

SPORT HALEY INC
Form 10-K/A
January 12, 2006

FORM 10-K/A

(Amendment No. 1)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the fiscal year ended **June 30, 2005**

OR

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

For the transition period from _____ to _____

Commission file number: **33-74876-D**

SPORT-HALEY, INC.

(Exact Name of Registrant as Specified in Its Charter)

Colorado

(State or Other Jurisdiction of
Incorporation or Organization)

**4600 East 48th Avenue
Denver, Colorado**

(Address of Principal Executive Offices)

84-1111669

(I.R.S. Employer
Identification Number)

80216-3215

(Zip Code)

Registrant's telephone number, including area code: **(303) 320-8800**

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class

Name of each exchange on which registered

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None

None

Securities registered pursuant to section 12(g) of the Exchange Act:

None

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of December 31, 2004, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the 2,306,635 shares of Common Stock (the Registrant's only common equity) held by non-affiliates was \$10,541,000 based on the closing sale price of the Registrant's Common Stock on the Nasdaq National Market® on such date. For purposes of the foregoing calculation only, each of the Registrant's officers and directors is deemed to be an affiliate. This determination of affiliate status is not a conclusive determination for other purposes.

There were 2,770,252 shares of the Registrant's Common Stock outstanding at the close of business on September 8, 2005.

DOCUMENTS INCORPORATED BY REFERENCE:

None

PART I

Explanatory Note

This amendment to annual report of Sport-Haley, Inc. on Form 10-K for the fiscal year ended June 30, 2005 is being made to amend certain matters in Item 5 and 9A. The remainder of the original Form 10-K previously filed on October 13, 2005 (the Original Form 10-K) has not been changed or amended. This amendment relates primarily to the Company's determination that the number of record holders of its common stock as reported in the original Form 10-K required correction. The Company wishes to correct this disclosure and also to more clearly state the method used by the Company to determine its number of record holders, as opposed to the number of its beneficial shareholders. The Company has also provided information to correct the number of record holders reported in prior years.

This amendment also amends the cover page of this Form 10-K by removing the reference to the Company's common stock being registered pursuant to §12(g) of the Securities Exchange Act (the Exchange Act). The Company believed that when it withdrew its listing from the Pacific Stock Exchange in November 1998, at which time the common stock was registered pursuant to §12(b) of the Exchange Act, the Company had complied with Rule 12g-2 which the Company believed caused its common stock to be deemed to be registered under §12(g) without filing a separate registration statement. Since November 1998, we have considered the Company's common stock to be registered under §12(g) and have made periodic and other filings with the Commission consistent with that belief. It has recently come to the Company's attention that this belief was in error and that the Company, in order for its common stock to be registered pursuant to §12(g), is required to file a registration statement on Form 10, which the Company filed on November 11, 2006. The registration of our common stock pursuant to §12(g) of the Exchange Act has not been declared effective.

This amendment also amends our disclosure in Item 9A to note that our computation of record holders of our common stock, and our assumption that our common stock was properly registered pursuant to §12(g) of the Exchange Act, was incorrect.

Except as otherwise expressly noted herein, this Amendment to Annual Report on Form 10-K/A does not reflect events occurring after the October 13, 2005, filing of our Original Form 10-K in any way, except to reflect the changes discussed in this amendment. The Registrant does not undertake to update any item on that Annual Report other than those items set forth below. Accordingly, this amendment should be read in conjunction with the Original Form 10-K.

As a result of these amendments, the Company is also filing as exhibits to this Amendment the certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Because no financial statements are contained within this Amendment the Company is not including those parts of the Section 302 certifications pertaining to financial statements and is not including certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Except for the amendments described above, this Amendment does not modify or update other disclosures in, or exhibits to, the original filing.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

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Our common stock is quoted on the Nasdaq National Market® under the trading symbol SPOR. The following table sets forth the range of high and low sale prices of our common stock, as reported by The Nasdaq Stock Market®, from July 1, 2002 through June 30, 2005. The prices set forth below reflect interdealer quotations, without retail markups, markdowns or commissions, and may not be representative of actual transactions.

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		High		Low
Fiscal Year 2005				
Fourth Quarter	\$	4.990	\$	2.970
Third Quarter		4.370		4.000
Second Quarter		4.889		3.830
First Quarter		4.990		3.812
Fiscal Year 2004				
Fourth Quarter	\$	6.000	\$	5.000
Third Quarter		6.090		4.230
Second Quarter		4.590		3.840
First Quarter		4.640		3.830
Fiscal Year 2003				
Fourth Quarter	\$	4.300	\$	3.700
Third Quarter		4.000		3.150
Second Quarter		3.500		3.180
First Quarter		4.100		3.150

As of April 8, 2005, there were approximately 124 holders of record of our common stock. We computed the number of record holders by adding to the number of actual record holders as shown on the securities holder list obtained from our transfer agent, the number of individual participants or accounts held by the Depository Trust Company (DTC), according to securities position listings, as defined in Rule 17Ad-8. The vast majority of our common shares are held in trust by Cede & Co., as nominee for the DTC. We estimate that as of April 8, 2005, our common stock was owned beneficially by approximately 900 shareholders.

The following table shows the number of record holders of our common stock for the fiscal years indicated, which were all calculated in accordance with the method described above.

Fiscal Year	Record Date	Securities Position Listings Participants	Number of Record Holders			Totals
			Securities Holder List	Total Holders of Record	Held in Treasury	
2005	02/24/05	59	65	124		124
2004	02/13/04	70	67	137		137
2003	02/13/03	69	61	130	1	131
2002	01/18/02	79	60	139	1	140
2001	05/18/01	81	63	144		144

Holders of common stock are entitled to receive such dividends as may be declared by our Board of Directors from time to time. No dividends have been paid on our common stock throughout the history of the Company, and the Board of Directors does not anticipate that dividends will be declared in the foreseeable future.

ITEM 9A. CONTROLS AND PROCEDURES

(a) **Evaluation of Disclosure Controls and Procedures.** Our management, with the participation of our Interim Chief Executive Officer and our Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based on that evaluation, management, including the Interim Chief Executive Officer and Chief Financial Officer, concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective in reaching a reasonable level of assurance that: (a) all material information relating to the Company, required to be disclosed in this report, was made known to management in a timely manner;

and (b) information was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations.

As discussed in our Original Form 10-K, we consider the programming and human computational errors, which caused us to use a standard cost method, to be a material weakness in our internal control over financial reporting with respect to inventory valuation during the period covered by this report. After we implemented our operations software in January 2004, we discovered certain programming and human errors within the new system that adversely affected the software's ability to accurately compute the valuation of our finished goods inventories using a weighted average method. The system was designed to utilize a series of complex valuation computations, and we determined that a manual reconstruction of the numerous amount of transactions affected by the programming and human errors was impracticable. This weakness in our controls prevented us from relying upon the system-recorded transactions with respect to finished goods inventory valuation during the period covered by this report. Based upon analyses performed to compare the landed cost components of our finished goods inventories with our respective standard cost components and analyses of the allocated overhead portion of our standard costs, we concluded that recomputing the value of our finished goods inventories using a standard cost method yielded a fair estimation of the value of our finished goods inventories. We used the standard cost method to value our finished goods inventories from the fiscal quarter ended March 31, 2004, through the fiscal quarter ended March 31, 2005. At June 30, 2005, certain inventory items remained on hand that had been valued using the standard cost method. The methods we use to determine the standard costs of our finished goods inventories have not changed since our initial analyses of such costs were performed in fiscal 2004. Had we been able to rely upon the system to properly compute the cost of our finished goods inventories using the weighted average method, the Interim Chief Executive Officer and the Chief Financial Officer believe that the weighted average method would not have yielded a materially different computation of the value than the standard cost method that we applied. The Interim Chief Executive Officer and the Chief Financial Officer believe that the procedures we applied to value our finished goods inventories for the period covered by this report provide us with reasonable assurance that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

The material weakness in our internal controls over financial reporting with respect to inventory valuation impaired our ability to rely upon information created by our computer system to fairly present, in all material respects, our financial condition, results of operations and cash flows for the period covered by this report. The inability of our computer system to properly calculate the valuation of our finished goods inventories also affected the system-recorded amounts within our cost of goods sold during the period covered by this report. Costs associated with invoiced sales and returns as well as inventory adjustments are natural components of our cost of goods sold. Because we concluded with reasonable assurance that our using a standard cost assumption yielded a fair estimation of our finished goods inventories during the period covered by this report, and because we consistently recorded adjustments to inventories as components of cost of goods sold during the period covered by this report, we believe with reasonable assurance that our cost of goods sold are fairly stated during the period covered by this report. Therefore, the Interim Chief Executive Officer and Chief Financial Officer believe that the procedures we applied to value our finished goods inventories for the period covered by this report provide us with reasonable assurance that our report fairly states, in all material respects, our financial condition, results of operations and cash flows.

Based upon tests we performed subsequent to June 30, 2005, we believe that the computer software has been properly programmed, and employees have been adequately trained to utilize the system procedures, to accurately compute our finished goods inventory valuations using a weighted average cost assumption for fiscal periods subsequent to this report.

In addition, it recently came to our attention that our computation of record holders of our common stock, and our assumption that our common stock was properly registered pursuant to §12(g) of the Exchange Act, was incorrect. Since November 1998, we had believed that our common stock

was registered pursuant to § 12(g) of the Exchange Act. It recently came to our attention that our reliance upon Rule 12g-2, which, if applicable, would have deemed us to be so registered, was misplaced. We are correcting this situation by registering our common shares pursuant to §12(g) of the Exchange Act on Form 10, which form was filed on November 11, 2006. The registration has not been declared effective.

(b) Changes in Internal Control Over Financial Reporting. During the last quarter of fiscal 2005, we did not implement any changes in our internal controls over financial reporting that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Our management, including our Interim Chief Executive Officer and our Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls over financial reporting will, in all instances, prevent all errors and all fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met. While our control systems provide a reasonable assurance level, the design of our control systems reflects the fact that there are resource constraints, and the benefits of such controls were considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the financial reports of Sport-Haley, Inc. have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, a control can be circumvented by the individual act of some person, by collusion of two or more persons, or by management's override of a specific control. The design of any system of controls is also based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits, Financial Statements and Financial Statement Schedules

The following documents are filed herewith or have been included as exhibits to previous filings with the Securities and Exchange Commission and are incorporated herein by this reference:

(3) Exhibits

Exhibit No.	Document
*** 31.1	Certification of Donald W. Jewell pursuant to Exchange Act Rule 13a-14(a)/15d-14(a).
*** 31.2	Certification of Patrick W. Hurley pursuant to Exchange Act Rule 13a-14(a)/15d-14(a).

*** Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SPORT-HALEY, INC.

January 12, 2006

By: /s/PATRICK W. HURLEY
Patrick W. Hurley, Chief Financial
Officer

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ DONALD W. JEWELL Donald W. Jewell	Interim Chief Executive Officer, President and Senior Vice President	January 12, 2006
/s/ PATRICK W. HURLEY Patrick W. Hurley	Chief Financial Officer, Secretary, Treasurer and Controller	January 12, 2006
/s/ RONALD J. NORICK Ronald J. Norick	Director and Chairman of the Board	January 12, 2006
/s/ JAMES R. TENBROOK James R. TenBrook	Director and Audit Committee Chairman	January 12, 2006
/s/ MARK J. STEVENSON Mark J. Stevenson	Director and Compensation Committee Chairman	January 12, 2006
/s/ JAMES H. EVEREST James H. Everest	Director	January 12, 2006