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SPORT HALEY INC
Form 10-Q
February 20, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2000

/ / TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE
EXCHANGE ACT

COMMISSION FILE NO. 1-12888

SPORT-HALEY, INC.

(Exact name of small business issuer as specified in its charter)

COLORADO
(State of other jurisdiction of
incorporation or organization)

84-1111669
(I.R.S. Employer
Identification No.)

4600 E. 48TH AVENUE, DENVER, COLORADO 80216
(Address of principal executive offices)

(303) 320-8800
(Issuer's telephone number including area code)

Check whether the issuer (1) filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for
such shorter period that the registrant was required to file such reports), and
(2) has been subject to such filing requirements for the past 90 days: Yes /X/
No / /

State the number of shares outstanding in each of the issuer's classes of
common stock, as of the latest practicable date.

CLASS	OUTSTANDING AT FEBRUARY 14, 2001
COMMON STOCK, NO PAR VALUE	3,441,985

Transitional Small Business Disclosure Format (check one): Yes / / No /X/

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SPORT-HALEY, INC. CONSOLIDATED BALANCE SHEETS (IN THOUSANDS, EXCEPT SHARES OF STOCK)

	December 31, 2000 ----- (Unaudited)	June 30, 2000 ----- (***)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,325	\$ 6,676
Marketable securities	--	1,967
Accounts receivable, net of allowances of \$133 and \$130, respectively	4,230	4,795
Inventories	11,524	9,659
Other current assets	858	669
Deferred taxes	93	113
	-----	-----
Total current assets	24,030	23,879
Property and equipment, net	2,045	2,364
Deferred taxes	213	203
Other assets	266	176
	-----	-----
Total Assets	\$26,554 =====	\$26,622 =====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 740	\$ 848
Accrued commissions and other expenses	532	532
	-----	-----
Total current liabilities	1,272	1,380
	-----	-----
Shareholders' equity:		

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Preferred stock, no par value; 1,500,000 shares authorized; none issued and outstanding	--	--
Common stock, no par value; 15,000,000 shares authorized; 3,460,385 shares issued and outstanding, respectively	13,108	13,108
Additional paid-in capital	1,187	1,177
Retained earnings	10,987	10,957
	-----	-----
Total shareholders' equity	25,282	25,242
	-----	-----
Total Liabilities and Shareholders' Equity	\$26,554	\$26,622
	=====	=====

*** Taken from the audited balance sheet at that date.

See accompanying notes to consolidated financial statements.

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SPORT-HALEY, INC. CONSOLIDATED STATEMENTS OF INCOME (IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2000	1999	2000	1999
	-----	-----	-----	-----
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net sales	\$ 4,963	\$ 4,726	\$ 10,826	\$ 9,962
Cost of goods sold	3,234	3,067	7,279	6,545
	-----	-----	-----	-----
Gross profit	1,729	1,659	3,547	3,417
Selling, general and administrative expense	1,922	1,604	3,866	3,249
	-----	-----	-----	-----
Income (loss) from operations	(193)	55	(319)	168
Other income, net	159	113	372	323
	-----	-----	-----	-----
Income (loss) before provision for income taxes	(34)	168	53	491
(Provision) benefit for income taxes	11	(72)	(23)	(191)
	-----	-----	-----	-----
Net income (loss)	\$ (23)	\$ 96	\$ 30	\$ 300
	=====	=====	=====	=====
Basic and diluted earnings (loss) per common share	\$ (0.01)	\$ 0.03	\$ 0.01	\$ 0.08
	=====	=====	=====	=====

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See accompanying notes to consolidated financial statements.

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SPORT-HALEY, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS (IN THOUSANDS)

	Six Months Ended December 31,	
	2000	1999
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 30	\$ 300
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	386	317
Deferred taxes and other	25	(36)
Allowance for doubtful accounts	97	206
Allowance for sales returns	--	(28)
Stock option compensation	10	105
Cash provided (used) due to changes in assets and liabilities:		
Accounts receivable	468	1,693
Inventory	(1,865)	279
Other assets	(327)	252
Accounts payable	(108)	(399)
Accrued commissions and other expenses	--	(274)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(1,284)	2,415
CASH FLOWS FROM INVESTING ACTIVITIES:		
Redemption of held-to-maturity investments	2,000	--
Sale of fixed assets	--	54
Purchase of fixed assets	(67)	(150)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	1,933	(96)

See accompanying notes to consolidated financial statements.

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SPORT-HALEY, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS (IN THOUSANDS)

Six Months Ended
December 31,

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	2000	1999
	(Unaudited)	(Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	\$ --	\$ 11
Repurchase of common stock	--	(2,315)
NET CASH USED BY FINANCING ACTIVITIES	--	(2,304)
NET INCREASE IN CASH AND CASH EQUIVALENTS	649	15
CASH AND CASH EQUIVALENTS, BEGINNING	6,676	8,581
CASH AND CASH EQUIVALENTS, ENDING	\$ 7,325	\$ 8,596
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	\$ 248	\$ --
Interest	\$ --	\$ 24

See accompanying notes to consolidated financial statements.

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SPORT-HALEY, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements included herein have been prepared by Sport-Haley, Inc. (the "Company") without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as allowed by such rules and regulations. The Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the Company's annual audited consolidated financial statements dated June 30, 2000, included in the Company's annual report on Form 10-K as filed with the Securities and Exchange Commission. The results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year.

The management of the Company believes that the accompanying unaudited condensed consolidated financial statements prepared in conformity with generally accepted accounting principles, which require the use of management estimates, contain all adjustments (including normal recurring adjustments) necessary to present fairly the operations and cash flows for the periods presented.

The consolidated financial statements include the accounts of Sport-Haley, Inc., and its subsidiary, B&L Sportswear, Inc. (collectively referred to as the Company). All significant inter-company accounts and transactions have been eliminated.

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NOTE 2 REPURCHASE OF COMMON STOCK

The Company's Board of Directors previously authorized the repurchase of up to 1,820,000 shares of the Company's issued and outstanding common stock. The shares may be repurchased from time to time in open market transactions at prevailing market prices or in privately negotiated transactions. The Company has no commitment or obligation to repurchase all or any portion of the shares authorized for repurchase. All shares repurchased by the Company are canceled and returned to the status of authorized but unissued common stock.

Through December 31, 2000, the Company repurchased a total of 1,497,000 shares of its common stock at a cumulative cost of approximately \$10.2 million.

From January 1, 2001 through February 15, 2001, the Company repurchased an additional 18,400 shares of its common stock at a cost of approximately \$59,000.

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SPORT-HALEY, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 COMMON STOCK OPTIONS

As of December 31, 2000, the maximum number of shares of common stock available for award grants (including incentive stock options) was 88,665.

At December 31, 2000, there were outstanding options to purchase 529,881 shares of the Company's common stock at prices ranging from \$2.50 to \$10.63, with expiration dates between March 15, 2002, and January 5, 2010.

NOTE 4 EARNINGS PER SHARE

The Company has adopted the provisions of Statement of Financial Accounting Standards No. 128, EARNINGS PER SHARE, (SFAS No. 128) effective with the year ended June 30, 1998. SFAS No. 128 requires the presentation of basic and diluted earnings per common share. The following table provides a reconciliation of the numerator and denominator of basic and diluted earnings per common share:

	Three Months ended December 31, 2000		
	Loss	Weighted Average Shares	Per Share
	-----	-----	-----
EARNINGS PER COMMON SHARE			
Basic loss per share	\$ (23,000)	3,460,385	\$ (0.01)
Effect of dilutive securities options	--	--	--
	-----	-----	-----
Diluted loss per share	\$ (23,000)	3,460,385	\$ (0.01)
	=====	=====	=====

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	Six Months ended December 31, 2000		
	Net	Weighted	
	Income	Average Shares	Per Share
	-----	-----	-----
EARNINGS PER COMMON SHARE			
Basic earnings per share	\$ 30,000	3,460,385	\$ 0.01
Effect of dilutive securities options	--	44,112	--
	-----	-----	-----
Diluted earnings per share	\$ 30,000	3,504,497	\$ 0.01
	=====	=====	=====

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SPORT-HALEY, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Three Months ended December 31, 1999		
	Net	Weighted	
	Income	Average Shares	Per Share
	-----	-----	-----
EARNINGS PER COMMON SHARE			
Basic earnings per share	\$ 96,000	3,771,242	\$ 0.03
Effect of dilutive securities options and warrants	--	3,902	--
	-----	-----	-----
Diluted earnings per share	\$ 96,000	3,775,144	\$ 0.03
	=====	=====	=====

	Six Months ended December 31, 1999		
	Net	Weighted	
	Income	Average Shares	Per Share
	-----	-----	-----
EARNINGS PER COMMON SHARE			
Basic earnings per share	\$ 300,000	3,862,647	\$ 0.08
Effect of dilutive securities options and warrants	--	4,962	--

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	-----	-----	-----
Diluted earnings per share	\$ 300,000	3,867,609	\$ 0.08
	=====	=====	=====

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SPORT-HALEY, INC. ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Report on Form 10-Q contains certain forward-looking statements. When used in this report, the words "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," "believe" and similar expressions are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 regarding events, conditions and financial trends including, without limitation, business conditions and growth in the fashion golf apparel market and the general economy, competitive factors, and price pressures in the high-end golf-apparel market; inventory risks due to shifts in market and/or price erosion of purchased apparel, raw fabric and trim; cost controls; changes in product mix; and other risks or uncertainties detailed in other Securities and Exchange Commission filings made by Sport-Haley. Such statements are based on management's current expectations and are subject to risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, the actual plan of operations, business strategy, operating results and financial position of Sport-Haley could differ materially from those expressed in, or implied by, such forward-looking statements.

FINANCIAL CONDITION

The Company intends to rely on cash generated from operations and available cash on hand to finance its working capital requirements for at least the next 12 months. To the extent such amounts are insufficient to finance the Company's working capital requirements, the Company may also make periodic borrowings under its revolving line of credit. Working capital at December 31, 2000 was approximately \$22.8 million and was approximately \$22.5 million at June 30, 2000. Working capital increased primarily because of a decrease in net accounts receivable at December 31, 2000.

Since June 30, 2000, inventories increased by approximately \$1.9 million to \$11.5 million from \$9.6 million. The increase in inventories was due to draws on letters of credit for finished goods purchases from foreign suppliers and management's efforts to maximize the fill rate for the Spring 2001 selling season's customer orders scheduled to ship beginning in November 2000. At December 31, 2000, the fill rate for pending Spring 2001 customer orders approximated 98 percent, which was historically the best fill rate the Company had ever achieved near the beginning of a selling season. The increase in inventories also represents a change in the Company's business relating to purchases of finished goods inventories. Prior to June 30, 2000, the Company manufactured and purchased finished goods inventories primarily by utilizing domestic suppliers. Since June 30, 2000, the Company has begun to purchase a significantly larger percentage of finished goods from foreign suppliers. Purchasing finished goods from foreign suppliers resulted in increased finished goods inventories because the Company usually receives a substantial portion of an entire selling season's finished goods inventory for a particular item or items all in one shipment from a foreign supplier. The Company's increased

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reliance on foreign suppliers also increases the risk that the Company's revenues might be adversely affected if a foreign shipment were late or lost. The Company maintains insurance for risk of loss relating to goods shipped from its domestic and foreign suppliers. However, the Company's increased reliance on foreign suppliers increases the risk that the Company would be left with inadequate or unsatisfactory recourse should the goods received from the foreign suppliers be nonconforming.

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SPORT-HALEY, INC.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cash and cash equivalents plus marketable securities decreased since June 30, 2000 by approximately \$1.3 million. The decrease is primarily attributable to the increase in inventories described above of approximately \$1.9 million over the six-month period. Net accounts receivable decreased by approximately \$565,000 to \$4.2 million from \$4.8 million at June 30, 2000. The decrease in accounts receivable is typical for the second fiscal quarter, historically the Company's weakest fiscal quarter for sales revenue. Because of the combination of these and other factors, during the six months ended December 31, 2000, operating activities used cash of approximately \$1.3 million.

Other current assets plus current deferred taxes increased by approximately \$169,000 since June 30, 2000 to \$951,000 from \$782,000. The increase was due primarily to an increase in prepaid tradeshow expenses and an increase in prepaid insurance during the six months ended December 31, 2000.

For the six months ended December 31, 2000, the Company spent approximately \$67,000 for the purchase of property and equipment, and approximately \$386,000 in depreciation and amortization was charged to current operations. During the same six-month period, investing activities provided cash of approximately \$1.9 million primarily due to the redemption of held-to-maturity investments.

Other long-term assets plus long-term deferred taxes have increased by approximately \$100,000 since June 30, 2000 to \$479,000 from \$379,000. The increase was due primarily to capitalized expenditures related to updating the Company's independent sales representative order entry system.

Accounts payable and accrued expenses decreased by approximately \$108,000 since June 30, 2000. The decrease was primarily due to a reduction in trade accounts payable combined with many other factors.

Total shareholders' equity increased by approximately \$40,000 for the six-month period. The increase was attributable to net income for the same period combined with the required amortization of stock option expense. Book value per share increased by approximately \$0.02 per share at December 31, 2000 to \$7.31, as compared with \$7.29 per share at June 30, 2000.

RECENT DEVELOPMENTS

In July 2000, as previously reported, the Company's Audit Committee recommended that the Company's prior independent auditors be discharged and that the Company retain a new independent public accountant to audit the Company's financial statements for the year ended June 30, 2000. As a result of a review initiated by senior management and conducted prior to completion of the audit process for the Company's 2000 fiscal year, information was developed that indicated certain accounting errors might exist in prior years' financial statements that, when corrected, would result in a material impact on the results of operations for

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the 2000 fiscal year and certain prior periods. At the conclusion of the review, the Company determined that the financial statements for the years ended June 30, 1999 and 1998 required restatement due to accounting errors. The accounting errors consisted primarily of the following: (i) incorrect recording, classification and valuation of inventory work in process; (ii) incorrect recording of certain prepaid and fixed assets; (iii) incorrect accounting for the acquisition of the Company's subsidiary (the "Subsidiary") and the related minority interest in the losses of the Subsidiary;

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SPORT-HALEY, INC. ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(iv) incorrect recording of certain losses relating to discontinued operations; and, (v) the income tax benefit from stock options exercised.

The Company retained a new independent accounting firm shortly after June 30, 2000. The Company engaged the new accounting firm to audit the Company's financial statements for the year ended June 30, 2000 and to re-audit the previously issued financial statements for the years ended June 30, 1999 and 1998, which the Company restated. The Audit Committee of the Company retained an independent consultant to assist it in evaluating the restatements that were necessary in order that the Company's financial statements, as restated and taken as a whole, presented fairly in all material respects the Company's financial position, results of operations and cash flows for the fiscal years ended June 30, 2000, 1999 and 1998, in conformity with generally accepted accounting principles. The Audit Committee does not believe that the accounting errors that have been identified by the Company constitute irregularities. As a result of recommendations made by the audit committee and the Company's senior management, and concurred in by the independent consultant, the Company has taken appropriate action to ensure that these errors do not reoccur in the future.

The effects of significant financial statement adjustments related to the restatements for the years ended June 30, 1999 and 1998 are set forth in the Company's Form 10-K for the fiscal year ended June 30, 2000, which was filed with the Securities and Exchange Commission on November 3, 2000.

The Company is in the process of completing corrections to material quarterly financial information for the prior interim reporting periods of fiscal years 1999 and 1998. The Company expects to complete the corrections to material quarterly information for fiscal year 1998 and to file amended Forms 10-Q for fiscal year 1999 by March 15, 2001.

The restatements described above may lead to litigation against the Company. There is no litigation currently pending or threatened against the Company concerning the restatements. However, if such litigation is initiated, it could have a material adverse impact on the Company's income from continuing operations.

The Company has incurred approximately \$350,000 in expenses related to the restatements of its fiscal year 1999 and 1998 financial statements and the correction of material quarterly information for fiscal years 2000 and 1999. The Company is presently evaluating whether such expenses will be recoverable in a future reporting period.

As previously reported, on October 16, 2000, The Nasdaq Stock Market(R) ("Nasdaq"), halted trading in the securities of the Company and requested

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additional information from the Company. Nasdaq advised the Company that the trading halt was instituted because of the Company's alleged failure to observe certain corporate governance requirements for ongoing listing of its securities on the Nasdaq National Market. Nasdaq advised the Company that the trading halt would continue until the Company complied with Nasdaq's request for additional information, which the Company provided. Nasdaq further proposed to de-list the Company's securities from trading on the Nasdaq National Market. The Company appeared at a hearing before the Nasdaq Listing Qualifications Panel (the "Panel") on November 10, 2000 in order to address the proposed de-listing of the Company's securities.

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SPORT-HALEY, INC.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On December 11, 2000, the Panel rendered its decision, granting an exception to the filing requirement set forth in Nasdaq Marketplace Rule 4310, requiring that on or before January 15, 2001, the Company file amended Forms 10-Q for all quarters during fiscal years 2000, 1999 and 1998. Further, the Panel determined that the Company's late filings of Form 10-K for the fiscal year ended June 30, 2000 and its Form 10-Q for the period ended September 30, 2000 merited the application of additional and more stringent criteria under Marketplace Rule 4300. Accordingly, the Panel stated that if the Company satisfies the first portion of the Panel's exception expiring January 15, 2001, the Company must also timely file all periodic reports with the Securities and Exchange Commission and Nasdaq for all reporting periods ending on or before December 31, 2001. The Panel stated in its decision that if the Company fails to make any filings in accordance with the exception granted, the Company will not be entitled to a new hearing and its securities will be de-listed from Nasdaq. Based upon its determination, the Panel ordered that trading resume in the Company's securities on Nasdaq effective December 12, 2000.

On December 26, 2000, the Company notified Nasdaq of its request that the Nasdaq Listing Review Council (the "Review Council") review the Panel's decision. The Company requested that the Review Council grant it additional time in which to comply with the filing of historical amended Forms 10-Q and requested that the additional and more stringent criteria under Marketplace Rule 4300 be applied only in the event the Company fails to make any current filing during the calendar year 2001, or has not filed the amended quarterly Forms 10-Q for fiscal years 2000, 1999 and 1998 by March 15, 2001. The Company filed amended Forms 10-Q for fiscal year 2000 on January 16, 2001. On or about January 25, 2001, the Review Council granted the Company the requested extension to file the remaining amended quarterly filings on or before March 15, 2001. The Review Council's review of the remaining portions of the Panel's decision is pending. In the meantime, the Company is diligently working to complete the amended Forms 10-Q for fiscal year 1999 and expects to file the amended information by March 15, 2001.

The Company was advised in a letter dated November 7, 2000 that the Securities and Exchange Commission (the "Commission") is conducting an informal inquiry into matters concerning the Company. The Commission made an informal request that the Company voluntarily produce certain documents. The Company has provided the requested documents to the Commission. In addition, the Company has voluntarily provided testimony to the Commission.

RESULTS OF OPERATIONS

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The Company's business is seasonal in nature, and therefore the results for any one or more quarters are not necessarily indicative of the annual results or continuing trends.

Net sales for the fiscal quarter and six months ended December 31, 2000, were approximately \$5.0 million and \$10.8 million, respectively, increases of approximately \$237,000 or 5%, and \$864,000 or 9%, from net sales of approximately \$4.7 million and \$10.0 million for the same periods in the prior fiscal year. The increase in net sales was primarily due to increased bookings for the Fall 2000 season.

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SPORT-HALEY, INC. ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company's gross profit, as a percentage of net sales, was approximately 35% and 33% for the quarter and six months ended December 31, 2000, respectively, and 35% and 34% for the same periods in the prior fiscal year. The decrease in gross profit is due to a combination of factors, including: (i) differences between the quarters in the compositions of apparel sold in the disposals of excess prior seasons' inventories at reduced sales prices; and, (ii) reduced billings for freight and handling charges related to late shipments to customers of the Fall 2000 season's merchandise during the three months ended September 30, 2000.

Selling, general and administrative expenses for the quarter and six months ended December 31, 2000 increased by approximately \$318,000 and \$617,000, or 20% and 19%, respectively, to approximately \$1.9 million and \$3.9 million from \$1.6 million and \$3.2 million for the same periods in the prior fiscal year. The increase was primarily attributable to additional accounting, legal and other expenses of approximately \$350,000 incurred relating to the re-auditing of the Company's financial statements for fiscal years 1999 and 1998 and the correcting of material quarterly information for the quarters of fiscal years 2000 and 1999. As noted above, the Company is currently evaluating whether any or all of those additional expenses are recoverable. There is no assurance that any or all of the additional \$350,000 in expenses incurred may be recovered. Other major factors that caused an increase in selling, general and administrative expenses were higher sales commissions paid on higher sales volume and higher promotional advertising expenditures. As a percentage of sales, selling, general and administrative expenses were 39% and 36% for the quarter and six months ended December 31, 2000, respectively, as compared with 34% and 33% for the same periods in the prior fiscal year. The additional accounting, legal and other expenses relating to the re-audited financial statements and corrected quarterly information as a percentage of sales were approximately 6% and 3% for the quarter and six months ended December 31, 2000, respectively.

Income (loss) before provision for income taxes decreased by approximately \$202,000, or 120%, to approximately (\$34,000) for the fiscal quarter ended December 31, 2000, from \$168,000 for the same quarter in the prior fiscal year. Income before provision for income taxes decreased by approximately \$438,000, or 89%, to approximately \$53,000 for the six months ended December 31, 2000, from \$491,000 for the same period in the prior fiscal year.

The Company's effective tax rates for the six months ended December 31, 2000 and 1999 were 32% and 43%, respectively. The effective tax rate in any fiscal period can vary significantly from the effective tax rate in another period due to differences between the recording of certain transactions for financial versus tax purposes. Certain deductions recognized for tax purposes may not be expensed

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for financial statement purposes, and certain expenses recorded for financial statement purposes may not be deductible for tax purposes.

For the fiscal quarter ended December 31, 2000, net income decreased by approximately \$119,000 or 124% when compared to the same three-month period in the prior fiscal year. For the six months ended December 31, 2000, net income decreased by approximately \$270,000, or 90%, when compared with the same six-month period in the prior fiscal year. The decreases were primarily the result of the higher percentage of sales with respect to selling, general and administrative expenses.

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SPORT-HALEY, INC. ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Both the basic and diluted earnings per share were (\$0.01) and \$0.01 for the fiscal quarter and six months ended December 31, 2000, respectively. This compares to basic and diluted earnings per share of \$0.03 and \$0.08 for the same periods in prior fiscal year. Had the Company not incurred the additional accounting, legal and other expenses relating to the re-auditing of the Company's financial statements for fiscal years 1999 and 1998 and the correcting of material quarterly financial information for the quarters of fiscal years 2000 and 1999, both the basic and diluted pre-tax earnings per share would have been \$0.08 and \$0.11 for the fiscal quarter and six months ended December 31, 2000, respectively, as compared with both the basic and diluted pre-tax earnings per share of \$0.04 and \$0.13 for the fiscal quarter and six months ended December 31, 1999, respectively.

YEAR 2000 COMPUTER CONVERSION

The Company was cognizant of the Year 2000 issues associated with programming code in computer systems. The Company utilizes an integrated computer system to manage all business transactions, historical data and record keeping, including sourcing, warehousing, embroidering and shipping. In preparation for the Year 2000, the Company installed a Year 2000 compliant upgrade to the software for this system and tested all other systems. As of February 19, 2001, the Company had not experienced, nor does it expect to experience any disruptions related to Year 2000 issues in the operation of its systems. To the best knowledge of the Company, none of the material suppliers, vendors and financial institutions with which the Company has a business relationship experienced any failures or disruptions in their computer systems caused by the Year 2000 issues.

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SPORT-HALEY, INC. PART II OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS - NONE

ITEM 2 CHANGES IN SECURITIES AND USE OF PROCEEDS- NONE

ITEM 3 DEFAULTS UPON SENIOR SECURITIES - NONE

ITEM 4 SUBMISSION TO MATTERS TO A VOTE OF SECURITY HOLDERS - NONE

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ITEM 5 OTHER INFORMATION - NONE

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS - NONE

(B) REPORTS ON FORM 8-K

The Company filed a Report on Form 8-K, dated October 19, 2000, reporting a delay in filing the Company's Form 10-K for the year ended June 30, 2000 and the expected restatement of financial statements for the years ended June 30, 1999 and 1998.

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SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SPORT-HALEY, INC.
(Registrant)

Date: February 19, 2001

/s/ Robert G. Tomlinson

Robert G. Tomlinson
Chief Executive Officer

Date: February 19, 2001

/s/ Patrick W. Hurley

Patrick W. Hurley
Chief Financial Officer

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