CROPPER STEPHEN L
Form 4
November 16, 2011

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
CROPPER STEPHEN L

(Last) (First) (Middle)

1818 MARKET STREET, SUITE 1500

(Street)

PHILADELPHIA, PA 19103-3615

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SUNOCO LOGISTICS PARTNERS L.P. [SXL]

3. Date of Earliest Transaction (Month/Day/Year)
11/14/2011

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative	2. Conversion	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if	4. Transaction	5. Number	6. Date Exercisable and Expiration Date	7. Title and Amount of Underlying Securities	8. Price of Derivativ

Security (Instr. 3)	or Exercise Price of Derivative Security		any (Month/Day/Year)	Code (Instr. 8)		of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		(Month/Day/Year)		(Instr. 3 and 4)		Security (Instr. 5)
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Restricted Units	(1)	11/14/2011		A		77 (2)		(3)	(3)	Common Units	77	$ 99.95

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
CROPPER STEPHEN L 1818 MARKET STREET SUITE 1500 PHILADELPHIA, PA 19103-3615	X			

Signatures

/s/John J. DiRocco, Jr. attorney-in-fact for Stephen L. Cropper	11/16/2011
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The conversion rate is 1 for 1.

(2) Reflects crediting of restricted units held in the Director's Mandatory Deferred Compensation Account in connection with the cash distribution paid on the Registrant's common units on 11/14/2011, in a transaction exempt under Rule 16b-3(d).

(3) Not applicable.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Income from operations
$497,783

25

TALON INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The Company distributes its products internationally and has reporting requirements based on geographic regions. Revenues are attributed to countries based upon customer delivery locations and the net book value of long-lived assets (consisting of property and equipment and intangible) is attributed to countries based on the location of the assets, as follows:

Sales:	Three Months ended September 30,		Nine Months ended September 30,	
Country / Region	2010	2009	2010	2009
United States	$ 761,204	$ 829,381	$ 2,768,820	$ 2,398,991
Hong Kong	2,986,107	4,061,003	10,960,846	9,543,760
China	2,813,682	2,274,706	8,905,062	7,897,168
Bangladesh	557,798	375,463	1,945,097	1,515,876
Taiwan	158,508	280,123	1,094,619	775,675
India	227,787	334,214	760,982	1,158,650
Other	1,772,248	2,271,874	6,050,240	6,236,163
Total	$ 9,277,334	$ 10,426,764	$ 32,485,666	$ 29,526,283

	September 30, 2010	December 31, 2009
Long-lived Assets:		
United States	$ 4,705,359	$ 4,661,855
Hong Kong	946,916	1,193,617
China	197,423	236,768
Other	2,814	4,097
Total	$ 5,852,512	$ 6,096,337

Note 13. Related Party Notes and Transactions

On July 30, 2010, the Company entered into a Recapitalization Agreement in which the Company issued Series B Preferred Stock in payment of all of the outstanding obligations owed by the Company to CVC under the Loan Agreement (See Note 7 and Note 8). As a result of this transaction CVC (currently the sole holder of the Series B Preferred Stock) has become a majority stockholder in the company. A $60,000 non-refundable fee was paid in consideration of CVC entering into an amendment to the Loan Agreement during the quarter ended September 30, 2010. Commencing August 1, 2010, a $5,000 monthly debt monitoring fee was paid to CVC.

Colin Dyne, a former director of the Company in 2009 and through July 30, 2010, is also a director, officer and significant stockholder of People’s Liberation, Inc., the parent company of Versatile Entertainment, Inc. and William Rast Sourcing. During the three and nine months ended September 30, 2010 the Company had sales of $8,770 and

$77,081, respectively, to William Rast Sourcing and Versatile Entertainment. During the three and nine months ended September 30, 2009 the Company had sales of $40,165 and $163,860, respectively, to William Rast Sourcing. Accounts receivable of $34,493 and $41,200 were outstanding from William Rast Sourcing and Versatile Entertainment at September 30, 2010 and December 31, 2009, respectively.

26

TALON INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note Receivable from Related Party, net at December 31, 2009 represented the unsecured note and accrued interest receivable due from Colin Dyne in the amount of $720,417, and included a valuation reserve for the full amount due. The note bore interest at 7.5% and was due on demand. On June 29, 2010, the Company sold the Note Receivable with all of the Company's rights, title and interest therein to a third party for cash proceeds of $275,000. The amount received was recorded as a recovery of bad debts.

In November 2009, the Company entered into an agreement to pay a commission to an affiliate of Colin Dyne equal to 7% of the collected revenues associated with the sales of products to selected retail brands, with 2% of the 7% earned applied to the note receivable balance. For the three and nine months ended September 30, 2010 commissions of $36,004 and $91,544 were paid in cash, respectively. For the nine months ended September 30, 2010 commissions of $27,057 were applied to the note receivable balance. No commissions were earned under this agreement in 2009.

Notes payable to related parties includes demand notes and advances to parties related to or affiliated with Mark Dyne, the Chairman of the Board of Directors of the Company and a significant stockholder. The balance of demand notes payable and interest expense due to Mark Dyne and affiliated parties at September 30, 2010 and December 31, 2009 was $234,675 and $229,356, respectively.

Consulting fees to Diversified Consulting, LLC, a company owned by Mark Dyne, amounted to $0 and $46,772 for the three and nine months ended September 30, 2010, respectively. The consulting arrangement terminated on March 20, 2010. As of September 30, 2010 and December 31, 2009 accrued consulting fees amounted to $158,289 and $200,870, respectively, due to Diversified Consulting, LLC. Consulting fees paid for the three and nine months ended September 30, 2009 were $37,500 and $112,500, respectively.

Interest paid to Diversified Consulting, LLC, amounted to $4,680 and $12,440 for the three and nine months ended September 30, 2010, respectively. As of September 30, 2010 and December 31, 2009 accrued expenses includes associated interest on consulting fees in the amount of $39,995 and $50,698 due to Diversified Consulting, LLC.

Notes payable to related parties includes a note and associated interest due to Lonnie D. Schnell, the Chief Executive Officer and Chief Financial Officer of the Company. The note, issued on August 6, 2009 in partial satisfaction of 2008 annual incentive payments to which Mr. Schnell was entitled, bears 6% interest annually and the maturity date is the earlier of December 31, 2011 or ten days following Mr. Schnell's employment termination date. The balance of the note payable and accrued interest expense due to Mr. Schnell at September 30, 2010 and December 31, 2009 was $38,192 and $36,516, respectively.

Note 14. Subsequent Events

The Company evaluated subsequent events after the balance sheet date of September 30, 2010 through the date these unaudited financial statements were issued.

Explanation of Responses:

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Forward Looking Statements

This report and other documents we file with the Securities and Exchange Commission contain forward looking statements that are based on current expectations, estimates, forecasts and projections about us, our future performance, our business or others on our behalf, our beliefs and our management's assumptions. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. We describe our respective risks, uncertainties, and assumptions that could affect the outcome or results of operations below. We have based our forward looking statements on our management's beliefs and assumptions based on information available to our management at the time the statements are made. We caution you that actual outcomes and results may differ materially from what is expressed, implied, or forecast by our forward looking statements. Reference is made in particular to forward looking statements regarding projections or estimates concerning our business, including adequate liquidity to fund our operations and meet our other cash requirements, demand for our products and services, mix of revenue streams, ability to control or reduce operating expenses, anticipated gross margins and operating results, cost savings, product development efforts, general outlook of our business and industry, international businesses, and competitive position.

The following management's discussion and analysis is intended to assist the reader in understanding our consolidated financial statements. This management's discussion and analysis is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and accompanying notes.

Talon International, Inc. designs, manufactures, sells and distributes apparel zippers, specialty waistbands and various apparel trim products to manufacturers of fashion apparel, specialty retailers and mass merchandisers. We sell and market these products under various branded names including Talon® and Tekfit®. We operate the business globally under three product groups.

We pursue the global expansion of Talon zippers through the establishment of Talon owned sales, distribution and manufacturing locations, strategic manufacturing relationships and joint ventures. The manufacturing joint ventures, in combination with Talon owned and affiliated facilities under the Talon brand, improve our time-to-market by eliminating the typical setup and build-out phase for new manufacturing capacity throughout the world by sourcing, finishing and distributing to apparel manufacturers in their local markets.

Our trim business focuses on serving as an outsourced product development, sampling and sourcing department for the most demanding brands and retailers. We believe that trim design differentiation among brands and retailers is a critical marketing tool for our customers. By assisting our customers in the design, development, sampling and sourcing of trim, we generally achieve higher margins for our trim products, create long-term relationships with our customers, grow our sales to a particular customer by supplying trim for a larger proportion of their brands and better differentiate our trim sales and services from those of our competitors. We are expanding our trim business globally, to better serve our apparel customers in the field, in addition to our brand and retail customer. We believe we can lead the industry in trim sourcing by having strong relationships with our brand and retail customers and having a distributed service organization to serve our factory customers globally.

Our Tekfit business provides manufacturers with the patented technology, manufacturing know-how, equipment and materials required to produce an expandable waistband. Our efforts to expand this product offering to other customers have been limited by a licensing dispute. As described more fully in this report under Item 1. "Legal Proceedings", we are presently in litigation with Pro-Fit Holdings Limited related to our exclusively licensed rights to sell or sublicense stretch waistbands manufactured under Pro-Fit's patented technology. The revenues we derive from the sale of products incorporating the stretch waistband technology represented less than 1% of our consolidated revenues for the three and nine months ended September 30, 2010 and 2009. Our business prospects for this group could be adversely affected if our dispute with Pro-Fit is not resolved in a manner favorable to us.

Results of Operations

The following table sets forth selected statements of operations data shown as a percentage of net sales for the periods indicated:

	Three Months ended September 30,		Nine Months ended September 30,	
	2010	2009	2010	2009
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	70.7	71.7	70.8	71.2
Gross profit	29.3	28.3	29.2	28.8
Sales and marketing expenses	9.1	5.9	7.0	6.9
General and administrative expenses	21.3	20.5	17.8	20.2
Interest expense, net	1.7	6.5	5.3	6.7
Loss on extinguishment of debt	6.2	-	1.8	-
Income taxes	4.4	1.6	1.7	0.9
Net loss	(13.4)%	(6.2)%	(4.4)%	(5.9)%

Sales

For the three and nine months ended September 30, 2010 and 2009, sales by geographic region based on the location of the customer as a percentage of sales were as follows:

	Three Months ended September 30,		Nine Months ended September 30,	
Region	2010	2009	2010	2009
United States	8.2 %	8.0 %	8.5 %	8.1 %
Hong Kong	32.2	38.9	33.7	32.4
China	30.3	21.8	27.4	26.8
Bangladesh	6.0	3.6	6.0	5.1
Taiwan	1.7	2.7	3.4	2.5
India	2.5	3.2	2.3	3.9
Other	19.1	21.8	18.7	21.2
	100.0 %	100.0 %	100.0 %	100.0 %

A sharp retail industry decline that began late in 2008 as a result of the global recession significantly impacted the apparel industry and resulted in lower demand for all apparel products including our Talon zipper and trims products. This recession has continued to impact the apparel industry and our customers in 2009 and 2010, and may

continue to do so depending upon the global economic trends.

29

Sales for the three months ended September 30, 2010 were $9.3 million, $1.1 million or 11.0% lower than sales for the same period in 2009. The decline reflects reduced demand from our customers during the quarter due to the continued impact of the previous recession and high unemployment on retail apparel sales, and consequently cautious industry outlooks and inventory purchase plans in 2010.

Sales for the nine months ended September 30, 2010 were $32.5 million, an increase of $3.0 million or 10.0%, from the same period in 2009. The net increase reflects improved retail buying in the first half of 2010 and the replenishment of inventories in this period by major brands, in addition to the benefit of new programs and customers for our products.

Gross Profit

Gross profit for the three months ended September 30, 2010 was $2.7 million as compared to $3.0 million for the same period in 2009. The reduction in gross profit for the three months ended September 30, 2010 as compared to the same period in 2009 was principally attributable to lower overall sales volumes offset by improved product mix and lower contract services costs associated with quality control and product development and lower inventory obsolescence.

Gross profit for the nine months ended September 30, 2010 was $9.5 million as compared to $8.5 million for the same period in 2009. The increase in gross profit for the nine months ended September 30, 2010 as compared to the same period in 2009 was principally attributable to higher sales volumes and improved product mix offset by higher freight and duty costs, higher contract services costs for quality control and product development and higher inventory obsolescence.

A recap of the change in gross margin for the three and nine months ended September 30, 2010 as compared with the same period in 2009 is as follows:

	Three Months ended September 30, 2010 compared to same period in 2009		Nine Months ended September 30, 2010 compared to same period in 2009	
	$ in 000's(1)	%(1)	$ in 000's(1)	%(1)
Gross profit increased (reduced) as a result of:				
Higher (lower) volumes	(420)	(14.2)	1,111	13.0
Mix of products	165	5.6	103	1.2
Increased freight and duty costs	-	-	(23)	(0.3)
Reduced (increased) contract services and inventory obsolescence	18	0.6	(197)	(2.3)
Gross profit increase (reduction)	(237)	(8.0)	994	11.6

(1) Represents the amount or percentage, as applicable, change in each item in the three and nine months ended September 30, 2010 period, as compared to the same period in 2009.

Sales and marketing expenses

Sales and marketing expenses for the three months ended September 30, 2010 were $0.8 million, or 9.1% of sales, as compared to $0.6 million, or 5.9% of sales, for the same period in 2009. Sales expenses increased due to the expansion of our sales force in the US during the third quarter of 2010.

30

Sales and marketing expenses for the nine months ended September 30, 2010 were $2.3 million, or 7.0% of sales, as compared to $2.0 million, or 6.9% of sales, for the same period in 2009. Sales expenses increased due to the expansion of our sales force in the US during the third quarter of 2010 offset by lower sales force expenses in Asia and reduced volume of sales.

General and administrative expenses

General and administrative expenses for the three months ended September 30, 2010 were $2.0 million, or 21.3% of sales, as compared with $2.1 million, or 20.5% of sales, for the same period in 2009. The reduction mainly reflects reduced professional fees, travel expenses and facilities expense offset by increased charges for non-cash compensation expenses.

General and administrative expenses for the nine months ended September 30, 2010 were $5.8 million, or 17.8% of sales, as compared with $6.0 million, or 20.2% of sales, for the same period in 2009. The $0.2 million reduction mainly reflects beneficial effect of the sale of the Note Receivable from Related party for $275,000 and other reductions to the allowance for doubtful accounts (together $0.4 million), reduced professional fees ($0.3 million) and reduced travel expenses and facilities expense ($0.3 million). The costs reductions were substantially offset by increased employee expenses ($0.6 million) and increased non-cash compensation and depreciation expenses ($0.2 million).

Interest expense and interest income

Interest expense for the three months ended September 30, 2010 decreased by approximately $521,000, as compared to the same period in 2009, to $163,000. Interest expense for the nine months ended September 30, 2010 decreased by approximately $200,000, as compared to the same period in 2009, to $1,783,000. The decreases were the result of the elimination of amounts owned under our former revolver and term notes with CVC that were converted into preferred stock as of July 30, 2010. (See Note 7 in the accompanying Notes to Consolidated Financial Statements).

Interest income for the three and nine months ended September 30, 2010 increased by approximately $2,000 and $29,000, respectively due primarily to the recognition of and collection of interest income on the Related Party note receivable (See Note 13 in the accompanying Notes to Consolidated Financial Statements).

A brief summary of interest expense and interest income is presented below:

	Three Months ended September 30,		Nine Months ended September 30,	
	2010	2009	2010	2009
Amortization of deferred financing costs and debt discounts	$ 5,000	$ 372,117	$ 854,096	$ 1,071,457
Other interest expense	158,012	311,394	928,817	911,098
Interest expense	163,012	683,511	1,782,913	1,982,555
Interest income	(2,247)	(10)	(30,130)	(1,016)
Interest expense, net	$ 160,765	$ 683,501	$ 1,752,783	$ 1,981,539

Loss on extinguishment of debt

Loss on extinguishment of debt in the amount of $0.6 million was recorded during three and nine months ended September 30, 2010 as a result of the transactions pursuant to the Recapitalization Agreement between us and our

lender on July 30, 2010. See Note 8 in the accompanying Notes to Consolidated Financial Statements.

31

Income taxes

Provision for income taxes for the three and nine months ended September 30, 2010 was approximately $412,000 and $543,000, respectively. During the three months ended September 30, 2010 we recorded a deferred income tax liability in amount of approximately $568,000 due to a tax basis difference related to our indefinite lived intangible asset, where we determined that we would no longer be able to support the use of the deferred tax asset related to its net operating losses to offset the liability (See Note 10 in the accompanying Notes to Consolidated Financial Statements). The provision for income taxes other than this deferred income tax liability is mainly associated with our foreign operations. There is not sufficient evidence to ensure that it is more likely than not that we will be able to utilize our domestic operating loss carry forwards (as well as a portion of our foreign net operating loss carry forwards) to offset future taxable income and consequently the tax benefit of these losses are offset by a full valuation reserve provided against them.

Provision for income taxes for the three and nine months ended September 30, 2009 was approximately $165,000 and $267,000, respectively.

Liquidity and Capital Resources

The following table summarizes selected financial data at:

	($ in thousands)	
	September 30, 2010	December 31, 2009
Cash and cash equivalents	$ 2,017	$ 2,265
Total assets	$ 12,775	$ 13,834
Current liabilities	$ 6,719	$ 24,262
Long term liabilities	$ 1,285	$ 751
Preferred Stock	$ 17,152	$ -
Stockholders’ Equity (deficit)	$ (12,381)	$ (11,179)
Total Equity and Preferred Stock	$ 4,771	$ (11,179)

Our Loan Agreement with CVC as extended was scheduled to mature July 30, 2010 and all of the principal and interest arising under the Loan Agreement in the approximate amount of $16.7 million was due at maturity. We did not have sufficient resources to pay this obligation on the maturity date.

On July 30, 2010, we entered into a Recapitalization Agreement (the “Recapitalization Agreement”) with CVC in which we issued shares of Series B Preferred Stock in payment of all of the outstanding obligations owed under the Loan Agreement. Concurrently, we amended the Loan Agreement to extend the term of the revolving credit facility for two years and modified its terms. See Note 7 and Note 8 in the accompanying Notes to the Consolidated Financial Statements.

Cash and cash equivalents

Cash and cash equivalents decreased by approximately $248,000 at September 30, 2010 as compared to December 31, 2009, principally due to net cash used in financing activities related to preferred stock issuance costs incurred as part of the Recapitalization Agreement and the payment of loan modification fees (pursuant to Amendment No. 6 of the Loan Agreement dated July 30, 2010).

Cash provided by operating activities is our primary recurring source of funds, and reflects the net loss from operations excluding non cash charges, and changes in operating capital. The nine months ended September 30, 2010 reflected net cash provided by operating activities of approximately $116,000. The nine months ended September 30, 2009 reflected net cash used in operating activities of approximately $339,000.

The net cash provided by (used in) operating activities during the nine months ended September 30, 2010 and 2009 resulted principally from:

	($ in thousands) Nine Months ended September 30,	
	2010	2009
Net income before non-cash expenses	$ 1,246	$ 363
Inventory reduction	255	40
Accounts receivable reduction (increase)	499	(8)
Accounts payable and accrued expenses reduction	(1,669)	(618)
Other reductions in operating capital	(215)	(116)
Cash provided by (used in) operating activities	$ 116	$ (339)

Net cash (used in) investing activities for the nine months ended September 30, 2010 and 2009 was approximately $(44,000) and ($474,000), respectively. The expenditures in the first nine months of 2009 were principally associated with the development of our new ERP system that was implemented in March 2009.

Net cash used in financing activities for the nine months ended September 30, 2010 was approximately $304,000 and reflects preferred stock issuance costs, payment of loan modification fees and repayment of borrowings under capital leases. For the nine months ended September 30, 2009 net cash provided by financing activities was approximately $216,000 and primarily reflects the repayment of borrowings under capital leases and notes payable, net of borrowings under our revolver line of credit and term note.

On June 27, 2007, we entered into a Revolving Credit and Term Loan Agreement (the “Loan Agreement”) with Bluefin Capital, LLC that provided for a $5.0 million revolving credit facility and a $9.5 million term loan, each with a three year term maturing June 30, 2010. Bluefin Capital subsequently assigned its rights and obligations under the Loan Agreement to an affiliate, CVC California, LLC (“CVC”).

Under the terms of the Loan Agreement, as amended, we were required to meet certain coverage ratios, and were subject to other restrictions including a restriction from declaring or paying a dividend prior to repayment of all the obligations. The financial covenants required that we maintain at the end of each fiscal quarter “EBITDA” (as defined in the agreement) of not less than $1.00 and in excess of ratios set out in the agreement for each quarter.

33

We failed to satisfy the EBITDA requirement for the quarter ended December 31, 2008 and March 31, 2009, and in connection with such failures, on March 31, 2009 we entered into an amendment to the Loan agreement with the lender that provided for the issuance of an additional term note in the principal amount of $225,210 in lieu of paying a cash waiver fee in connection with our failures to satisfy the EBITDA requirements; deferral of the term note quarterly interest payments of $215,000 due April 1, 2009; provided for a temporary increase to the borrowing base formulas and calculations under the revolving Loan Agreement; borrowed $125,000 previously paid under the term loan portion of the Loan Agreement; obtained a consent to allow us to sell equipment that had been designated as held for sale; and granted our lender the right to designate a non-voting observer to attend all meetings of our Board of Directors.

On June 30, 2010 the Loan Agreement was amended to extend the existing maturity date for an additional thirty days to July 30, 2010, when all of the principal and interest arising under the Loan Agreement in the approximate amount of $16.7 million became due. We did not have sufficient resources to pay this obligation on the maturity date.

On July 30, 2010, we entered into a Recapitalization Agreement in which we issued to CVC shares of Series B Preferred Stock in payment of all of the outstanding obligations owed by us under the Loan Agreement. At that date, the Company had outstanding borrowings and accrued interest of $11,548,098 under the term notes, and $5,158,587 under the revolving credit note, all of which was exchanged for the Series B Preferred Stock. See Note 8 in the accompanying Notes to Consolidated Financial Statements.

In connection with the Recapitalization Agreement, we amended the Loan Agreement to extend the maturity date of the Loan Agreement from July 30, 2010 until July 31, 2012, reduced the maximum borrowings available under the Revolver to $3,000,000, amended the borrowing base to modify the advance rate applicable to eligible accounts receivable to 75% and modify the advance rate applicable to eligible inventory to 40%, eliminated loan maintenance fees, and modified the permissible amount of capital expenditures we can make in any fiscal year. We paid CVC a non-refundable fee in the amount of $60,000 in consideration of CVC entering into the amendment. Upon execution of the amendment, CVC waived all prior events of default under the Loan Agreement.

Borrowings under the Loan Agreement are secured by all of our assets. At September 30, 2010 we had no borrowings under the revolving credit facility portion of the Loan Agreement, and the term loans under the Loan Agreement were fully paid and cancelled. At December 31, 2009 our borrowings under the Revolver portion of the Loan Agreement was $4,988,988 and we did not have additional borrowings availability, and we had borrowings of $10,725,210 under the term notes issued under the Loan Agreement (discounted carrying value of $9,876,114).

We had financed equipment purchases through notes payable and capital lease obligations. Our current equipment obligations are approximately $25,000 and bear interest at rates of 8.0% and 15.4% per annum. Under these obligations, we are required to make monthly payments of principal and interest through June 2014.

The outstanding balance (including accrued interest) of our notes payable to related parties at September 30, 2010 and December 31, 2009 was approximately $273,000 and $266,000, respectively. Included in this balance are demand notes which bear interest at 10% (balance as of September 30, 2010 and December 31, 2009 of approximately $235,000 and 230,000, respectively), have no scheduled monthly payments and are due within fifteen days following demand. The remainder of the notes payable to related parties includes our note payable to an officer for approximately $38,000 and $36,000 at September 30, 2010 and December 31, 2009, respectively. The note bears 6% interest annually and the maturity date is the earlier of December 31, 2011 or ten days following employment termination date.

34

Explanation of Responses:

We have satisfied our working capital requirements primarily through cash flows generated from operations and borrowings under our credit facility. As we continue to expand globally with our apparel manufacturing in offshore locations, our customers are substantially all foreign-based and foreign-owned entities. We continue to evaluate both financing and equity options to provide capital needed to fund our expansion and on-going operations. If we experience greater than anticipated reductions in sales, we may need to borrow or raise additional capital, or further reduce the scope of our business in order to fund our on-going operations or to satisfy our future short-term operating requirements. The extent of our future long-term capital requirements will depend on many factors, including our results of operations, future demand for our products, the size and timing of possible acquisitions, our borrowing base availability limitations and our expansion into foreign markets. Our need for additional long-term financing may include the integration and expansion of our operations to expend our Talon trade name, and the expansion of our operations in the Asian and European markets. If our cash from operations is less than anticipated or our working capital requirements and capital expenditures are greater than we expect, we may need to raise additional debt or equity financing in order to provide for our operations.

Contractual Obligations and off-Balance Sheet Arrangements

The following summarizes our contractual obligations at September 30, 2010 and the effects such obligations are expected to have on liquidity and cash flow in future periods:

		Payments Due by Period ($ in thousands)			
Contractual Obligations	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Notes payable to related parties	$ 273	$ 273	$ -	$ -	$ -
Capital lease obligations	32	9	23	-	-
Operating leases	1,130	416	697	17	-
Other notes payable	62	62	-	-	-
Total Obligations	$ 1,497	$ 760	$ 720	$ 17	$ -

(1) The majority of notes payable to related parties is due upon or near demand for payment and includes accrued interest payable through September 30, 2010.

At September 30, 2010 and December 31, 2009, we did not have any relationships with unconsolidated entities or financial partnerships (such as entities often referred to as structured finance or special purpose entities), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we do not have any of the risks associated with financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Related Party Transactions

See Note 13 in the accompanying Notes to Consolidated Financial Statements for a discussion of related party transactions.

Application of Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions for the reporting period and as of the financial statement date. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenue and expense. Actual results could differ from those estimates.

Critical accounting policies are those that are important to the portrayal of our financial condition and results, and which require us to make difficult, subjective and/or complex judgments. Critical accounting policies cover accounting matters that are inherently uncertain because the future resolution of such matters is unknown. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

- Accounts and note receivable balances are evaluated on a continual basis and allowances are provided for potentially uncollectible accounts based on management's estimate of the collectability of customer accounts. If the financial condition of a customer were to deteriorate, resulting in an impairment of its ability to make payments, an additional allowance may be required. Allowance adjustments are charged to operations in the period in which the facts that give rise to the adjustments become known.

The net bad debt expenses, recoveries and allowances for the three and nine months ended September 30, 2010 and 2009 are as follows:

	Three Months ended September 30,		Nine Months ended September 30,	
	2010	2009	2010	2009
Bad debt expenses for accounts receivable	$ 20,550	$ 38,717	$ (41,801)	$ 116,090
Bad debt recoveries for accounts receivable	$ -	$ -	$ (11,332)	$ -
Related party note recovery	$ -	$ -	$ (275,000)	$ -
Allowance for doubtful accounts, accounts receivable	$ 172,082	$ 227,442	$ 172,082	$ 227,442
Allowance for doubtful accounts, related party	$ -	$ 512,885	$ -	$ 512,885

- Inventories are stated at the lower of cost, determined using the first-in, first-out ("FIFO") basis, or market value and are all substantially finished goods. The costs of inventory include the purchase price, inbound freight and duties, conversion costs and certain allocated production overhead costs. Inventory is evaluated on a continual basis and reserve adjustments are made based on management's estimate of future sales value, if any, of specific inventory items. Inventory reserves are recorded for damaged, obsolete, excess, impaired and slow-moving inventory. We use estimates to record these reserves. Slow-moving inventory is reviewed by category and may be partially or fully reserved for depending on the type of product and the length of time the product has been included in inventory. Reserve adjustments are made for the difference between the cost of the inventory and the estimated market value, if lower, and charged to operations in the period in which the facts that give rise to these adjustments become known.

36

Market value of inventory is estimated based on the impact of market trends, an evaluation of economic conditions and the value of current orders relating to the future sales of this type of inventory. Inventory reserve is reduced following legacy inventory sale and write-off of reserved inventory and increased by additions to reserve for slow moving inventory.

- We record deferred tax assets and liabilities arising from temporary timing differences between recorded net income and taxable net income when and if we believe that future earnings will be sufficient to realize the tax benefit. For those jurisdictions where the expiration date of tax benefit carry-forwards or the projected taxable earnings indicate that realization is not likely, a valuation allowance is provided. If we determine that we may not realize all of our deferred tax assets in the future, we will make an adjustment to the carrying value of the deferred tax asset, which would be reflected as an income tax expense. Conversely, if we determine that we will realize a deferred tax asset, which currently has a valuation allowance, we would be required to reverse the valuation allowance, which would be reflected as an income tax benefit. A deferred income tax liability related to indefinite lived intangibles should not be offset against deferred income tax assets. We believe that our estimate of deferred tax assets and liabilities and determination to record a valuation allowance against such assets are critical accounting estimates because they are subject to, among other things, an estimate of future taxable income, which is susceptible to change and dependent upon events that may or may not occur, and because the impact of recording a valuation allowance may be material to the assets reported on the balance sheet and results of operations. See Note 10 in the accompanying Notes to Consolidated Financial Statements.

- We record impairment charges when the carrying amounts of long-lived assets are determined not to be recoverable. Impairment is measured by assessing the usefulness of an asset or by comparing the carrying value of an asset to its fair value. Fair value is typically determined using quoted market prices, if available, or an estimate of undiscounted future cash flows expected to result from the use of the asset and its eventual disposition.

The amount of impairment loss is calculated as the excess of the carrying value over the fair value. Changes in market conditions and management strategy may cause us to reassess the carrying amount of our long-lived assets.

- Sales are recognized when persuasive evidence of an arrangement exists, product title has passed, pricing is fixed or determinable and collection is reasonably assured. Sales resulting from customer buy-back agreements, or associated inventory storage arrangements are recognized upon delivery of the products to the customer, the customer’s designated manufacturer, or upon notice from the customer to destroy or dispose of the goods.

Sales, provisions for estimated sales returns and the cost of products sold are recorded at the time title transfers to customers. Actual product returns are charged against estimated sales return allowances, which returns have been insignificant.

- We are currently involved in various lawsuits, claims and inquiries, most of which are routine to the nature of the business and in accordance with FASB ASC 450, “Contingencies”. We accrue estimates of the probable and estimable losses for the resolution of these claims. The ultimate resolution of these claims could affect our future results of operations for any particular quarterly or annual period should our exposure be materially different from our earlier estimates or should liabilities be incurred that were not previously accrued.

New Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update 2010-06, “Fair Value Measurements and Disclosures” (Topic 820): Improving Disclosures about Fair Value Measurements. This guidance amends the disclosure requirements related to recurring and nonrecurring fair value measurements and requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance became effective for the reporting period beginning January 1, 2010, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which will become effective for the reporting period beginning January 1, 2011. The adoption of this updated guidance was not significant to the consolidated financial statements.

In February 2010, the FASB issued updated guidance related to subsequent events. As a result of this updated guidance, public filers must still evaluate subsequent events through the issuance date of their financial statements; however, they are not required to disclose the date in which subsequent events were evaluated in their financial statements disclosures. This amended guidance became effective upon its issuance on February 24, 2010 at which time we adopted this updated guidance.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not Applicable

Item 4. Controls and Procedures

Evaluation of Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, or the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities Exchange Commission's rules and forms, including to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act.

As of the end of the period covered by this report, management, with the participation of Lonnie D. Schnell, our principal executive officer and principal financial officer, and James E. Reeder, our principal accounting officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based upon that evaluation, Mr. Schnell and Mr. Reeder concluded that these disclosure controls and procedures were effective as of the end of the period covered in this Quarterly Report on Form 10-Q.

Changes in Internal Control over Financial Reporting

During the quarter ended September 30, 2010, there were no changes in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

38

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

On April 16, 2004, we filed suit against Pro-Fit Holdings, Limited in the U.S. District Court for the Central District of California – Tag-It Pacific, Inc. v. Pro-Fit Holdings, Limited, CV 04-2694 LGB (RCx) -- asserting various contractual and tort claims relating to our exclusive license and intellectual property agreement with Pro-Fit, seeking declaratory relief, injunctive relief and damages. It is our position that the agreement with Pro-Fit gives us exclusive rights in certain geographic areas to Pro-Fit's stretch and rigid waistband technology. We also filed a second civil action against Pro-Fit and related companies in the California Superior Court which was removed to the United States District Court, Central District of California. In the second quarter of 2008, Pro-Fit and certain related companies were placed into administration in the United Kingdom and filed petitions under Chapter 15 of Title 11 of the United States Code. As a consequence of the chapter 15 filings, all litigation by us against Pro-Fit has been stayed. We have incurred significant legal fees in this litigation, and unless the case is settled or resolved, may continue to incur additional legal fees in order to assert its rights and claims against Pro-Fit and any successor to those assets of Pro-Fit that are subject to our exclusive license and intellectual property agreement with Pro-Fit and to defend against any counterclaims.

We currently have pending various other claims and complaints that arise in the ordinary course of our business. We believe that we have meritorious defenses to these claims and that the claims are either covered by insurance or would not have a material effect on our consolidated financial condition if adversely determined against us.

Item 1A. Risk Factors

Risk factors are contained in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009. Except as set forth below, no material change to such risk factors has occurred during the nine months ended September 30, 2010.

CVC California, LLC holds voting control of our outstanding voting securities, which could limit other stockholders' ability to influence the outcome of key transactions.

With our entry into the Recapitalization Agreement on July 30, 2010, we issued to CVC Series B Preferred Stock which upon conversion, when combined with the 1,750,000 shares of common stock already owned by CVC, represents 54.1% of the fully diluted number of shares of common stock and 69.6% of Talon's outstanding voting securities immediately after the issuance of the Series B shares. In addition the holders of Series B Preferred Stock have the right to elect a majority of our Board of Directors. As a result, CVC has the voting power to determine the outcome of virtually any matter submitted to a vote of the holders of our common stock, including the election of a majority of the members of our Board of Directors and any change in control transaction. This concentration of ownership of our voting securities could have the effect of delaying or preventing a change of control of Talon or otherwise discouraging or preventing a potential acquirer from attempting to obtain control of our company. This, in turn, could have a negative effect on the market price of our common stock.

Item 5. Other Information

Annual Meeting of Stockholders

Our 2010 Annual Meeting of Stockholders is scheduled to take place on November 19, 2010, beginning at 11:00 a.m. Pacific Standard Time. The meeting will be held at Marriott Warner Center, 21850 Oxnard Street, Woodland Hills, California 91367. Record holders of outstanding shares of our common stock and Series B Preferred Stock as of the close of business on October 4, 2010 are entitled to vote at the Annual Meeting. The definitive proxy statement for the Annual Meeting was mailed to stockholders on October 22, 2010.

Appointment of Director

Effective as of October 3, 2010, David Ellis was appointed to the Board of Directors to fill an existing vacancy. Mr. Ellis was appointed to the Board by CVC, as the holder of all outstanding shares of Series B Preferred Stock, in accordance with the Recapitalization Agreement.

Mr. Ellis (age 46) is a co-founder of GemCap, an equity investor in low and middle-market sized companies and 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, which he initially joined in 1988. Following a three-year hiatus from Buxbaum Group starting in 1991, Mr. Ellis rejoined the company in 1994. Buxbaum Group consisted of the following five companies which reported to Mr. Ellis: Buxbaum Company, Buxbaum Group, Buxbaum-Century, BC Commercial Finance and Pathway Strategic Partners. While at Buxbaum Group, Mr. Ellis gained twenty years of experience in the acquisition, insolvency and turnaround management businesses.

Mr. Ellis does not have any family relationships with any of our other directors or executive officers. Prior to his appointment as a member of our Board of Directors, Mr. Ellis did not have any material relationship with us and no such relationship is currently proposed.

Item 6. Exhibits

Exhibit No.	Description
3.1	Certificate of Incorporation of Registrant. Incorporated by reference to Exhibit 3.1 to Form SB-2 filed on October 21, 1997, and the amendments thereto.
3.1.2	Certificate of Designation of Rights, Preferences and Privileges of Series A Preferred Stock. Incorporated by reference to Exhibit A to the Rights Agreement filed as Exhibit 4.1 to Current Report on Form 8-K filed as of November 4, 1998.
3.1.3	Certificate of Amendment of Certificate of Incorporation of Registrant. Incorporated by reference to Exhibit 3.4 to Annual Report on Form 10-KSB, filed March 28, 2000.
3.1.4	

	Certificate of Amendment of Certificate of Incorporation of Registrant. Incorporated by reference to Exhibit 3.1.3 to Form 8-K filed on August 4, 2006.
3.1.5	Certificate of Ownership and Merger. Incorporated by reference to Exhibit 3.1 to Form 8-K filed on July 20, 2007.
3.1.6	Certificate of Designation of Series B Convertible Preferred Stock. Incorporated by reference to Exhibit 3.1 to Form 8-K filed on August 5, 2010.

40

Exhibit No.	Description
10.1	Recapitalization Agreement, dated June 30, 2010, between Registrant and CVC California, LLC. Incorporated by reference to Exhibit 10.1 to Form 8-K filed on August 5, 2010.
10.2	Amendment No. 5 to Loan Agreement, dated June 30, 2010, between Registrant and CVC California, LLC. Incorporated by reference to Exhibit 10.2 to Form 8-K filed on August 5, 2010.
10.3	Amendment No. 6 to Loan Agreement, dated July 30, 2010, between Registrant and CVC California, LLC. Incorporated by reference to Exhibit 10.3 to Form 8-K filed on August 5, 2010.
10.4	Amended and Restated Revolving Credit Note, dated July 30, 2010, made by Registrant in favor of CVC California, LLC. Incorporated by reference to Exhibit 10.4 to Form 8-K filed on August 5, 2010.
10.5	Stockholders Agreement, dated July 30, 2010, among Registration, CVC California, LLC, Lonnie D. Schnell and Larry Dyne. Incorporated by reference to Exhibit 10.5 to Form 8-K filed on August 5, 2010.
10.6+*	Employment Agreement, dated July 30, 2010, between Registrant and Lonnie D. Schnell. Incorporated by reference to Exhibit 10.6 to Form 8-K filed on August 5, 2010.
10.7+*	Employment Agreement, dated July 30, 2010, between Registrant and Larry Dyne. Incorporated by reference to Exhibit 10.7 to Form 8-K filed on August 5, 2010.
10.8+	Restricted Stock Unit Agreement, dated July 30, 2010, between Registrant and Lonnie D. Schnell. Incorporated by reference to Exhibit 10.8 to Form 8-K filed on August 5, 2010.
10.9+	Restricted Stock Unit Agreement, dated July 30, 2010, between Registrant and Larry Dyne. Incorporated by reference to Exhibit 10.9 to Form 8-K filed on August 5, 2010.
31.1	Certificate of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certificate of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\+ Indicates a management contract or compensatory plan or arrangement.

*Certain portions of this agreement have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for an order granting confidential treatment pursuant to Rule 24b-2 of the Rules

and Regulations under the Securities Exchange Act of 1934, as amended.

41

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 12, 2010

/s/ Lonnie D.
Schnell
Lonnie D. Schnell
Chief Executive Officer and Chief Financial
Officer
(Principal Executive Officer and Principal
Financial Officer)

/s/ James E.
Reeder
James E. Reeder
Vice President, Corporate Controller
(Principal Accounting Officer)

Explanation of Responses: