require that, in order for us to amend the Certificate of Incorporation to give effect to the reverse stock split, such amendment must be approved by our Board of Directors and approved by the holders of a majority of the outstanding shares of common stock entitled to vote on such an amendment.

Our Board of Directors adopted resolutions on September 5, 2013, declaring that an amendment to the Certificate of Incorporation to allow for the reverse stock split was advisable and in our best interests and in the best interests of our stockholders and recommends that our stockholders vote "FOR" the amendment to the Certificate of Incorporation to provide for a reverse stock split. The affirmative vote, whether in person or by proxy, of the holders of a majority of the outstanding shares of common stock is required to approve the proposal.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE PROPOSAL TO APPROVE AN AMENDMENT TO OUR CERTIFICATE OF INCORPORATION TO PROVIDE FOR A**

**REVERSE STOCK SPLIT.**

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***PROPOSAL NUMBER 3: APPROVAL OF AMENDMENT TO THE AMENDED AND RESTATED TALON INTERNATIONAL, INC. 2008 STOCK INCENTIVE PLAN***

The Board of Directors has approved an amendment (the “Amendment”) to the Amended and Restated Talon International, Inc. 2008 Stock Incentive Plan (the “2008 Plan”) to increase the number of shares of Shares of common stock available for issuance under the 2008 Plan from 4,810,000 shares to 15,000,000 shares of common stock. The Amendment is being submitted to the stockholders for approval at the Special Meeting.

The Board of Directors unanimously approved the Amendment on September 5, 2013. At September 9, 2013, 110,000 shares of common stock remained available for grants of awards under the 2007 Plan and 1,185,625 shares of common stock remained available for grants of awards under the 2008 Plan. The Board of Directors believes that the ability to grant stock-based awards is important to the future success of the Company. The grant of stock options and other stock-based awards can motivate high levels of performance and provide an effective means of recognizing employee contributions to the success of the Company. In addition, stock-based compensation can be valuable in recruiting and retaining highly qualified technical and other key personnel who are in great demand as well as rewarding and providing incentives to our current employees. The increase in the number of shares of common stock available for awards under the 2008 Plan will enable the Company to continue to realize the benefits of granting stock-based compensation.

The 2008 Plan, as amended, is attached to this Proxy Statement as Appendix A.

The following summary briefly describes the principal features of the 2008 Plan and is qualified in its entirety by reference to the full text of the 2008 Plan.

**Purpose**

The purpose of the 2008 Plan is to provide incentives and rewards to selected eligible directors, officers, employees and consultants in order to assist us and our subsidiaries in attracting, retaining and motivating those persons by providing for or increasing the proprietary interests of those persons in us, and by associating their interests with those of our stockholders.



## **Administration**

The 2008 Plan may be administered by the Board of Directors, or a committee appointed by the Board of Directors whose members serve at the pleasure of the Board. The 2008 Plan was administered by the compensation committee of the Board of Directors until its elimination on July 30, 2010. The full Board of Directors currently administers the 2008 Plan. The party administering the 2008 Plan is referred to as the “administrator.” Subject to the provisions of the 2008 Plan, the administrator has full and final authority to (1) select from among eligible directors, officers, employees and consultants, those persons to be granted awards under the 2008 Plan, (2) determine the type, size and terms of individual awards to be made to each person selected, (3) determine the time when awards will be granted and to establish objectives and conditions (including, without limitation, vesting and performance conditions), if any, for earning awards, (4) amend the terms or conditions of any outstanding award, subject to applicable legal restrictions and to the consent of the other party to such award, (5) to determine the duration and purpose of leaves of absences which may be granted to holders of awards without constituting termination of their employment, (6) authorize any person to execute, on behalf of us, any instrument required to carry out the purposes of the 2008 Plan, (7) by resolution adopted by the Board, to authorize one or more of our officers to designate eligible employees to be recipients of awards and/or determine the number of such awards to be received by such employees, provided that the resolution so authorizing such officer or officers shall specify the total number of awards such officer or officers may award, and (8) make any and all other determinations which the administrator determines to be necessary or advisable in the administration of the 2008 Plan. The administrator has full power and authority to administer and interpret the 2008 Plan and to adopt, amend and revoke such rules, regulations, agreements, guidelines and instruments for the administration of the 2008 Plan and for the conduct of its business as the administrator deems necessary or advisable.

## **Eligibility**

Any person who is a director, officer, employee or consultant of ours or any of our subsidiaries (a “participant”), is eligible to be considered for the grant of awards under the 2008 Plan. No participant may receive awards representing more than 50% of the aggregate number of shares of common stock that may be issued pursuant to all awards under the 2008 Plan.

## **Types of Awards**

Awards authorized under the 2008 Plan may consist of options to purchase shares of our common stock or stock purchase rights. An award may consist of one such security, or a combination of both.

## **Consideration**

The common stock or other property underlying an award may be issued for any lawful consideration as determined by the administrator, including, without limitation, a cash payment, services rendered, or the cancellation of indebtedness. In addition, an award may permit the recipient to pay the purchase price of the common stock or other property or to pay such recipient's tax withholding obligation with respect to such issuance, in whole or in part, by delivering previously owned shares of our capital stock or other property, or by reducing the number of shares of common stock or the amount of other property otherwise issuable pursuant to such award.

### **Termination of Awards**

All awards granted under the 2008 Plan expire ten years from the date of grant, or such shorter period as is determined by the administrator. No option is exercisable by any person after such expiration. If an award expires, terminates or is canceled, the shares of common stock not purchased thereunder shall again be available for issuance under the 2008 Plan.

### **Amendment and Termination of the 2008 Plan**

The Board of Directors may amend the 2008 Plan at any time, and may suspend it from time to time. At the time of such amendment, the Board of Directors shall determine, upon advice from counsel, whether such amendment will require stockholder approval. However, no action by the Board of Directors or stockholders may unilaterally alter or impair any award previously granted under the 2008 Plan. In any event, the 2008 Plan shall terminate ten years following the date it was initially adopted unless sooner terminated by action of the Board of Directors.

### **Effect of Section 16(b) of the Securities Exchange Act of 1934**

The acquisition and disposition of common stock by our officers, directors and more than 10% stockholders (“Insiders”) pursuant to awards granted to them under the 2008 Plan may be subject to Section 16(b) of the Securities Exchange Act of 1934 (“Section 16(b)”). Pursuant to Section 16(b), a purchase of common stock by an Insider within six months before or after a sale of common stock by the Insider could result in recovery by us of all or a portion of any amount by which the sale proceeds exceed the purchase price. Insiders are required to file reports of changes in beneficial ownership under Section 16(a) of the Securities Exchange Act of 1934 upon acquisitions and dispositions of shares. Rule 16b-3 provides an exemption from Section 16(b) liability for certain transactions pursuant to certain employee benefit plans. The 2008 Plan is designed to comply with Rule 16b-3.

### **U.S. Tax Consequences**

The following is a general discussion of the principal United States federal income tax consequences of “incentive stock options” within the meaning of Section 422 of the Code, “non statutory stock options” and restricted stock purchase rights, based upon the United States Internal Revenue Code, and the Treasury Regulations promulgated thereunder, all of which are subject to modification at any time. The 2008 Plan does not constitute a qualified retirement plan under Section 401(a) of the Internal Revenue Code (which generally covers trusts forming part of a stock bonus, pension or profit sharing plan funded by employer and/or employee contributions which are designed to provide retirement benefits to participants under certain circumstances) and is not subject to the Employee Retirement Income Security Act of 1974 (the pension reform law which regulates most types of privately funded pension, profit sharing and other employee benefit plans).

Stock option grants under the 2008 Plan may be intended to qualify as incentive stock options under Section 422 of the tax code or may be non-qualified stock options governed by Section 83 of the tax code. Generally, no federal income tax is payable by a participant upon the grant of a stock option, and a deduction is not taken by the company. Under current tax laws, if a participant exercises a non-qualified stock option, he or she will have taxable income equal to the difference between the market price of the common stock on the exercise date and the stock option grant



price. We will be entitled to a corresponding deduction on our income tax return. A participant will not have any taxable income upon exercising an incentive stock option (except that the alternative minimum tax may apply), and we will not receive a deduction when an incentive stock option is exercised. The treatment for a participant of a disposition of shares acquired through the exercise of an option depends on how long the shares were held and on whether the shares were acquired by exercising an incentive stock option or a non-qualified stock option. We may be entitled to a deduction in the case of a disposition of shares acquired under an incentive stock option before the applicable holding periods have been satisfied.

Purchases of restricted stock are also governed by Section 83 of the tax code to the extent the shares are subject to vesting, or a “substantial risk of forfeiture.” Generally, no taxes are due when the shares are initially purchased or received pursuant to an award if the shares are unvested, but the award becomes taxable when it is no longer subject to a “substantial risk of forfeiture” (it becomes vested or transferable). Income tax is paid on the value of the stock or units at ordinary rates when the restrictions lapse less the amount of the purchase price paid for the shares (if any), and then usually at long-term capital gain (if such shares are held for more than a year) or short-term capital gain rates (if such shares are held for less than one year) when the shares are sold. Recipients of unvested shares may elect under Section 83(b) of the tax code to pay tax (if any) upon receipt of the unvested shares rather than as the shares vest.

The American Jobs Creation Act of 2004 added Section 409A to the tax code, generally effective January 1, 2005. Section 409A covers most programs that defer the receipt of compensation to a succeeding year. It provides rules for elections to defer (if any) and for timing of payouts. There are significant penalties placed on the individual employee for failure to comply with Section 409A. However, it does not affect our ability to deduct deferred compensation.

Section 409A does not apply to incentive stock options, non-qualified stock options that are not issued at a discount, and restricted stock, provided that there is no deferral of income beyond the vesting date. Section 409A also does not cover stock options if they are issued by a public company on its traded stock, the exercise price is not less than the fair market value of the underlying stock on the date of grant, and there are not any features that defer the recognition of income beyond the exercise date.

As described above, awards granted under the 2008 Plan may qualify as “performance-based compensation” under Section 162(m) of the tax code. To qualify, options and other awards must be granted under the 2008 Plan by a committee of the Board consisting solely of two or more “outside directors” (as defined under Section 162 regulations) and satisfy the 2008 Plan’s limit on the total number of shares that may be awarded to any one participant during any calendar year.

### **Equity Compensation Plan Information**

The following table sets forth certain information as of December 31, 2012 regarding equity compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance:

<b>Name</b>	<b>Number of securities to be issued upon exercise of</b>	<b>Weighted-average exercise price of outstanding options, warrants, and rights</b>	<b>Number of securities remaining available for future</b>
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**outstanding  
options,  
warrants  
and rights**

**issuance  
under equity  
compensation  
plans**

Equity compensation plans approved by security holders