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SPORT HALEY INC  
Form 10-Q/A  
March 15, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1998

/  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  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 MARCH 9, 2001
COMMON STOCK, NO PAR VALUE	3,441,985

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

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

	SEPTEMBER 30, 1998 ----- (UNAUDITED)	JUNE 30, 1998 ----- (***)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,411	\$ 4,505
Marketable securities	--	1,996
Accounts receivable, net of allowances of \$232 and \$261, respectively	5,927	6,647
Inventories	16,243	16,445
Other current assets	652	340
Deferred taxes	154	179
Total current assets	----- 28,387	----- 30,112
Property and equipment, net	2,242	2,271
Net assets of discontinued operations	430	441
Goodwill	87	94
Deferred taxes	87	53
Other assets	39	37
Total Assets	----- \$31,272 =====	----- \$33,008 =====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Line of credit	\$ 500	\$ 500
Accounts payable	292	1,847
Accrued commissions and other expenses	580	1,005
Total current liabilities	----- 1,372	----- 3,352

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Minority interest	54	60
Shareholders' equity:		
Preferred stock, no par value; 1,500,000 shares authorized; none issued and outstanding	--	--
Common stock, no par value; 15,000,000 shares authorized; 4,455,254 and 4,512,962 shares issued and outstanding, respectively	17,783	18,416
Additional paid-in capital	1,451	1,386
Retained earnings	10,612	9,794
Total shareholders' equity	29,846	29,596
Total Liabilities and Shareholders' Equity	\$31,272	\$33,008

\*\*\* 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 SEPTEMBER 30,	
	AS AMENDED 1998	AS AMENDED 1997
	(UNAUDITED)	(UNAUDITED)
Net sales	\$ 7,350	\$ 6,645
Cost of goods sold	4,117	3,994
Gross profit	3,233	2,651
Selling, general and administrative expense	2,032	1,780
Income from operations	1,201	871
Other income, net	119	158
Recognized loss on available for sale securities	--	(215)
Income from continuing operations before minority loss and provision for income taxes	1,320	814
Minority loss	6	--
Provision for income taxes	(506)	(376)

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Income from continuing operations	820	438
Discontinued operations:		
Income (loss) from discontinued operations, net of income tax (expense) benefit of 1 and (17), respectively	(2)	28
Net income	\$ 818	\$ 466
Basic and diluted earnings per common share	\$ 0.18	\$ 0.10

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED SEPTEMBER 30,	
	AS AMENDED 1998	AS AMENDED 1997
	(UNAUDITED)	(UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 818	\$ 466
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	171	114
Deferred taxes and other	1	(39)
Allowance for doubtful accounts	15	--
Stock option compensation	65	67
Minority interest	(6)	--
Recognized loss on available for sale securities	--	215
Cash provided (used) due to changes in assets and liabilities:		
Accounts receivable	705	557
Inventory	202	(881)
Other assets	(324)	20
Accounts payable	(1,555)	737
Accrued commissions and other expenses	(425)	(133)
Accrued income taxes	--	411
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(333)	1,534
CASH FLOWS FROM INVESTING ACTIVITIES:		
Redemption of held to maturity investments	2,000	2,365
Purchase of fixed assets	(127)	(123)
Purchase of held to maturity investments	--	(4,569)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	1,873	(2,327)

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED SEPTEMBER 30,	
	AS AMENDED 1998	AS AMENDED 1997
	----- (UNAUDITED)	----- (UNAUDITED)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	\$ 16	\$ 112
Repurchase of common stock	(650)	--
	-----	-----
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(634)	112
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	906	(681)
CASH AND CASH EQUIVALENTS, BEGINNING	4,505	7,828
	-----	-----
CASH AND CASH EQUIVALENTS, ENDING	\$ 5,411	\$ 7,147
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	\$ 330	\$ 4
	=====	=====
Interest	\$ 10	\$ --
	=====	=====

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

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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.

### NOTE 2 RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

The Company determined that its financial statements for the years ended June 30, 1999 and 1998 required restatement. The restatements resulted from corrections related to accounting for work-in-progress inventory, capitalization of certain prepaid and fixed assets, the acquisition of the Company's subsidiary and the related minority interest in the subsidiary's losses, certain losses relating to discontinued operations and the income tax benefit from stock options exercised.

The following comparison of consolidated statements of income for the three months ended September 30, 1998 and 1997 present the effects resulting from restating the Company's financial statements for the aforementioned reasons, as applicable to these amended interim financial statements.

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### SPORT-HALEY, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	THREE MONTHS ENDED SEPTEMBER 30, (IN THOUSANDS, EXCEPT PER SHARE DATA)			
	AS ORIGINALLY REPORTED 1998	AS AMENDED 1998	AS ORIGINALLY REPORTED 1997	AS AMENDED 1997
	----- (UNAUDITED)	----- (UNAUDITED)	----- (UNAUDITED)	----- (UNAUDITED)
Net sales	\$ 7,496	\$ 7,350	\$ 6,835	\$ 6,64
Cost of goods sold	4,609	4,117	4,258	3,99
Gross profit	2,887	3,233	2,577	2,65
Selling, general and administrative expense	1,842	2,032	1,652	1,78
Income (loss) from operations	1,045	1,201	925	87

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Other income, net	119	119	107	15
Recognized loss on available for sale securities	--	--	--	(21)
	-----	-----	-----	-----
Income from continuing operations before minority loss and provision for income taxes	1,164	1,320	1,032	81
Minority loss	13	6	--	
Provision for income taxes	(350)	(506)	(280)	(37)
	-----	-----	-----	-----
Income from continuing operations	827	820	752	43
Discontinued operations:				
Income (loss) from discontinued operations, net of income tax (expense) benefit of 0, 1, 0 and (17), respectively	--	(2)	--	2
	-----	-----	-----	-----
Net income	827	818	752	46
Other comprehensive income:				
Unrealized holding losses on available for sale securities	--	--	(164)	--
	-----	-----	-----	-----
Comprehensive income	\$ 827	\$ 818	\$ 588	\$ 46
	=====	=====	=====	=====
Basic and diluted earnings per common share	\$ 0.18	\$ 0.18	\$ 0.16	\$ 0.1
	=====	=====	=====	=====

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SPORT-HALEY, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 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 September 30, 1998, the Company had repurchased a total of 460,000 shares of its common stock at a cost of approximately \$5.4 million.

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:

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THREE MONTHS ENDED SEPTEMBER 30, 1998

	NET INCOME	WEIGHTED AVERAGE SHARES	PER SHARE
EARNINGS PER COMMON SHARE			
Basic earnings per share	\$ 818,000	4,501,946	\$ 0.18
Effect of dilutive securities options and warrants	--	81,374	--
Diluted earnings per share	\$ 818,000	4,583,320	\$ 0.18

THREE MONTHS ENDED SEPTEMBER 30, 1997

	NET INCOME	WEIGHTED AVERAGE SHARES	PER SHARE
EARNINGS PER COMMON SHARE			
Basic earnings per share	\$ 466,000	4,659,185	\$ 0.10
Effect of dilutive securities options and warrants	--	156,072	--
Diluted earnings per share	\$ 466,000	4,815,257	\$ 0.10

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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



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statements.

### FINANCIAL CONDITION

The Company relied on cash generated from operations and available cash on hand to finance its working capital requirements for the 12-month period following September 30, 1998. The Company did not make any periodic borrowings under its revolving line of credit during the same 12-month period. Working capital at September 30, 1998 was approximately \$27.0 million and was approximately \$26.8 million at June 30, 1998.

Cash and cash equivalents increased since June 30, 1998 by approximately \$906,000. Net accounts receivable decreased by approximately \$720,000 to \$5.9 million from \$6.6 million at June 30, 1998. Since June 30, 1998, inventories decreased by approximately \$202,000 to \$16.2 million from \$16.4 million. Due to other factors combined with the decreases in net accounts receivable and inventories, during the fiscal quarter ended September 30, 1998, operating activities used cash of approximately \$333,000.

Other current assets increased by approximately \$312,000 since June 30, 1998 to approximately \$652,000. The change was due primarily to an increase in inventory deposits during the three months ended September 30, 1998.

For the three months ended September 30, 1998, the Company spent approximately \$127,000 for the purchase of property and equipment, and approximately \$171,000 in depreciation and amortization was charged to current operations. During the same three-month period, investing activities provided cash of approximately \$1.9 million, primarily due to the redemption of held to maturity investments.

Accounts payable and accrued expenses decreased by approximately \$2.0 million since June 30, 1998. The decrease was primarily due to the combination of decreases in trade accounts payable, accrued payroll expenses and accrued sales commissions payable.

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

Total shareholders' equity increased by approximately \$250,000 for the fiscal quarter. The increase was primarily attributable to net income for the fiscal quarter combined with the repurchase of 60,000 shares of the Company's common stock during the same three-month period at a cost of approximately \$650,000. Book value per share increased by approximately \$0.14 to \$6.70 per share at September 30, 1998 as compared with \$6.56 per share at June 30, 1998.

### 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 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

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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; (iv) incorrect recording of certain losses relating to discontinued operations; and, (v) the income tax benefit from stock options exercised. See Note 2 to the consolidated financial statements.

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 effects of the restatements on the specific line items of the income statement and earnings per share for the periods ended September 30, 1998 and 1997 are set forth in the notes to the financial statements accompanying this amended quarterly report (Note 2).

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

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 \$380,000 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, 1999 and 1998. 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 ("Nasdaq") halted trading in the securities of the Company and requested 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

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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.

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 filing 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.

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

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 provided the requested documents to the Commission. In addition, the Company voluntarily provided testimony to the Commission.

#### RESULTS OF OPERATIONS

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 ended September 30, 1998, were approximately \$7.4 million, an increase of approximately \$705,000, or 11%, from net sales of \$6.6 million for the same quarter in the prior fiscal year. The increase in net sales was due to a combination of factors, including a comparatively wider distribution of the women's and men's product lines.

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The Company's gross profit, as a percentage of net sales, was 44% for the quarter ended September 30, 1998, and 40% for the same quarter in the prior fiscal year. The increase in gross profit was primarily due to a lower percentage of sales discounts and term discounts allowed during the three months ended September 30, 1998.

Selling, general and administrative expenses increased by approximately \$252,000, or 14%, to approximately \$2.0 million for the fiscal quarter ended September 30, 1998, from \$1.8 million for the same quarter in the prior fiscal year. The increase was primarily attributable to commissions paid to independent sales representatives on higher sales volume and increased advertising and general and administrative expenditures. As a percentage of sales, selling, general and administrative expenses were approximately 28% and 27% for the fiscal quarters ended September 30, 1998 and 1997, respectively.

Other income, net for the quarter ended September 30, 1998 was approximately \$119,000, a decrease of approximately \$39,000, or 25%, as compared with \$158,000 for the same quarter in the prior fiscal year. The decrease was primarily attributable to lower interest income earned on a decreased amount of cash equivalents and held to maturity securities.

Income from continuing operations before minority loss and provision for income taxes increased by approximately \$506,000, or 62%, to approximately \$1.3 million for the fiscal quarter ended September 30, 1998, from \$814,000 for the same quarter in the prior fiscal year. The increase was primarily attributable to higher gross margins achieved during the fiscal quarter ended September 30, 1998 combined with the loss on available for sale securities that was recognized during the fiscal quarter ended September 30, 1997. During the fiscal year ended June 30, 1996, the Company invested approximately \$234,000 in the common stock of Brassie Golf. In the fiscal quarter ended September 30, 1997, management determined that the Company's investment in Brassie Golf was permanently impaired, and the Company recognized a loss on available for sale securities of approximately \$215,000 during that fiscal quarter.

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

The Company's effective tax rates for the fiscal quarters ended September 30, 1998 and 1997 were 38% and 46%, 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 for financial statement purposes, and certain expenses recorded for financial statement purposes may not be deductible for tax purposes.

For the fiscal quarter ended September 30, 1998, income from continuing operations increased by approximately \$382,000 or 87% when compared to the same three-month period in the prior fiscal year. The increase was primarily the result of higher gross margins achieved during the fiscal quarter ended September 30, 1998 combined with the loss recognized on available for sale securities during the fiscal quarter ended September 30, 1997.

The Company discontinued the manufacturing and sale of headwear during the fiscal year ended June 30, 1999, and had disposed of all inventories and equipment related to its headwear operations as of December 31, 1999. Included

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in earnings for the fiscal quarter ended September 30, 1998 was a loss of approximately \$2,000, net of income tax benefit of approximately \$1,000, from discontinued headwear manufacturing operations. Comparatively, income from discontinued headwear manufacturing operations for the fiscal quarter ended September 30, 1997 was approximately \$28,000, net of income tax expense of approximately \$17,000.

Both the basic and diluted earnings per share were \$0.18, for the quarter ended September 30, 1998. This compares to basic and diluted earnings per share of \$0.10 for the same quarter in prior fiscal year.

### 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 March 15, 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

ITEM 5 OTHER INFORMATION - NONE

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS - NONE

(B) REPORTS ON FORM 8-K - NONE

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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)

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Date: March 15, 2001

/s/ Robert G. Tomlinson

-----  
Robert G. Tomlinson  
Chief Executive Officer

Date: March 15, 2001

/s/ Patrick W. Hurley

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Patrick W. Hurley  
Chief Financial Officer

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