

SPORT HALEY INC  
Form DEF 14A  
January 19, 2007

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

OMB APPROVAL  
OMB Number: 3235-0059  
Expires: January 31, 2008  
Estimated average burden hours  
per response: 14.

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant  x

Filed by a Party other than the Registrant  o

Check the appropriate box:

- o Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to §240.14a-12

Sport-Haley, Inc.  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
  - (2) Aggregate number of securities to which transaction applies:
  - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
  - (4) Proposed maximum aggregate value of transaction:
  - (5) Total fee paid:
- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
  - (1) Amount Previously Paid:
  - (2) Form, Schedule or Registration Statement No.:
  - (3) Filing Party:
  - (4) Date Filed:

**Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**



**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS OF SPORT-HALEY, INC.  
to be held February 21, 2007**

NOTICE IS HEREBY GIVEN that the annual meeting of shareholders of Sport-Haley, Inc. will be held at the Company's offices, 4600 E. 48th Avenue, Denver, Colorado 80216 on Wednesday, February 21, 2007, at 11:00 a.m., Mountain Time, and thereafter as it may from time to time be adjourned, for the following purposes:

1. To elect six directors to hold office for the term set forth in the accompanying Proxy Statement and until their successors shall have been duly elected and qualified;
2. To ratify the appointment of Gordon Hughes & Banks LLP as independent certified public accountants for the Company; and
3. To consider and transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The Board of Directors has fixed the close of business on January 8, 2007, as the record date for the determination of shareholders entitled to notice of and to vote at this meeting or any adjournment thereof. A complete list of the shareholders entitled to vote at the meeting will be available for inspection at the annual meeting and for a period of ten days prior to the annual meeting at Sport-Haley, Inc., 4600 E. 48th Avenue, Denver, Colorado 80216, during normal business hours.

A proxy statement which describes the formal business to be conducted at the annual meeting is attached to this Notice.

By Order of the Board of Directors,

January 19, 2007

/s/ Patrick W. Hurley  
Patrick W. Hurley, Corporate Secretary  
and Chief Financial Officer

**IMPORTANT**

**PLEASE MARK, DATE, SIGN, NOTE ANY CHANGE OF ADDRESS AND RETURN THE ENCLOSED PROXY CARD IMMEDIATELY IN THE ENCLOSED, SELF-ADDRESSED ENVELOPE. NO POSTAGE IS NECESSARY IF MAILED IN THE UNITED STATES. IF YOU ATTEND THE MEETING, WE WILL BE GLAD TO RETURN YOUR PROXY SO THAT YOU MAY VOTE IN PERSON.**

---

**SPORT-HALEY, INC.**

**4600 E. 48TH AVENUE  
DENVER, COLORADO 80216**

**PROXY STATEMENT**

**Relating to the Annual Meeting  
of Shareholders to be held February 21, 2007**

**GENERAL**

**The enclosed proxy is solicited by the Board of Directors of Sport-Haley, Inc.** (hereinafter referred to as the Company or Sport-Haley or we ) for use at the annual meeting of shareholders to be held at the offices of Sport-Haley, Inc., 4600 E. 48th Avenue, Denver, Colorado 80216 on Wednesday, February 21, 2007, at 11:00 a.m., Mountain Time, for the purposes set forth in the foregoing Notice of Annual Meeting of Shareholders. This proxy statement and the form of proxy will be mailed to shareholders on or about January 19, 2007.

The record date with respect to this solicitation is January 8, 2007. All holders of record of common stock of Sport-Haley, Inc. as of the close of business on that date are entitled to vote at the meeting. As of the record date, the Company had 2,770,252 shares of common stock outstanding, excluding treasury shares. Each share of common stock is entitled to one vote. A majority of the votes entitled to be cast constitutes a quorum. If a quorum exists, action on any matter other than the election of directors will be approved if the votes cast in person or by proxy at the meeting favoring the action exceed the votes cast opposing the action. In the election of directors, that number of candidates equaling the number of directors to be elected having the highest number of votes cast in favor of their election will be elected. Abstentions and broker non-votes are not counted in the calculation of the vote.

A proxy may be revoked by the shareholder at any time prior to its being voted. If a proxy is properly signed and is not revoked by the shareholder, the shares it represents will be voted at the meeting in accordance with the instructions of the shareholder, unless it is received in such form as to render it invalid. If the proxy is signed and returned without specifying choices, the shares will be voted in accordance with the recommendations of the Board of Directors.

As a matter of policy, proxies, ballots and voting tabulations that identify individual shareholders are held confidential by the Company. Such documents are available for examination only by the inspectors of election, none of whom is an employee of the Company, and certain employees associated with tabulation of the vote. The identity of the vote of any shareholder is not disclosed except as may be necessary to meet legal requirements.

The cost of this solicitation will be borne by the Company. Employees and directors of the Company may solicit proxies but will not receive any additional compensation for such solicitation. Proxies may be solicited personally or by mail, facsimile or telephone.

**COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT**

Under the securities laws of the United States, our directors, executive officers, and any persons holding more than ten percent of our Common Stock are required to report their initial ownership of Common Stock and other equity securities and any subsequent changes in that ownership to the Securities and Exchange Commission and Sport-Haley. Specific due dates for these reports have been established and

we are required to disclose in this proxy statement any failure to file, or late filing, of such reports with respect to the period ended June 30, 2006. Based solely on our review of the reports furnished to us and written representations that no other reports were required during fiscal 2006, our officers, directors and beneficial owners of more than ten percent of its Common Stock complied with all Section 16(a) filing requirements.

#### **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

We adopted a policy pursuant to which material transactions between Sport-Haley and our executive officers, directors and principal shareholders (*i.e.* shareholders owning beneficially 5% or more of the outstanding voting securities of Sport-Haley) shall be submitted to the Board of Directors for approval by a disinterested majority of the directors voting with respect to the transaction. For this purpose, a transaction is deemed material if such transaction, alone or together with a series of similar transactions during the same fiscal year, involves an amount which exceeds \$60,000. No such transactions occurred during the fiscal year ended June 30, 2006.

#### **ANNUAL REPORT**

We are sending the Annual Report to Shareholders for the fiscal year ended June 30, 2006 to all shareholders with this proxy statement. The Annual Report to Shareholders does not form any part of the material for the solicitation of any proxy. The Annual Report to Shareholders contains our Annual Report on Form 10-K for the year ended June 30, 2006 ( fiscal 2006 ), as filed with the Securities and Exchange Commission. Because our Quarterly Report on Form 10-Q for the period ended September 30, 2006 was filed on November 11, 2006 and our Quarterly Report on Form 10-Q for the period ended December 31, 2006 is not due to be filed until February 14, 2007, we have not included either Form 10-Q with our Annual Report. However, additional copies of our Form 10-K and our Form 10-Q for the period ended September 30, 2006, without exhibits, are available without charge to any shareholder of the Company upon written request to the Corporate Secretary, Sport-Haley, Inc., 4600 E. 48th Avenue, Denver, Colorado 80216. Our Form 10-K for the year ended June 30, 2006, and the Forms 10-Q for the periods ended September 30, 2006 and December 31, 2006 (when available), with exhibits, can also be accessed online at the website of the Securities and Exchange Commission, [www.sec.gov](http://www.sec.gov).

#### **SHAREHOLDER PROPOSALS FOR THE FISCAL 2008 ANNUAL MEETING**

Pursuant to Rule 14a-8 under the Securities Exchange Act of 1934 (the Exchange Act ), some stockholder proposals may be eligible for inclusion in our proxy statement for the Company s fiscal 2008 annual meeting. To be eligible for inclusion in the 2008 proxy statement, any such proposals must be delivered in writing to the Corporate Secretary, Sport-Haley, Inc., 4600 East 48th Avenue, Denver, Colorado 80216, no later than November 22, 2007, and must meet the requirements of Rule 14a-8 under the Exchange Act. The submission of a stockholder proposal does not guarantee that it will be included in the Company s Proxy Statement. If a shareholder intends to present a proposal for consideration at the fiscal 2008 annual meeting outside of the processes of Rule 14a-8 under the Exchange Act, the SEC rules permit management to vote proxies in its discretion if we receive notice of the proposal before the close of business on February 3, 2008 and advise shareholders in our proxy statement for next year s annual meeting about the nature of the matter and how our management intends to vote on such matter.

**SHAREHOLDER COMMUNICATIONS WITH THE BOARD**

Our Board of Directors has implemented a process whereby shareholders may send communications to the Board's attention. Any shareholder desiring to communicate with the Board, or one or more specific members thereof, should communicate in a writing addressed to Sport-Haley, Inc., 4600 E. 48th Avenue, Denver, CO 80216. Our Corporate Secretary has been instructed by the Board to promptly forward all such communications to the specified addressees thereof.

**OTHER MATTERS**

Except for the matters described herein, management does not intend to present any matter for action at the annual meeting and knows of no matter to be presented at such meeting that is a proper subject for action by the shareholders. However, if any other matters should properly come before the annual meeting, it is intended that votes will be cast pursuant to the authority granted by the enclosed proxy in accordance with the best judgment of the person or person acting under the proxy.

**PROPOSALS TO BE VOTED UPON**

**I. ELECTION OF DIRECTORS**

Information concerning the six nominees for election as directors is shown below. If elected, each nominee will serve as director for a one-year term or until his successor is elected and qualified. All nominees except Donald W. Jewell and William O. Johnstone are now members of the Board of Directors and all nominees have been unanimously nominated to stand for re-election or election, as applicable, by the Nominating Committee of the Board of Directors, which is composed of the four current members of the Board of Directors, all of whom are independent directors, within the meaning of the applicable listing standards of The Nasdaq Stock Market® (the "NASDAQ Rules"). Mr. Jewell was recommended for nomination by the entire Nominating Committee. Mr. Johnstone was recommended by Mr. Norick, a non-management director, and his nomination was then approved by the entire Nominating Committee. The Board of Directors has determined that Mr. Johnstone, if elected, would also be independent director within the applicable NASD Rules. In February 2005, the Board of Directors reduced the number of Board members to four. In December 2006, the Board of Directors approved a resolution increasing the number of directors to six. The Nominating Committee and the Board of Directors knows of no reason why any nominee would be unable to serve as a director. If any nominee should for any reason become unable to serve, the shares represented by all valid proxies will be voted for the election of such other person as the Board of Directors may designate or the Board of Directors may reduce the number of directors to eliminate the vacancy. If the following nominees are approved, the Board will continue to be composed solely of independent, outside directors.

Name	Age	Capacities in Which Served
Ronald J. Norick (1)(2)(3)(4)	66	Chairman of the Board (non-employee position)
Mark J. Stevenson (1)(2)(3)(4)	68	Non-Employee Director
James H. Everest (2)(3)(4)	59	Non-Employee Director
James R. TenBrook (1)(3)(4)	59	Non-Employee Director
Donald W. Jewell	56	Chief Executive Officer, President, Nominee for Director
William O. Johnstone (4)	59	Nominee for Director



- (1) Member of the Audit Committee.
- (2) Member of the Compensation Committee.
- (3) Member of the Nominating Committee.
- (4) The Board of Directors has determined that this director or nominee is independent pursuant to the applicable NASD Rules.

*Ronald J. Norick* has been a director of Sport-Haley since November 1993. In October 2004, subsequent to the death of Robert G. Tomlinson, Mr. Norick was appointed by the Board of Directors to fill the newly-created non-officer position of Chairman of the Board. Mr. Norick also serves on the Audit, Compensation and Nominating Committees. From April 1987 until April 1998, Mr. Norick served as the elected Mayor of the City of Oklahoma City, Oklahoma. From 1960 to 1992, Mr. Norick served in various capacities, including serving as president from 1981 to 1992, of a closely-held printing company, which was acquired by Reynolds & Reynolds in June 1992. Mr. Norick serves on a number of civic, community, educational, corporate and public boards, commissions and committees. Mr. Norick is a director of BancFirst Corporation, a publicly-held banking corporation based in Oklahoma City, Oklahoma. Mr. Norick also serves as controlling manager of Norick Investments Company LLC, a family-owned limited liability company, which is engaged in investments.

*Mark J. Stevenson* has been a Director since November 1993. Mr. Stevenson serves on the Audit Committee, the Compensation Committee (as its Chairman) and the Nominating Committee. Mr. Stevenson served as president and chief executive officer of Zenodata Corporation, a Colorado based financial services software company, from March 2001 until his retirement in April 2005. In May 2005, Zenodata Corporation made an assignment for the benefit of creditors. Mr. Stevenson held the positions of chairman of the board, president and chief executive officer of Electronic Manufacturing Systems, Longmont, Colorado, a contract manufacturer serving the computer, data storage, telecommunications and medical equipment industries, from June 1994 until that company was merged into E-M-Solutions in January 1999. At that time, Mr. Stevenson was appointed executive chairman and chairman of the board of E-M-Solutions, which filed for bankruptcy protection in the Northern District of California in approximately November 2001 and was immediately purchased by Sanmina/SCI. From 1992 to 1994, Mr. Stevenson served as chairman of the board for Micro Insurance Software, Inc., Boulder, Colorado, a manufacturer of computer software oriented to the insurance industry. Mr. Stevenson served on the Colorado Governor's Commission on Science and Technology for five years ending in 2004 and currently serves on the Advisory Council of the University of Colorado Deming Center for Entrepreneurship. Mr. Stevenson formerly served as chairman of the American Electronics Association, the nation's largest high technology trade association.

*James H. Everest* has been a director of Sport-Haley since November 1993. Mr. Everest serves on the Compensation and Nominating Committees and served on the Audit Committee until March 2004. Mr. Everest has served as president of the Jean I. Everest Foundation, Oklahoma City, Oklahoma, since 1991. The Jean I. Everest Foundation was organized by Mr. Everest's father to conduct charitable activities. Mr. Everest has been the managing partner of Everest Brothers, a general partnership active in oil and gas exploration and development, since 1984. Mr. Everest has also been engaged in managing his personal investments since 1984. Mr. Everest is a member of the Oklahoma Bar Association and the American Bar Association and serves in a number of capacities for various civic and community organizations.

*James R. TenBrook, CPA* has been a Director since March 2004. Mr. TenBrook has served as the Chairman of the Audit Committee since March 2004 and also serves on the Nominating Committee.





Mr. TenBrook is the president and a shareholder of Karsh Consulting, P.C. of Denver, Colorado, has been a certified public accountant since 1973, received his personal financial specialist certification in 1994 and is a certified valuation analyst. Mr. TenBrook's practice consists primarily of litigation support, tax and estate planning. Mr. TenBrook is a member of the Colorado Society of Certified Public Accountants (CSCPA), served on the CSCPA's board of directors from 1996-1999 and served on the CSCPA Personal Financial Planning Committee from 1991-1994 (serving as Chairman of the Committee in 1993 and 1994). Mr. TenBrook is also a member of the American Institute of Certified Public Accountants. Karsh Consulting, P.C. has performed income tax services for several years for our late Chairman, our former Chief Executive Officer, certain trusts formed by the late Chairman, and a related entity. The fees paid to Mr. TenBrook's firm for these tax services have not exceeded \$8,000 per year in the aggregate. While services rendered by the Karsh Consulting P.C. result in some pecuniary benefit to Mr. TenBrook, which is difficult to quantify, Mr. TenBrook believes that the direct compensation to him as a result of these engagements has been less than \$500 per year. We believe that Mr. TenBrook nevertheless meets the definition of independence under both SEC and NASD Rules.

*Donald W. Jewell* is our Chief Executive Officer and President and a nominee for Director. He was appointed in October 2004 to serve as our Interim Chief Executive Officer. Mr. Jewell was appointed in April 2005 to serve as our President and has served as our Senior Vice President since February 1, 2001. Mr. Jewell served as President for a term consistent with that of his service as our Interim Chief Executive Officer. In September 2006, Mr. Jewell agreed to serve as our Chief Executive Officer and President on a permanent basis, and he will no longer serve as our Senior Vice President. From 1996 until joining us, Mr. Jewell was the founder, president and director of Jewell Apparel Group, a Canadian distributor of premium and mid-priced men's golf apparel. Mr. Jewell began designing, sourcing and marketing men's apparel in 1993 while serving as the president and chief executive officer of Jewell-Rung International Men's Fashion, positions that he held from 1980 to 1996.

*William O. Johnstone* is a nominee for Director. Mr. Johnstone is the Manager and Chief Executive Officer of Council Oaks Partners, LLC, a private equity firm in Oklahoma City, Oklahoma. Mr. Johnstone is a director and Vice Chairman of BancFirst Corporation, a publicly-traded banking corporation based in Oklahoma City, of which Mr. Norick is also a director. Council Oaks Partners, LLC is a subsidiary of BancFirst Corporation. Mr. Johnstone is also the Chief Executive Officer of Council Oak Investment Corporation and Council Oak Real Estate, Inc., both of which are subsidiaries of BancFirst. From 1996 to 2001, he served as Chairman and Co-Chief Executive Officer of C-Teq, Inc., a company that provided data processing services to financial institutions. From 1985 until 1996, Mr. Johnstone served as President and Chairman of the Board of City Bankshares, Inc. and its subsidiary, City Bank & Trust, Oklahoma City, Oklahoma.

#### **Pending or Threatened Legal Proceedings Involving Officers, Directors and Nominees**

As previously reported, in September 2003, the United States Securities and Exchange Commission (the Commission or the SEC) filed suit in the United States District Court for the District of Colorado against Sport-Haley, Inc., Robert G. Tomlinson, our late Chairman and former Chief Executive Officer, and Steve S. Auger, our former Controller (the Defendants). The Commission filed an amended complaint in October 2003, which added one of our former auditors to the action as a Defendant. After Mr. Tomlinson's death, the Commission filed a motion to dismiss Mr. Tomlinson from the action without prejudice, and the Court granted the motion. On January 17, 2006, the Court entered a Final Judgment, pursuant to a settlement reached with the Commission, to resolve the pending claims in the civil action brought by the SEC against Sport-Haley, Inc. and our former Controller. The settlement had been

considered by the Commission in Washington D.C. and thereby approved on December 8, 2005. The settlement did not call for Sport-Haley, Inc. to pay any fine, civil penalty or disgorgement. Pursuant to a written Consent entered into by Sport-Haley, Inc. as part of the settlement, Sport-Haley, Inc. consented, without admitting or denying the allegations of the Complaint or Amended Complaint, to the entry of an injunction enjoining the Company from violating §17(a)(2) and §17(a)(3) of the Securities Act of 1933 (the Securities Act ), which do not require proof of scienter (an intent to deceive, manipulate or defraud), but may be based upon a showing of negligence, §13(b)(2) and §15(d) of the Securities Exchange Act of 1934 (the Exchange Act ), and Rules 12b-20, 15d-1 and 15d-13 promulgated thereunder. The settlement resulted in no injunction or adjudication against Sport-Haley, Inc. with respect to the claims alleging violations of §17(a)(1) of the Securities Act, §10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, which each require proof of scienter.

Pursuant to a separate settlement with the SEC, the Court also entered a Final Judgment with respect to Mr. Auger, in which Mr. Auger consented, without admitting or denying the allegations of the Complaint or Amended Complaint, to the entry of an injunction enjoining him from violating various provisions of the federal securities laws and regulations and other relief.

In March 2001, as we previously announced, we retained legal counsel to possibly pursue claims against our former auditors in connection with damages we claimed were suffered as a result of the restatements of our financial statements for fiscal years 1999 and 1998 and the corrections of material information for the quarterly periods of fiscal years 2000, 1999 and 1998. Also, we were previously advised that the former auditors asserted certain claims against us, including allegations of unpaid fees. Neither Sport-Haley, Inc. nor the former auditors filed any legal action to assert any of these disputed claims. During a mediation session in November 2005, we reached an agreement in principle with the former auditors to settle all disputed claims between the parties and their affiliates. On February 13, 2006, we entered into a written settlement agreement to resolve all pending claims between Sport-Haley, Inc., our former auditors and certain of our former auditors' current and former members, which provided for payments to Sport-Haley, Inc. totaling \$525,000. Among other terms of the settlement agreement, the parties agreed to mutual releases of all claims asserted against each other and each party has continued to deny the merits of those claims asserted against it by the other party. In accordance with a sharing agreement between Sport-Haley, Inc. and one of its carriers for director and officer liability insurance, we received 33% of the \$525,000 in settlement proceeds, or approximately \$173,000, and the insurance carrier received the remainder to partially recover amounts the carrier had paid in connection with a previously settled class action securities lawsuit and defense costs the carrier had reimbursed to us relating to the civil action lawsuit filed by the SEC.

#### **Committees of the Board**

The Board of Directors has delegated certain of its authority to a Compensation Committee, Audit Committee and a Nominating Committee. The Compensation Committee is composed of Messrs. Norick, Stevenson and Everest. The Audit Committee is composed of Messrs. TenBrook, Norick and Stevenson. The Nominating Committee is comprised of Messrs. Norick, Stevenson, Everest and TenBrook. Each member of the Audit Committee, Compensation Committee and Nominating Committee qualifies as an independent director under the current NASD Rules. No member of these three committees is a former or current officer or employee of the Company.

*Audit Committee.*

Our Board of Directors adopted an Audit Committee Charter effective June 9, 2000, and an Amended and Restated Audit Committee Charter effective January 1, 2004, which describes the Audit Committee's roles and responsibilities. The Amended and Restated Audit Committee Charter is attached as Appendix C to this proxy statement. The Audit Committee members have regularly reviewed and will continue to review the content and adequacy of the charter on at least an annual basis. The function of the Audit Committee is to review and approve the scope of audit procedures employed and to review and approve the audit reports rendered by our independent auditors and to approve the audit fee charged by the independent auditors. In addition, pursuant to the Sarbanes-Oxley Act of 2002 and rules promulgated thereunder, the audit committee is responsible for, among other things, pre-approving all audit and non-audit services performed by the independent auditors, approving the engagement of the auditors and receiving certain reports from the independent auditors prior to the filing of the audit report. The Audit Committee reports to the Board of Directors with respect to such matters and recommends the selection of independent auditors. The Audit Committee appointed James R. TenBrook as the Chairman of the Audit Committee. The Audit Committee held four formal meetings during fiscal 2006. Each of the members of the Audit Committee attended all of the meetings held during fiscal 2006.

The Chairman of the Audit Committee, Mr. TenBrook, meets the criteria for an Audit Committee Financial Expert under applicable SEC Rules and all three members meet the requirements for independence under applicable SEC rules and NASD Rules.

In fiscal 2003, the Audit Committee implemented new procedures for the pre-approval of audit and non-audit services performed by our independent auditors. The Audit Committee has the sole authority to pre-approve all audit and non-audit services provided by the independent auditors to the Company and acts to assure that the independent auditors are not engaged to perform specific non-audit services proscribed by law or regulation. The Audit Committee approved all audit and non-audit services provided by Hein & Associates LLP during fiscal year 2006.

See the **Audit Committee Report** to the Board of Directors, below.

*Compensation Committee.*

The primary function of the Compensation Committee is to review and make recommendations to our Board of Directors with respect to the compensation, including bonuses, of our officers and to administer our Option Plan. The Compensation Committee held one meeting in fiscal 2006, which all of its members attended. See **Compensation Committee Report**, below.

*Nominating Committee.*

In 2004, our Board of Directors voted to form a Nominating Committee, to be comprised of Messrs. Norick, Everest, Stevenson and TenBrook. The Nominating Committee recommends to the Board the persons to be nominated for election as directors at any meeting of stockholders, develops and recommends to the Board a set of corporate governance principles applicable to the Company and oversees the evaluation of the Board. The Board has determined that each of the members of the Nominating Committee is independent, as that term is defined by applicable NASD Rules. The Nominating Committee acts pursuant to a written charter, which was approved by the Board on February 10, 2004, a copy of which is attached as Appendix B to this proxy statement. All of the members of the Nominating Committee met once during fiscal 2006. The Nominating Committee unanimously voted to nominate for re-election at the annual meeting each of the current directors. In addition, the Nominating Committee unanimously voted to

nominate Mr. Jewell and Mr. Johnstone for election as a director. If elected, the Board has determined that Mr. Johnstone also meets the definition of an independent director pursuant to applicable NASD Rules.

Shareholders may recommend director candidates for inclusion by the Board of Directors in the slate of nominees which the Board recommends to shareholders for election. The qualifications of recommended candidates will be reviewed by the Nominating Committee. If the Board determines to nominate a stockholder-recommended candidate and recommends his or her election as a director by the shareholders, his or her name will be included in our proxy card for the stockholder meeting at which his or her election is recommended.

Shareholders may recommend individuals to the Nominating Committee for consideration as potential director candidates by submitting their names and background to the Company's Corporate Secretary, at the address set forth above under Stockholder Communications, and such recommendations will be forwarded to the Nominating Committee. The Nominating Committee will consider a recommendation only if appropriate biographical information and background material is provided on a timely basis.

The process followed by the Nominating Committee to identify and evaluate candidates includes requests to Board members and others for recommendations, meetings from time to time to evaluate biographical information and background material relating to potential candidates and interviews of selected candidates by members of the Nominating Committee and the Board. The Nominating Committee is authorized to retain advisers and consultants and to compensate them for their services. The Nominating Committee has not retained any such advisers or consultants.

Assuming that appropriate biographical and background material is provided for candidates recommended by shareholders, the Nominating Committee will evaluate those candidates by following substantially the same process, and applying substantially the same criteria, as for candidates submitted by Board members or by other persons. In considering whether to recommend any candidate for inclusion in the Board's slate of recommended director nominees, including candidates recommended by shareholders, the Nominating Committee will apply the criteria which are set forth in Nominating Committee Charter. The criteria for nomination include the candidate's:

- integrity and honesty,
- ability to exercise sound, mature and independent business judgment in the best interests of the shareholders as a whole,
- background and experience with manufacturing, retailing, operations, finance, marketing or other fields which will complement the talents of the other Board members,
- willingness and capability to take the time to actively participate in Board and Committee meetings and related activities,
- ability to work professionally and effectively with other Board members and Company management,
- availability to remain on the Board long enough to make an effective contribution, and

- absence of material relationships with competitors or other third parties that could present realistic possibilities of conflict of interest or legal issues; and
- experience with accounting rules and practices.

The Nominating Committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. The Nominating Committee believes that the backgrounds and qualifications of the directors, considered as a group, should provide a significant composite mix of experience, knowledge and abilities that will allow the Board to fulfill its responsibilities.

In October 2006, the Company received a proposed nomination from a person who was then, but is now no longer, a shareholder, who nominated himself for inclusion on the fiscal 2007 proxy for election as a director. The Nominating Committee met in December 2006 at the time that the person was still a shareholder to consider this proposed nomination. After fully considering the proposed nominee, and without waiving defects in the procedures followed or not followed by the proposed nominee, the Nominating Committee unanimously voted not to nominate such person for election as director.

#### **Audit Committee Report**

*The following Report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Report by reference therein.*

In October, 2006, the Audit Committee submitted to the Board of Directors the following report:

We have reviewed and discussed with management the Company's audited financial statements for the year ended June 30, 2006 (the Fiscal Year 2006 Financial Statements).

We have discussed with Hein & Associates LLP, our independent auditors during fiscal year 2006, the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended, by the Auditing Standards Board of the American Institute of Certified Public Accountants.

We have received and reviewed the written disclosures and the letter from the independent auditors required by Independence Standard No. 1, *Independence Discussions with Audit Committees*, as amended, by the Independence Standards Board, and have discussed with the auditors the auditors' independence.

Based upon the reviews and discussions referred to above, we recommended to the Board of Directors that the Fiscal Year 2006 Financial Statements be included in the Company's Form 10-K for the year ended June 30, 2006.

Date: October 13, 2006

James R. TenBrook  
Ronald J. Norick  
Mark J. Stevenson

#### **Board Attendance**

In fiscal 2006, the Board of Directors held 16 formal meetings. Each of the Directors attended all Board meetings held during fiscal 2006, except that James H. Everest was not present at two meetings and Ronald J. Norick was not present at one meeting.

The Company encourages, but does not require, Board members to attend the annual meeting of shareholders. All of the directors attended last year's annual meeting.

#### **Code of Ethics for Directors, Officers and Employees**

We have adopted a Code of Ethics for Senior Financial Officers. The Code of Ethics applies to all senior financial officers of the Company, including the Chief Executive Officer, the Chief Financial Officer, the Treasurer and any other person performing similar functions. In addition, we adopted a Code of Conduct and Ethics for Directors, Officers and Employees, applicable to directors, officers and all employees. A copy of these codes may be obtained without charge from the Company by requesting them in writing from the Corporate Secretary, addressed to Sport-Haley, Inc., 4600 E. 48th Avenue, Denver, CO 80216-3215.

#### **Executive Officers and Key Employees**

Officers are appointed by and serve at the discretion of the Board of Directors. Each Director holds office until the next annual meeting of shareholders or until a successor has been duly elected and qualified. All of our officers devote full-time to our business and affairs.

##### *Executive Officers*

*Donald W. Jewell*, age 56, was appointed by our Board of Directors in October 2004 to serve as our Interim Chief Executive Officer. Mr. Jewell was appointed in April 2005 to serve as our President and has served as our Senior Vice President since February 1, 2001. Mr. Jewell served as President for a term consistent with that of his service as our Interim Chief Executive Officer. In September 2006, Mr. Jewell agreed to serve as our Chief Executive Officer and President on a permanent basis, and he will no longer serve as our Senior Vice President. From 1996 until joining us, Mr. Jewell was the founder, president and director of Jewell Apparel Group, a Canadian distributor of premium and mid-priced men's golf apparel. Mr. Jewell began designing, sourcing and marketing men's apparel in 1993 while serving as the president and chief executive officer of Jewell-Rung International Men's Fashion, positions that he held from 1980 to 1996.

*Patrick W. Hurley*, age 54, has served as our Secretary and Treasurer since November 1999, as our Controller from November 1999 to August 2006 and as our Chief Financial Officer since December 2000. Prior to joining us, Mr. Hurley was employed as a senior staff accountant at Saltzman Hamma Nelson Massaro LLP, Denver, Colorado, where among other things, he supervised or participated in the preparation of audited and unaudited financial statements and income tax returns, and provided advice and training for business clients regarding selection and implementation of accounting systems and procedures. Mr. Hurley is a certified public accountant and received a bachelor of science in accounting in 1991. Mr. Hurley is also a member of the American Institute of Certified Public Accountants and the Colorado Society of Certified Public Accountants.

*Catherine B. Blair*, age 55, has served as Vice President of Merchandising/Design since her appointment in May 1996. Ms. Blair has been part of the Company's design team since 1992, and was appointed Director of Design in 1995. Prior to joining Sport-Haley, Ms. Blair has held various design and merchandising positions including Ocean Pacific and private label for the Gap, Ann Taylor and Macy's. She has a BFA in fashion design from Stephens College in Columbia, Missouri.

*Mark Maley*, age 42, served as our Vice President - Sales from January 2004 through December 2005. Mr. Maley served as our Director of Special Markets and Brands from July 2003 to December 2003

and was previously an independent wholesale sales representative for the Ben Hogan® apparel line. Prior to joining us, Mr. Maley served as general manager, director of golf and head professional for over seven years with Club Corporation of America. Mr. Maley is a member of the PGA.

*Key Employees*

*George E. ( Tom ) Tomlinson*, has served as our Director - Operations and Production since December 1997. Previously, Mr. Tomlinson served as our warehouse distribution manager from January 1993 until December 1997. Prior to joining Sport-Haley in 1993, Mr. Tomlinson held various positions in other companies, including purchasing for Bonfils Blood Center. Mr. Tomlinson is the brother of our former Chairman and Chief Executive Officer, Robert G. Tomlinson, and the uncle of our former Chief Executive Officer and President, Kevin M. Tomlinson.

*Barry L. Hyman* has served as our Eastern Regional Sales Manager since February 2004 and served on an interim basis as our Western Regional Sales Manager from December 2005 to February 2006. Mr. Hyman served as an independent sales representative for our Ben Hogan® apparel lines from 2001 until his appointment as Eastern Regional Sales Manager. From 1990 to 2001, Mr. Hyman was an independent sales representative for various companies in the golf apparel market, including Jewell Apparel Group, Precept Golf, Greg Norman and The Ben Hogan Company.

*Michael D. Doris* has served as our Western Regional Sales Manager since February 2006. Prior to joining Sport-Haley, Mr. Doris was the western regional sales manager for Cutter & Buck, Inc. from 2002 to 2005 and a sales representative for Cutter & Buck, Inc. from 1997 to 2002. Mr. Doris served as head golf professional and manager of various golf courses from 1994 to 1997. From 1986 to 1994, he served as a sales representative for companies such as The Ben Hogan Company and Slazenger Golf USA.

**Executive Compensation**

**Summary Compensation Table.** The following table sets forth the annual and long-term compensation for services in all capacities to Sport-Haley, Inc. for the three fiscal years ended June 30, 2006, of Donald W. Jewell, Interim Chief Executive Officer, President and Senior Vice President, Patrick W. Hurley, Chief Financial Officer, Secretary, Treasurer and Controller, Catherine B. Blair, Vice President Merchandising/Design and Mark Maley, Vice President Sales, the only executive officers whose total annual salary and bonus exceeded \$100,000 during the year ended June 30, 2006, and Mark Maley, Robert G. Tomlinson (deceased) Kevin M. Tomlinson and Robert W. Haley (the Named Officers ).



Edgar Filing: SPORT HALEY INC - Form DEF 14A

Name and Principal Position	Fiscal Year	Annual Compensation Salary	Bonus	Long Term Compensation Awards		All Other Compensation
				Securities underlying Options/SARs(#)		
Donald W. Jewell (1) Chief Executive Officer and President	2006	\$ 200,000	\$ 64,000	(2)	\$ -0-	\$ 2,700 (3)
	2005	198,100	-0-		-0-	2,600 (3)
	2004	144,600	-0-		-0-	2,000 (3)
Patrick W. Hurley, Chief Financial Officer, Secretary and Treasurer	2006	110,000	12,000	(4)	-0-	1,500 (3)
	2005	100,500	-0-		-0-	1,400 (3)
Catherine B. Blair, Vice President Merchandising and Design	2006	110,600	3,000	(4)	-0-	1,500 (3)
	2005	106,400	-0-		-0-	1,500 (3)
	2004	99,900	-0-		-0-	1,400 (3)
Mark Maley (5)	2006	98,400	-0-		-0-	1,500 (3)
	2005	138,200	-0-		-0-	1,800 (3)
	2004	118,500	-0-		-0-	900 (3)
Robert G. Tomlinson, (deceased) (6)	2006	0	-0-		-0-	-0-
	2005	59,500	(7) -0-		-0-	400 (3)
	2004	170,000	-0-		-0-	-0-
Kevin M. Tomlinson (8)	2006	0	-0-		-0-	2,600 (1)
	2005	174,000	(9) -0-		-0-	2,000 (3)
	2004	160,000	-0-		-0-	2,000 (3)
Robert W. Haley (10)	2006	-0-	-0-		-0-	-0-
	2005	-0-	-0-		-0-	2,000 (3)
	2004	112,000	-0-		-0-	2,000 (3)

- (1) Mr. Jewell has served as our Senior Vice President since February 2001, our Interim Chief Executive Officer from November 2004 to September 2006 and our President since April 2005. In September 2006, we appointed Mr. Jewell as our permanent Chief Executive Officer, and he no longer serves as our Senior Vice President.
- (2) Comprised of cash bonus of \$50,000 paid in October 2005 plus transfer of title to a Company vehicle with an estimated fair value of \$14,000, effective September 30, 2005.
- (3) Comprised of contributions by Sport-Haley to the Named Officer's 401(k) plan account and term life insurance premiums paid by the Company.
- (4) Comprised of cash bonus paid in October 2005.
- (5) Mark Maley resigned as our Vice President - Sales in December 2005. Subsequent to his resignation, Mr. Maley did not receive any severance compensation, except that he continued to receive override commission payments through May 2006 on sales for which the customer order was placed prior to his resignation.
- (6) Robert G. Tomlinson, Chairman, died on September 8, 2004. His 2005 annual salary and all other compensation amounts include such amounts paid to him until the date of his death and do not include the \$650,000 in severance and other compensation paid to his estate in October 2004, per the terms of a settlement agreement.
- (7) Includes net taxable fringe benefits of \$3,900 for country club dues.
- (8) In October 2004, the Board elected not to renew the executive employment agreement between Sport-Haley, Inc. and Kevin M. Tomlinson upon its expiration in March 2005. Mr. Tomlinson stepped down from his duties as our Chief Executive Officer and President in October 2004. His annual salary and all other compensation amounts for 2005 include such amounts paid to him until the

Edgar Filing: SPORT HALEY INC - Form DEF 14A

termination of the executive employment agreement in March 2005 and do not include payments for severance and other compensation that he began receiving in April 2005, per the terms of an executive employment agreement. We paid Mr. Tomlinson \$76,000 in severance and other compensation in fiscal 2005. We paid Mr. Tomlinson \$164,000 and \$76,000 in severance and other compensation in fiscal 2006 and 2005, respectively.

- (9) Includes net taxable fringe benefits of \$31,900 for country club dues, clothing allowance and personal use of a company vehicle.

(10) Robert W. Haley resigned as our President, effective March 31, 2004. His 2005 and 2004 annual salary and all other compensation amounts do not include the bi-weekly payments for severance and other compensation that Mr. Haley began receiving in April 2004. We paid Mr. Haley \$114,000 and \$38,000 in severance and other compensation in fiscal 2005 and 2004, respectively.

**Fiscal Year-End Options/Option Values Table.** The following table sets forth information on the number of securities and value underlying exercisable and unexercisable options and SARs for the year ended June 30, 2006.

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options/SARs at Fiscal Year-End		Value of Unexercised In-the-Money(1) Options/SARs at Fiscal Year-End(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Donald W. Jewell	-0-	-0-	50,000	-0-	\$ 75,000	\$ -0-
Patrick W. Hurley	-0-	-0-	50,000	-0-	81,000	-0-
Catherine B. Blair	-0-	-0-	50,000	-0-	78,000	-0-

(1) Options are in the money if the fair market value of the underlying securities exceeds the exercise or base price of the option.

(2) The dollar values are calculated by determining the difference between the fair market value of the securities underlying the options at fiscal year end and the exercise or base price of the options. On June 30, 2006, the last trading date for the end of the 2006 fiscal year, the closing bid price for the common stock was \$4.80.

#### **Director Fees.**

For fiscal 2006, each non-employee member of the Board of Directors received \$10,000 per year. The Chairman of the Board received an additional \$50,000, the Audit Committee Chairman received an additional \$10,000, and the Compensation Committee Chairman received an additional \$2,500. Director compensation is paid quarterly. The Board of Directors had also authorized payment of reasonable travel and other out-of-pocket expenses incurred by non-employee directors in attending meetings of the Board of Directors. During fiscal 2006, we did not grant to our directors any options to purchase our common stock.

#### **Employment Agreements.**

We entered into an employment agreement with Mr. Donald W. Jewell, effective February 1, 2001, to serve as our Senior Vice President. In January 2005, Mr. Jewell and the Company entered into an agreement, effective November 1, 2005, whereby Mr. Jewell agreed, in addition to his duties, responsibilities and benefits under his existing employment agreement, to serve as our Interim Chief Executive Officer through June 30, 2005, subject to automatic monthly extensions, for a salary of \$50,000 per year in addition to the salary he was entitled to receive for serving as our Senior Vice President. In April 2005, Mr. Jewell was appointed to serve as our President. The agreement, as amended, requires that Mr. Jewell devote his full business time as our Interim Chief Executive Officer, President and Senior Vice President, at an annual salary of \$200,000, and such bonuses as awarded by the Board of Directors, and extends for a two-year term, subject to automatic one-year extensions at the end of each year. In September 2006, Mr. Jewell agreed to serve as our Chief Executive Officer and President on a permanent basis for a

salary of \$325,000, retroactive to July 1, 2006, and he will no longer serve as our Senior Vice President. Until such time as a new employment agreement is prepared, the terms of the February 2001 agreement, as amended, will generally remain in effect. If we elect to terminate the agreement for other than cause (as defined in the agreement), or if Mr. Jewell were to terminate the agreement for cause, Mr. Jewell would be entitled to receive severance compensation equal to twelve months salary and 50% of the last annual bonus paid to him. During the time he were to receive any such severance compensation, Mr. Jewell is eligible to participate in all employee benefit plans, at our expense. If there were to be a non-negotiated change in control of Sport-Haley, Inc., and either we or Mr. Jewell terminate the agreement within sixty days of the change of control, then Mr. Jewell would be entitled to lump sum severance compensation equal to three times his annual salary and bonus payments during the preceding 12 months. In the event of termination due to a non-negotiated change in control, options previously granted to Mr. Jewell would become fully vested and exercisable on the date of termination. In the event of a termination by either party without cause, options previously granted would vest and become exercisable on a prorated basis from the date of grant to the date of termination. If we were to terminate the agreement with cause, no unexercised options would be exercisable. The agreement contains a non-competition provision for twelve months following termination, provided Mr. Jewell could be released from the non-competition clause if he were terminated without cause and if he had elected to forego any severance pay. If Mr. Jewell becomes disabled during the term of the agreement, his full salary will be continued for one year from the date of disability.

Effective December 1, 2000, the Company entered into an employment agreement with Patrick W. Hurley. The agreement, as amended, requires that Mr. Hurley devote his full business time as our Chief Financial Officer, Secretary, Treasurer and Controller, at an annual salary of \$125,000, and such bonuses as awarded by the Board of Directors, and extends for a one-year term, subject to automatic one-year extensions after each year. If we elect to terminate the agreement without cause (as defined in the agreement) or not to renew the agreement upon its expiration, or if Mr. Hurley terminates the agreement with or without cause, he is entitled to receive severance compensation equal to six months salary, plus 50% of the last annual bonus paid to him. During the time he were to receive any such severance compensation, Mr. Hurley is entitled to participate in all employee benefit plans, at our expense. If there were to be a non-negotiated change in control of Sport-Haley, Inc., and either we or Mr. Hurley terminate the agreement within sixty days of the change of control, then Mr. Hurley is entitled to lump sum severance compensation equal to three times his annual salary and bonus payments during the preceding 12 months. In the event of termination due to a non-negotiated change in control of Sport-Haley, Inc., options previously granted to Mr. Hurley would become fully vested and exercisable on the date of termination. In the event of a termination by either party without cause, options previously granted would vest and become exercisable on a prorated basis from the date of grant to the date of termination. If we were to terminate the agreement with cause, no unexercised options would be exercisable. If Mr. Hurley becomes disabled during the term of the agreement, his full salary will be continued for one year from the date of disability.

Effective June 1, 2005, we agreed to amend the employment agreement with Catherine B. Blair that was originally effective July 1, 1997. The amended agreement requires that Ms. Blair devote her full business time as our Vice President of Merchandising/Design, at an annual salary of \$130,000, and such bonuses as awarded by the Board of Directors, and extends for a one-year term, subject to automatic one-year extensions after each year. If we elect to terminate the agreement without cause (as defined in the agreement) or not to renew the agreement upon its expiration, or if Ms. Blair terminates the agreement with or without cause, she is entitled to receive severance compensation equal to fifteen months salary, plus 50% of the bonus, if any, paid to her in the preceding 12 months. During the time she were to receive any such severance compensation, Ms. Blair is entitled to participate in all employee benefit plans, at our expense. If there were to be a non-negotiated change in control of Sport-Haley, Inc., and either we or Ms. Blair terminate the agreement within sixty days of the change of control, then Ms. Blair is entitled to lump sum

severance compensation equal to three times her annual salary and bonus payments during the preceding 12 months. In the event of termination due to a non-negotiated change in control of Sport-Haley, Inc., options previously granted to Ms. Blair would become fully vested and exercisable on the date of termination. In the event of a termination by either party without cause, options previously granted would vest and become exercisable on a prorated basis from the date of grant to the date of termination. If we were to terminate the agreement with cause, no unexercised options would be exercisable. The agreement contains a non-competition provision for twelve months following termination, provided Ms. Blair could be released from the non-competition clause if she were terminated without cause and if she had elected to forego any severance pay. If Ms. Blair becomes disabled during the term of the agreement, her full salary will be continued for one year from the date of disability.

Effective January 1, 2005, we entered into an amended employment agreement with Mark Maley, the original agreement for which was effective January 1, 2004. Mr. Maley resigned in December 2005. The agreement required Mr. Maley to devote his full business time as our Vice President Sales, at an annual salary of \$135,000, and such bonuses as might have been awarded by the Board of Directors, and extended for a one-year term, and then would have been subject to automatic one year extensions at the end of each year. The amended agreement also entitled Mr. Maley to receive a 0.2% override on our gross annualized sales, less discounted sales of more than 50% from original suggested wholesale prices, returns and credits. If we had elected to terminate the agreement without cause (as defined in the agreement) or not to renew the agreement upon its expiration, or if Mr. Maley had terminated the agreement with cause, he would have been entitled to severance payments equal to fifteen months salary, plus 50% of the last annual bonus paid to him. In the event of a non-negotiated change of control of Sport-Haley, Inc., and if either we or Mr. Maley had terminated the agreement within sixty days of the change of control, then Mr. Maley would have been entitled to severance compensation equal to three times his annual salary and bonus payment during the preceding twelve months. The agreement contained a non-competition provision for twelve months following termination, provided Mr. Maley could be released from the non-compete clause if he had been terminated without cause and if he had elected to forego any severance pay. If Mr. Maley had become disabled during the term of the agreement, his full salary would have continued for one year from the date of disability. Subsequent to his resignation, Mr. Maley did not receive any severance compensation, except that he continued to receive override commission payments through May 2006 on sales for which the customer order was placed prior to his resignation.

Effective January 1, 1997, Sport-Haley entered into an employment agreement with Mr. Robert G. Tomlinson. Mr. Tomlinson died on September 8, 2004. Mr. Tomlinson's employment agreement required that he devote his full business time as Chairman of the Board at an annual salary of \$230,000, as amended, be provided an automobile and such bonuses as awarded by the Board of Directors. The employment agreement extended for a three-year period, subject to automatic one-year extensions at the end of each year. Because the agreement terminated upon Mr. Tomlinson's death, Mr. Tomlinson's estate was entitled to the same severance compensation as would have been applicable as if Mr. Tomlinson had terminated the agreement with cause (as defined in the agreement), or if we had terminated the agreement for other than cause, or if there were a change in control of Sport-Haley, Inc. The employment agreement entitled Mr. Tomlinson's estate to receive, as a death benefit, severance compensation in an amount equal to three times his annual salary and bonus payments during the preceding 12 months. During the time his estate received such severance compensation, Mr. Tomlinson's estate was entitled to participate in all employee benefit plans, at our expense. Provisions included in the employment agreement entitled Mr. Tomlinson's estate to receive such amount in a lump sum. Mr. Tomlinson agreed to a voluntary salary reduction in fiscal 1999. From then until his death, Mr. Tomlinson received an annual salary of \$170,000 per year instead of the \$230,000 annual salary, which he was entitled to receive per the amended employment agreement. Subsequent to his death, a dispute with Mr. Tomlinson's estate ensued concerning the amount of severance

compensation to be paid as a death benefit and other compensation matters relating to the employment agreement. Mr. Tomlinson's estate demanded a higher severance amount and other compensation which it claimed was also due under the agreement. The Board of Directors negotiated an agreement in compromise with Mr. Tomlinson's estate regarding the death benefit amount and the other disputed compensation. In accordance with the terms of the settlement agreement, we paid a lump sum amount of \$650,000 to Mr. Tomlinson's estate in October 2004. Because the agreement was terminated for reasons other than with cause, all of the 125,000 options previously granted to Mr. Tomlinson became fully vested on the date of Mr. Tomlinson's death. In August 2005, the estate of Mr. Tomlinson exercised and subsequently sold 100,000 of the options, and the remaining 25,000 options expired thereafter.

Effective March 18, 2002, Sport-Haley entered into an employment agreement with Mr. Kevin M. Tomlinson to act as the Company's Chief Executive Officer. Mr. Tomlinson was subsequently appointed as President pursuant to the terms of the employment agreement. The agreement required that he devote his full business time as our Chief Executive Officer, at an annual salary of \$160,000, and such bonuses as awarded by the Board of Directors, and extended for a three-year term, subject to automatic one-year extensions at the end of each year. If we were to terminate the agreement for other than cause (as defined in the agreement), Mr. Tomlinson is entitled to receive severance compensation equal to 36 months salary and bonus and incentive payments over the last 12 months, payable monthly over the 36-month period. In October 2004, our Board of Directors approved a resolution not to renew the executive employment agreement of Mr. Tomlinson, beyond the end of its term in March 2005, and Mr. Tomlinson subsequently stepped down from his duties as our Chief Executive Officer and President. During the time he is receiving severance compensation, Mr. Tomlinson is eligible to participate in all employee benefit plans, at our expense. Since Mr. Tomlinson was terminated without cause, all of the 200,000 outstanding stock options previously granted to him became fully vested on the effective date of his termination. Mr. Tomlinson exercised and sold 100,000 of the options in June 2005, and the remaining 100,000 options expired thereafter. The agreement contains a non-competition provision for one year following termination, provided Mr. Tomlinson could be released from the non-compete agreement since he was terminated without cause, if he had elected to forego any severance pay. We began paying Mr. Tomlinson monthly severance compensation in April 2005.

Effective January 1, 1997, Sport-Haley entered into an employment agreement with Mr. Robert W. Haley. In January 2004, Mr. Haley agreed to the termination of his employment effective March 31, 2004. The agreement required that he devote his full business time as our President or Senior Executive Officer at an annual salary of \$160,000 and such bonuses as awarded by the Board of Directors. Mr. Haley agreed to a voluntary salary reduction in fiscal 1999. Since that time, Mr. Haley received an annual salary of \$150,000 instead of the \$160,000 annual salary, which he had been entitled to receive per the employment agreement. The employment agreement term extended through December 31, 1998, and was subsequently automatically renewed for additional one-year terms. Because the agreement was terminated for other than cause (as defined in the agreement), Mr. Haley was entitled to receive bi-weekly severance compensation payments for one year from the date of termination totaling \$150,000, his annual salary and bonus payments during the preceding 12 months. The agreement contained a non-competition provision for one year following termination, provided Mr. Haley could be released from the non-compete agreement since he was terminated without cause, if he had elected to forego any severance pay. Mr. Haley received the bi-weekly severance compensation payments through March 31, 2005. Since Mr. Haley was terminated without cause, all of the 75,000 outstanding stock options previously granted to him became fully vested on the effective date of his termination. Mr. Haley exercised all 75,000 of the options in June 2004.

## Stock Option Plan

Sport-Haley adopted an amended and restated stock option plan in 1993 (as amended, the Option Plan). The Option Plan, as amended, provided for the granting of incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, non-qualified stock options and stock appreciation rights (SARs), up to a maximum number of 2,150,000 shares. Non-qualified options could be granted to employees, directors and consultants of Sport-Haley, while incentive options could only be granted to employees. No options could be granted under the Option Plan subsequent to February 28, 2003, when the Option Plan expired by its terms. Options granted pursuant to the Option Plan prior to its expiration on February 28, 2003 remain exercisable according to the terms of their issuance. All of the options previously granted under the Option Plan are fully vested.

The Option Plan is administered by the Compensation Committee of the Board of Directors. The Compensation Committee determined the terms and conditions of the options and SARs granted under the Option Plan, including the exercise prices, number of shares subject to the options and the exercisability thereof.

The exercise price of each incentive option granted under the Option Plan must have been at least equal to the fair market value of the Common Stock of Sport-Haley on the date of grant. In the case of an optionee who owns stock possessing more than ten percent of the total combined voting power of all classes of stock of Sport-Haley, the exercise price of incentive options could not be less than 110% of the fair market value of the Common Stock on the date of grant. The exercise price of all non-qualified stock options granted under the Option Plan was determined by the Compensation Committee, but could not be less than 85% of the fair market value of the Common Stock. The terms of all non-qualified stock options granted under the Option Plan could not exceed ten years and the terms of all incentive options could not exceed five years.

The Option Plan provided our Board of Directors or the Compensation Committee thereof the discretion to determine when options granted thereunder should become exercisable and the vesting period of such options. Upon termination of a participant's employment or consulting relationship with Sport-Haley, all unvested options terminate and are no longer exercisable. Vested options remain exercisable for a specified period of time following the termination date. The length of such an extended exercise period generally ranges from 30 days to one year, depending on the nature and circumstances of the termination.

In January 2003, the Board of Directors approved two amendments to the Company's Option Plan. The first amendment conformed the Plan to previous practice and the initial summary of the Plan contained in SEC filings by permitting the granting of non-qualified options to employees, consultants and non-employee directors with exercise prices of not less than 85% of the current fair market value of the underlying common stock. The second amendment made explicit that the Compensation Committee may accelerate the vesting of any options granted under the plan.

The Option Plan provided that, in the event we enter into an agreement providing for the merger of Sport-Haley, Inc. into another corporation or the sale of substantially all of the assets of Sport-Haley, Inc., any outstanding unexercised option would become exercisable at any time prior to the effective date of such agreement. Upon the consummation of a merger or sale of assets, such options would terminate unless they were assumed or another option was substituted therefor by the successor corporation.

As of June 30, 2006, a total of 678,500 non-qualified options were outstanding, with exercise prices ranging from \$2.71 to \$9.78 per share and a weighted average exercise price per share of \$3.88. As of

September 30, 2006, a total of 678,500 non-qualified options were outstanding, with exercise prices ranging from \$2.71 to \$9.78 per share and a weighted average exercise price per share of \$3.86. During the quarter ended September 30, 2006, no options were exercised and 5,000 options expired.

#### **401(k) Plan**

In January 1996, Sport-Haley adopted a defined contribution savings plan (the 401(k) Plan ) to provide retirement income to employees of Sport-Haley. The 401(k) Plan is intended to be qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended. The 401(k) Plan covers all of the Company's employees who are at least 18 years of age and have been employed at least three months. It is funded by voluntary pre-tax contributions from employees up to a maximum amount equal to 15% of annual compensation and through matching contributions by Sport-Haley of \$0.25 on the dollar for employee contributions on the first 5% of the employee's annual compensation. Upon leaving Sport-Haley, each participant is 100% vested with respect to the participant's contributions and is vested based on years of service with respect to Sport-Haley's matching contributions. Contributions are invested as directed by the participant in investment funds available under the 401(k) Plan. Full retirement benefits are payable to each participant in a single cash payment or an actuarial equivalent form of annuity on the first day of the month following the participant's retirement.

#### **Compensation Committee Report**

The Company's executive compensation program is administered by the compensation committee, consisting of Messrs. Stevenson (Chairman), Norick and Everest.

Notwithstanding anything to the contrary set forth in any of the previous filings made by Sport-Haley under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate future filings, including, but not limited to, this proxy statement, in whole or in part, the following Compensation Committee Report shall not be deemed to be filed with the Securities and Exchange Commission nor shall it be incorporated by reference into any such future filings.

This Compensation Committee Report discusses Sport-Haley's executive compensation policies and the basis for the compensation paid to Sport-Haley's executive officers, including its interim Chief Executive Officer, during fiscal 2006.

**Compensation Policy.** Sport-Haley's policy with respect to executive compensation was designed to:

- Adequately and fairly compensate executive officers in relation to their responsibilities, capabilities and contributions to Sport-Haley in a manner that is commensurate with compensation paid by companies of comparable size or within the golf apparel industry;
- Reward executive officers for the achievement of short-term operating goals and for the enhancement of the long-term value of Sport-Haley; and
- Align the interests of the executive officers with those of Sport-Haley's shareholders.

The components of compensation paid to certain executive officers consist of (a) base salary, (b) incentive compensation in the form of discretionary annual bonus payments, (c) long-term incentive compensation in the form of awards under Sport-Haley's Option Plan, and (d) various other benefits.



**Base Salary.** For fiscal 2006, the Compensation Committee reviewed the base salaries of our executive officers under their respective employment agreements. Annual adjustments to base salaries, if any, were determined based upon a number of factors, including our performance (to the extent such performance can fairly be attributed or related to each executive officer's performance), as well as the value of each executive officer's responsibilities, capabilities and contributions and internal compensation equity considerations. In addition, for fiscal 2006, the Compensation Committee reviewed the base salaries of our executive officers in an attempt to ascertain whether those salaries fairly reflect job responsibilities and prevailing market conditions and rates of pay. The Compensation Committee believes that base salaries for our executive officers have been reasonable in relation to our size and performance in comparison with the compensation paid by similarly sized companies or companies within the golf apparel industry. The Compensation Committee did not increase the base pay of any executive officer during fiscal 2006. In September 2006, effective July 1, 2006, the Compensation Committee authorized an increase of Mr. Jewell's base salary to increased the annual base pay of Mr. Jewell to \$325,000. Effective October 1, 2006, Mr. Hurley's base salary was increased to \$125,000 per year and Ms. Blair's base salary was increased to \$130,000 annually.

**Incentive Cash Bonus Compensation.** The Compensation Committee feels that a relatively lower level of base salary and relatively higher level of incentive compensation, in the form of bonuses and grants of options, most effectively aligns the interests of management with that of shareholders. It also believes that its policy regarding incentive compensation is similar to policies of other companies of comparable size within the golf apparel industry. The decision on whether to award incentive cash bonus compensation is based on a combination of achievement of business targets and objectives and certain other financial measures which the Compensation Committee feels will dictate, in large part, Sport-Haley's future operating results, and on an officer's responsibilities, capabilities and contribution to Sport-Haley. There is no formal written bonus incentive plan for executive officers, although certain executive officers employment agreements provide that the executive is eligible for a discretionary bonus of up to a specified percentage of his or her base salary. The Compensation Committee awarded the following bonuses to our executives in fiscal 2006 in recognition of their exemplary service: Donald W. Jewell - \$50,000 cash bonus paid in October 2005 and transfer of the title to a Company vehicle with an estimated value of \$14,000, effective as of September 30, 2005; Patrick W. Hurley - \$12,000 cash bonus paid in October 2005; and, Catherine B. Blair - \$3,000 cash bonus paid in October 2005. The Compensation Committee also awarded the following bonuses to key employees in fiscal 2006: George E. (Tom) Tomlinson - \$10,000 cash bonus paid in October 2005.

**Long-Term Incentive (Option) Compensation.** The Compensation Committee also has authority to select the executive officers and employees who will be granted options and other awards and to determine the timing, pricing and amounts of any such options or awards. As stated above, the Compensation Committee believes that incentive compensation, in the form of bonuses and grants of options, most effectively aligns the interests of management with that of shareholders. The Company's stock option plan expired by its terms in February 2003. Accordingly, the Compensation Committee did not approve the grant of any options to executives or directors in fiscal 2006.

**Other Benefits.** Executive officers are eligible for various benefits, including health insurance plans generally available to all full-time employees. In addition, executive officers are eligible to participate in the 401(k) Plan, also generally available to all employees, whereby the officers may elect to defer part or all of their base and incentive cash compensation. We do not maintain any other plans or arrangements for the benefit of our executive officers except to provide life insurance policies for the benefit of certain executive officers named beneficiaries and a vehicle that was used by our former Chief Executive Officer, and which has been assigned to our interim Chief Executive Officer. The Compensation Committee

believes these benefits are reasonable in relation to the executive compensation practices of other similarly sized companies or companies within the golf apparel industry.

**Tax Considerations.** Beginning in 1994, the Internal Revenue Code limited the federal income tax deductibility of compensation paid to a company's chief executive officer and to each of the four most highly compensated executive officers. For this purpose, compensation can include, in addition to cash compensation, the difference between the exercise price of stock options and the value of the underlying stock on the date of exercise. A company may deduct compensation with respect to any of these individuals only to the extent that during any fiscal year such compensation does not exceed \$1 million or meets certain other conditions (such as shareholder approval). Considering current compensation plans and policies and the exercise price of currently outstanding stock options held by the executive officers, the Compensation Committee believes that, for the near future, there is little risk that we will lose any significant tax deduction relating to executive compensation. At such time, if any, that the deductibility of executive compensation becomes an issue, modifications to compensation plans and policies will be considered by the Compensation Committee.

**CEO Compensation.** Donald W. Jewell has served as our Interim Chief Executive Officer since November 2004. Mr. Jewell entered into an employment agreement, effective November 1, 2004, to serve as Interim Chief Executive Officer through June 30, 2005, subject to automatic monthly extensions until a successor Chief Executive Officer is appointed. In September 2006, effective at the beginning of fiscal year 2007, Mr. Jewell was appointed Chief Executive Officer and President on a permanent basis. In connection with that permanent appointment, Mr. Jewell's annual base salary was increased to \$325,000. In reviewing the Chief Executive Officer's compensation package, the Committee pursues the same objectives that apply for other executive officers. The Committee's overall goal is to set the Chief Executive Officer's salary at a base comparable to those of persons employed in similar capacities with competitors that are similar in industry size and performance. However, the actual level approved by the Committee may be higher or lower based upon the Committee's subjective evaluation of our annual and long-term performance, the individual performance of the Chief Executive Officer, particularly with respect to leadership and strategic vision, and cash resources and needs.

The Compensation Committee believes that the concepts discussed above further the shareholders interests and that officer compensation encourages responsible management of Sport-Haley. The Compensation Committee considers the effect of management compensation on shareholder interests. In the past, the Board of Directors based its review in part on the experience of its own members and on information requested from management personnel. These same factors will be used in the future in determining officer compensation.

This report was furnished by the members of the Compensation Committee: Mark J. Stevenson, Chairman; Ronald J. Norick and James H. Everest.

#### **Compensation Committee Interlocks and Insider Participation**

All of the Compensation Committee members are independent directors, as defined by applicable SEC and NASD Rules, of Sport-Haley. None of these members have ever been an officer or employee of Sport-Haley or its former subsidiary nor have any of them had a relationship which would require disclosure under the "Certain Relationship and Related Transactions" captions of any of Sport-Haley's filings with the Commission during the past three fiscal years.

**Performance Graph**

Notwithstanding anything to the contrary set forth in any of the previous filings made by Sport-Haley under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate future filings, including, but not limited to, this proxy statement, in whole or in part, the following performance graph shall not be deemed to be incorporated by reference into any such future filings.

Set forth below is a line graph prepared by Zacks Investment Research comparing the yearly percentage change in our cumulative total shareholder return (share price appreciation plus dividends) on Sport-Haley, Inc. common stock with the cumulative total return of (i) the Nasdaq US Market Index and (ii) the stocks of apparel manufacturers having Standard Industrial Classification codes from 2300 through 2341, which is deemed as a market weighted index of publicly traded peers, for the period from July 1, 2001 through June 30, 2006 (the Measurement Period). The graph assumes that \$100 is invested on July 1, 2001, in each: our common stock; our publicly traded peers; and, the Nasdaq US Market Index. The graph also assumes that all dividends were reinvested (in May 2006, we paid a \$0.25 per share dividend to our beneficial shareholders; no other dividends were paid during the Measurement Period). Our shareholder return is calculated by dividing the difference between our share price at July 1, 2001, and each June 30 of the Measurement Period by the share price at the beginning of the Measurement Period.

	<b>Fiscal Year Ended June 30,</b>					
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Sport-Haley, Inc.	100.00	124.00	136.34	166.69	98.99	159.99
Industry Peer Group Index	100.00	96.63	88.63	115.30	126.20	138.53
Nasdaq Market Index	100.00	67.73	75.11	94.79	92.10	98.06

**Security Ownership of Certain Beneficial Owners and Management**

The following table sets forth certain information regarding beneficial ownership of our common stock as of January 8, 2007, by: (i) each person known by Sport-Haley, Inc. to own beneficially more than 5% of the outstanding common stock; (ii) each director or nominee; and, (iii) all executive officers and directors as a group. The information with respect to institutional investors is generally derived from statements filed with the Securities and Exchange Commission under Section 13(d) or 13(g) of the Securities Exchange Act. Each person has sole voting and sole investment or dispositive power with respect to the shares shown except as noted.

Name and Address (1)	Shareholdings on January 8, 2007	
	Number of Shares(2)	Percent of Class (3) %
Donald W. Jewell (4)	50,000	1.77
Patrick W. Hurley (4)	50,000	1.77
Catherine B. Blair (4)	50,000	1.77
Ronald J. Norick (5)	285,617	9.70
James H. Everest (6)	265,000	8.90
Mark J. Stevenson (4)	100,000	3.48
James R. TenBrook	0	*
William O. Johnstone	0	*
Daniel Zeff, Zeff Holding Company, LLC Zeff Capital Partners ILP and Spectrum Galaxy Fund Ltd. (7) 50 California Street, Suite 1500 San Francisco, CA 94111	229,063	8.27
Hillson Partners Limited Partnership(8) 6900 Wisconsin Avenue, Suite 501 Bethesda, Maryland 20815	218,293	7.88
Dimensional Fund Advisors Inc. (9) 1299 Ocean Avenue, 11th Floor Santa Monica, California 90401	206,600	7.46
Fondren Management LP (10) 1177 West Loop South, Suite 1625 Houston, Texas 77027	159,492	5.76
Tilson Growth Fund, LP, Tilson Capital Partners, LLC and Whitney Tilson (11) 175 East 62nd Street, #11A, New York, NY 10021	142,700	5.15
All directors and executive officers as a group (Seven persons)(12)	750,617	22.61

\* Less than 1%

(1) Except as noted above, the address for all persons listed is 4600 E. 48th Avenue, Denver, Colorado 80216.

(2) Ownership includes both outstanding Common Stock and shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after the date hereof.

(3) All percentages are calculated based on the number of outstanding shares in addition to shares which a person or group has the right to acquire within 60 days of January 8, 2007. As of January 8, 2007, there were 2,770,252 shares of common stock outstanding.

- (4) Consists solely of shares subject to currently exercisable options or options which will become exercisable within 60 days after the date hereof.
- (5) Includes 175,000 shares subject to currently exercisable options and 110,617 shares owned of record by entities affiliated with Mr. Norick, of which shares Mr. Norick has shared voting and dispositive power.
- (6) Includes 175,000 shares subject to currently exercisable options or options which will become exercisable within 60 days after the date hereof and 50,000 shares owned by a trust for which Mr. Everest acts as trustee, of which shares Mr. Everest disclaims beneficial ownership.
- (7) Daniel Zeff is the sole manager and member of Zeff Holding Company, LLC, which serves as the general partner of Zeff Capital Partners ILP. Mr. Zeff provides discretionary investment management services to Zeff Capital Offshore Fund, a class of shares of Spectrum Galaxy Fund Ltd., a company incorporated in the British Virgin Islands. Mr. Zeff and Zeff Holding Company, LLC each disclaims, for purposes of Section 16 of the Securities Exchange Act of 1934, beneficial ownership of such securities reported, except to the extent of his/its indirect pecuniary interest therein. Each of Zeff Holding Company, LLC and Zeff Capital Partners ILP disclaims beneficial ownership over all shares held by Spectrum Galaxy Fund Ltd.
- (8) Hillson Partners Limited Partnership has sole voting power and sole dispositive power of 218,293 shares.
- (9) Dimensional Fund Advisors, Inc. is an investment advisor company which beneficially owns 206,600 shares, which are owned of record by its advisory clients. Dimensional Funds Advisors, Inc. disclaims beneficial ownership of these shares.
- (10) Fondren Management LP has sole voting power and sole dispositive power over 159,492 shares. Such shares were purchased by Fondren Management LP for the account of Fondren Partners LP, a Texas limited partnership and Fondren Partners Offshore Ltd., a Cayman Islands exempted limited company, of which Fondren Management LP is the investment manager.
- (11) Tilson Growth Fund, LP, a Delaware limited partnership, Tilson Capital Partners, LLC, a Delaware limited liability company and Whitney Tilson have shared voting and dispositive power over 142,700 shares.
- (12) Includes 600,000 shares of Common Stock subject to options exercisable currently or within 60 days.

*The Board of Directors has unanimously approved and recommends that shareholders vote FOR the director nominees identified above.*

## II. SELECTION OF AUDITORS

Our Audit Committee has approved the appointment of Gordon Hughes & Banks LLP, of Denver, Colorado, as our independent registered public accountants for fiscal 2007. On October 19, 2006, Hein & Associates LLP, our independent registered public accountant who had examined our financial statements from July 1, 1997 through the end of fiscal 2006, declined to stand for re-election after completion of the audit for the year ended June 30, 2006.

Each of Hein & Associates LLP's reports on our financial statements for the past two fiscal years did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles. During the two most recent fiscal years, and any subsequent interim period preceding Hein & Associates LLP's declination, the Company has not had any disagreements with Hein & Associates LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement(s), if not resolved to the satisfaction of the former accountant, would have caused it to make reference to the subject matter of the disagreement(s) in connection with its report.

Edgar Filing: SPORT HALEY INC - Form DEF 14A

Subject to shareholder approval, on October 19, 2006, the Audit Committee of the Company's board of directors engaged the firm Gordon, Hughes & Banks, LLP, to act as our independent registered public accountants for the fiscal year ending June 30, 2007. Representatives of Gordon Hughes & Banks LLP are

expected to be present at the annual meeting with the opportunity to make a statement, if it is their desire to do so, and will be available to respond to appropriate questions from shareholders. Representatives of Hein & Associates LLP are not expected to be present at the annual meeting.

**Audit Fees.** The aggregate fees billed by Hein & Associates LLP, our independent auditors during fiscal years 2006 and 2005, for the audits of our annual financial statements, the reviews of our quarterly financial statements included in Forms 10-Q for the corresponding quarterly periods or the services that are normally provided by in connection with statutory and regulatory filings or engagements for those fiscal years totaled \$119,000 and \$73,000, respectively.

**Audit-Related Fees.** The aggregate fees billed by Hein & Associates LLP for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements that are not included in the Audit Fees described above totaled \$8,000 and \$5,000 for fiscal years 2006 and 2005, respectively.

**Tax Fees.** The aggregate fees billed by Hein & Associates LLP in fiscal years 2006 and 2005 for professional services rendered for tax compliance, tax advice and tax planning totaled \$7,000 and \$5,000, respectively, and consisted primarily of services with respect the preparation of federal and state income tax returns, advice with regard to federal and state income tax audits and income tax planning.

**All Other Fees.** The aggregate fees billed by Hein & Associates LLP in fiscal years 2006 and 2005, other than for the services reported in Audit Fees, Audit Related Fees or Tax Fees described above, totaled \$0 and \$0, respectively.

**Audit Committee Approval Procedures.** Sport-Haley's independent auditor reports to, and is engaged at the direction of, the Audit Committee, with annual approval by the shareholders. Effective May 2003, the Audit Committee implemented procedures for the pre-approval of audit and non-audit services performed by the Company's independent auditors. The Audit Committee has the sole authority to pre-approve all audit and non-audit services provided by the independent auditors to the Company and acts to assure that the independent auditors are not engaged to perform specific non-audit services proscribed by law or regulation. The Audit Committee approved all of the services performed by Hein & Associates, LLP during fiscal 2006.

The Audit Committee considers the services provided by Gordon Hughes & Banks LLP to be compatible with maintaining Gordon Hughes & Banks LLP's independence.

***The Board of Directors recommends a vote FOR ratification of Gordon Hughes & Banks LLP as independent auditors for the Company.***

**SPORT HALEY, INC.**  
4600 East 48th Avenue  
Denver, CO 80216  
(303) 320-8800  
*www.sporthaley.com*

25

---



**SPORT-HALEY, INC.**

**Annual Meeting of Shareholders to be held on February 21, 2007**

**This proxy is solicited by the Board of Directors of Sport-Haley, Inc.**

KNOW ALL MEN BY THESE PRESENTS: that the undersigned shareholder of Sport-Haley, Inc. (the Company) hereby constitutes and appoints Ronald J. Norick, as attorney and proxy, with the power to appoint his substitute, and hereby authorizes him to represent and vote, as designated below, all of the shares of Common Stock of the Company which the undersigned is entitled to vote at the Annual Meeting of Shareholders of the Company to be held February 21, 2007 and at any and all adjournments thereof with respect to the matters set forth below and described in the Notice of Annual Meeting of Shareholders and Proxy Statement dated January 19, 2007, receipt of which is acknowledged.

THE BOARD OF DIRECTORS RECOMMEND A VOTE FOR PROPOSALS 1 AND 2.

**1. To consider and act upon a proposal to elect Messrs. Mark J. Stevenson, Ronald J. Norick, James H. Everest, James R. TenBrook, Donald W. Jewell and William O. Johnstone, as directors to hold office for one-year terms or until their successors are elected and qualified.**

- FOR ELECTION OF ALL NOMINEES (Except as shown below)
- WITHHOLD AUTHORITY TO VOTE FOR ALL NOMINEES

Instructions: To withhold authority to vote for any individual nominee, strike through the nominee's name below:

<b>Mark J. Stevenson</b>	<b>James R. TenBrook</b>
<b>Ronald J. Norick</b>	<b>Donald W. Jewell</b>
<b>James H. Everest</b>	<b>William O. Johnstone</b>

**2. To ratify the appointment of Gordon Hughes & Banks LLP as independent auditors of the Company.**

- FOR RATIFICATION
- AGAINST RATIFICATION
- ABSTAIN

**3. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting or any and all adjournments thereof.**

- AUTHORIZED TO VOTE
- ABSTAIN

This proxy, when properly executed, will be voted in the manner directed herein by the undersigned shareholder(s). **IF NO INDICATION IS MADE, THIS PROXY WILL BE VOTED FOR THE NOMINEES LISTED IN PROPOSAL 1, FOR PROPOSAL 2 AND THE PROXY HOLDER WILL VOTE ON ANY PROPOSAL UNDER ITEM 3 IN HIS DISCRETION AND IN HIS BEST JUDGMENT.**

Please mark, date, and sign exactly as your name appears on your stock certificate. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by president or other authorized officer. If a partnership, please sign in partnership name by authorized person. If this Proxy is not dated, the Proxy will be deemed to bear the date the form was mailed to the shareholder.

Dated:

Signature

Dated:

Signature if held jointly

---

**Sport-Haley, Inc.****Nominating Committee Charter*****Organization***

There shall be a committee of the Board of Directors (the Board) to be known as the nominating committee. The nominating committee shall have at least three members. The nominating committee shall be composed solely of directors who are independent in accordance with The Nasdaq Stock Market Marketplace Rules (Nasdaq Rules) for determining the independence of directors (subject to any Nasdaq exceptions), and otherwise meet Nasdaq Rules requirements for the membership of the nominating committee. Independent nominating committee members shall be free of any relationship that, in the opinion of the Board, would interfere with their exercise of independent judgment as committee members. Vacancies on the committee shall be filled by majority vote of the Board at the next meeting of the Board following the occurrence of the vacancy. No member of the Committee shall be removed except by majority vote of the Independent Directors then in office. If the Company is legally required by contract or otherwise to provide third parties with the ability to nominate directors, the selection and nomination of such directors need not be subject to the process set forth herein.

***Statement of Purpose***

The purpose of the nominating committee shall be to assist the Board in identifying individuals qualified to become Directors under criteria approved by the Board, periodically review director compensation and benefits and recommend to the Board any improvements to the Company's corporate governance guidelines as it deems appropriate.

***Responsibilities***

In carrying out its responsibilities, the nominating committee believes its policies and procedures should remain flexible, in order to best react to changing needs of the corporation.

In carrying out these responsibilities, the nominating committee will:

1. Evaluate the suitability of potential nominees for membership on the Board, taking into consideration the Board's current composition, including expertise, diversity, and balance of inside, outside and independent directors, and considering the general qualifications of the potential nominees, such as:
  - a. Unquestionable integrity and honesty,
  - b. The ability to exercise sound, mature and independent business judgment in the best interests of the shareholders as a whole,
  - c. A background and experience with manufacturing, retailing, operations, finance, marketing or other fields which will complement the talents of the other Board members,
  - d. Willingness and capability to take the time to actively participate in Board and Committee meetings and related activities,
  - e. Ability to work professionally and effectively with other Board members and Company management,
  - f. Availability to remain on the Board long enough to make an effective contribution, and
  - g. Absence of material relationships with competitors or other third parties that could present realistic possibilities of conflict of interest or legal issues;

h. Experience with accounting rules and practices;

and see that all necessary and appropriate inquiries are made into the backgrounds of such candidates.

2. Balance the considerable benefit of continuity with the periodic injection of the fresh perspective provided by new members.

---

3. Recommend to the Board the number and names of proposed nominees for election as Director at the Annual Meeting of Shareholders and, in the case of a vacancy on the Board, the name of an individual to fill the vacancy.
4. Review the suitability for continued service as a director of each Board member when his or her term expires and when he or she has a significant change in status, including but not limited to an employment change, and to recommend whether or not the director should be re-nominated.
5. Submit the minutes of all meetings of the nominating committee to, or discuss the matters discussed at each committee meeting with, the Board.
6. Review the direct and indirect relationships of members of the Board with the Company or its management and assist the Board with its determination of the independence of its members.
7. Monitor trends and best practices in director compensation, benefits and stock ownership guidelines and recommend changes to the Board as it deems appropriate, taking into consideration the interests of the corporation and its shareholders, maintenance of the independence of a majority of the members of the Board, the work load, time commitment and responsibilities involved in Board and committee meeting participation, and comparison with the compensation practices of comparable companies.
8. Monitor trends and best practices in corporate governance, periodically review the corporate governance guidelines, and recommend changes as it deems appropriate in those guidelines, in the corporate governance provisions of the Company's By-Laws, and in the policies and practices of the Board.
9. Review this Nominating Committee Charter at least annually, and make any changes deemed appropriate, subject to review and approval of the full Board.
10. Establish and maintain procedures for the submission of unsolicited recommendations for nominees, including appropriate deadlines and the type of information that must be provided with recommendations.
11. Review periodically, and at least annually, the corporate governance guidelines adopted by the Board to assure that they are appropriate for the Company, and to recommend any desirable changes to the Board.
12. Develop and recommend to the Board, as deemed appropriate by the committee, a code of ethics and conduct for the Company's officers, directors and employees, which shall be consistent with any applicable laws, regulations and the NASD Rules. At a minimum, the code of ethics and conduct to be developed and recommended by the Committee shall codify standards that are reasonably designed to deter wrongdoing and to promote:
  - a. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships.
  - b. Avoidance of conflicts of interest, including disclosure to an appropriate person identified in the code of any material transaction or relationship that reasonably could be expected to give rise to such a conflict.
  - c. Full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission and in other public communications made by the Company.
  - d. Compliance with applicable governmental law, rules and regulations.
  - e. The prompt internal reporting to an appropriate person identified in the code of violations of the code.
  - f. Accountability for adherence to the code.

13. To consider any other corporate governance issues that arise from time to time, and to develop appropriate recommendations for the Board.

*Authority and Resources*

The nominating committee shall have the authority and resources to:

solicit ideas for director nominees from other members of the Board, and to make its own inquiries;

solicit suggestions for director nominees from management, stockholders and other sources;

engage outside search or other consultants to assist in identifying potential director nominees; and

determine funding for payment of compensation to any such consultants and ordinary administrative expenses of the nominating committee.

All potential nominees must first be considered by the nominating committee before being contacted as possible nominees and before having their names formally considered by the full Board.

**SPORT-HALEY, INC.****AMENDED AND RESTATED AUDIT COMMITTEE CHARTER**

This Amended and Restated Audit Committee Charter, effective January 1, 2004, governs the operations of the Audit Committee (the Committee) of Sport-Haley, Inc. (the Company). The Committee shall review and reassess the adequacy of the Charter annually or at such other times as the Committee deems appropriate and recommend any proposed changes to the Board of Directors (the Board) for approval.

**COMPOSITION OF THE COMMITTEE**

The Board shall appoint members to the Committee. The Committee shall be comprised of at least three (3) directors who shall satisfy the independence and financial literacy requirements established by applicable law, rules and regulations of the Securities and Exchange Commission (SEC) and the rules of the Nasdaq Stock Market (Nasdaq). All Committee members shall have a working familiarity with basic finance or accounting practices and be able to read and understand financial statements. At least one member shall meet the requirements of an audit committee financial expert under applicable SEC Rules. At least one member of the Committee shall satisfy the applicable Nasdaq financial sophistication requirements as in effect from time to time.

Each member of the Committee shall satisfy in particular the independence requirements set forth in SEC Rule 10A-3(b)(1), which requires, among other things, that a member may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee, (i) accept directly or indirectly any consulting, advisory, or other compensatory fee from the issuer or any subsidiary thereof, with certain exceptions or (ii) be an affiliated person (as defined by applicable SEC Rules) of the Company or any subsidiary thereof.

Notwithstanding the foregoing, under exceptional and limited circumstances, one director who is not independent within the meaning of the Nasdaq Rules may be appointed to the Committee if person meets the requirements of §10A(m)(3) of the Securities Exchange Act of 1934 and the Board determines in its business judgment that membership on the Committee by such person is required by the best interests of the Company and its stockholders and the Company discloses in the next annual proxy statement the nature of such person's relationship and the reasons for the Board's determination. A member appointed under this exception may not serve longer than two years and may not be designated as Chairman of the Committee.

Any vacancy on the Committee shall be filled by majority vote of the directors that are independent pursuant to the rules and regulations of the Nasdaq and the SEC at the next meeting of the Board following the occurrence of the vacancy. No member of the Committee shall be removed except by majority vote of the directors that are independent pursuant to the rules and regulations of the Nasdaq and the SEC.

If a Committee member ceases to be independent for reasons outside the member's reasonable control, and there are fewer than three independent directors on the Committee, the Committee member may remain on the Committee until earlier of the Company's next annual shareholders meeting or one year from the occurrence of the event that caused the failure to have fewer than three independent directors on the Committee.

If the Company fails to comply with the composition requirements set forth above due to one vacancy, and the cure period discussed in the preceding paragraph is not otherwise being relied upon for another member, the Company will have until the earlier of the next annual shareholders meeting or one year from the occurrence of the event that caused the failure to comply with the composition requirements.

**STATEMENT OF POLICY**

The Committee shall act on behalf of the Board in fulfilling the Board's oversight responsibility to the stockholders, potential stockholders and the investment community relating to the Company's financial statements and the financial reporting process, the systems of internal accounting and financial controls, the annual independent audit of the Company's financial statements and the qualifications, independence and performance of the certified public accountants engaged as the Company's outside auditors. In so doing, it is the responsibility of the Committee to maintain free and open communication between the Committee, the Company's independent auditors and the Company's management. In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company. The



operation of the Committee shall be subject to the Bylaws of the Company as in effect from time to time and the Colorado Business Corporation Act, including §7-108-206, C.R.S.

## RESPONSIBILITIES AND PROCESSES

The primary responsibility of the Committee is to oversee the Company's financial reporting process (including direct oversight of the auditors) on behalf of the Board and report these activities to the Board. Management is responsible for preparing the Company's financial statements, and the independent auditors are responsible for auditing those financial statements. The Committee's policies and procedures should remain flexible, in order to best react to changing conditions and circumstances. The Committee should take the appropriate actions to assure the stockholders and the Board that the Company maintains high quality financial reporting, sound business risk practices, and ethical behavior relating to accounting, internal accounting controls, auditing matters and financial disclosure and reporting.

To the extent the Committee believes appropriate based upon its periodic review thereof, the following shall be the principal recurring processes of the Committee in carrying out its oversight responsibilities. The processes are set forth as a guide with the understanding that the Committee may supplement or, except as otherwise required by applicable laws, rules and regulations, deviate from them as appropriate. The Committee shall:

1. Evaluate the performance of the independent auditors, assess their qualifications, determine whether to retain or to terminate the existing auditors or to appoint and engage new independent auditors for the ensuing year. The Committee shall have the sole and exclusive authority with respect to such matters and the oversight of the independent auditors as a whole.
2. Review and determine the engagement of the independent auditors, including the overall scope and plans for their respective audits, the adequacy of staffing and compensation. Negotiate and execute, on behalf of the Company, any engagement letters with the Company's independent auditors with respect to such engagement, which actions may be pursuant to preapproval policies and procedures.
3. Pre-approve, either collectively or individually, all audit and permissible non-audit engagements of the Company's independent auditors, including review and attestation engagements. If any single member of the Audit Committee provides the required pre-approval, such member shall apprise the other members of the Audit Committee of such approval at the next Audit Committee meeting. The pre-approvals may be made by letter (delivered by facsimile or regular mail) or by email or other suitable written form. The Audit Committee may not delegate its responsibility to pre-approve all audit and permissible non-audit services to any member of management or any person not a member of the Audit Committee.
4. Establish guidelines and procedures with respect to the rotation of audit partners and other senior personnel engaged in providing audit services in accordance with applicable law and SEC and Nasdaq regulations (including regulations with respect to the independence of the independent auditors).
5. At least annually, discuss with the independent auditors and review the auditors' independence from management and the Company, including the provision of non-audit services, past employment by the independent auditors of current or prospective Company personnel, the matters included in the written disclosures required by the Independence Standards Board and other relationships or services that could affect the objectivity of the independent auditors and assess and otherwise take appropriate action to oversee the independence of the independent auditors.
6. Review with the independent auditors any management or internal control letter issued or, to the extent practicable, proposed to be issued by the independent auditors and management's response, if any, to such letter, as well as additional material written communications between the independent auditors and management.

7. Review the adequacy and effectiveness of the Company's accounting and internal control policies and procedures through inquiry and discussions with the independent auditors and management of the Company.

a. Review the yearly report prepared by management, and attested to by the Company's independent auditors, assessing the effectiveness of the Company's internal control over financial reporting and stating management's responsibility for establishing and maintaining adequate internal control over financial reporting prior to its inclusion in the Company's annual report.

- b. Review with the Chief Executive Officer and Chief Financial Officer and independent auditors, periodically, the adequacy and effectiveness of the Company's administrative, disclosure, accounting and internal control policies and procedures, including the independent auditor's judgment as to the quality of the Company's accounting principles and the performance of the internal auditors, and the following:
- (i) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize, and report financial information, including any significant deficiencies or material weaknesses in internal controls identified by the Company's independent auditors;
  - (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting; and
  - (iii) any changes in internal control over financial reporting that occurred during the most recent fiscal quarter and that have materially affected, or are reasonably likely to have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.
8. Review with management and the independent auditors the scope, adequacy and effectiveness of the Company's financial reporting controls, including analysis reports prepared by management and the independent auditors of significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any special audit steps taken in the event of material control deficiencies, and an analysis of the effect of alternative GAAP methods on the Company's financial statements.
9. Establish and maintain procedures for the receipt, retention and treatment of complaints received by the Company (whether initiated by employees of the Company or third parties) with respect to accounting, internal accounting controls or auditing matters, which shall include procedures for the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
10. Undertake the responsibility to investigate and resolve any disagreements between the Company's management and the independent auditors regarding the Company's financial reporting, accounting practices or accounting policies.
11. Meet as deemed necessary, but not less than twice annually, with senior management and the independent auditors in separate executive sessions. In connection with separate executive sessions held with the independent auditors, discuss matters relevant to the quality and integrity of the Company's financial reporting, the results of the independent auditors' examinations and inquire as to the independent auditors' evaluation of the Company's financial and accounting policies and controls.
12. Discuss with management and the independent auditors the results of the independent auditors' review of the Company's quarterly financial statements, prior to public disclosure or prior to the filing of the Company's Quarterly Report on Form 10-Q with the SEC. Such review shall include all matters required by applicable laws, rules and regulations to be discussed with the independent auditors prior to the filing of such report as well as such matters required to be communicated to the Committee by the independent auditors under Statement on Auditing Standards No. 61.
13. Discuss with management and the independent auditors the financial statements to be included in the Company's Annual Report on Form 10-K (or the annual report to stockholders if distributed prior to the filing of Form 10-K). Discuss with management and the independent auditors the results of the annual audit, including the auditors' judgment about the quality, not just acceptability, of accounting principles, any changes in accounting procedures, the

reasonableness of significant judgments and estimates (including material changes in estimates), the clarity of the disclosures in the financial statements and any audit adjustments noted or proposed by the auditors (whether passed or implemented in the financial statements). Such review shall include all matters required by applicable laws, rules and regulations to be discussed with the independent auditors prior to the filing of such report as well as such matters required to be communicated to the Committee by the independent auditors under Statement on Auditing Standards No. 61. Recommend to the Board whether, based on the discussion with management and the independent auditors, the financial statements should be included in the Company's Annual Report on Form 10-K.

14. Review and discuss with management and the independent auditors as appropriate, the Company's disclosures contained under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in its periodic reports to be filed with the SEC.
15. Review and discuss with management and the independent auditors any material financial arrangements of the Company which do not appear on the financial statements of the Company and any transactions or courses of dealing with parties related to the Company which transactions are significant in size (as required by applicable Nasdaq rules) or involve terms or other aspects that differ from those that would likely be negotiated with independent parties ("Related Party Transactions").
16. Review and approve all Related Party Transactions.
17. Review with management and the independent auditors significant issues that arise regarding accounting principles and financial statement presentation, including the adoption of new, or material changes to, existing critical accounting policies or to the application of those policies, the potential effect of alternative accounting policies available under GAAP, the potential impact of regulatory and accounting initiatives and other matters required by applicable laws, rules and regulations to be communicated by the independent auditors to the Committee or which represent significant reporting issues or judgments.
18. Review with and receive a report from the independent auditors concerning: (1) all critical accounting policies and practices to be used; (2) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management officials of the issuer, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the registered public accounting firm; and (3) other material written communications between the registered public accounting firm and the management of the issuer, such as any management letter or schedule of unadjusted differences.
19. Submit the minutes of all meetings of the Committee to, or discuss the matters discussed at each Committee meeting with, the Board.
20. Investigate any matter brought to the Committee's attention within the scope of the Committee's duties.
21. Prepare a report for inclusion in the Company's annual report or proxy statement that describes the Committee's composition and responsibilities and how those responsibilities were discharged.
22. Perform such other functions and to have such powers as may be necessary or appropriate in the efficient and lawful discharge of the foregoing.

#### **AUTHORITY**

The Committee shall have the authority to retain special legal, accounting or other consultants to advise the Committee as it deems necessary, at the Company's expense, to carry out its duties and to determine the compensation of any such advisors. The Company shall make available to the Committee all funding necessary for the Committee to carry out its duties, including, without limitation, the payment of such expenses. The Committee may request any officer or employee of the Company or outside counsel or independent auditor to attend a meeting of the Committee. While the Audit Committee has the responsibilities and powers set forth in this Charter, the Audit Committee does not itself prepare financial statement or perform audits and its members are not auditors and do not certify as to the accuracy and completeness of the Company's financial statement.

