

TALON INTERNATIONAL, INC.  
Form DEF 14A  
April 17, 2014

**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 (Amendment No. \_\_\_\_\_)**

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

Check the appropriate box:

Preliminary Proxy Statement

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-12

Confidential, For Use of the Commission Only  
(as permitted by Rule 14a-6(e)(2))

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 ANNUAL MEETING OF STOCKHOLDERS

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TIME 3:00 p.m. Pacific Daylight Time on May 29, 2014

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

ITEMS OF BUSINESS (1) Election of five directors to hold office for the ensuing year and until their successors are duly elected;  
(2) To hold an advisory vote on executive compensation; and  
(3) To transact such other business as may properly be brought before the meeting any adjournments.

RECORD DATE You can vote if you were a stockholder of the Company at the close of business on April 17, 2014.

PROXY VOTING All stockholders are cordially invited to attend the Annual Meeting in person. However, to ensure your representation at the Annual 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 Annual Meeting.**

Woodland Hills, California

April 17, 2014 /s/ Lonnie D. Schnell  
Lonnie D. Schnell  
*Chief Executive Officer*

**THE ATTACHED PROXY STATEMENT AND  
OUR ANNUAL REPORT ON FORM 10-K ARE AVAILABLE AT  
[WWW.TALONZIPPERS.COM/CORPORATE/INVESTORS/](http://WWW.TALONZIPPERS.COM/CORPORATE/INVESTORS/)**

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

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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 our 2014 annual meeting of stockholders (the “Annual Meeting”) and at any adjournments or postponements.

You are invited to attend our Annual Meeting on May 29, 2014, 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.

**Record Date and Stockholders Entitled to Vote**

Holders of our common stock at the close of business on April 17, 2014 (the “Record Date”) are entitled to receive this notice and to vote their shares at the Annual Meeting. As of April 17, 2014, there were 92,267,831 shares of Common Stock outstanding.

**Mailing of Proxy Statements**

We anticipate mailing this Proxy Statement and the accompanying Proxy to stockholders on or about April 29, 2014.

**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 submission of the enclosed Proxy will not limit your right to vote at the Annual 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 Annual 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 Annual 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 Annual Meeting, and not revoked, will be voted at the Annual 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 Annual Meeting is necessary to constitute a quorum. Abstentions and broker non-votes will be included in the number of shares present at the Annual 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. If by the date of the Annual Meeting we do not receive proxies representing sufficient shares to constitute a quorum, the Chairman of the Meeting, or the stockholders entitled to vote at the meeting, shall have power to adjourn the meeting, without notice other than announcement at the meeting, until a quorum is present or represented. At such adjourned meeting at which a quorum is present, any business may be transacted that might have been transacted at the meeting as originally noticed.

## **Voting and Required Votes**

Each share of Talon common stock is entitled to one vote on each matter properly brought before the 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.

If a quorum is present, a plurality of the shares voting will be sufficient to elect the director nominees (Proposal No. 1). This means that the five nominees for the director receiving the highest number of votes “for” election will be elected. Approval of the advisory vote on executive compensation (Proposal No. 2) will require the affirmative vote of a majority of the shares present or represented and entitled to vote at the Annual Meeting with respect to such proposal.

## **Other Matters**

At the date this Proxy Statement went to press, we do not know of any other matter to be raised at the Annual Meeting.

In the event a stockholder proposal was not submitted to us prior to the date of this Proxy Statement, the enclosed Proxy will confer authority on the Proxy holders to vote the shares in accordance with their best judgment and discretion if the proposal is presented at the Annual Meeting. As of the date hereof, no stockholder proposal has been submitted, and management is not aware of any other matters to be presented for action at the Annual Meeting.

However, if any other matters properly come before the Annual Meeting, the Proxies solicited hereby will be voted by the Proxy holders in accordance with the recommendations of the Board of Directors. Such authorization includes authority to appoint a substitute nominee for any Board of Directors nominee identified herein where death, illness or other circumstance arises which prevents such nominee from serving in such position and to vote such Proxy for such substitute nominee.



***Proposal NUMBER 1: ELECTION OF DIRECTORS***

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

Our bylaws provide that the authorized number of directors is a minimum of two and a maximum of nine, with the exact number set by our Board. Currently, the authorized number of directors of the Company is five, and five members of our Board are to be elected at the Annual Meeting.

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

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

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

Mark Dyne

Lonnie D. Schnell

David Ellis

Morris Weiss

Robert L. Golden

If elected, Mark Dyne, Lonnie D. Schnell, David Ellis, Morris Weiss and Robert L. Golden are expected to serve until the 2015 annual meeting of stockholders. The principal occupation and certain other information about the nominees and certain executive officers are set forth on the following pages.

**The Board of Directors Unanimously Recommends a Vote “FOR” the Election of the Nominees Listed Above.**

**DIRECTORS AND EXECUTIVE OFFICERS****Directors, Nominees and Executive Officers**

The following table sets forth the name, age and position of each of our executive officers and directors (and director nominees) as of April 17, 2014.

<b>Name</b>	<b>Age</b>	<b>Position</b>
<b>Directors:</b>		
Mark Dyne <sup>(1)</sup>	53	Chairman of the Board of Directors
Lonnie D. Schnell	65	Chief Executive Officer and Director
David Ellis	50	Director
Morris Weiss	54	Director
Robert L. Golden	51	Director
<b>Other Executive Officers:</b>		
Larry Dyne <sup>(1)</sup>	41	President
Nancy Agger-Nielsen	51	Chief Financial Officer

(1)Mark Dyne and Larry Dyne are brothers.

**Directors:**

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

**Lonnie D. Schnell** Mr. Schnell joined us in January 2006 as our Chief Financial Officer, was appointed as Chief Executive Officer in February 2008 and has served on our Board of Directors since May 2008. Mr. Schnell served as Vice President of Finance for Capstone Turbine Corporation, a manufacturer of micro-turbine electric generators from 2004 until 2005, and as Chief Financial Officer of EMSource, LLC, an electronic manufacturing service company from 2002 to 2004. Previously, Mr. Schnell served as Chief Financial Officer of Vintage Capital Group, a private equity investment firm, and Chief Financial Officer of Need2Buy, Inc. a business-to-business internet marketplace for electronic components. Mr. Schnell completed an executive MBA program with the Stanford University Executive Institute, and earned his Bachelor of Science in Accounting at Christian Brothers University. Mr. Schnell was a Certified Public Accountant with the international accounting firm of Ernst & Young LLP for more than five years. Mr. Schnell was nominated to our Board of Directors for his extensive domestic and international management experience, knowledge of associated industry practices and trends, and for his financial management expertise.

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

**Morris Weiss** Morris Weiss has served on our Board of Directors since May 2012. Mr. Weiss is a partner at the law firm of Hohmann, Taube & Summers, LLP, where Mr. Weiss specializes in commercial bankruptcy and restructuring matters as well as complex commercial litigation. Prior to joining Hohmann, Taube & Summers, LLP in 2010, Mr. Weiss was the Managing Director of IP Navigation Group, LLC, an international patent monetization company, from April 2010 to August 2010. Mr. Weiss was the Managing Director of Investment Banking of MDB Capital Group, LLC, an independent broker dealer, from May 2009 to April 2010. From January 2009 to April 2010, Mr. Weiss served on the Board of Directors of Atlas Mining Company (n/k/a Applied Minerals, Inc. (OTCQB: AMNL.OB)), the leading global producer of Halloysite Clay solutions, and from November 2008 to April 2009, Mr. Weiss served as the company's Chief Restructuring Officer. From February 2002 to October 2008, Mr. Weiss was the Managing Director and Head of Investment Banking of Tejas Securities Group, Inc., a full service, independent broker dealer. Mr. Weiss was nominated to our Board of Directors for his extensive domestic and international management experience, knowledge of associated industry practices and trends, and for his strategic growth management expertise.

**Robert L. Golden** Mr. Golden joined our Board of Directors in September 2013. Mr. Golden has served as a partner at the accounting firm of Fenton & Ross in Los Angeles, California since 2013. Mr. Golden has also served as Chief Financial Officer, since 2008, for Promo Shop, Inc., a promotional merchandising and marketing services company that provides creative branded merchandise and custom premiums. From 2004 to 2012, Mr. Golden was a Principal with the accounting firm of Saffer and Flint LLP in Los Angeles. Prior to 2004, Mr. Golden spent nearly 20 years with national and regional accounting firms beginning with Ernst & Young in 1984. Mr. Golden was licensed as a Certified Public Accountant through 2006. Mr. Golden earned his Bachelor of Science in Business Administration with an emphasis in Accounting from the University of Southern California. Mr. Golden was nominated to our Board of Directors for his extensive management experience, knowledge of associated industry practices and trends, and for his financial management expertise.

**Other Executive Officers:**

**Larry Dyne** Larry Dyne was appointed as our President in May 2009. He has been our employee since 1992, and was formerly Executive Vice President of Sales as well as Vice President of Product Development and Global Sourcing, and Vice President of Trim Sales including responsibility for all domestic print production. Through these positions, Mr. Dyne has established extensive and long-term relationships with the world's top brands and clothing retailers.

**Nancy Agger-Nielsen** Ms. Agger-Nielsen joined us in March 2014 as Vice President Finance, and effective April 1, 2014 became our Chief Financial Officer. Ms. Agger-Nielsen previously served as CFO of Med-Legal, LLC, a leading California provider of litigation support services, from 2013 to 2014, and as Vice President of Finance for NDC Infrared Engineering from 2004 until 2013. A division of Spectris plc, NDC is the leading, global supplier of on line measurement instrumentation for the manufacturing industry. Ms. Agger-Nielsen was licensed as a Certified Public Accountant from 1989 until 2002, has completed an MBA program with the Peter F. Drucker School of Management at Claremont Graduate University in Claremont, CA, and earned a Bachelor of Science in Business Administration with an emphasis in Accounting at California State Polytechnic University in Pomona, CA.

## **Board Meetings, Board Committees and Director Independence**

In 2013, the Board of Directors held nine meetings. Each director serving at that time attended at least 75% of all the meetings of the Board of Directors and meetings of all committees of the Board on which the director served. While we have not established a policy with respect to members of the Board of Directors attending annual meetings, each director is encouraged to attend the annual meeting of stockholders. One director was present at the 2013 annual meeting of stockholders.

Since 2010, we do not currently maintain separately designated audit, compensation, nominating or governance committees of the Board of Directors. The Board of Directors has determined that these committees were not necessary during that period in light of the composition of the Board and concentration of voting power among a single or small number of stockholders. The functions customarily delegated to these committees are performed by our full Board of Directors.

The Board forms ad hoc committees from time to time to assist our Board in fulfilling its responsibilities with respect to matters that are the subject of the ad hoc committee's mandate. During fiscal year 2012 and part of 2013, the Board maintained a Special Committee to assist our Board by making recommendations on alternative capital structure, transactions and initiatives that the committee believes are reasonably likely to maximize stockholder value. The Special Committee consisted of David Ellis, Mark Dyne and Morris Weiss, and was dissolved following the closing of the redemption transaction with CVC California LLC ("CVC") and the related private placement financing transaction in July 2013. The Special Committee held five meetings during 2013.

In 2013, the Board also formed a special ad hoc Financing Committee to review and comment on the terms of the proposed redemption of all the outstanding Series B Preferred Stock from CVC and the related private placement financing transaction. The Financing Committee consisted of David Ellis and Morris Weiss, both of whom were determined to be disinterested directors with respect to the redemption and private placement transactions. The Financing Committee was dissolved following the closing of the transactions in July 2013. The Financing Committee held fifteen meetings during 2013.

The Company is not a "listed company" under SEC rules and is therefore not required to have a separate audit committee comprised of independent directors. Our full Board of Directors performs the functions of the audit committee. The Company has, however, determined that as of December 31, 2013, each of Messrs. Ellis, Weiss and Golden is "independent" as that term is defined in Section 5605 of the NASDAQ Marketplace Rules applicable to companies listed on The NASDAQ Stock Market, and has also determined that each of Messrs. Schnell and Ellis and Golden is an "audit committee financial expert" as defined in Item 407(d)(5) of Regulation S-K. The director biographies included above describe the relevant experience of each director.

**Board Leadership Structure and Role in Risk Oversight**

We separate the roles of Chief Executive Officer and Chairman of the Board in recognition of the different responsibilities fulfilled by the Chief Executive Officer and the Chairman of the Board at Talon. The Chief Executive Officer is responsible for setting our strategic direction and for our day-to-day leadership and performance, while the Chairman of the Board provides guidance to the Chief Executive Officer and sets the agenda for, and presides over, meetings of the Board of Directors.

The Board is led by the Chairman, Mark Dyne, who became a member of our Board in 1997. The benefits of Mr. Dyne's leadership of the Board stem both from his long-standing relationship and involvement with us, which provides a unique understanding of our culture and business, as well as his ongoing role as the Board's primary contact with our senior management team, which ensures that a constant flow of Company-related information is available. This flow of communication enables Mr. Dyne to identify issues, proposals, strategies and other considerations for future Board discussions and to assume the lead in many of the resulting discussions during Board meetings. Our Board of Directors has responsibility for the oversight of risk management. A fundamental part of risk management is not only understanding the risks we face and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for us. The involvement of the Board of Directors in setting our business strategy is a key part of its assessment of risk management and the determination of what constitutes our appropriate level of risk. The Board regularly discusses with management our major risk exposures, their potential impact on us and the steps taken to manage these risks. In addition, the Board may retain, on such terms as determined by the Board, in its sole discretion, independent legal, financial and other consultants and advisors to advise and assist the Board in fulfilling its oversight responsibilities.

### **Compensation of Directors and Officers**

Our Board of Directors is responsible for determining the compensation to be paid to our officers and directors, with recommendations from management as to the amount and/or form of such compensation. During the course of 2013, the Company utilized the services of a nationally recognized compensation consulting firm to recommend improvements to our executive and board compensation plans for alignment with our current business strategy. While the compensation consultant's analysis did not affect 2013 executive compensation, the Board of Directors will consider the results from this study in formulating compensation plans for our executives beginning in 2014.

### **Code of Ethics**

We have adopted a Code of Ethical Conduct that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, as well as to our other employees and directors generally. A copy of our Code of Ethical Conduct was filed as an exhibit to our Annual Report on Form 10-K.

### **Director Nominations**

We do not currently have a standing nominating committee of our Board of Directors. The entire Board of Directors performs the duties of the nominating committee and is responsible for considering and approving nominations of candidates for directors, including determining the appropriate qualifications and experience required of such



candidates, and related matters.

In carrying out their function to nominate candidates for election to the Board of Directors, the Board considers the mix of skills, experience, character, commitment, and diversity of background of the Board of Directors at the time of such nominations. The Board of Directors believe that each candidate should be an individual who has demonstrated integrity and ethics in such candidate's personal and professional life, has an understanding of elements relevant to the success of a publicly-traded company and has established a record of professional accomplishment in such candidate's chosen field. Each candidate should be prepared to participate fully in Board activities, including attendance at, and active participation in, meetings of the Board of Directors, and not have other personal or professional commitments that would, in the Board's judgment, interfere with or limit such candidate's ability to do so. The Board of Directors has no stated specific, minimum qualifications that must be met by a candidate for a position on our Board.

The Board of Directors' methods for identifying candidates for election to the Board of Directors (other than those proposed by our stockholders, as discussed below) include the solicitation of ideas for possible candidates from a number of sources including members of the Board of Directors, our executives, and other sources. The Board of Directors may also from time to time retain one or more third-party search firms to identify suitable candidates.

Our stockholders may nominate one or more persons for election as a director at an annual meeting of stockholders if the stockholder complies with the notice, information and consent provisions contained in our Bylaws. The notice must be made in writing and include (i) the qualifications of the proposed nominee to serve on the Board of Directors, (ii) the principal occupations and employment of the proposed nominee during the past five years, (iii) directorships currently held by the proposed nominee and (iv) a statement that the proposed nominee has consented to the nomination. The recommendation should be addressed to our Secretary.

Pursuant to the Subscription Agreement we entered into with Kutula Holdings Ltd. in connection with Kutula's 2013 investment in our common stock, we granted Kutula the right to nominate one member of the Company's Board of Directors, so long as Kutula continues to hold at least 15,500,000 of the shares purchased pursuant to its Subscription Agreement. However, at this time Kutula has not elected to nominate a director.

### **Stockholder Communications with the Board of Directors**

The Board of Directors has adopted three methods by which our stockholders may communicate with the Board of Directors regarding matters of substantial importance to us. These methods are as follows:

**Procedures for Submission of Communications Regarding Audit and Accounting Matters.** Pursuant to the duties and responsibilities previously delegated to the audit committee of the Board of Directors in its audit committee charter, our Board of Directors adopted procedures for (1) the receipt, retention, and treatment of communications received by us regarding accounting, internal accounting controls, or auditing matters; and (2) the submission by our employees, on a confidential and anonymous basis, of communications regarding questionable accounting or auditing matters. These functions previously assigned to the audit committee are now performed by the full Board of Directors. These procedures allow any person to submit a good faith communication regarding these various audit, internal accounting control and accounting matters to the Board of Directors, or to our management, and any employee to do so on a confidential and anonymous basis, without fear of dismissal or retaliation of any kind. The "Complaint Procedures for Accounting and Auditing Matters" can be found on our website at [www.talonzipper.com](http://www.talonzipper.com).

**Code of Ethical Conduct.** Our Code of Ethical Conduct identifies a mailing address of the Board of Directors. This allows individuals to contact Board of Directors' members in connection with matters concerning the code and our overall ethical values and standards.

***Investor Relations.*** Our investor relations manager, Rayna Hernandez, coordinates the response to all of our investor relations matters. Stockholders are free to contact Ms. Hernandez at [info@talozippers.com](mailto:info@talozippers.com), or our Investor Relations Department, at 818-444-4100. Ms. Hernandez determines whether inquiries or other communications with respect to investor relations should be relayed to the Board of Directors or to management. Typical communications relayed to the Board of Directors or management involve stockholder proposal matters, audit and accounting matters addressed in the section titled “Procedures for Submission of Communications Regarding Audit and Accounting Matters” above, and matters related to our code of ethical conduct addressed in the section titled “Code of Ethical Conduct” above.

## COMPENSATION DISCUSSION AND ANALYSIS

The full Board of Directors is responsible for determining the compensation to be paid to our officers and directors, with recommendations from management as to the amount and/or form of officer compensation.

Our executive compensation program is administered by the Board of Directors. The Board is responsible for, among other functions: (1) reviewing and approving corporate goals and objectives relevant to the Chief Executive Officer's compensation and evaluating the performance of the Chief Executive Officer in light of these corporate goals and objectives; (2) administering our incentive-compensation and equity based plans; and (3) negotiating, reviewing and recommending the annual salary, bonus, stock options and other benefits, direct and indirect, of the Chief Executive Officer, and other current and former executive officers.

The Board of Directors also has the authority to select and/or retain outside counsel, compensation and benefits consultants, or any other consultants to provide independent advice and assistance in connection with the execution of its responsibilities. During the course of 2013, the Company utilized the services of a nationally recognized compensation consulting firm to recommend improvements to our executive and board compensation plans for alignment with our current business strategy. While the compensation consultant's analysis did not affect 2013 executive compensation, the Board of Directors will consider the results from this study in formulating compensation plans for our executives beginning in 2014.

Our named executive officers for 2013 were as follows:

Lonnie D. Schnell, Chief Executive Officer & Chief Financial Officer;

Larry Dyne, President; and

James E. Reeder, Vice President, Corporate Controller.

Mr. Reeder resigned from his position on February 28, 2014. While Mr. Schnell continues to serve as Chief Executive Officer, Nancy Agger-Nielsen was appointed Chief Financial Officer on April 1, 2014.

## Compensation Philosophy

Our executive compensation program is designed to drive company performance to maximize stockholder value while meeting our needs and the needs of our employees. The specific objectives of our executive compensation program include the following:

*Alignment* – to align the interests of executives and stockholders through equity-based compensation awards;

*Retention* – to attract, retain and motivate highly qualified, high performing executives to lead our continued growth and success; and

*Performance* – to provide rewards commensurate with performance by emphasizing variable compensation that is dependent upon the executive’s achievements and company performance.

In order to achieve these specific objectives, our executive compensation program is guided by the following core principles:

Rewards under incentive plans are based upon our short-term and longer-term financial results and increasing stockholder value;

Senior executive pay is set at sufficiently competitive levels to attract, retain and motivate highly talented individuals who are necessary for us to achieve our goals, objectives and overall financial success;

Compensation of an executive is based on such individual's role, responsibilities, performance and experience, taking into account the desired pay relationships within the executive team; and

Our executive compensation program places a strong emphasis on performance-based variable pay to ensure a high pay-for-performance culture. Annual performance of our company, primarily in terms of performance measured by an adjusted earnings before interest, taxes, depreciation and amortization for the year, and the executive are taken into account in determining annual bonuses that ensure a high pay-for-performance culture.

## **Compensation Elements**

We compensate senior executives through a variety of components, including base salary, annual incentives, equity incentives and benefits and perquisites, in order to provide our employees with a competitive overall compensation package. The mix and value of these components are impacted by a variety of factors, such as responsibility level, individual negotiations, performance and market practice. The purpose and key characteristics for each component are described below.

### *Base Salary*

Base salary provides executives with a steady income stream and is based upon the executive's level of responsibility, experience, individual performance and contributions to our overall success. Competitive base salaries, in conjunction with other pay components, enable us to attract and retain highly talented executives. The Board typically sets base salaries for our senior executives at market levels. However, base salaries will vary in practice based upon an individual's performance, individual experience and negotiations, and for changes in job responsibilities.

### *Management Incentive Bonuses*

Management incentive bonuses are a variable performance-based component of compensation. The primary objective of an annual incentive bonus is to reward executives for achieving corporate and individual goals and to align a meaningful portion of total pay opportunities for executives and other key employees to the attainment of our company's performance goals. These awards are also used as a means to recognize the contribution of our executive officers to overall financial, operational and strategic success.

*Equity Incentives*

Equity incentives are intended to align senior executive and stockholder interests by linking a meaningful portion of executive pay to long-term stockholder value creation and financial success over a multi-year period. Equity incentives are also provided to our executives to attract and enhance the retention of executives and other key employees and to facilitate stock ownership by our senior executives. The Board of Directors also considers individual and company performance when determining long-term incentive opportunities.

*Health & Welfare and 401-K Benefits*

The named executive officers participate in a variety of retirement, health and welfare and paid time-off benefits designed to enable us to attract and retain our workforce in a competitive marketplace. Health and welfare and paid time-off benefits help ensure that we have a productive and focused workforce.

*Severance and Change of Control Arrangements*

We do not have a formal plan for severance or separation pay for our employees, but we typically include a severance provision in the employment agreements of our executive officers that is triggered in the event of involuntary termination without cause or in the event of a change in control.

In order to preserve the morale and productivity and encourage retention of our key executives in the face of the disruptive impact of an actual or rumored change in control, we provide a bridge to future employment in the event that an executive's job is eliminated as a consequence of a change in control. This provision is intended to align executive and stockholder interests by enabling executives to consider corporate transactions that are in the best interests of the stockholders and other constituents without undue concern over whether the transactions may jeopardize the executive's own employment. Our employment agreements with our current named executive officers provide a lump sum payment and benefits continuation as a result of an involuntary termination without cause or for good reason following a change in control, plus accelerated vesting of stock or option awards.

*Other Benefits*

In order to attract and retain highly qualified executives, we provide some of our named executive officers, with automobile allowances that we believe are consistent with current market practices. Our executives also may participate in a 401(k) plan under which we matched contributions for all employees up to 100% of an employee's contributions to a maximum of \$1,000 through December 31, 2013, and to 50% of an employee's contributions to a maximum of \$2,000 beginning in January 2014, subject to any limitations imposed by ERISA.

**Other Factors Affecting Compensation**

*Accounting and Tax Considerations*



We consider the accounting implications of all aspects of our executive compensation program. Our executive compensation program is designed to achieve the most favorable accounting (and tax) treatment possible as long as doing so does not conflict with the intended plan design or program objectives.

### **Process for Setting Executive Compensation**

When making pay determinations for named executive officers, the Board considers a variety of factors including, among others: (1) actual company performance as compared to pre-established goals; (2) overall company performance and size relative to industry peers; (3) individual executive performance and expected contribution to our future success; (4) changes in economic conditions and the external marketplace and (5) in the case of named executive officers, other than Chief Executive Officer, the recommendation of our Chief Executive Officer. Ultimately, the Board uses its judgment when determining how much to pay our executive officers. The Board evaluates each named executive officer's performance during the year against established goals, leadership qualities, business responsibilities, current compensation arrangements and long-term potential to enhance stockholder value. The opinions of outside consultants may also be taken into consideration in deciding what salary, bonus, long-term incentives and other benefits and severance to give each executive in order to meet our objectives stated above.

The Board considers compensation information from data gathered from annual reports and Proxy Statements from companies that the Board generally considers comparable to us; compensation of other Company employees for internal pay and equity purposes; and levels of other executive compensation plans from compensation surveys.

The Board sets the pay for the named executive officers and other executives, by element and in the aggregate, at levels that it believes are competitive and necessary to attract and retain talented executives capable of achieving our long-term objectives.

#### *Factors Considered*

In administering the compensation program for senior executives, including named executive officers, the Board considers the following:

*Cash versus non-cash compensation.* The pay elements are cash-based except for the long-term incentive program, which may be cash-based, equity-based, or a combination. In 2010, long-term incentive compensation included grants of restricted stock units to our Chief Executive Officer and to our President, which grants were made in connection with the recapitalization transaction that closed in July 2010;

*Prior year's compensation.* The Board of Directors considers the prior year's bonuses and long-term incentive awards when approving bonus payouts or equity grants;

*Adjustments to Compensation.* On an annual basis, and in connection with setting executive compensation packages, the Board of Directors reviews our operating income growth, earnings before interest and taxes growth, earnings per share growth, cash flow growth, operating margin, revenue growth and total stockholder return performance. In addition, the Board of Directors considers peer group pay practices, emerging market trends and other factors. No specific weighing is assigned to these factors nor are particular targets set for any particular factor. Total compensation from year to year can vary significantly based on our and the individual executive's performance; and

*Application of discretion.* It is our policy and practice to use discretion in determining the appropriate compensation levels considering performance.

**EXECUTIVE COMPENSATION****Summary Compensation Table**

The following table sets forth, as to each person serving as Chief Executive Officer and Chief Financial Officer during 2013 and the two most highly compensated executive officers other than the Chief Executive Officer and Chief Financial Officer at the end of the 2013 whose compensation exceeded \$100,000 (referred to as “named executive officers”), information concerning all compensation earned for services to us in all capacities for 2011, 2012 and 2013.

	Year	Salary	Bonus (1)	Option Award (2)	Non-Equity Incentive Plan Compensation (3)	All Other Compensation (4)	Total
<b>Lonnie D. Schnell</b>							
Chief Executive Officer and Chief Financial Officer	2013	\$375,000	\$36,268	\$-	\$ 344,500	\$ 40,672	\$796,440
	2012	375,002	15,546	-	172,146	39,733	602,427
	2011	349,519	80,436	-	-	39,288	469,243
<b>Larry Dyne</b>							
President	2013	\$350,000	\$36,268	\$-	\$ 323,000	\$ 24,783	\$734,051
	2012	350,001	15,546	-	160,669	23,438	549,654
	2011	324,519	75,436	-	-	22,693	422,648
<b>James E. Reeder</b>							
Vice President, Corporate Controller	2013	\$180,000	\$-	\$-	\$ -	\$ 26,987	\$206,987
	2012	176,981	5,000	-	-	22,346	204,327
	2011	175,000	15,000	9,091	-	20,470	219,561

Bonus compensation consists of discretionary bonuses awarded to the named executives based upon performance, (1) and discretionary bonuses associated with the tax consequences of RSU settlements. Bonuses are reported for the year in which they were earned and are generally paid in the first quarter of the subsequent year.

The option award represents the aggregate grant date fair value computed in accordance with ASC 718 with respect to option awards or stock awards granted in the applicable year. Pursuant to SEC rules, the amounts shown (2) exclude the impact of estimated forfeitures related to service-based vesting conditions. For additional information on the valuation assumptions with respect to these grants, refer to Note 6 of the Notes to Consolidated Financial Statements in our 2013 Annual Report as filed on Form 10-K. These amounts do not reflect the actual value that may be realized by the named executive officers which depends on the value of our shares in the future.

Non-equity incentive plan compensation for 2013 and 2012 consists of awards from the EBITDA Bonus Plan, a (3) cash incentive plan, which was established pursuant to our employment agreements with Mr. Schnell and Mr. Dyne. Bonuses are reported for the year in which they were earned and are generally paid in the first quarter of the subsequent year.



(4) All other compensation consists of the following (amounts in dollars):

	Year	Health and medical insurance premiums	Life and disability insurance	401k company matching contributions	Other personal benefits	Total
<b>Lonnie D. Schnell</b>	2013	\$ 28,729	\$ 1,722	\$ 1,000	\$ 9,221	\$40,672
	2012	27,408	1,722	1,000	9,603	39,733
	2011	27,727	301	1,000	10,260	39,288
<b>Larry Dyne</b>	2013	\$ 16,505	\$ 5,747	\$ 1,000	\$ 1,531	\$24,783
	2012	15,250	5,572	1,000	1,616	23,438
	2011	15,438	4,084	1,000	2,171	22,693
<b>James E. Reeder</b>	2013	\$ 24,894	\$ 1,093	\$ 1,000	\$ -	\$26,987
	2012	20,275	1,071	1,000	-	22,346
	2011	19,169	301	1,000	-	20,470

## Executive Compensation

*Chief Executive Officer (and Chief Financial Officer through March 31, 2014).* The 2011, 2012 and 2013 base salary and other compensation for Lonnie Schnell, our Chief Executive Officer, was determined in accordance with our employment agreement and related amendments. The terms and conditions established in this agreement were the result of consideration of our operating performance levels, at the time of entering into the agreement and for prior periods, comparative industry compensation levels and negotiations with Mr. Schnell. The base compensation was evaluated in conjunction with the long-term equity awards and annual bonus incentives to establish a compensation arrangement providing a substantial incentive for the achievement of our long-term objectives and for adding stockholder value. On July 30, 2010 Mr. Schnell was granted a restricted stock unit award (“RSU Award”) for 5,778,500 shares of our common stock. The RSU Award vested 50% on a date which was 13 months following the grant date, and vested an additional 10% on each date which was 18, 24, 30, 36 and 42 months following the grant date, subject to full acceleration of vesting upon a change in control of the Company, as defined in the RSU Award agreement. The settlement of vested shares under the RSU Award, of which 577,850 shares were outstanding as of December 31, 2013, is subject to non-revocable deferral elections delivered by Mr. Schnell.

In addition to the long-term equity incentive, Mr. Schnell was entitled to receive an annual cash bonus in 2011, 2012 and 2013 in an amount equal to a percentage of his base salary upon the Company achieving actual adjusted earnings before interest, taxes, depreciation and amortization (“EBITDA”) within a range, starting at 80%, of target adjusted EBITDA. The EBITDA bonus award under Mr. Schnell’s employment agreement and related amendments for 2011, 2012 and 2013 is shown in the table above as non-equity incentive plan compensation.



*President.* The 2011, 2012 and 2013 base salary and other compensation for Larry Dyne, our President, was determined in accordance with our employment agreement and related amendments. The terms and conditions established in this agreement were the result of consideration of our operating performance levels at the time of entering into the agreements and for prior periods, comparative industry compensation levels and negotiations with Mr. Dyne. The base compensation was evaluated in conjunction with the long-term equity awards and annual bonus incentives to establish a compensation arrangement providing a substantial incentive for the achievement of our long-term objectives and for adding stockholder value. On July 30, 2010 Mr. Dyne was granted an RSU Award for 5,778,500 shares of our common stock. The RSU Award vested 50% on a date which was 13 months following the grant date, and vested an additional 10% on each date which was 18, 24, 30, 36 and 42 months following the grant date, subject to full acceleration of vesting upon a change in control of our Company, as defined in the RSU Award agreement. The settlement of vested shares under the RSU Award, of which 577,850 shares were outstanding as of December 31, 2013, is subject to non-revocable deferral elections delivered by Mr. Dyne. In addition to the long term incentive, Mr. Dyne was entitled to receive an annual cash bonus in 2011 2012 and 2013 in an amount equal to a percentage of his base salary upon the Company achieving actual adjusted EBITDA within a range, starting at 80%, of target adjusted EBITDA. The EBITDA bonus award under Mr. Dyne's employment agreement and related amendments for 2011, 2012 and 2013 is shown in the table above as non-equity incentive plan compensation.

*Vice President, Corporate Controller.* The compensation for James E. Reeder, our former Vice President, Corporate Controller, was in accordance with our at-will employment agreement with him. The terms and conditions established in this agreement were the result of consideration of our operating performance levels, and consistent with comparative industry compensation levels. The base compensation was evaluated in conjunction with the long-term equity awards and annual bonus incentives to establish a compensation arrangement providing a substantial incentive for the achievement of our long-term objectives and for adding stockholder value. In 2011 long-term equity in the form of options for 100,000 shares of common stock, respectively, were granted to Mr. Reeder as an inducement to maximize performance and increase stockholder value. The option grants were established to vest monthly over a four-year term, after a minimum initial term of twelve months. Bonuses for 2011 and 2012 were discretionary incentive awards based on Mr. Reeder's individual performance and contributions.

### **Grants of Plan-Based Awards in Fiscal 2013**

No equity awards were granted to any named executive officer in 2013.

**Outstanding Equity Awards at Fiscal Year 2013**

The following table provides information with respect to outstanding stock options and stock awards held by each of the named executive officers as of December 31, 2013.

Name	Grant Date	Option Awards Number of Securities underlying Unexercised Options		Option Exercise Price (\$)	Option Expiration Date	RSU Stock Awards	
		(#) Exercisable	(#) Unexercisable			Number of Shares or Units of Stock That Have Not Vested (#)(2)	Market Value of Shares or Units of Stock That Have Not Vested \$(3)
Lonnie D. Schnell	6/25/08	900,000	-	\$ 0.20	06/24/18		
	8/6/09	700,000	-	\$ 0.09	8/6/19		
	7/30/10					577,850	144,463
Larry Dyne	6/25/08	700,000	-	\$ 0.20	06/24/18		
	8/6/09	510,000	-	\$ 0.09	8/6/19		
	7/30/10					577,850	144,463
James E. Reeder	6/1/09	200,000	-	\$ 0.11	6/1/19		
	1/13/11	72,917	27,083 (1)	\$ 0.10	1/13/21		

These options become exercisable with respect to 25% of the total options shares at the end of one year from the (1) date of the grant and the remaining shares shall become exercisable in 36 monthly installments equal to 1/48th of the Option shares on the last day of each calendar month thereafter until fully exercisable.

Each RSU original award of 5,778,500 vested 50% on a date which is 13 months following the grant date, and 10% on each date which is 18, 24, 30, 36 and 42 months following the grant date, subject to partial acceleration of (2) vesting as part of the executives' severance benefits and full acceleration of vesting upon a change in control of the Company, as defined in the RSU Award agreement. Issuance of the common shares upon settlement of the vested portion of the RSU Award is subject to irrevocable deferral elections delivered by the recipients.



(3)Based on the closing price of the Common Stock on December 31, 2013 of \$0.25, as reported by the OTCQB.

**Option Exercises and Stock Vested in Fiscal Year 2013**

The following table provides information with respect to restricted stock award vesting for each of the named executive officers during 2013. There were no options exercised by named executive officers during 2013.

Name	Stock Awards	
	Number of Shares (#)(1)	Value Realized (\$)(1)(2)
Lonnie D. Schnell	1,155,700	167,577
Larry Dyne	1,155,700	167,577
Total	2,311,400	335,154

(1) The shares shown in the table above indicate 577,850 shares that vested under the RSU Awards on each of January 30, 2013 and July 30, 2013 for each of the named executives.

(2) Based on the closing price of the Common Stock of \$0.04 and \$0.25 on January 30, 2013 and July 30, 2013, respectively, as reported by the OTCQB.

(3) The following table provides information with respect to restricted stock award settlements in common stock for each of the named executive officers during 2013 pursuant to deferral elections of previously vested RSU's:

Name	Acquired on settlement of RSU's		Acquired on settlement of RSU's due to Series B redemption	
	Number of Shares (#)(1)	Value Realized (\$)(1)(3)	Number of Shares (#)(2)	Value Realized (\$)(2)(3)
Lonnie D. Schnell	1,327,850	174,463	2,372,800	142,368
Larry Dyne	1,327,850	174,463	2,372,800	142,368
Total	2,655,700	348,926	4,745,600	284,736

- (1) The shares shown in the table above indicate 750,000 and 577,850 shares that settled into common shares under the RSU Awards on January 30, 2013 and July 30, 2013, respectively for each of the named executives.
- (2) The shares shown in the table above indicate RSU Awards settled in Common Stock on July 13, 2013 due to acceleration of settlement as a result of a change in control.
- (3) Based on the closing price of the Common Stock of \$0.04, \$0.06 and \$0.25 on January 30, 2013, July 13, 2013 and July 30, 2013, respectively, as reported by the OTCQB.

## Employment Agreements, Termination of Employment and Change of Control Arrangements

### *Employment Agreements*

We have entered into the following employment agreements and related amendments with Lonnie D. Schnell and Larry Dyne. Mr. Reeder did not have an employment agreement.

*Lonnie D. Schnell, Chief Executive Officer (and Chief Financial Officer through March 31, 2014).* On July 30, 2010, we entered into an Executive Employment Agreement with Mr. Schnell as amended on June 15, 2012 and November 8, 2013. Mr. Schnell's employment agreement, as amended, provides that he will continue to serve as our Chief Executive Officer. The employment agreement and related amendments has a term continuing through December 31, 2014, and may be extended to December 31, 2016. Pursuant to this agreement, Mr. Schnell received an annual base salary of \$325,000 for the period starting on July 30, 2010 through December 31, 2010, \$350,000 for the year ended December 31, 2011 and \$375,000 for the years ended December 31, 2012 and 2013. Starting on January 1, 2014, Mr. Schnell's annual base salary will be \$425,000 through the remainder of the term of this agreement. Such base salary may be increased, but not decreased, at the discretion of the Board. Mr. Schnell is entitled to receive an annual cash bonus in an amount equal to a percentage of his base salary upon the Company achieving actual adjusted EBITDA within a range and meeting certain performance objectives, starting at 80%, of target adjusted EBITDA as determined by the Board of Directors.

Mr. Schnell is entitled to an auto allowance of \$1,000 per month, and reimbursement of up to \$10,000 for legal fees incurred in connection with the negotiation of his employment agreement. In the event that prior to the end of the term, Mr. Schnell's employment is terminated by us "without cause" (as defined in the agreement), by Mr. Schnell for "good reason" (as defined in the agreement) or due to Mr. Schnell's death or disability, then conditional upon his execution of a release of claims, Mr. Schnell or his estate will be entitled to receive, in addition to all accrued salary, (1) severance payments equal to 18 months of Mr. Schnell's base salary, (2) all options issued to Mr. Schnell shall remain outstanding for 18 months following termination, and (3) continued medical coverage for Mr. Schnell and his dependents for 18 months following termination.

*Larry Dyne, President.* On July 30, 2010, we entered into an Executive Employment Agreement with Mr. Dyne as amended on June 15, 2012 and November 8, 2013. Mr. Dyne's employment agreement, as amended, provides that he will continue to serve as our President. The employment agreement and related amendments has a term continuing through December 31, 2014, and may be extended to December 31, 2016. Pursuant to this agreement, Mr. Dyne received an annual base salary of \$300,000 for the period starting on July 30, 2010 through December 31, 2010, \$325,000 for the year ended December 31, 2011 and \$350,000 for the years ended December 31, 2012 and 2013. Starting on January 1, 2014, Mr. Dyne's annual base salary will be \$400,000 through the remainder of the term of this agreement. Such base salary may be increased, but not decreased, at the discretion of the Board. Mr. Dyne is entitled to receive an annual cash bonus in an amount equal to a percentage of his base salary upon the Company achieving

actual adjusted EBITDA within a range and meeting certain performance objectives, starting at 80%, of target adjusted EBITDA as determined by the Board of Directors.

Mr. Dyne is entitled to an auto allowance of \$950 per month, and reimbursement of up to \$10,000 for legal fees incurred in connection with the negotiation of his employment agreement. In the event that prior to the end of the term, Mr. Dyne's employment is terminated by us "without cause" (as defined in the agreement), by Mr. Dyne for "good reason" (as defined in the agreement) or due to Mr. Dyne's death or disability, then conditional upon his execution of a release of claims, Mr. Dyne or his estate will be entitled to receive, in addition to all accrued salary, (1) severance payments equal to 18 months of Mr. Dyne's base salary, (2) all options issued to Mr. Dyne shall remain outstanding for 18 months following termination, and (3) continued medical coverage for Mr. Dyne and his dependents for 18 months following termination.

*Potential Severance Payments*

Under the Executive Employment Agreements as described above, Messrs. Schnell and Dyne will be entitled to receive severance benefits in the event that the executive's employment is terminated due to executive's death or disability, by us without "cause" or by the executive for "good reason." The following table sets forth severance payments and benefits that we would have been obligated to pay to Messrs. Schnell and Dyne assuming a triggering event had occurred under each of their respective employment agreements as of December 31, 2013 as follows:

<b>Name</b>	<b>Cash Severance Payment (\$)(1)</b>	<b>Non-Equity Incentive Plan Compensation (\$)</b>	<b>Continuation of Health Benefits (\$)</b>	<b>Total Severance Benefits (\$)</b>
Lonnie D. Schnell	715,547	344,500	46,341	1,106,388
Larry Dyne	666,287	323,000	22,932	1,012,219

Includes (a) earned and unpaid base salary through the date of termination, (b) accrued but unpaid vacation and (c) (1) severance payments equal to 18 months of base salary and payable in a lump sum or periodic payments as provided in the executive's employment agreement and (d) car allowance payments due at the first day of the month during the severance period (18 months) as provided in the executive's employment agreement.

*Potential Change in Control Payments*

Each RSU Award to Messrs. Schnell and Dyne will vest 100% upon a change in control of our Company, as defined in the RSU Award agreement. In addition, in accordance with their deferral elections, the entire vested portion of the RSU Award subject to a deferral will be immediately settled in common shares upon a change in control transaction. The following table sets forth the change in control benefits that we would have been obligated to pay to our named executive officers assuming a change of control had occurred as of December 31, 2013.

<b>Name</b>	<b>Value of Acceleration of Vesting of Equity Awards (\$)(1)</b>
Lonnie D. Schnell	144,463
Larry Dyne	144,463

(1)Based on the closing price of the Common Stock on December 31, 2013 of \$0.25, as reported by the OTCQB.

## **Director Compensation**

The general policy of the Board of Directors is that compensation for independent directors should be a mix of cash and equity-based compensation. We do not pay management directors for Board service in addition to their regular employee compensation. The full Board of Directors has the primary responsibility for reviewing and considering any revisions to director compensation.

The following table details the total compensation earned by our non-employee directors in 2013.

Name	Fees earned or paid in cash	Option awards (6)	Total
Mark Dyne (1)	\$35,500	\$35,000	\$70,500
David Ellis (2)	70,000	35,000	105,000
Morris Weiss (3)	69,000	35,000	104,000
Robert L. Golden (4)	4,833	31,000	35,833
Mark J. Hughes (5)	7,000	-	7,000
Total	\$186,333	\$136,000	\$322,333

(1) As of December 31, 2013, Mr. Mark Dyne held options to purchase a total of 415,000 shares.

(2) As of December 31, 2013 Mr. David Ellis held options to purchase a total of 300,000 shares.

(3) As of December 31, 2013, Mr. Morris Weiss held options to purchase a total of 200,000 shares.

(4) As of December 31, 2013, Mr. Robert L. Golden held options to purchase a total of 100,000 shares.

(5) Mr. Hughes resigned from his position as Board member on July 12, 2013.

(6) The grant date fair value is generally the amount we would expense in our financial statements over the award's service period, but does not include a reduction for forfeitures.

Our current policy, adopted as of January 1, 2014, is to pay non-employee directors an annual retainer of \$25,000 for service on our Board of Directors as well as \$1,000 for their attendance at any meeting of the Board of Directors, regardless of whether such meeting is held in person or telephonically. In addition, our current policy is to annually grant to each non-employee director an option to purchase 50,000 shares of our common stock immediately following reelection as directors at each annual meeting of stockholders. The options vest in 12 equal monthly installments, and become fully vested one year from the date of grant.



Our Board of Directors does not have standing audit, compensation or nominating committees. The Board of Directors handles all audit, compensation and nominating committee matters. We also reimburse directors for their reasonable travel expenses incurred in attending board meetings or committee meetings.

The Board of Directors approved the foregoing new Board compensation policies effective for 2014 based, in part, on the results of a compensation study provided by a nationally recognized compensation consulting firm engaged by the Board in 2013.

Prior to our adoption of the current policy, from January 1, 2011 through December 31, 2013 our policy was to pay non-employee directors an annual retainer of \$10,000 (or \$15,000 in the case of the Chairman of the Board), \$1,000 for their personal attendance at any meeting of the Board of Directors or of a committee of the Board of Directors, and \$500 for attendance at any telephonic meeting of the Board of Directors or of a committee of the Board of Directors. In addition, our prior policy provided for an annual grant to each non-employee director of options to purchase 100,000 shares of our common stock.

During 2013, members of the Special Committee received for service on that committee an additional monthly retainer of \$2,000, members of the Financing Committee received for their service on that committee a retainer of \$10,000 plus \$2,000 for each meeting attended (whether held in person or telephonically).

On August 14, 2013, we issued 100,000 options to each of the Messrs. Mark Dyne, David Ellis and Morris Weiss in connection with their reelection as directors. On September 17, 2013, we issued 100,000 options to Robert L. Golden in connection with his appointment as a director.

### **Risk Assessment Regarding Compensation Policies and Practices**

Our compensation program for employees does not create incentives for excessive risk taking by our employees or involve risks that are reasonably likely to have a material adverse effect on our Company. Our base salary component of compensation does not encourage risk-taking because it is a fixed amount. Our executive bonus plan for senior executives and our equity compensation awards have the following risk-limiting characteristics:

Cash awards to each executive officer under management incentive bonus plans are set in a market range and are limited by the terms of the plan for senior executives to a fixed maximum specified in the plan;

Equity and discretionary cash awards are made based on a review of a variety of indicators of performance, thus diversifying the risk associated with any single indicator of performance;

Neither cash nor equity awards are tied to formulas that could focus executives on specific short-term outcomes;

Members of the Board of Directors approve the final cash incentive awards made under the executive bonus plan for senior executives in their discretion, after the review of executive and corporate performance;

Members of the Board of Directors approve all equity awards for senior executives in their discretion;  
and

An equity award's value is delivered in the form of stock and options that vest over multiple years, which aligns the interests of executive officers to long-term stockholder interests.

### **TRANSACTIONS WITH RELATED PERSONS**

#### **Review and Approval of Related Party Transactions**

We have adopted a policy that requires Board of Directors' approval of transactions with related persons as defined by SEC regulations, including any sales or purchase transaction, asset exchange transaction, operating agreement, or advance or receivable transaction that could put our assets or operating performance at risk. All of our directors and executive officers are required at all times, but not less than annually, to disclose all relationships they have with companies or individuals that have conducted business with, or had an interest in, us. Our executive officers monitor our operations giving consideration to the disclosed relationships and refer potential transactions to the Board of Directors for approval. The Board of Directors considers a related party transaction for its potential economic benefit to us, to ensure the transaction is "arms length" and in accordance with our policies and that it is properly disclosed in our reports to stockholders.

## Reportable Related Party Transactions

Other than the employment arrangements described elsewhere in this report and the transactions described below, since January 1, 2013, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or will be a party:

in which the amount involved exceeds \$120,000; and

in which any director, executive officer, stockholder who beneficially owns 5% or more of our common stock or any member of their immediate family had or will have a direct or indirect material interest.

On July 12, 2013, we entered into the Redemption Agreement with CVC (our controlling stockholder at the time) and repurchased from CVC all of the 407,160 previously outstanding shares of our Series B Preferred Stock for an aggregate purchase price of \$18,800,000, which purchase price was paid by delivery to CVC of \$13,000,000 in cash and an unsecured Promissory Note in the principal amount of \$5,800,000. Pursuant to the Redemption Agreement, the Stockholder's Agreement with CVC, and with Lonnie D. Schnell and Larry Dyne, was terminated, see Note 2 in the Notes to Consolidated Financial Statements in our 2013 Annual Report as filed on Form 10-K. In connection with the redemption in full of the Series B Preferred Stock, CVC representative on our Board of Directors, Mark Hughes, resigned from our Board of Directors effective July 12, 2013. All obligations under the \$5,800,000 Promissory Note due to CVC were paid in full on December 31, 2013.

In order to provide additional funds necessary for the redemption of the Series B Preferred Stock, we raised \$5,500,000 of new equity capital through the sale, in a private placement transaction, of 61,111,109 shares of common stock at a price of \$0.09 per share. The closing of the private placement was expressly conditioned upon the contemporaneous closing of the transactions under the Redemption Agreement. Zipper Holdings, LLC, a company controlled by Mark Dyne, the Chairman of our Board of Directors, acquired 8,333,333 shares of common stock in the private placement. At the closing of the private placement, the Company entered into Subscription Agreements with each of the purchasers. We also entered into a Registration Rights Agreement with the investors in the transaction. The Registration Rights Agreement provides for demand registration rights, such that upon the demand of holders of at least 25% of the shares issued in the private placement and subject to certain conditions, we will file a registration statement covering the shares issued in the private placement and requested to be included in such registration. The Registration Rights Agreement also provides certain piggyback rights, in which the holders of shares acquired in the private placement have the right to include those shares in a Company-initiated registration.

## AUDIT RELATED MATTERS

### Report of Board of Directors Performing the Functions of an Audit Committee

The functions customarily delegated to the audit committee are performed by our full Board of Directors. The Board of Directors has furnished the report set forth below.

The Board of Directors is responsible for overseeing and monitoring the integrity of our financial reporting process, our compliance with legal and regulatory requirements and the quality of our internal and external audit processes. The Board reviews and reassesses the charter annually and recommends any changes to the Board for approval.

In fulfilling its responsibilities for the financial statements for fiscal year 2013, the Board of Directors:

Reviewed and discussed the audited financial statements for the year ended December 31, 2013 with management and SingerLewak LLP, our independent registered public accounting firm;

Discussed with SingerLewak LLP the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit;

Received written disclosures and a letter from SingerLewak LLP regarding its independence as required by Independence Standards Board Standard No. 1. The Board of Directors discussed with SingerLewak LLP their independence; and

Based on its review of the audited financial statements and discussions with management and SingerLewak LLP, recommended to the Board that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2013 for filing with the Securities and Exchange Commission.

The Board of Directors also considered the status of pending litigation and other areas of oversight relating to the financial reporting and audit process that the Board of Directors determined appropriate.

The Board of Directors considered whether the provision of non-audit services is compatible with maintaining the principal accountant's independence.

**The Board of Directors:**

Mark Dyne

Lonnie D. Schnell

David Ellis

Morris Weiss

Robert L. Golden

### **Services Provided by the Independent Auditors**

Our Board of Directors performs the functions of the audit committee and is responsible for the appointment, compensation, retention and oversight of the work of the independent auditors.

SingerLewak LLP served as our independent registered public accounting firm for each of the fiscal years ended December 31, 2013, 2012 and 2011.

*Audit Fees* - The aggregate fees billed by our independent registered public accounting firm for professional services rendered for the audit of our annual financial statements and review of our financial statements included in our Forms 10-Q or services that are normally provided in connection with statutory and regulatory filings were \$307,000 for fiscal year 2013, \$315,000 for fiscal year 2012 and \$326,000 for fiscal year 2011.

*Audit-Related Fees* - No fees were billed by our independent registered public accounting firm for professional services rendered for assurance and related services reasonably related to the performance of the audit or review of our financial statements (other than those reported above) for fiscal years 2013, 2012 and 2011.

*Tax Fees* - The aggregate fees billed by our independent registered public accounting firm for professional services rendered for tax compliance, tax advice and tax planning were \$0 for fiscal year 2013 and 2012 and \$31,000 for fiscal year 2011.

*All Other Fees* – The aggregate fees billed by our independent public registered accounting firm for services rendered to us other than the services described above under “Audit Fees,” “Audit-Related Fees” and “Tax Fees” were \$4,000 for fiscal year 2013 and 2012 and \$0 for fiscal year 2011 which was primarily related to governmental regulations not related to our annual or quarterly financial statements.

The Board of Directors approved all of the foregoing services provided by SingerLewak LLP.

### **Policy Regarding Pre-Approval of Services Provided by the Independent Auditors**

The Board of Directors has established a general policy requiring its pre-approval of all audit services and permissible non-audit services provided by the independent auditors, along with the associated fees for those services. For both types of pre-approval, the Board of Directors considers whether the provision of a non-audit service is consistent with the SEC's rules on auditor independence, including whether provision of the service (1) would create a mutual or conflicting interest between the independent auditors and us, (2) would place the independent auditors in the position of auditing its own work, (3) would result in the independent auditors acting in the role of management or as our employee, or (4) would place the independent auditors in a position of acting as an advocate for us. Additionally, the Board of Directors considers whether the independent auditors are best positioned and qualified to provide the most effective and efficient service, based on factors such as the independent auditors' familiarity with our business, personnel, systems or risk profile and whether provision of the service by the independent auditors would enhance our ability to manage or control risk or improve audit quality or would otherwise be beneficial to us.



## Security Ownership of Certain Beneficial Owners and Management

The following table presents information regarding the beneficial ownership of our common stock as of April 17, 2014:

each person who is known to us to be the beneficial owner of more than 5% of our outstanding common Stock;  
each of our current directors;  
each of our named executive officers; and  
all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission that deem shares to be beneficially owned by any person who has shares voting or investment power with respect to such shares. Shares of Common Stock underlying warrants or options currently exercisable or exercisable within sixty (60) days of the date of this information are deemed outstanding for purposes of computing the percentage ownership of the person holding such warrants or options but are not deemed outstanding for computing the percentage ownership of any other person. As a result, the percentage of outstanding shares of any person as shown in this table does not necessarily reflect the person's actual ownership or voting power with respect to the number of shares of Common Stock actually outstanding at April 17, 2014. Unless otherwise indicated, the persons named in this table have sole voting and sole investment power with respect to all shares shown as beneficially owned, subject to community property laws where applicable.

As of April 17, 2014, we had 92,267,831 shares of Common Stock issued and outstanding. The address of each person listed is in our care, at 21900 Burbank Boulevard, Suite 270, Woodland Hills, California 91367, unless otherwise set forth below such person's name.

Name of Beneficial Owner	Common Stock Shares	%
<b>Executive Officers and Directors:</b>		
Lonnie D. Schnell <sup>(1)</sup>	6,943,097	7.4
Larry Dyne <sup>(2)</sup>	6,557,697	7.0
Nancy Agger-Nielsen	-	-
Mark Dyne <sup>(3)</sup>	9,567,333	10.3
David Ellis <sup>(4)</sup>	283,333	*
Morris Weiss <sup>(4)</sup>	158,333	*
Robert L. Golden <sup>(4)</sup>	75,000	*
<b>Executive Officers and Directors as a Group (7 persons) <sup>(5)</sup></b>	<b>23,584,793</b>	<b>24.6</b>

**5% Stockholders:**

Kutula Holdings Ltd.

Fascinatio Boulevard 764

38,888,889 42.1

2909 VA Capelle aan den Ijssel,

Netherlands

Perrtech Pty Limited

Level 3, 11 New South Head Road  
Edgecliff NSW 2027, Sydney,

8,333,333 9.0

Australia

\* Less than 1%.

(1) Consists of (i) 5,343,097 shares of Common Stock and (ii) 1,600,000 shares of Common Stock reserved for issuance upon exercise of stock options that are currently exercisable.

(2) Consists of (i) 5,347,697 shares of Common Stock and (ii) 1,210,000 shares of Common Stock reserved for issuance upon exercise of stock options that are currently exercisable.

(3) Consists of (i) 9,169,000 shares of Common Stock and (ii) 398,333 shares of Common Stock reserved for issuance upon exercise of stock options that are currently exercisable or will become exercisable within 60 days.

(4) Consists entirely of shares of Common Stock reserved for issuance upon exercise of stock options that are currently exercisable or will become exercisable within 60 days.

(5) Consists of (i) 19,859,794 shares of Common Stock and (ii) 3,724,999 shares of Common Stock reserved for issuance upon exercise of stock options that are currently exercisable or will become exercisable within 60 days.

The information as to shares beneficially owned has been individually furnished by our respective directors, named executive officers, and our other stockholders, or taken from documents filed with the Securities and Exchange Commission.



**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers, directors and persons who own more than ten percent of a registered class of our equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Executive officers, directors and greater-than-ten percent stockholders are required by Securities and Exchange Commission regulations to furnish us with all Section 16(a) forms they file. Based solely on our review of the copies of the forms received by us and written representations from certain reporting persons that they have complied with the relevant filing requirements, we believe that, during the year ended December 31, 2013, all of our executive officers, directors and greater-than-ten percent stockholders complied with all Section 16(a) filing requirements.

***Proposal NUMBER 2: ADVISORY VOTE ON EXECUTIVE COMPENSATION***

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act (or “Dodd-Frank Act”), we are required to include in this Proxy Statement and present at the Annual Meeting a non-binding stockholder vote to approve the compensation of our executives, as described in this Proxy Statement, pursuant to the compensation disclosure rules of the SEC. This proposal, commonly known as a “say on pay” vote, gives stockholders the opportunity to endorse or not endorse the compensation of our executives as disclosed in this Proxy Statement. This proposal will be presented at the annual meeting as a resolution in substantially the following form:

RESOLVED, that the stockholders approve the compensation of the Company’s executives, as disclosed in the Compensation Discussion and Analysis, the compensation tables and related narrative disclosure in the Company’s Proxy Statement for the annual meeting.

This vote will not be binding on our Board of Directors and may not be construed as overruling a decision by the Board or creating or implying any change to the fiduciary duties of the Board. The vote will not affect any compensation previously paid or awarded to any executive. The Board of Directors may, however, take into account the outcome of the vote when considering future executive compensation arrangements.

The purpose of our compensation programs is to attract and retain experienced, highly qualified executives critical to our long-term success and enhancement of stockholder value.

**Required Vote**

Endorsement of the compensation of our executive officers will require the affirmative vote of a majority of the shares of common stock present or represented and entitled to vote at the Annual Meeting with respect to such proposal.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE “FOR” ENDORSEMENT OF THE COMPENATION OF OUR EXECUTIVE OFFICERS.**



## **STOCKHOLDER PROPOSALS**

Any stockholder who intends to present a proposal at the 2015 annual meeting of stockholders for inclusion in our Proxy Statement and Proxy form relating to such annual meeting must submit such proposal to us or our principal executive offices by December 22, 2014. In addition, in the event a stockholder proposal is not received by us by March 8, 2015, the Proxy to be solicited by the Board of Directors for the 2015 annual meeting will confer discretionary authority on the holders of the Proxy to vote the shares if the proposal is presented at the 2015 annual meeting without any discussion of the proposal in the Proxy Statement for such meeting.

SEC rules and regulations provide that if the date of our 2015 annual meeting is advanced or delayed more than 30 days from the first anniversary of the date of the 2014 annual meeting, stockholder proposals intended to be included in the proxy materials for the 2015 annual meeting must be received by us within a reasonable time before we begin to print and mail the proxy materials for the 2015 annual meeting. Upon determination by us that the date of the 2015 annual meeting will be advanced or delayed by more than 30 days from the first anniversary of the date of the 2014 annual meeting, we will publicly disclose such change.

## **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

SingerLewak LLP, independent registered public accounting firm, was selected by the Board of Directors to serve as our independent registered public accounting firm of the Company for fiscal 2014. Representatives of SingerLewak LLP are expected to be present at the Annual Meeting, and will be afforded the opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions from stockholders.

## **SOLICITATION OF PROXIES**

It is expected that the solicitation of Proxies will be by mail. The cost of solicitation by management will be borne by us. We will reimburse brokerage firms and other persons representing beneficial owners of shares for their reasonable disbursements in forwarding solicitation material to such beneficial owners. Proxies may also be solicited by certain of our directors and officers, without additional compensation, personally or by mail, telephone, telegram or otherwise.

**ANNUAL REPORT ON FORM 10-K**

Our annual report on form 10-K which has been filed with the Securities and Exchange Commission for the year ended December 31, 2013, will be made available to stockholders without charge upon written request to Nancy Agger-Nielsen, Chief Financial Officer, Talon International, Inc., 21900 Burbank Boulevard, Suite 270, Woodland Hills, California 91367.



On behalf of the Board of Directors

/s/ Lonnie D. Schnell  
Lonnie D. Schnell  
Chief Executive Officer

TALON INTERNATIONAL, INC.  
21900 Burbank Boulevard, Suite 270  
Woodland Hills, California 91367

April 17, 2014

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**TALON INTERNATIONAL, INC.**

**PROXY FOR THE 2014 ANNUAL MEETING OF STOCKHOLDERS**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned, a stockholder of TALON INTERNATIONAL, Inc., a Delaware corporation (the “Company”), hereby nominates, constitutes and appoints Lonnie D. Schnell and Nancy Agger-Nielsen, or either of them, as proxy of the undersigned, each with full power of substitution, to attend, vote and act for the undersigned at the Annual Meeting of Stockholders of the Company, to be held on May 29, 2014 (the “Annual Meeting”), and any postponements or adjournments thereof, and in connection therewith, to vote and represent all of the shares of the Company which the undersigned would be entitled to vote with the same effect as if the undersigned were present, as follows:

A VOTE FOR ALL NOMINEES IS RECOMMENDED BY THE BOARD OF DIRECTORS:

**Item 1. To elect the following nominees as directors:**

Mark Dyne	FOR	WITHHOLD
Lonnie D. Schnell	FOR	WITHHOLD
David Ellis	FOR	WITHHOLD
Morris Weiss	FOR	WITHHOLD
Robert L. Golden	FOR	WITHHOLD

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THE BOARD OF DIRECTORS RECOMMENDS YOU VOTE “FOR” THE FOLLOWING PROPOSAL:

**Item 2. Advisory vote on executive compensation.**

FOR AGAINST ABSTAIN

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The undersigned hereby confer(s) upon the proxies and each of them discretionary authority with respect to the election of directors in the event that any of the above nominees is unable or unwilling to serve.

The undersigned hereby revokes any other proxy to vote at the Annual Meeting, and hereby ratifies and confirms all that said attorneys and proxies, and each of them, may lawfully do by virtue hereof. With respect to matters not known at the time of the solicitation hereof, said proxies are authorized to vote in accordance with their best judgment.

THIS PROXY WILL BE VOTED IN ACCORDANCE WITH THE INSTRUCTIONS SET FORTH ABOVE OR, TO THE EXTENT NO CONTRARY DIRECTION IS INDICATED, WILL BE TREATED AS A GRANT OF AUTHORITY TO VOTE FOR ALL PROPOSALS. IF ANY OTHER BUSINESS IS PRESENTED AT THE ANNUAL MEETING, THIS PROXY CONFERS AUTHORITY TO AND SHALL BE VOTED IN ACCORDANCE WITH THE RECOMMENDATIONS OF THE PROXIES.

The undersigned acknowledges receipt of a copy of the Notice of Annual Meeting dated April 17, 2014 and the accompanying Proxy Statement relating to the Annual Meeting.

Dated:

Signature:

Signature:  
Signature(s)  
of  
Stockholder(s)  
(See  
Instructions  
Below)

The  
Signature(s)  
hereon should  
correspond  
exactly with  
the name(s) of  
the  
Stockholder(s)  
appearing on  
the Share  
Certificate. If  
stock is held  
jointly, all joint

owners should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If signer is a corporation, please sign the full corporation name, and give title of signing officer.

Please indicate by checking this box if you anticipate attending the Annual Meeting.

PLEASE MARK, SIGN, DATE AND RETURN THE PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE