

Fellow Shareholders:

2016 was a year of transition for Talon International. Our financial results were mixed in increasingly challenging market conditions, but we remained committed to delivering value with our focus on targeted growth segments, maintaining our solid financial position and supporting our team of great people. The many important decisions that we have made reflect the way we keep our key stakeholders, especially our shareholders, at the center of everything we do.

One of the most pivotal decisions we made in 2016 was the creation of a new role within the organization by hiring a Chief Strategic Officer (CSO). The CSO will develop and oversee the Company's strategic roadmap in addition to managing IT and Finance. The CSO's primary focus is to create shareholder value by improving and streamlining the Company's business processes and exploring new business opportunities and partnerships. In addition to the newly created role, we began the implementation of a new ERP and CRM system to provide additional operational efficiencies, improve business data analytics, increase data security, and further enhance the overall customer experience.

In 2016, we continued to focus on product expansion as well as deeper penetration within our existing and new customers. We continue to offer our customers additional value-added services and innovations, such as achieving the highly regarded bluesign® certification. The bluesign® system is a globally renowned initiative which works with chemical suppliers, textile mills and component manufacturers to eliminate harmful substances from the supply chain and sets and controls standards for environmentally friendly and safe production. This not only ensures that the final textile product meets very stringent consumer safety requirements worldwide but also provides confidence to the consumer to acquire a sustainable product. We also received UL (Underwriter Laboratories) certification for our Fire Retardant zippers. Our product pipeline in all three divisions - Trims, Zipper and Tekfit - continues to remain strong with new product introductions based on customer and market requirements.

Talon/Zippers: In 2016, we carried out our strategy to reduce our mass market businesses and focus on specialty markets. As a result, our revenue declined by \$3.7M but zipper margins improved 198 bbps. We believe that we have now reached a healthy mix among the business channels and can focus on growing the segment.

Trims: A One Stop Shop is the main theme for trims. In addition to a great service experience, we are offering our customers value added services such as design, product development and testing, which alleviates their workload and allows them to focus on their business. Our strategy is to continue improving upon our services as well as launching new product offerings to deepen our market penetration and widen our customer footprint.

Tekfit: Investments and hard work are finally bearing fruit. The Tekfit business almost doubled in 2016 and showed significant upside potential. Our strategic relationship with PVH continues to deepen as we expand our program into multiple PVH brands. A recently interviewed client stated that dress shirts manufactured using Tekfit Stretch technology has been the client's number one selling shirt in that channel. Based on our clients' successes, we are aggressively investing to expand market penetration as well as to create an R&D pipeline of new products and applications in stretch technology.

Despite the strategic reduction of our mass merchandising customer base, particularly in our Zipper business, our overall company performance for 2016 was nearly flat from the prior year, with revenues declining two tenths of a percent to \$48.3 million, and net income per share of \$0.01, consistent with

fiscal years 2015 and 2014. Zipper sales declined as we moved further away from mass merchandising programs and maintained our focus and strategy on higher margin business. Our Trim business continued its growth as our stretch technology products gained wider acceptance in the marketplace.

We operate in an environment that is continuing to change rapidly, with compressed lead-times and just in time ordering to capture the latest trends and fashion cycles. This requires continuous and ongoing improvements in our customer service, supply chain management and in the way we approach our business daily. 2016 also marked Talon's entry into social media. We tirelessly worked to create various campaigns to create brand awareness and additional ways in which we communicate with our customers and key audiences.

In closing, I want to thank all of our employees whose creativity, hard work and customer dedication have made this year's achievements possible. Our strong connection with customers continues to be a key asset in an increasingly competitive marketplace. While the economy remains challenging, we are well prepared to meet customers' changing needs, pursue continued growth and maximize shareholder value.

Respectfully,

A handwritten signature in black ink, appearing to read 'Larry Dyne', is written over a large, light-colored scribble or watermark.

Larry Dyne  
Chief Executive Officer