SPORT HALEY INC
Form 10-Q
February 13, 2002

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, 2001

/ / 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	84-1111669
(State of other jurisdiction of incorporation or organization)	(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
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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 5, 2002
COMMON STOCK, NO PAR VALUE	2,755,985

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, 2001 (UNAUDITED)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,546	$
Marketable securities	4,907	
Accounts receivable, net of allowances of $151 and $174, respectively	3,105	
Inventories	7,905	
Other current assets	487	
Taxes receivable	246	
Deferred taxes	143	
Total current assets	22,339	
Property and equipment, net	1,182	
Deferred taxes	204	
Other assets	23	
Total Assets	$ 23,748	$
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 368	$
Accrued commissions and other expenses	519	

Total current liabilities	887	
Commitments and Contingencies (Note 4)		
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; 2,828,985 and 3,272,985 shares issued and outstanding, respectively	11,320	
Additional paid-in capital	1,248	
Retained earnings	10,293	
Total shareholders' equity	22,861	
Total Liabilities and Shareholders' Equity	$ 23,748	$

*** 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 OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED DECEMBER 31,		SIX MONTH DECEMB
	2001	2000	2001
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
Net sales	$ 3,569	$ 4,963	$ 7,544
Cost of goods sold	2,158	3,234	4,888
Gross profit	1,411	1,729	2,656
Selling, general and administrative expense	1,655	1,922	3,172
Loss from operations	(244)	(193)	(516)
Other income, net	116	159	218
Income (loss) before provision for income taxes	(128)	(34)	(298)
(Provision) benefit for income taxes	47	11	74

Net income (loss)	$ (81)	$ (23)	$ (224)
Basic and diluted earnings (loss) per common share	$ (0.03)	$ (0.01)	$ (0.07)

See accompanying notes to consolidated financial statements.

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

	SIX MONTHS ENDE DECEMBER 31	
	2001 (UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (224)	$
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	274	
Deferred taxes and other	(38)	
Allowance for doubtful accounts	72	
Stock option compensation	-	
Cash provided (used) due to changes in assets and liabilities:		
Accounts receivable	2,031	
Inventory	1,259	
Other assets	58	
Accounts payable	(86)	
Accrued commissions and other expenses	(124)	
NET CASH PROVIDED BY (USED IN) BY OPERATING ACTIVITIES	3,222	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Redemption of held-to-maturity investments	1,000	
Purchases of held-to-maturity investments	(1,950)	
Sales of fixed assets	89	
Purchase of fixed assets	(27)	
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(888)	

See accompanying notes to consolidated financial statements.

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

	SIX MONTHS ENDE DECEMBER 31	
	2001 (UNAUDITED)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	$ -	$
Repurchase of common stock	(1,201)	
NET CASH USED BY FINANCING ACTIVITIES	(1,201)	
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,133	
CASH AND CASH EQUIVALENTS, BEGINNING	4,413	
CASH AND CASH EQUIVALENTS, ENDING	$ 5,546	$
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	$ 145	$
Interest	$ 29	$
Cash received during the period for:		
Income taxes	$ 323	$

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, 2001, 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.

In August 2001, the Company closed the manufacturing plant operated by the Subsidiary. Since that time, the Subsidiary ceased all business operations and has no employees.

NOTE 2 REPURCHASE OF COMMON STOCK

In October 2001, the Company's Board of Directors authorized an increase of 300,000 shares available in the Company's stock repurchase program. In December 2001, the Company's Board of Directors authorized an additional increase of 400,000 shares. The Board of Directors previously had 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, 2001, the Company had repurchased a total of 2,128,400 shares of its common stock at a cumulative cost of approximately $12.0 million.

From January 1, 2002 through February 5, 2002, the Company repurchased an additional 73,000 shares of its common stock at a cost of approximately $286,000.

NOTE 3 COMMON STOCK OPTIONS

As of December 31, 2001, the remaining number of shares of common stock available for award grants (including incentive stock options) under the Company's common stock option plan was 537,665.

At December 31, 2001, there were outstanding options to purchase 780,881 shares of the Company's common stock at prices ranging from $2.50 to $10.63, with expiration dates between March 15, 2002, and July 2, 2011.

NOTE 4 COMMITMENTS AND CONTINGENCIES

At December 31, 2001, the Company had approximately $1.5 million in outstanding letters of credit that were issued to foreign suppliers in accordance with finished goods inventory purchase commitments.

NOTE 5 EARNINGS PER SHARE

The Company previously 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 (loss) per common share. The following table provides a reconciliation of the numerator and denominator of basic and diluted earnings (loss) per common share:

	THREE MONTHS ENDED DECEMBER 3	
	Loss	Weighted Average Shares
LOSS PER COMMON SHARE		
Basic loss per share	$ (81,000)	2,973,357
Effect of dilutive securities options	-	-
Diluted loss per share	$ (81,000)	2,973,357

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	SIX MONTHS ENDED DECEMBER 31	
	Net Income	Weighted Average Shares
LOSS PER COMMON SHARE		
Basic loss per share	$ (224,000)	3,123,171
Effect of dilutive securities options	-	-

Diluted loss per share	$ (224,000)	3,123,171

	THREE MONTHS ENDED DECEMBE	
	Net Income	Weighted Average Shares
LOSS PER COMMON SHARE		
Basic loss per share	$ (23,000)	3,460,385
Effect of dilutive securities options and warrants	-	-
Diluted loss per share	$ (23,000)	3,460,385

	SIX MONTHS ENDED DECEMBER 31	
	Net Income	Weighted Average Shares
EARNINGS PER COMMON SHARE		
Basic earnings per share	$ 30,000	3,460,385
Effect of dilutive securities options and warrants	-	44,112
Diluted earnings per share	$ 30,000	3,504,497

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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, 2001 was approximately $21.4 million and was approximately $22.6 million at June 30, 2001.

Cash and cash equivalents plus marketable securities increased since June 30, 2001 by approximately $2.1 million, to $10.4 million from $8.3 million. During the same six-month period, the Company expended approximately $1.2 million for the repurchase of 444,000 shares of its issued and outstanding common stock, in accordance with the Company's repurchase program.

Accounts receivable decreased by approximately $2.1 million, to a net of $3.1 million from $5.2 million. The decrease in accounts receivable is consistent with the corresponding decrease in net sales during the same six-month period. Due to the decrease in accounts receivable, the decrease in inventories discussed below and other factors, during the six months ended December 31, 2001, operating activities provided cash of approximately $3.2 million.

Since June 30, 2001, inventories decreased by approximately $1.3 million to $7.9 million from $9.2 million. The decrease in inventories is consistent with management's efforts to reduce closeout inventories and to improve scheduling for foreign production of current season's inventories. The Company's reliance on foreign suppliers sustains the risk that the Company's revenues could be adversely affected if a foreign shipment or shipments were received late or lost. The Company maintains insurance for risk of loss relating to goods shipped from its foreign and domestic suppliers. However, the Company's significant reliance on foreign suppliers sustains the risk that the Company may be left with inadequate or unsatisfactory recourse should the goods received from the foreign suppliers be nonconforming.

Taxes receivable decreased by approximately $142,000 since June 30, 2001 to $246,000 from $388,000. The decrease includes approximately $323,000 in federal and state income tax refunds received and approximately $145,000 in federal income taxes paid during the six months ended December 31, 2001.

For the six months ended December 31, 2001, the Company expended approximately $27,000 for the purchase of property and equipment, and approximately $274,000 in depreciation and amortization was charged to current operations. In September 2001, substantially all of the property and equipment owned by the Subsidiary was sold at auction for approximately $89,000. During the six-month period, investing activities used cash of approximately $888,000, primarily due to the purchases and redemptions of held-to-maturity federally insured marketable securities.

Accounts payable and accrued expenses decreased by approximately $210,000 since June 30, 2001, to $887,000 from $1.1 million. The decrease was primarily due to reductions in trade accounts and accrued sales commissions payable.

Total shareholders' equity decreased by approximately $1.4 million for the six-month period. The decrease was attributable to repurchases of common stock combined with the loss for the same period. Book value per share at December 31, 2001 was approximately $8.08 per share, an increase of $0.66 per share as compared with $7.42 at June 30, 2001.

RECENT DEVELOPMENTS

A former shareholder of the Company commenced a putative class action lawsuit against Sport-Haley, Inc. and three of its officers and directors. The action was filed in the United States District Court for the District of Colorado (the "Court") on October 15, 2001 by J. Roger Craig on behalf of a putative class consisting of all persons who acquired the Company's common stock during the period from September 4, 1996 through October 16, 2000 and alleges claims against Sport-Haley, Inc., Robert G. Tomlinson, Kevin M. Tomlinson and Robert W. Haley (the "Defendants"). The action, which seeks unspecified damages, alleges that the Defendants violated Section 10(b) of the Security Exchange Act (the "Exchange Act"), and Rule 10b-5 promulgated thereunder, by knowingly overstating the Company's financial results, thereby causing the Company's stock price to be artificially inflated. The complaint further alleges that the individual Defendants are liable by virtue of being controlling persons of Sport-Haley, Inc., pursuant to Section 20(a) of the Exchange Act. The allegations arise out of the Company's restatements of its financial statements for the fiscal years ended June 30, 1999 and 1998, which the Company previously reported. The Court appointed a group of investors, including Mr. Gregg, to act as lead plaintiff in the action. The Defendants intend to vigorously defend this action. In December 2001, the Defendants filed a motion to dismiss the action. The Defendants' motion is pending.

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As previously reported, in November 2000, the United States Securities and Exchange Commission (the "Commission") commenced an investigation related to the Company's restatements of its financial statements for fiscal years 1999 and 1998. Sport-Haley, Inc. previously reported the restatements in its Form 10-K for the year ended June 30, 2000. On December 20, 2001, the staff of the Commission advised the Company and its Chairman and Chief Executive Officer, Robert G. Tomlinson, that the staff plans to recommend that the Commission bring an enforcement action against the Company and Mr. Tomlinson to obtain an injunction prohibiting future violations of certain provisions of the securities laws, and possibly other relief. The staff's recommended action primarily relates to errors reported in the Company's restatements for fiscal years 1998 and 1999 for work in process inventory, prepaid assets and the loss on the disposal of headwear equipment, as well as alleged errors in the Company's quarterly reports for fiscal 2000 in these accounts. The staff invited the Company and Mr. Tomlinson to make written submissions setting forth legal and factual reasons why such an action should not be brought. The Company and Mr. Tomlinson made such submissions. The Company and Mr. Tomlinson do not know what action, if any, the staff will ultimately recommend to the Commission. If the staff recommends that the Commission initiate an enforcement action, it is not known whether the Commission will accept the staff's recommendation. Should the Commission bring such an action, the Company and Mr. Tomlinson intend to vigorously contest it. Based upon information that is currently available, management does not believe that the impact, if any, of such an enforcement action would have a material adverse effect upon the Company's financial position.

As previously reported, the Company retained legal counsel to possibly pursue claims against its former auditors in connection with damages suffered as a result of the restatements of its financial statements for the fiscal years ended June 30, 1999 and 1998 and the corrections of material financial information for the quarterly periods of the fiscal year ended June 30, 2000. Further, counsel to the former auditors has advised the Company that the former auditor may bring certain claims against Sport-Haley, Inc. Each party denies any liability to the other party. No legal action has been filed by the Company or its former auditors that asserts any of these claims. To date, the Company has incurred approximately $490,000 in expenses related to the restatements of its financial statements and material quarterly information noted above.

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.

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Net sales for the fiscal quarter and six months ended December 31, 2001, were approximately $3.6 million and $7.5 million, respectively, decreases of approximately $1.4 million or 28%, and $3.3 million or 30%, from net sales of approximately $5.0 million and $10.8 million for the same periods in the prior fiscal year. The decrease in net sales was primarily attributable to the general downturn in the USA economy combined with the negative economic impact caused by the events of September 11, 2001. Trends in the golf apparel business closely follow trends in the travel and leisure sector of the economy. The historic events of September 11 exacerbated the already depressed travel and leisure sector of the economy. The economic downturn that occurred throughout calendar 2001 had already dramatically impacted travel and leisure activities during the Company's first fiscal quarter. The Company was not immune to those factors and experienced a significant increase in canceled orders as well as a substantial decrease in the number of orders written during the second fiscal quarter as compared with the same period in prior fiscal years. While the Company continues to concentrate its efforts on increasing sales and creating new markets for its products, management does not expect the Company's sales trend to improve dramatically within the current fiscal year.

The Company's gross profit, as a percentage of net sales, was approximately 40% and 35% for the quarter and six months ended December 31, 2001, respectively, and 35% and 33% for the same periods in the prior fiscal year. The increases in gross profit percentages are attributable to management's successful efforts to purchase current seasons' inventories from foreign suppliers at lower per unit costs combined with reduced quantities of prior seasons' inventories. In the comparative six-month period, the sales of prior seasons' inventories at reduced selling prices had been a contributing factor to a decrease in gross profit percentage for that six-month comparative period.

Selling, general and administrative expenses for the quarter and six months ended December 31, 2001 decreased by approximately $267,000 and $694,000, or 14% and 18%, respectively, to approximately $1.7 million and $3.2 million from $1.9

million and $3.9 million for the same periods in the prior fiscal year. The decreases are primarily attributable to commissions paid to independent sales representatives on lower sales volume and management's continued efforts to control operating costs. The Company is continually refining its business operations in an effort to operate as efficiently as possible in an ever increasingly difficult economic climate. Selling, general and administrative expenditures were approximately 46% and 42% of net sales for the quarter and six months ended December 31, 2001, as compared with 39% and 36% for the same periods in the prior fiscal year.

Other income, net, decreased by approximately $43,000 and $154,000, or 27% and 41%, respectively, to $116,000 and $218,000 for the quarter and six months ended December 31, 2001, from $159,000 and $372,000 for the same period in the prior fiscal year. The decreases were primarily attributable to differences between the periods in the respective rates of interest earned on cash, cash equivalents and federally insured marketable securities.

Income (loss) before provision for income taxes decreased by approximately $94,000, or 276%, to approximately ($128,000) for the fiscal quarter ended December 31, 2001, from ($34,000) for the same quarter in the prior fiscal year. Income (loss) before provision for income taxes decreased by approximately $351,000, or 662%, to approximately ($298,000) for the six months ended December 31, 2001, from $53,000 for the same period in the prior fiscal year.

The Company's effective tax rates for the six months ended December 31, 2001 and 2000 were 25% 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 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, 2001, net loss was greater by approximately $58,000 or 252% when compared to the same three-month period in the prior fiscal year. For the six months ended December 31, 2001, net income decreased by approximately $254,000, or 847%, when compared with the same six-month period in the prior fiscal year. The differences were primarily the result decreases in net sales combined with lower interest income earned on cash, cash equivalents and federally insured marketable securities.

Both the basic and diluted losses per share were ($0.03) and ($0.07) for the fiscal quarter and six months ended December 31, 2001, respectively. This compares to basic and diluted earnings (loss) per share of ($0.01) and $0.01 for the same periods in prior fiscal year.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards No. 141, BUSINESS COMBINATIONS, ("SFAS 141") and No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, ("SFAS 142"). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for under the purchase method. For all business combinations, the date of acquisition for which is after June 30, 2001, SFAS 141 also establishes specific criteria for the recognition of intangible assets separately from goodwill and requires unallocated negative goodwill to be written off immediately as an extraordinary gain, rather than deferred and amortized. SFAS 142 changes the accounting for goodwill and other intangible assets after an acquisition. The most significant changes made by SFAS 142 are: 1) goodwill and intangible assets with indefinite lives will no longer be amortized; 2) goodwill and intangible assets with indefinite lives must be tested for impairment at least annually; and, 3) the amortization period for intangible assets with finite lives will no longer be limited to forty years. The adoption of SFAS 141 and SFAS 142 did not have a material effect on the Company's financial position, results of operations, or cash flows for the fiscal quarter or six months ended December 31, 2001.

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In June 2001, the FASB approved for issuance SFAS 143, ASSET RETIREMENT OBLIGATIONS. SFAS 143 establishes accounting requirements for retirement obligations associated with tangible long-lived assets, including: 1) the timing of the liability recognition; 2) initial measurement of the liability; 3) allocation of asset retirement cost to expense; 4) subsequent measurement of the liability; and, 5) financial statement disclosures. SFAS 143 requires that an asset retirement cost should be capitalized as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. The Company will adopt the statement effective no later than January 1, 2003, as required. The transition adjustment resulting from the adoption of SFAS 143, if any, will be reported as a cumulative effect of a change in accounting principle. At this time, the Company cannot reasonably estimate the effect of the adoption of SFAS 143 on its financial position, results of operations, or cash flows.

In October 2001, the FASB approved SFAS 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS. SFAS 144 replaces SFAS 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF. The new accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30, REPORTING RESULTS OF OPERATIONS-REPORTING THE EFFECTS OF DISPOSAL OF A SEGMENT OF A BUSINESS, for the disposal of segments of a business. SFAS 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. Statement 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of SFAS 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. At this time, the Company cannot estimate the effect of SFAS 144 on its financial position, results of operations, or cash flows.

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SPORT-HALEY, INC.
PART II
OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS - SEE "RECENT DEVELOPMENTS"IN PART 1, ITEM 2

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 December 18, 2001, reporting that the Board of Directors had authorized the officers of the Company to repurchase an additional 400,000 shares of the Company's issued and outstanding common stock in accordance with the Company's previously announced stock repurchase program.

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 13, 2002 /s/ Robert G. Tomlinson

Robert G. Tomlinson
Chief Executive Officer

Date: February 13, 2002 /s/ Patrick W. Hurley

Patrick W. Hurley
Chief Financial Officer