CHAPPLE JOHN
Form SC 13G/A
February 14, 2002

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13G/A

Under the Securities Exchange Act of 1934

(Amendment No. 1)*

Nextel Partners, Inc.

(Name of Issuer)

Class A Common Stock

(Title of Class of Securities)

65333F107

(CUSIP Number)

December 31, 2001

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

/ / Rule 13d-1(b)

/ / Rule 13d-1(c)

/x/ Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 65333F107

(1) Names of Reporting Persons.
I.R.S. Identification Nos. of above persons (entities only).

John Chapple
102-46-6371

(2)	Check the Appropriate Box if a Member of a Group (See Instructions)	(a) / / (b) /x/
(3)	SEC Use Only	
(4)	Citizenship or Place of Organization United States	

Number of Shares Beneficially Owned by Each Reporting Person With:	(5)	Sole Voting Power 2,689,357
	(6)	Shared Voting Power 861,667 (see also Item 4)
	(7)	Sole Dispositive Power 2,689,357
	(8)	Shared Dispositive Power 861,667 (see also Item 4)

(9)	Aggregate Amount Beneficially Owned by Each Reporting Person 3,551,024 (see Item 4)
(10)	Check if the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions) / /
(11)	Percent of Class Represented by Amount in Row (9) 2.1% of the Class A Common Stock (See Item 2 and Item 4)
(12)	Type of Reporting Person (See Instructions) IN

Schedule 13G

This Schedule 13G is filed with the Securities and Exchange Commission on behalf of John Chapple as a party to the Amended and Restated Shareholders Agreement, dated February 18, 2000, as amended, by and among Nextel Partners, Inc. and the shareholders listed therein (the "Shareholders Agreement").

Item 1.

(a) Name of Issuer

Nextel Partners, Inc.

(b) Address of Issuer's Principal Executive Offices

4550 Carillon Point
Kirkland, WA 98033

Item 2(a), Item 2(b) and Item 2(c). Name of Person Filing, Address of Principal Business Office and Citizenship:

Pursuant to Rule 13d-1(k)(1)-(2) of Regulation 13D-G of the General Rules and Regulations under the Securities Exchange Act of 1934 (the "Exchange Act"), this Schedule 13G is filed on behalf of John Chapple (the "Reporting Person") who, pursuant to Rule 13d-5(b)(1), along with certain individuals and corporations (the "Non-Reporting Persons") identified below, may be deemed as a group to have acquired beneficial ownership of the Class A Common Stock (the "Class A Common Stock") and Class B Common Stock (the "Class B Common Stock") of Nextel Partners, Inc. as a result of the Reporting Person and the Non-Reporting Persons being signatories to the Shareholders Agreement. The Reporting Person beneficially owns 2.1% of the outstanding Class A Common Stock of Nextel Partners, Inc. Neither the fact of this filing nor anything contained herein shall be deemed to be an admission by the Reporting Person that a group exists within the meaning of the Exchange Act. The holders of the Class A Common Stock and the Class B Common Stock are entitled to one vote per share on all matters in which they are entitled to vote. Based on information provided by Nextel WIP Corp., it owns 100% of the outstanding Class B Common Stock. The Class B Common Stock is convertible into Class A Common Stock at any time on a one-for-one basis upon transfer to a person other than Nextel Communications, Inc. ("NCI"), a majority-owned NCI subsidiary or a person or entity controlling NCI. However, because such transfers are prohibited under the Shareholders Agreement and the Nextel Partners, Inc. Restated Certificate of Incorporation until January 29, 2011, this Schedule 13G assumes Nextel WIP Corp. does not have the right to acquire shares of Class A Common Stock upon conversion of the Class B Common Stock.

Reporting Person:

1. John Chapple

   4500 Carillon Point
   Kirkland, WA 98033
   Citizenship: United States

Non-Reporting Persons:

The following Non-Reporting Persons (No. 1-12) are referred to herein as the "DLJ Entities."

1. DLJ Merchant Banking Ptr. II LP (Delaware limited partnership)
2. DLJ Merchant Banking Ptr. II-A LP (Delaware limited partnership)
3. DLJ Offshore Partners II, CV (Netherlands Antilles limited partnership)
4. DLJ Diversified Partners, LP (Delaware limited partnership)
5. DLJ Diversified Partners-A, LP (Delaware limited partnership)
6. DLJ EAB Partners, LP (Delaware limited partnership)
7. DLJ ESC II, LP (Delaware limited partnership)
8. DLJ First ESC, LP (Delaware limited partnership)
9. DLJ Millenium Partners, LP (Delaware limited partnership)
10. DLJ Millenium Partners-A, LP (Delaware limited partnership)
11. DLJMB Funding II, Inc. (Delaware corporation)
12. UK Investment Plan 1997 Partners (Delaware limited partnership)

c/o DLJ Merchant Banking II, Inc.
277 Park Avenue

New York, NY 10172

The following Non-Reporting Persons (No. 13-22) are referred to herein as the "Non-DLJ Entities."

13. Madison Dearborn Capital Ptrs II, LP (Delaware limited partnership)

    3 First National Plaza
    Suite 3800
    Chicago, IL 60602

14. Eagle River Investments LLC (Washington limited liability company)

    2300 Carillon Point
    Kirkland, WA 98033-7353

15. Motorola, Inc. (Delaware corporation)

    1303 E. Algonquin Road
    Schaumburg, IL 60196

16. Nextel WIP Corp. (Delaware corporation)

    2001 Edmund Halley Drive
    Reston, VA 20191

17. David Aas (US citizen)
18. Mark Fanning (US citizen)
19. Perry Satterlee (US citizen)
20. David Thaler (US citizen)
21. John Thompson (US citizen)

    4500 Carillon Point
    Kirkland, WA 98033

22. Janet Thompson (US citizen)

    c/o Alison Yeager
    Laird Norton Trust Company
    801 Second Ave., Suite 1600
    Seattle, WA 98104-1564

(d) Title of Class of Securities

Class A Common Stock

(e) CUSIP Number

65333F107

Item 3. If this statement is filed pursuant to Rule 13d-1(b), or 13d-2(b) or (c), check whether the filing person is a:

(a) / / Broker or dealer registered under Section 15 of the Exchange Act;

(b) / / Bank as defined in Section 3(a)(6) of the Exchange Act;

(c) / / Insurance company as defined in Section 3(a)(19) of the Exchange Act;

(d) / / Investment company registered under Section 8 of the Investment Company Act;

(e) / / An investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E);

(f) / / An employee benefit plan or endowment fund in accordance with Rule 13d-1(b)(1)(ii)(F);

(g) / / A parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G);

(h) / / A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act;

(i) / / A church plan that is excluded from the definition of an investment company under Section 3(c)(14) of the Investment Company Act;

(j) / / Group, in accordance with Rule 13d-1(b)(1)(ii)(J).

Not Applicable

Item 4. Ownership

(a)-(c) Amount Beneficially Owned, percent of class and voting/dispositive power.

Although the Reporting Person and each Non-Reporting Person disclaims beneficial ownership of any shares of Class A Common Stock and Class B Common Stock beneficially owned by each other Non-Reporting Person, pursuant to the Exchange Act and the regulations thereunder, the Reporting Person and the Non-Reporting Persons may be deemed as a group to have acquired beneficial ownership of 98,913,228 shares of Class A Common Stock and 79,056,228 shares of Class B Common Stock, the aggregate number of shares of Common Stock which are beneficially subject to the terms of the Stockholders Agreement, representing 59.5% of the outstanding Class A Common Stock and 100% of the outstanding Class B Common Stock as of December 31, 2001.

The Reporting Person has, as of December 31, 2001, sole or shared power to vote or to direct the vote and sole or shared power to dispose or to direct the disposition of the Common Stock as follows:

The Reporting Person has sole power to vote and dispose of 2,689,357 shares, or 1.6% of the outstanding shares, of Class A Common Stock. In addition, the Reporting Person has shared power to vote and dispose of an aggregate of 861,667 shares, or 0.5% of the outstanding shares, of Class A Common Stock, of which 736,667 shares are held by JRC Coho LLC, an entity controlled by the Reporting Person (and of which Paul Chapple, Vivan Chapple and Jeff Pannell are indirect members), and 125,000 shares are held by Panther Lake LLC, an entity controlled by the Reporting Person and John Thompson. The Reporting Person may be deemed to also have the shared power to vote of an aggregate of 66,829,072 additional shares, or 40.4% of the outstanding shares, of Class A Common Stock, and 79,056,228 shares, or 100% of the outstanding shares, of Class B Common Stock. The Reporting Person may also be deemed to have the shared power to dispose of an aggregate of 95,362,204 additional shares, or 57.6% of the outstanding shares, of Class A Common Stock, and 79,056,228 shares, or 100% of the outstanding shares, of Class B Common Stock. The Reporting Person disclaims beneficial ownership all shares of which it may be deemed to have shared power to vote or dispose.

The Non-Reporting Persons, as of December 31, 2001, may be deemed to have shared power to direct the disposition of an aggregate of 95,362,204 shares, or 57.6% of the outstanding shares, of the Class A Common Stock, and 79,056,228 shares, or 100% of the outstanding shares, of Class B Common Stock. The Non-DLJ entities may be deemed to have shared power to vote an aggregate of 66,829,072 shares, or 40.4% of the outstanding shares, of Class A Common Stock, and 79,056,228 shares, or 100% of the outstanding shares, of Class B Common Stock. The DLJ entities may be deemed to have shared power to vote an aggregate of 28,533,132 shares, or 17.2% of the outstanding shares, of Class A Common Stock. Each Non-Reporting Person disclaims beneficial ownership of the shares of which they may be deemed to share power to vote or dispose.

The beneficial ownership of the Reporting and each Non-Reporting Person who is a party to the Shareholders Agreement as of December 31, 2001 is as follows:

Beneficial Ownership as of December 31, 2001:

	Common Stock	Percent of Class (1)
DLJ Merchant Banking Partners II, L.P.	17,973,750	10.9%
DLJ Merchant Banking Partners II-A, L.P.	715,800	*
DLJ Offshore Partners II, C.V.	883,854	*
DLJ Millenium Partners, L.P.	290,616	*
DLJ Millenium Partners-A, L.P.	56,676	*
DLJ Diversified Partners, L.P.	1,050,822	*
DLJ Diversified Partners-A, L.P.	390,246	*
DLJMB Funding II, Inc.	2,840,980	1.7%
UK Investment Plan 1997 Partners	400,764	*
DLJ First ESC, L.P.	34,590	*
DLJ ESC II, L.P.	3,814,334	2.3%
DLJ EAB Partners, L.P.	80,700	*
Madison Dearborn Capital Ptrs II, LP	27,218,904	16.4%
Eagle River Investments LLC	19,500,012	11.8%
Motorola, Inc.	13,076,376	7.9%
David Aas (2)	1,128,425	*
John Chapple (3)	3,551,024	2.1%
Mark Fanning (4)	981,481	*
Perry Satterlee (5)	1,105,876	*
David Thaler (6)	1,310,667	*
John Thompson (7)	1,842,381	1.1%
Janet Thompson (8)	789,950	*
TOTAL (9)	**98,913,228**	**59.5%**

* Less than 1%

(1) Based on 165,562,642 shares of Class A Common Stock outstanding as of December 31, 2001 as provided by Nextel Partners, Inc.

(2) Includes 60,000 shares of Class A Common Stock that are subject to a currently exercisable option.

(3) Includes 90,000 shares of Class A Common Stock that are subject to a currently exercisable option, 736,667 shares held by JRC Coho LLC, an entity controlled by Mr. Chapple and 125,000 shares held by Panther Lake LLC, an entity controlled by Messrs. Chapple and Thompson.

(4) Includes 76,667 shares of Class A Common Stock that are subject to a currently exercisable option.

(5) Includes 100,000 shares of Class A Common Stock that are subject to a currently exercisable option and 165,000 shares held by PSS-MSS, L.P., an entity controlled by Mr. Satterlee.

(6) Includes 56,667 shares of Class A Common Stock that are subject to a currently exercisable option.

(7) Includes 174,167 shares of Class A Common Stock that are subject to a currently exercisable option, 509,166 shares held by JDT-JRT, LLC, an entity controlled by Mr. Thompson and 125,000 shares held by Panther Lake LLC, an entity controlled by Messrs. Chapple and Thompson.

(8) Includes 122,500 shares of Class A Common Stock that are subject to a currently exercisable option.

(9) See footnotes (2) through (8) above.

Based on information provided by Nextel WIP Corp., it owns 100% of the outstanding Class B Common Stock. The Class B Common Stock is convertible into Class A Common Stock at any time on a one-for-one basis upon transfer to a person other than NCI, a majority-owned NCI subsidiary or a person or entity controlling NCI. However, because such transfers are prohibited under the Shareholders Agreement and the Nextel Partners, Inc. Restated Certificate of Incorporation until January 29, 2011, this Schedule 13G assumes Nextel WIP Corp. does not have the right to acquire shares of Class A Common Stock upon conversion of the Class B Common Stock.

Item 5. Ownership of Five Percent or Less of a Class

Not applicable.

Item 6. Ownership of More Than Five Percent on Behalf of Another Person

See Item 4

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company

Not applicable.

Item 8. Identification and Classification of Members of the Group:

Not applicable.

Item 9. Notice of Dissolution of Group

Not applicable.

Item 10. Certification

Not applicable.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

February 12, 2002

Date

/s/ JOHN CHAPPLE

Signature

John Chapple

Name/Title

QuickLinks

s. We have developed Talon "Authorized", joint manufacturing arrangements in strategic international local markets to manufacture, finish and distribute zippers locally under the Talon brand name. Our manufacturing partners operate under our direct manufacturing and quality assurance oversight, to our manufacturing specifications and quality standards, using only Talon approved and authorized raw materials, resulting in the highest quality finished zippers for our customers in their local markets. Our operating structure allows us to significantly improve the speed at which we serve the market and to effectively expand the geographic footprint of our Talon products.

In our Trim products group, we act as a fully integrated single-source designer, product developer and exclusive supplier for a full range of trim items for manufacturers of fashion apparel. Our business focuses on servicing all of the trim requirements of our customers at the manufacturing and retail brand level of the fashion apparel industry. Trim items include labels, buttons, rivets, printed marketing material, polybasic, packing cartons and hangers. Trim items comprise a relatively small part of the cost of most apparel products but comprise the vast majority of components necessary to fabricate and finish a typical apparel product. We offer customers a one-stop outsource service for all zipper and trim related matters. Our teams work with industry merchants, product developers and designers and function as an extension of their staff.

Our Talon and Trim products teams collaborate with customers on their design vision and present examples of their vision in graphic form for all apparel accessory components. We design the buttons, snaps, hang tags, labels, zippers, zipper pullers and other items to meet the customers' needs. Once our customer selects the designs they prefer, our sourcing and production teams coordinate with our manufacturing partners worldwide to ensure the best manufacturing solution for the items being produced. The proper manufacturing solution is a critical part of the expertise and service we provide to customers. Selecting the best facility to ensure timely production, the proper finishes, or other material needs or manufacturing techniques to be used is critical. We offer customers a depth and breadth of knowledge in the manufacturing of these products that our customers cannot otherwise achieve. We are consistently innovating new items, manufacturing techniques and finishes; introducing many new, fresh and unique ideas to our customers. Once our customers make a final decision on the accessories that will be used on their garments, we are typically identified as the sole or preferred source supplier for the project, and our customer's factories are then directed to purchase the products directly from us. Throughout the garment manufacturing process, we consistently monitor the timing and accuracy of the production items until finally delivered to our customer's apparel factories.

Under our Tekfit brand we supply apparel manufacturers advanced, patented fabric technologies to produce a unique stretchable waistband for their garments. This technology allows the fabric to be altered through the addition of stretch characteristics resulting in greatly improved fit and comfort. Pant manufacturers use this technology to build-in a stretch factor into standard waistbands that does not alter the appearance of the garment, but will allow the waist to stretch out and back by as much as two waist sizes.

We serve as a specified supplier in our zipper, trim and waistband products for a variety of major retail brand and private-label oriented companies. A specified supplier is a supplier that has been approved for its quality and service by a major retail brand or private-label company. Apparel contractors manufacturing for the retail brand or private-label company must purchase their zipper and trim components from a supplier that has been specified. We seek to expand our services as a supplier of select items for such customers, to being a preferred or single-source provider of the entire customer's authorized trim and zipper requirements. Our ability to offer a full range of trim and zipper products is attractive to brand name and private-label oriented customers because it enables the customer to address their quality and supply needs for all of their trim requirements from a single source, avoiding the time and expense necessary to monitor quality and supply from multiple vendors and manufacturer sources. Becoming a specified supplier to brand customers gives us an advantage to become the preferred or sole vendor of trim and zipper items for all apparel manufacturers contracted for production for that brand name.

Our teams of sales employees, representatives, program managers, creative design personnel and global production and distribution coordinators at our facilities located in the United States, Europe, and throughout Southeast Asia enable us to take advantage of and address the increasingly complicated requirements of the large and expanding demand for complete apparel accessory solutions. We plan to continue to expand operations in Asia, Europe, and Central America to take advantage of the large apparel manufacturing markets in these regions.

Products

Talon Zippers - We offer a full line of custom metal, coil and plastic zippers bearing the Talon brand name or logo. Talon zippers are used primarily by manufacturers in the apparel industry and are distributed through our distribution facilities in the United States, Europe, Hong Kong, China, Taiwan, India, Indonesia and Bangladesh and through these designated offices to other international markets.

We expand our distribution of Talon zippers through the establishment of a combination of Talon owned sales and distribution locations, and strategic manufacturing and distribution relationships. These distribution and manufacturing relationships, in combination with Talon owned and affiliated facilities under the Talon brand, improve our time-to-market by allowing us to source, finish and distribute to apparel manufacturers within their local markets. The branded apparel zipper market is dominated by one company and we have positioned Talon to be a viable global alternative to this competitor and capture an increased market share position. We leverage the brand awareness of the Talon name by branding other products in our line with the Talon name.

Trim - We consider our high level of customer service as a fully integrated single-source supplier essential to our success. We combine our high level of customer service within our Trim solutions with a history of design and manufacturing expertise to offer our customers a complete trim solution product. We believe this full-service product gives us a competitive edge over companies that only offer selected trim components because our full service solutions save our customers substantial time in ordering, designing, sampling and managing trim orders from several different suppliers. Our tracking and order management systems allow us to seamlessly supply trim solutions and products to apparel brands, retailers and manufacturers around the world. We produce customized woven, leather, synthetic, embroidered and novelty labels and tapes, which can be printed on or woven into a wide range of fabrics and other materials using various types of high-speed equipment.

Tekfit - We market and supply a proprietary stretch waistband using our patented technology. We provide apparel manufacturers with proprietary equipment, custom materials and an advanced, patented fabric technology that allow for the manufacture of stretch characteristics into their standard waistbands resulting in greatly improved fit and comfort. This technology is used to build-in a stretch factor into standard waistbands that does not alter the appearance of the garment, but will allow the fabric to stretch out and back by as much as two waist sizes. Our supply of this product to customers was limited since 2006 by a licensing dispute. In March 2012 we ended the licensing dispute, and acquired all U.S. existing licenses and patents for this product technology, and settled all matters of litigation with the original owner. Following the end of this dispute we again began to actively expand our marketing and selling efforts of this unique product and brand within the industry. The revenues we derived from the sales of products incorporating the stretch waistband technology were substantially limited for the years 2012, 2011 and 2010 as a consequence of this former litigation.

The percentages of total revenue contributed by each of our three primary product groups for the last three fiscal years are as follows:

	Year Ended December 31,					
	2012		2011		2010	
Product Group Net Sales:						
Talon zipper.	49.4	%	54.3	%	59.1	%
Trim	50.5	%	45.7	%	40.8	%
Tekfit	0.1	%	0.0	%	0.1	%

Design and Development

Our in-house creative teams produce products with innovative technology and designs that we believe distinguish our products from those of our competitors. We support our skills and expertise in material procurement and product-manufacturing coordination with product technology and designs intended to meet fashion demands, as well as functional and cost parameters. An example of this is the Talon KidZip® which is a specialty zipper for children’s apparel engineered to surpass industry established strength and safety standards, while maintaining the fashion image and requirements of today’s apparel demands.

Many specialty design companies with which we compete have limited engineering, sourcing or manufacturing experience, and consequently they create products or designs that often cannot be implemented due to limitations in the manufacturing process, the high expense of required materials, or a lack of functionality in the resulting product. We design products to function within the limitations imposed by the applicable materials and manufacturing framework, while meeting our customers specialty needs. Using our manufacturing experience, we ensure delivery of quality products and minimize the time-consuming delays that often arise in coordinating the efforts of independent design houses and manufacturing facilities. By supporting our material procurement and product manufacturing services with design services, we reduce development and production costs and deliver products to our customers sooner than many of our competitors. Our development costs are low, many of which are borne by our customers. Our design teams are based in our U.S. and Asian facilities.

Customers

We have more than 956 active customers. Our customers include the designated suppliers of well-known apparel retailers and brands, such as, VF Corporation, Victoria’s Secret, Tom Tailor, Fat Face, Abercrombie and Fitch, American Eagle, Polo Ralph Lauren, Phillips-Van Heusen, Super Dry, Eddie Bauer, Babies-R-Us, and Guess among others. Our customers also include contractors for specialty retailers such as Express and mass merchant retailers such as Wal-Mart, Kohl’s, J.C. Penney, and Costco.

For the years ended December 31, 2012, 2011 and 2010, our three largest customers combined represented approximately 6%, 8% and 9%, respectively, of consolidated net sales.

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Sales and Marketing

We sell our products through our own sales force based in the United States, Hong Kong, China, India, Indonesia, Taiwan, and Bangladesh. We contract with outside sales representatives in the U.S. and Europe, and we develop Central America opportunities through our U.S. sales force and outside sales representatives. We also employ customer service representatives who are assigned to key customers and provide local customer support. We have developed relationships with our major customers at senior levels and our sales teams actively participate with these customers in their marketing and sales programs and sales strategies. When we become the outsourcing vendor for a customer’s packaging or trim requirements, we position ourselves as if we are an in-house department of the customer’s trim components procurement operation.

Sourcing and Assembly

We have developed expertise in identifying high quality materials, competitive prices and approved manufacturers for particular products and materials and ensuring strict adherence to quality manufacturing processes and materials. Our expertise enables us to produce a broad range of apparel accessories and trim products at competitive prices. The majority of products that we procure and distribute are secured on a finished-good basis, manufactured by our partners and under our direct oversight and scrutiny. Raw materials used to manufacture or assemble all of our products are obtained only from sources we authorize and specify and are in adequate supply. We purchase products only from qualified material suppliers, and guarantee our customers that all materials used in the manufacture of our products are fully compliant with all government regulations and controls over restricted substances.

We develop product artwork and any necessary dies and molds used to design and manufacture our products. Products that we design and sell are produced by manufacturing partners under our direct supervision or through joint manufacturing arrangements. We are confident in our ability to identify, secure and maintain high quality manufacturing sources. We will continue to build upon our production through qualified suppliers, particularly with respect to manufacturing activities that require substantial investments in time and capital equipment.

Principally through our Asian facilities, we distribute Talon zippers, trim items and apparel accessories and oversee the manufacture and distribution of the full range of our products. Through our Asian facilities we supply customers numerous significant zipper and trim programs, and serve these customers worldwide.

Intellectual Property Rights and Licenses

We have trademarks as well as patent rights, copyrights, software copyrights and trade names for which we rely on common law protection, including the Talon trademark. Several of our other trademarks are the subject of applications for federal trademark protection through registration with the United States Patent and Trademark Office, including “Talon”, “Tag-It”, “Kidzip” and “Tekfit”.

Seasonality

We typically experience seasonal fluctuations in sales volume consistent with the purchase demands of the apparel industry. In most years, these seasonal fluctuations result in lower sales volumes for our business in the first and fourth quarters of each year due to the seasonal buying patterns by the majority of our customers. The apparel retailers typically experience higher sales volumes during the second and third quarters associated with back-to-school sales efforts and in the fourth quarter in association with year-end holiday purchases. Sales of our products typically precede the retail sales patterns by 90 to 150 days. Backlogs of sales orders are not considered material in the industries in which we compete, which reduces the predictability of our sales and reinforces the volatility of these cyclical buying patterns on our sales volume.

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Inventories

In order to meet the rapid delivery requirements of our customers, we may be required to purchase inventories of raw materials based upon projections made by our customers. In these cases we may carry a substantial amount of inventory on their behalf. We manage this risk by obtaining customer commitments to purchase any excess materials or inventories. These commitments provide that in the event that inventories remain with us in excess of the apparel program life or the termination of production of a customer's product line related to the inventories, the customer is required to purchase the inventories from us under normal invoice and selling terms. While these agreements provide us some advantage in the negotiated disposition of these inventories, we cannot be assured that our customers will complete these agreements or that we can enforce these agreements without adversely affecting our business operations.

Competition

We operate in highly competitive and fragmented segments of the apparel industry that include numerous local and regional companies that provide some or all of the products we offer. We also compete with United States and international design companies, distributors and manufacturers of tags, trim, packaging products and zippers. Some of our competitors are significantly larger in size and resources than us and have greater name recognition, longer operating histories and more financial and other resources.

Because of our integrated materials, manufacturing and assembly capabilities and our full-service zipper and trim solutions, we believe that we are able to effectively compete for our customers' business, particularly where our customers require a high level of confidence regarding compliance with restricted substance regulations, and with the effective coordination of separately sourced production functions. We believe that we successfully compete in our industry by offering superior product pricing, quality, customer service, design capabilities, delivery lead times and complete supply-chain management. We also believe the Talon brand name and the quality of our Talon brand zippers allows us to gain market share in the apparel accessory industry. The unique stretch quality of our Tekfit waistbands will also allow us to compete effectively in the market for waistband components.

Segment Information

We operate in one industry segment, the distribution of a full range of apparel zipper and trim products to manufacturers of fashion apparel, specialty retailers and mass merchandisers. We separately report our revenues and gross margins by our selling groups in this segment to the extent these are distinguished and separate.

Financial Information about Geographic Areas

The majority of our products sold are for use by U.S. and European based brands, retailers and manufacturers. The majority of these customers produce their products or outsource the production of their products in manufacturing facilities located outside of the U.S. or Europe, primarily in China, Taiwan, India, Indonesia, Bangladesh and Central America.

A summary of our domestic and international net sales and long-lived assets is set forth in Item 8 of Part II of this Annual Report on Form 10-K, Note 10 in the accompanying Notes to Consolidated Financial Statements.

We are subject to certain risks referred to in Item 1A, "Risk Factors" and Item 3, "Legal Proceedings", including those normally attending international and domestic operations, such as changes in economic or political conditions, currency fluctuations, foreign taxes, exchange control regulations and the effect of international relations and domestic affairs of foreign countries on the conduct of business, legal proceedings and the availability and pricing of raw materials.

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Employees

As of December 31, 2012, we had approximately 188 full-time employees including 26 in the United States and 162 employees in Asia. Our labor forces are non-union. We believe that we have satisfactory employee and labor relations.

Corporate Governance and Information Related to SEC Filings

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed with, or furnished to, the Securities and Exchange Commission ("SEC") pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge through our website, www.talonzippers.com (in the "Investor" section, as soon as reasonably practical after electronic filing with or furnishing of such material to the SEC). We make available on our website our (i) shareholder communications policies, (ii) Code of Ethical Conduct and (iii) Employee Complaint Procedures for Accounting and Auditing Matters. These materials are also available free of charge in print to stockholders who request them by writing to: Investor Relations, Talon International, Inc., 21900 Burbank Boulevard, Suite 270, Woodland Hills, CA 91367. Our website address provided in this Annual Report on Form 10-K is not intended to function as a hyperlink and the information on our website is not and should not be considered part of this report and is not incorporated by reference in this document.

ITEM 1A. RISK FACTORS

Several of the matters discussed in this document contain forward-looking statements that involve risks and uncertainties. Factors associated with the forward-looking statements that could cause actual results to differ from those projected or forecast are included in the statements below. In addition to other information contained in this report, readers should carefully consider the following cautionary statements and risk factors.

If we lose our larger customers or they fail to purchase at anticipated levels, our sales and operating results will be adversely affected.

Our results of operations depend to a significant extent upon the commercial success of our larger customers. If these customers fail to purchase our products at anticipated levels, or our relationship with these customers or the retailers they serve diminishes, it may have an adverse effect on our results because: we may lose a primary source of revenue if these customers choose not to purchase our products or services. We may lose the nomination of the retailer or brand; we may not be able to recoup development and inventory costs associated with this customer; and we may not be able to collect our receivables from them.

U.S. and global financial and economic uncertainties could negatively affect our business, results of operations and financial condition.

Our performance is subject to worldwide economic conditions and their impact on levels of consumer spending that affect not only the ultimate consumer, but also retailers, which are served by many of our largest customers. The worldwide apparel industry is heavily influenced by general economic cycles. Purchases of fashion apparel and accessories tend to decline in periods of uncertainty or recession regarding future economic prospects, as disposable income declines. Many factors affect the level of consumer spending in the apparel industries, including, among others: prevailing economic conditions, levels of employment, salaries and wage rates, energy costs, interest rates, the availability of consumer credit, taxation and consumer confidence in future economic conditions. During periods of recession or economic uncertainty, we may not be able to maintain or increase our sales to existing customers, make sales to new customers, or maintain our earnings from operations as a percentage of net sales. As a result, our operating results may be adversely and materially affected by weak or downward trends in the United States or global economy.

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The loss of key management and sales personnel could adversely affect our business, including our ability to obtain and secure accounts and generate sales.

Our success has and will continue to depend upon key management and sales personnel, many of whom would be difficult to replace. The loss of the services of key employees could have a material adverse effect on our business, including our ability to establish and maintain client relationships. Our future success will depend in large part upon our ability to attract and retain personnel with a variety of sales, operating and managerial skills.

Global credit conditions may increase our credit risks.

Most of our customers are extended credit terms which are approved by us internally. While we attempt to cover as much of our credit risks as possible, not all of our risks can be fully covered due to the countries we operate in or the current credit conditions. Such exposure may translate into losses should there be any adverse changes to the financial condition of customers.

We operate in an industry that is subject to significant fluctuations in operating results that may result in unexpected reductions in revenue and stock price volatility.

We operate in an industry that is subject to seasonal and operational fluctuations that can significantly impact our results from quarter to quarter. Factors that may influence our quarterly operating results include:

- The volume and timing of customer orders received during the quarter;
- The timing and magnitude of customers' marketing campaigns;
- The loss or addition of a major customer or of a major retailer nomination;
- The availability and pricing of materials for our products;
- The increased expenses incurred in connection with the introduction of new products;
- Currency fluctuations;
- Political factors that may affect the expected flow of commerce;
- Delays caused by third parties; and
- Changes in our product mix or in the relative contribution to sales of our subsidiaries.

Due to these factors, it is possible that in some quarters our operating results may be below our stockholders' expectations and those of public market analysts. If this occurs, the price of our common stock could be adversely affected.

Our products may not comply with various industry and governmental regulations and our customers may incur losses in their products or operations as a consequence of our non-compliance.

Our products are produced under strict supervision and controls to ensure that all materials and manufacturing processes comply with the industry and governmental regulations governing the markets in which these products are sold. However, if these controls fail to detect or prevent non-compliant materials from entering the manufacturing process, our products could cause damages to our customer's products or processes and could also result in fines being incurred. The possible damages, replacement costs and fines could significantly exceed the value of our products and these risks may not be covered by our insurance policies.

If customers default on inventory purchase commitments with us, we may be left holding non-salable inventory.

We hold inventories for specific customer programs, which the customers have committed to purchase. If any customer defaults on these commitments, or insists on markdowns, we may incur a charge in connection with our holding non-salable inventory and this would have a negative impact on our operations and cash flow.

Because we depend on a limited number of suppliers, we may not be able to always obtain materials when we need them and we may lose sales and customers.

Lead times for materials we order can vary significantly and depend on many factors, including the specific supplier, the contract terms and the demand for particular materials at a given time. From time to time, we may experience fluctuations in the prices and disruptions in the supply of materials. Shortages or disruptions in the supply of materials, or our inability to procure materials from alternate sources at acceptable prices in a timely manner, could lead us to miss deadlines for orders and lose sales and customers.

Our customers have cyclical buying patterns which may cause us to have periods of low sales volume.

Most of our customers are in the apparel industry. The apparel industry historically has been subject to substantial cyclical variations. Our business has experienced significant cyclical fluctuations due, in part, to customer buying patterns, which may result in periods of low sales usually in the first and fourth quarters of our financial year. Backlogs of sales orders are not considered material in the industries in which we compete, which reduces the predictability of revenues and reinforces the volatility of these cyclical buying patterns on our sales volume.

If we experience disruptions at any of our foreign facilities, we will not be able to meet our obligations and may lose sales and customers.

Currently, we do not operate duplicate facilities in different geographic areas. Therefore, in the event of a regional disruption where we maintain one or more of our facilities, it is unlikely that we could shift our operations to a different geographic region and we may have to cease or curtail our operations in a selected area. This may cause us to lose sales and customers. The types of disruptions that may occur include:

- Foreign trade disruptions;
- Import restrictions;
- Labor disruptions;
- Embargoes;
- Government intervention;
- Natural disasters; or
- Regional pandemics.

Counterfeit products are not uncommon in the apparel industry and our customers may make claims against us for products we have not produced, adversely impacting us by these false claims.

Counterfeiting of valuable trade names is commonplace in the apparel industry and while there are industry organizations and federal laws designed to protect the brand owner, these counterfeit products are not always detected and it can be difficult to prove the manufacturing source of these products. Accordingly, we may be adversely affected if counterfeit products damage our relationships with customers, and we incur costs to prove these products are counterfeit, to defend ourselves against false claims and to pay for false claims.

On occasion, we have discovered that certain Asian factories have counterfeited Talon zippers. We undertake efforts to eliminate and prosecute all offenders. Counterfeiting of known quality brand products is commonplace within Asia and in particular where retailers limit their sources to recognized brands such as Talon. The full extent of counterfeiting of Talon products, its effect on our business operations and the costs to investigate and eliminate this activity are ongoing and are generally undeterminable. However, based upon evidence available, we believe the impact is not significant to our current overall operations. We continue to work closely with major retailers to identify these activities within the marketplace and will aggressively combat these efforts worldwide to protect the Talon brand.

Our business model is dependent on integration of information systems on a global basis and, to the extent that we fail to maintain and support our information systems, it can result in lost revenues.

We must consolidate and centralize the management of our subsidiaries and significantly expand and improve our financial and operating controls. Additionally, we must effectively integrate the information systems of our worldwide operations with the information systems of our principal offices in California. Our failure to do so could result in lost revenues, delay financial reporting or have adverse effects on the information reported.

Internet-based systems that we rely upon for our order tracking and management systems may experience disruptions and as a result we may lose revenues and customers.

To the extent that we fail to adequately update and maintain the hardware and software implementing our integrated systems, our customers may be delayed or interrupted due to defects in our hardware or our source code. In addition, since our software is Internet-based, interruptions in Internet service generally can negatively impact our ability to use our systems to monitor and manage various aspects of our customer’s needs. Such defects or interruptions could result in lost revenues and lost customers.

The outcome of any dispute or litigation in which we have been named as a defendant is unpredictable and an adverse decision in any such matter could have a material adverse effect on our financial position and results of operations.

From time to time we are party to various disputes or litigation matters. These claims may divert financial and management resources that would otherwise be used to benefit our operations. Although we believe that we have meritorious defenses and arguments to the claims made in each and all of the matters to which we have been named a party and we intend to contest each vigorously, no assurances can be given that the results of these matters will be favorable to us. We maintain product liability, errors and omissions, product recall and director and officer insurance that we regard as reasonably adequate to protect us from potential claims; however, we cannot assure adequacy to cover any loss, or that we will be able to maintain our current levels of insurance at a reasonable cost or at all.

Unauthorized use of our proprietary technology may increase our litigation costs and adversely affect our sales.

We rely on trademark, patent, trade secret and copyright laws to protect our designs and other proprietary property worldwide. We cannot be certain that these laws will be sufficient to protect our property. In particular, the laws of some countries in which our products are distributed or may be distributed in the future may not protect our products and intellectual rights to the same extent as the laws of the United States. If litigation is necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others, such litigation could result in substantial costs and diversion of resources. This could have a material adverse effect on our operating results and financial condition. Ultimately, we may be unable, for financial or other reasons, to enforce our rights under intellectual property laws, which could result in lost sales.

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If our products infringe any other person's proprietary rights, we may be sued and have to pay legal expenses and judgments and redesign or discontinue selling our products.

From time to time in our industry, third parties allege infringement of their proprietary rights. Any infringement claims, whether or not meritorious, could result in costly litigation or require us to enter into royalty or licensing agreements as a means of settlement. If we are found to have infringed the proprietary rights of others, we could be required to pay damages, cease sales of the infringing products and redesign the products or discontinue their sale. Any of these outcomes, individually or collectively, could have a material adverse effect on our operating results and financial condition.

We may not be able to realize the anticipated benefits of acquisitions.

We may consider strategic acquisitions as opportunities arise. Acquisitions involve numerous risks, including diversion of our management's attention away from our operating activities. We cannot assure you that we will not encounter unanticipated problems or liabilities relating to the integration of an acquired company's operations, nor can we assure you that we will realize the anticipated benefits of any future acquisitions.

Our actual tax liabilities may differ from estimated tax resulting in unfavorable adjustments to our future results.

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities. Our estimate of the potential outcome of uncertain tax issues is subject to our assessment of relevant risks, facts and circumstances existing at that time. Our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, which may impact our effective tax rate and our financial results.

We have experienced and may continue to experience major fluctuations in the market price for our common stock.

The following factors could cause the market price of our common stock to decrease, perhaps substantially:

- The failure of our quarterly operating results to meet expectations of investors or securities analysts;
- Adverse developments in the financial markets, the apparel industry and the worldwide or regional economies;
- Interest rates;
- Changes in accounting principles;
- Intellectual property and legal matters;
- Sales of common stock by existing shareholders or holders of options;
- Announcements of key developments by our competitors; and
- The reaction of markets and securities analysts to announcements and developments involving our company.

If we need to sell or issue additional shares of common stock or assume additional debt to finance future growth, our stockholders' ownership could be diluted or our earnings could be adversely impacted.

Our business strategy may include expansion through internal growth, by acquiring complementary businesses or by establishing strategic relationships with targeted customers and suppliers. In order to do so, or to fund our other activities, we may issue additional equity securities that could dilute our stockholders' value. We may also assume additional debt and incur impairment losses to our intangible assets if we acquire another company.

We have adopted a number of anti-takeover measures that may depress the price of our common stock.

Our stockholders' rights plan, our ability to issue additional shares of preferred stock and some provisions of our certificate of incorporation and bylaws and of Delaware law could make it more difficult for a third party to make an unsolicited takeover attempt of us. These anti-takeover measures may depress the price of our common stock by making it more difficult for third parties to acquire us by offering to purchase shares of our stock at a premium to its market price.

CVC 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 in July 2010, we issued to CVC California LLC ("CVC") Series B Preferred Stock which upon conversion, when combined with the 1,750,000 shares of common stock already owned by CVC, represents 64.7% of our company's current outstanding voting securities as of March 26, 2013. As a result, CVC has the voting power to determine the outcome of 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 causing, delaying or preventing a change of control of our company or 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.

We may face interruption of production and services due to increased security measures in response to terrorism.

Our business depends on the free flow of products and services through the channels of commerce. In response to terrorists' activities and threats aimed at the United States, transportation, mail, financial and other services may be slowed or stopped altogether. Extensive delays or stoppages in transportation, mail, financial or other services could have a material adverse effect on our business, results of operations and financial condition. Furthermore, we may experience an increase in operating costs, such as costs for transportation, insurance and security as a result of the activities and potential delays. We may also experience delays in receiving payments from payers that have been affected by the terrorist activities. The United States economy in general may be adversely affected by the terrorist activities and any economic downturn could adversely impact our results of operations, impair our ability to raise capital or otherwise adversely affect our ability to grow our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters are located in the greater Los Angeles area, in Woodland Hills, California. We lease approximately 13,785 square feet of office, warehouse and product development spaces in the US and 37,656 square feet of office, warehouse, product development and showroom spaces within Asia. The lease agreements related to these properties expire at various dates through May 2017. We believe our existing facilities are adequate to meet our needs for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

On May 7, 2012, we filed a lawsuit against Adidas America, Inc. in the U.S. District Court for the Central District of California asserting claims of trademark infringement, unfair competition, deceptive trade practices and related claims, under both U.S. and California law. The claims arose out of Adidas's use of the “Techfit” name for its apparel, which we asserted infringed our previously registered Tekfit trademark. On May 21, 2012, Adidas then filed a counterclaim against Talon seeking cancellation of our Tekfit U.S. trademark registrations and recovery of legal fees. On January 15, 2013, we accepted a cash settlement from Adidas and both parties dismissed all related actions with prejudice and ensured that future use of their trademarks would not create confusion to the consumer.

We currently have pending various 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 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock

Our common stock is currently listed on the OTCQB under the trading symbol "TALN". The following table sets forth the high and low sales prices for the Common Stock as reported by the OTCQB during the periods indicated. Over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

	High	Low
Year ended December 31, 2012		
1st Quarter.	$0.11	$0.05
2nd Quarter	0.09	0.04
3rd Quarter	0.05	0.03
4th Quarter	0.14	0.03
Year ended December 31, 2011		
1st Quarter.	$0.20	$0.09
2nd Quarter	0.20	0.07
3rd Quarter	0.16	0.09
4th Quarter	0.13	0.04

On March 26, 2013 the closing sales price of our common stock as reported on the OTCQB was $0.05 per share. As of March 26, 2013, there were 22 recorded holders of our common stock and approximately 84.6% of our outstanding shares were held by brokers and dealers.

Dividends

We have never paid dividends on our common stock. Pursuant to our certificate of incorporation, we are restricted from paying dividends on our common stock without obtaining approval from the holder of our Series B Preferred stock. It is our intention to retain future earnings for use in our business.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data is not necessarily indicative of our future financial position or results of future operations and should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and Notes thereto included in Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

	(In thousands except per share data)				
	2012	2011	2010	2009	2008
Consolidated Statements of Operations Data:					
Talon zippers net sales	$ 22,062	$ 22,613	$ 24,517	$ 21,341	$ 28,429
Trim net sales	22,519	19,048	16,936	17,274	19,537
Tekfit net sales	20	8	7	61	205
Total net sales	$ 44,601	$ 41,669	$ 41,460	$ 38,676	$ 48,171
Income (loss) from operations (1)	$ 995	$ 1,339	$ 1,471	$ 289	$ (5,962)
Net income (loss) (2)	$ 679	$ 729	$ (1,467)	$ (2,693)	$ (8,359)
Net income (loss) per share	$ 0.03	$ 0.04	$ (0.07)	$ (0.13)	$ (0.41)
Basic and dilutive net income (loss) per share applicable to Common Shareholders	$ (0.12)	$ (0.10)	$ (0.17)	$ (0.13)	$ (0.41)
Weighted average shares outstanding – basic and diluted	22,458	20,568	20,291	20,291	20,291
Total comprehensive income (loss)(2)	$ 685	$ 761	$ (1,510)	$ (2,718)	$ (8,303)
Consolidated Balance Sheets Data:					
Cash and cash equivalents	$ 8,927	$ 5,749	$ 2,795	$ 2,265	$ 2,400
Total assets	$ 18,976	$ 16,358	$ 13,828	$ 13,834	$ 15,603
Notes payable and capital lease obligations (2)	$ 3	$ 324	$ 362	$ 15,270	$ 13,316
Series B Convertible Preferred Stock	$ 23,979	$ 20,672	$ 17,820	$ -	$ -
Stockholders' equity (Deficit)	$ (16,028)	$ (13,919)	$ (12,801)	$ (11,179)	$ (8,762)
Per Share Data:					
Net book value per common share	$ (0.68)	$ (0.66)	$ (0.63)	$ (0.55)	$ (0.43)
Common shares outstanding	23,401	21,001	20,291	20,291	20,291

(1) Income (loss) from operations for each fiscal year includes the following items:

	(In thousands)				
	2012	2011	2010	2009	2008
Trademark infringement litigation costs	$ (574)	$ -	$ -	$ -	$ -

Inventory impairment		-			-		-			-			(692	)
Losses from a former customer and impairment of related marketable securities		-			-		-			-			(1,040	)
Executive severance		-			-		-			-			(724	)
Related party note receivable recovery (impairment)		-			-		275			(200	)		(474	)
Prior years consulting fees		-			-		-			(201	)		-	
Impairment charges Idle Equipment and Building		-			-		-			-			(2,430	)
Combined	$	(574	)	$	-	$	275		$	(401	)	$	(5,360	)

(2) Loss on extinguishment of debt was included in the net loss for the year ended December 31, 2010 in amount of approximately $571,000, see Note 5 in the accompanying Notes to Consolidated Financial Statements.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

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. Amounts presented in this report are rounded to the nearest thousand dollars, except per share amounts.

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 our business through the establishment of Talon owned sales and distribution locations, and strategic manufacturing relationships. The manufacturing arrangements, in combination with Talon owned and affiliated facilities under the Talon brand, improve our time-to-market throughout the world by sourcing, finishing and distributing to apparel manufacturers in their local markets.

Our primary business focus is on serving as an outsourced apparel zipper and trims supplier, product design and development, sampling and sourcing department for the most demanding brands and retailers. We believe that 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 all trim components, we generally achieve higher margins for our products, create long-term relationships with our customers, grow our sales to a particular customer by serving a larger proportion of their brands and better differentiate our sales and services from those of our competitors. We are expanding our 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 apparel accessories 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 increase sales of this product have in the last few years been limited by a licensing dispute. However, all parties involved in the legal dispute concluded a Settlement Agreement and Release in March 2012 that included an unconditional release of Talon and its related entities from all lawsuits, claims, liabilities, agreements, and contracts (among other potential claims) involved in the matter, and resulted in Talon obtaining full ownership to all U.S. patents and technology rights. Accordingly, following settlement of the dispute we again began to actively expand our marketing and selling efforts of this unique product and brand within the industry.

Recapitalization

On July 30, 2010, we entered into a Recapitalization Agreement (the “Recapitalization Agreement”) with CVC California, LLC, pursuant to which we issued to CVC an aggregate of 407,160 shares of a newly created senior series of preferred stock, designated Series B Convertible Preferred Stock, in payment of an aggregate of $16,707,000 owed by us to CVC under our Loan Agreement with CVC. Each share of Series B Preferred Stock is convertible into 100 shares of Common Stock. The Series B Preferred Stock has other rights, preferences, privileges and restrictions, including a liquidation preference, redemption rights and class voting rights, which are summarized in Note 5 in the accompanying Notes to Consolidated Financial Statements.

In connection with the Recapitalization Agreement our Board of Directors was reconfigured to consist of five members, with three members designated by the Series B Preferred Stockholders to serve as Series B Directors.

Concurrently with execution of the Recapitalization Agreement, we entered into a Stockholders Agreement with CVC, and with Lonnie D. Schnell, Chief Executive Officer, Chief Financial Officer and a member of our Board of Directors, and Larry Dyne, our President, pursuant to which:

- CVC agreed that in connection with any director nominees to be submitted to holders of our common stock for election at a stockholders’ meeting, a committee of our Board comprised solely of directors then serving on the Board who were not elected or appointed by holders of Series B Preferred Stock, acting by majority vote, shall have the right to designate all of the Board’s nominees for director to be elected by holders of our Common Stock.

- CVC agreed that in connection with any election of directors submitted to our stockholders for election at a stockholders’ meeting, CVC will attend the stockholders’ meeting, in person or by proxy, and vote (or cause to be voted) all of CVC’s shares of our voting stock in favor of the Board’s nominees for director.

- Messrs. Schnell and Dyne provided CVC with a right of first refusal with respect to any shares of our voting securities that Messrs. Schnell and Dyne propose to sell in a private placement transaction, and agreed to provide CVC with advance notice of their intent to sell the Company’s voting securities in any public sale transaction.

- CVC provided Messrs. Schnell and Dyne with a tag-along right, providing Messrs. Schnell and Dyne with the right to sell their shares of our voting securities in a transaction where CVC is selling its shares of our voting securities.

- Messrs. Schnell and Dyne agreed with CVC to vote their shares of Talon voting stock in favor of a merger or consolidation of the company into or with another corporation or any share exchange, business combination or other such transaction in which we are a constituent party, or any sale of all or substantially all of our assets (a “Triggering Transaction”), in each case to the extent such transaction is first approved by CVC.

- CVC agreed not to sell or otherwise transfer its shares of our voting securities, or to vote its shares of the Company’s voting securities in favor of any Triggering Transaction, at any time on or before July 31, 2011, other than in connection with a transaction that is approved by a majority of our voting shares (where, in calculating such majority, the votes attributable to CVC’s shares of our voting securities are excluded in the numerator but included in the denominator).

- We provided CVC with a preemptive right, pursuant to which CVC will have the right, subject to certain exceptions set forth in the Stockholders Agreement, to acquire in a subsequent issuance of securities by us a number of offered securities that will allow CVC to maintain its percentage ownership of our voting securities.

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- CVC agreed with Messrs. Schnell and Dyne that in connection with a Triggering Transaction, CVC, and any other holder of Series B Preferred Stock and shares of common stock acquired upon conversion thereof, shall pay to Messrs. Schnell and Dyne a portion (beginning at 5% and increasing to 10%) of the sales proceeds payable in the Triggering Transaction to CVC or such other holder in respect of such Series B Preferred Stock or conversion shares. Each of Messrs. Schnell and Dyne's right to receive such portion of the sales proceeds is conditional upon the Triggering Transaction occurring (i) while employed by the Company or (ii) within 12 months following termination of employment with the Company for any reason other than termination of employment for "cause" or termination of employment by Messrs. Schnell or Dyne without "good reason" (as such terms are defined in their respective employment agreements).

For further details on the transaction, see Notes 4 and 5 in the accompanying Notes to Consolidated Financial Statements.

Results of Operations

Net Sales

For the years ended December 31, 2012, 2011 and 2010, total sales by geographic region based on customer delivery locations were as follows:

	Year Ended December 31,		
	2012	2011	2010
Sales:			
United States	$4,495,000	$3,519,000	$3,574,000
Hong Kong	14,595,000	14,696,000	14,509,000
China	10,760,000	9,558,000	10,412,000
Bangladesh	2,242,000	2,093,000	2,547,000
Other	12,509,000	11,803,000	10,418,000
Total	$44,601,000	$41,669,000	$41,460,000

The net sales for the three primary product groups are as follows:

	Year Ended December 31,		
	2012	2011	2010
Product Group Net Sales:			
Talon zipper	$22,062,000	$22,613,000	$24,517,000
Trim	22,519,000	19,048,000	16,936,000
Tekfit	20,000	8,000	7,000
Total	$44,601,000	$41,669,000	$41,460,000

Net sales are influenced by a number of factors, including demand, pricing strategies, , new product launches, competitive products, product supply and foreign exchange rates. See Item 1 "Business" for a discussion of our principal products.

Net sales for the year ended December 31, 2012 were $44,601,000, an increase of $2,932,000 over the net sales for the same period in 2011. The increases reflected sales to new specialty apparel customers and new programs within key customer accounts, partially offset by a decline in the sales of generic zippers to price sensitive mass merchandise and licensing customers. Over the past year we have focused our sales efforts on increasing sales to specialty apparel customers rather than mass merchandise customers. Our sales strategy is to continue to focus on customers who precede quality, brand image and product value before low-cost selections.

Net sales for the year ended December 31, 2011 were $41,669,000, a slight increase over the same period in 2010. The net increase mainly reflected sales to new customers and new programs within key customer accounts approximating $7.1 million offset by a decline of approximately $5.8 million in the sales of generic zippers to price sensitive mass merchandise and licensing customers who shifted their purchase to low-cost factories in Asia. The general economic weakness and increased commodity costs in the U.S. apparel market also resulted in lower unit demand for our products during the first half of 2011 compared to the first half of 2010.

Cost of goods sold and selected operating expenses

The following table summarizes cost of goods sold and selected operating expenses for the years ended December 31, 2012, 2011 and 2010 (amounts in thousands) and the percentage change in such operating expenses as compared to the previous year:

	2012	Change	2011	Change	2010
Sales	$44,601	7 %	$41,669	1 %	$41,460
Cost of goods sold	30,140	6 %	28,465	(2)%	28,999
% of sales	68 %		68 %		70 %
Sales and marketing expenses	4,974	17 %	4,261	40 %	3,035
% of sales	11 %		10 %		7 %
General and administrative expense	$8,492	12 %	$7,604	(4)%	$7,954
% of sales	19 %		18 %		19 %

Cost of goods sold

Cost of goods sold for the year ended December 31, 2012 increased $1,676,000, and represented 68% of sales in each of the years ended December 31, 2012 and 2011. The increase in the cost of goods sold was the result of higher overall sales volumes of $1,764,000, higher manufacturing overheads, inventory obsolescence costs and freight expenses of $579,000, offset by lower direct purchase costs associated with a greater mix of higher-margin products in the Talon and the Trim Divisions of $667,000.

Cost of goods sold for the year ended December 31, 2011 decreased $535,000, resulting in a lowering of costs to 68% of sales versus 70% of sales for the year ended December 31, 2010. The reduction in the cost of goods sold evidenced approximately $523,000 in lower direct costs associated with a greater mix of high margin (relatively lower cost) products in the Talon and the Trim Divisions, lower manufacturing support and inventory obsolescence costs and freight expenses of $139,000, partially offset by added costs of $127,000 associated with the overall sales volumes increase.

Sales and marketing expenses

Sales and marketing expenses for the year ended December 31, 2012 totaled $4,974,000, an increase of $713,000 as compared to same period in 2011. Sales expenses increased mainly due to the continued investment in strengthening and expanding our internal sales force within the U.S., Europe and Asia during 2011 and the first half of 2012; and increased commissions to our sales representative network. Increased sales and marketing efforts are designed to expand our presence in select product markets within the U.S., Europe and Asia where we see significant growth potential.

Sales and marketing expenses for the year ended December 31, 2011 were $4,261,000, or 10.2% of sales, as compared to $3,035,000, or 7.3% of sales, for the same period in 2010. Sales expenses increased mainly due to a strategic expansion of our internal sales force and external sales representatives network in the U.S., Europe and Asia begun during