1991

# ANNUAL REPORT

1 9 9 1

## Table of Contents


To Our Shareholders . . 1
Corporate Profile . . . . 2
Sales and Customer Service . . . . . 3
Merchandising and Design. . . . . 4
Research and Product Development . . 6
Sourcing and Manufacturing . . . . . 7
Financial Highlights . . . 8

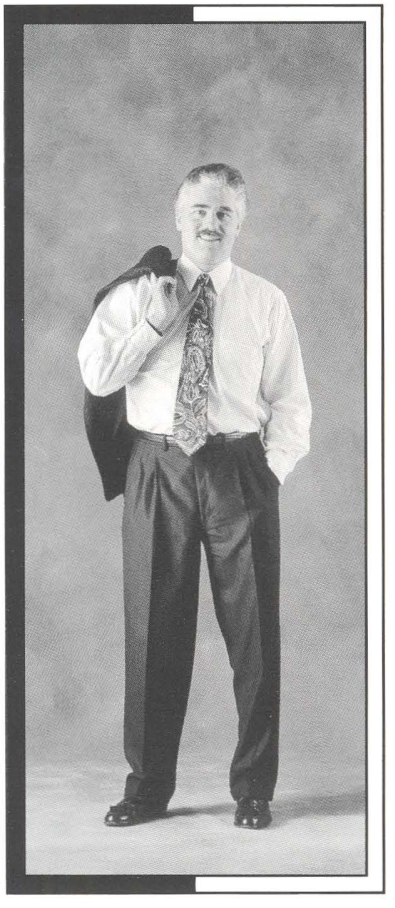
*Our Kent, Washington headquarters houses our main Production, Customer Service, Sales, Merchandising, Design, Purchasing and Administrative Departments. We also operate a production and warehouse facility in Johnson City, Tennessee.*

© Sun Sportswear, Inc. 1992

# BY ANY MEASURE, AN IMPORTANT YEAR.

I am pleased to report that sales and net income were both up at Sun Sportswear for 1991. While the sales increase was just one percent—$71,795,000 in 1991 compared to $71,678,000 in 1990—net income more than doubled from $983,000 to $2.2 million.

Even more significant, we made great strides in our evolution from a pure screen printer to a casual apparel company. To this end, we strengthened all key areas of our company: merchandising, design, sales, sourcing, and manufacturing. At the same time, we furthered our relationships with our key customers, some of which go back ten years.



We also expanded our product mix, and are poised as never before to help our customers offer the right apparel at the right prices at the right time.

**Reasons for our success.**

In 1991, we profited from our fast response and competitive margins. We saw higher margins associated with the sales of our new heat-sensitive garments. We took measures to reduce bad debts. We moved quickly to reposition our Johnson City, Tennessee facility during the summer to solve an overcapacity problem. And we reduced inventory levels by 19 percent at the end of 1991 compared to the previous year. This reduction continues as we move more into casual apparel.

All of these steps contributed to a strong balance sheet, which is detailed on page 8 of this report.

**Building for the future.**

Along with responding to immediate challenges during 1991, we successfully positioned Sun Sportswear for future growth.

In 1991, we doubled the size of our sales, merchandising, and sourcing departments, giving us the ability to create and sell more fashionable, detailed garments that we believe are important to our long-term growth.

We also added new cut-and-sew operations, both internally and externally. This new capability greatly expands the type of apparel we can produce.

Another key strategic move we made in 1991 was the launching of our grocery and drug division. This area promises to provide a number of new sales opportunities, and we plan to pursue it aggressively in 1992 and beyond.

**Summing up.**

I believe the actions we took and the plans we put into motion during 1991 will help Sun Sportswear become an even stronger company in the years to come—starting in 1992.

These changes are consistent with our ultimate goal of maximizing earnings on invested capital through steady growth in profits, and prudent, aggressive asset management.

We look forward to meeting the challenges that face us in our transition to a casual apparel company. I am confident that our people and products will once again prevail in the most important arena of all: the marketplace.

R. H. Clark

Randy H. Clark
*President*

# OUR MOST IMPORTANT PRODUCT IS SERVICE.

*At Sun, we design and create casual apparel, but what our customers really get is unparalleled service.*

In 1981, a small company in Seattle began producing screen printed T-shirts for men and boys. In the short time since then, Sun Sportswear has grown into one of the industry leaders.

Today we cut, sew, design, print, market, and sell an extensive array of printed and decorated casual sportswear for adults and children. Our product line includes shirts, sweatshirts, nightshirts, bottoms, and coordinates.

**Our customers.**

The Sun market strategy has always been to concentrate on the mass merchandise segment of the retail market. To this end, we have cultivated relationships with several key retailers, and today count as our major customers Wal-Mart, Target, and K mart. These three strong chains alone accounted for 73 percent of our 1991 sales, and we are proud to be a part of their business as well.

One of the benefits of serving this segment is that its high volume orders translate into lower operating costs. Yet we also understand the importance of a diverse customer base, and have recently added several new customers, including Montgomery Ward, J.C. Penney, and Sears.

**Meeting needs.**

We have been successful at attracting and retaining major customers for one simple reason: we do everything we can to meet their needs quickly and accurately.

That means Sun customers can expect:

- A wide selection of creative designs.
- Consistently high product quality.
- Competitive pricing.
- High volume production.
- A wide variety of styles.
- Rapid response to changes in customer requirements.
- Quick delivery schedules.

With service like that, it's little wonder that once a retailer becomes a Sun customer, it usually stays a Sun customer.

**Going green.**

We're committed to doing our best to protect the environment, and we consistently operate well above existing local, state, and federal environmental standards. We accomplish this in a number of ways, from printing exclusively with non-toxic plastisol and water-based inks to cleaning our facilities with citrus-based solvents.

Another measure of the success of our environmental programs is the amount of waste we recycle. In 1991, we set a new company record recycling nearly half of all solid waste we generated.

Along the way, we've proven that environmental sensitivity and profitability can go hand in hand quite successfully.

# THE CUSTOMER COMES FIRST.

*Our primary responsibility is to our customers. If a customer wants something, we'll find a way to deliver it.*

"The customer is king." "The customer is always right." "We bend over backwards for our customers." They may be clichés, but no one believes in them as fervently as we do.

Our absolute dedication to customer service starts with high quality products. We insist on the best quality garments from our vendors, and we use the most advanced silk-screening equipment available to produce our printed apparel.

**The need for speed.**

Since fast turnaround is imperative to our customers, we have established a number of systems designed to get product from our facility to their sales floor as quickly as possible.

The enormous capacity of our multi-color printing presses—over 28 million units a year—allows us to fill orders with remarkable speed and slash the lead time for custom order detailing.

Once the garments are produced, we can generate customer price tickets, attach hang-tags, bag orders, and provide customers with goods hangered and ready to go. A customer can literally put one of our shipments directly on the rack the moment it's received.

*Sun is moving aggressively into sportswear for juniors, toddlers, as well as infants, using existing contacts with existing customers, as well as developing new relationships.*

**Every customer is unique.**

While every Sun customer has the same needs for quality and quick response, many want garments that are unique to their store.

That's why we work closely with each customer to create designs specifically for them. We can even produce garments with the customer's own label sewn in. With consumer brand loyalty down sharply since 1988, stores are finding increasing acceptance for these "store-branded" garments by their own customers.

In short, our approach ensures our customers of apparel they can really call their very own. And when a customer considers us an extension of its own company, we know we're doing our job right.

# DEFINITELY NOT ART FOR ART'S SAKE.

*Every design we create is for a specific reason, to meet a customer's individual market needs.*

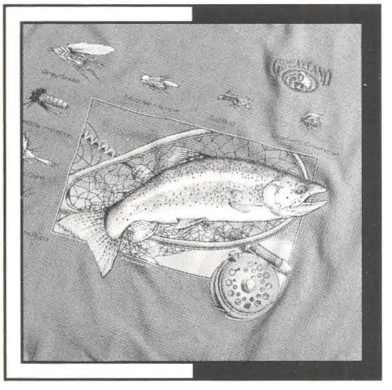
Merchandising is the art of combining the right artwork with the right garments for each Sun customer. That may sound simple enough, but it actually involves extensive research, insight, and creativity.

Field research is an ongoing process at Sun. We're constantly on the lookout for new trends, hot colors, exciting styles, and unique fabrics.

We share this information with our customers, combine it with their sense of what their market wants, and add our own insights to create a snapshot of a constantly moving target.

Then it's up to the creativity of our creative merchandisers and graphic artists to transform that diverse input into original, progressive designs specifically targeted to the markets that best serve our customer's needs.

The creative merchandisers are responsible for the design of the garments themselves. If the garment is to be printed, the artwork is developed by our graphic artists. It's a tribute to both of these groups that they not only hit the mark with remarkable consistency, but also accomplish the feat under intense pressure and breakneck schedules.



*Our teams of artists and designers work closely with merchandising to develop and produce a broad range of targeted artwork and garment designs.*

**Making a statement.**

Our unique imprinted and decorated sportswear provides a way for people to make a statement about themselves, a statement that comprises the art design on the garment as well as the style of the garment itself. At Sun, the statements we create fall into two categories, proprietary and licensed.

**Proprietary.** Our artists and merchandisers create original art designs for garments and, in some cases, for the garment itself. Proprietary products accounted for 87 percent of our sales in 1991, and our reputation for creative and unique art designs gives us a distinct edge, particularly with our mass merchandising customers.

**Licensed**. In this arena, we adapt popular characters or themes for use on a variety of apparel. Our acquisition strategy is to build a portfolio with long-term classic properties such as Garfield, the National Wildlife Federation, and Looney Tunes; new potentially long term properties such as Capitol Critters, FernGully, and Family Dog; and shorter term trend properties like Diet Pepsi's "You Got The Right One Baby, Uh-Huh!"

*From athletic wear, sporty coordinates, and traditional T-shirts, to licenced goods, Sun is at the forefront of design for mass merchandised sportswear.*

# EXCITING CLOTHES START IN THE LAB.

*Behind each Sun garment are countless hours of research to make sure it's the best it can be.*

You might not think of a research lab when you look at one of our Boardheads T-shirts. But careful testing and continual experimentation are vital elements of each product we make.

Besides refining the techniques we use with our current projects, we're always investigating new ways of making our garments enticing to consumers. In 1991, that meant developing the use of innovative new heat- and light-sensitive inks.

**Color me fashionable.**

More than anything else, color is what makes screen printed garments exciting and attractive. At Sun, we stock over 140 pigment colors and numerous ink bases. And if we don't have the right color or ink for a job, we'll create it ourselves—or look to our vendors, who come through time and again with distinctive ideas.

**Testing, testing.**

Before a garment production run begins, we conduct extensive hand testing to determine the printability of designs with various fabrics and colors. Fabrics also undergo comprehensive washability testing to make sure the garments we produce look good and wear well—day in and day out. After all, that's how they're worn.

In addition, we thoroughly pre-engineer each screen printing and decorative process to achieve the best possible result during the actual production, and to create the optimal standardization of the entire process.

All of this work has a very well-defined purpose behind it: the better the products we provide to our customers, the better these stores look to their customers.

*Our extensive research and product development efforts have put Sun Sportswear at the forefront in creating and perfecting unique inks and fabric designs including heat- and light-sensitive inks.*



Photography: Alan Abramowitz Copywriting: Jeff Fraga

# IN THE BEGINNING...

*The creatively imprinted and decorated apparel we produce starts out as unadorned material.*

There are three ways we obtain the plain garments that become Sun Sportswear. We:

- Buy packaged goods from mills.
- Buy fabric and trim and contract to have garments manufactured to our exacting specifications.
- Manufacture garments ourselves at our Johnson City, Tennessee facility.

This cut-and-sew capability, which was added to our Tennessee facility in late 1991, gives us the flexibility to create and produce our own clothing designs—an essential step in our move to becoming a broader based casual apparel company.

**State-of-the-art.**

We produce some 18 million garments a year—more than 70,000 per day. Yet, despite these huge quantities, our advanced screen printing equipment allows us to maintain the high levels of quality our customers expect from Sun.

MUCH OF THE CREDIT FOR OUR FAST RESPONSE AND QUALITY MERCHANDISE GOES TO OUR SOURCING GROUP, WHICH HAS DEVELOPED EXCELLENT RELATIONSHIPS WITH VENDORS THROUGHOUT THE WORLD. THESE RELATIONSHIPS ENABLE US TO REACT QUICKLY TO TRENDS AND EVEN PRE-EMPT THE COMPETITION.

Our capability in this area continues to grow in 1992. We've added a 12-color press that will allow us to produce garments with more color and special effects than ever before. And we've added a new belt printer that will allow us to print sweatshirts with 100 percent coverage.

Together with our existing belt and spot presses, this new machinery enhances our ability to provide our customers with the best in screen printed garments along with the fastest possible response times.

**People-friendly facilities.**

The design and operation of both our Kent, Washington and Johnson City, Tennessee production facilities reflect our overriding concern with providing a safe, pleasant work environment for Sun people.

For instance, the fresh air supply in our screen printing facilities is replenished every two minutes. Floor layouts are designed for maximum efficiency and comfort. And all areas of our plants and warehouses are kept meticulously clean.

# FINANCIAL HIGHLIGHTS

*In thousands, except share amounts*

| Year ended December 31 | 1991 | 1990 | 1989 |
|---|---|---|---|
| Net sales | $71,795 | $71,678 | $73,263 |
| Net income/Proforma net income (1) | 2,192 | 983 | 4,116 |
| Net income/Proforma net income per share | 0.39 | 0.18 | 0.90 |
| Weighted average shares outstanding | 5,609,000 | 5,608,104 | 4,571,233 |
| Working capital | $22,497 | $20,312 | $19,898 |
| Total assets | 36,089 | 35,819 | 38,841 |
| Shareholder's equity | 24,419 | 22,227 | 20,223 |

(1) The Company was an S corporation for federal tax purposes through December 5, 1989, the date of stock issuance to the public. As such, the Company did not pay income taxes. The proforma net income and proforma net income per share reflect a proforma provision for income taxes, computed at the marginal corporate rate of 34% for 1989.

# BOARD OF DIRECTORS AND MANAGEMENT

David A. Sabey, Chairman
*Chairman of Sabey Companies*

Larry Mounger
*Chairman and Chief Executive Officer of Pacific Trail, Inc.*

Randy H. Clark
*President, Sun Sportswear, Inc.*

John W. Paxton, Director
*President and Chief Executive Officer of INTERMEC Corp.*

David J. Taylor, Director
*Chief Operating Officer of Fredrick and Nelson*

Randy H. Clark
*President*

L. Kaye Counts
*Chief Operating Officer*

James Noble
*Vice President Sales and Merchandising Mens and Boys*

Robert L. Buchanan
*Vice President Manufacturing*

Mason Carroll
*Vice President Operations*

Kevin C. James
*Vice President Finance*



# SHAREHOLDER INFORMATION

**Form 10-K, 10-Q, and Annual Reports**
Copies of the Company's Form 10-K and the Form 10-Q quarterly reports as filed with the Securities and Exchange Commission and the Company's Annual Report to Shareholders are available to shareholders without charge upon request to:
Mr. Kevin C. James
Vice President Finance
Sun Sportswear, Inc.
P.O. Box 58003
Seattle, WA 98188

**Stock Market Information**
Sun's stock is traded on the NASDAQ National Market System. Our trading symbol is SSPW. As of March 16, 1992, the number of shareholders of record totaled approximately 125.

**Transfer Agent and Registrar**
Security Pacific Bank
701 South Western Avenue
Glendale, CA 91201

**Independent Public Accountants**
Price Waterhouse
1001 Fourth Avenue Plaza
Suite 4200
Seattle, WA 98154

U.S.A. Unique Sportswear Attitude™, Original Baseball Gear™, Sensor Graffix™, and Therma Sun™ are all trademarks of Sun Sportswear, Inc.

Pro Spirit® is a trademark of Target Stores, Inc.

Boardheads® is a trademark of Paul B. Arnston and Michael Nelson.

Cathy® is a trademark of Guisewite Studio.

Garfield® is a trademark of United Feature Syndicate.

Rocky® and Bullwinkle® are trademarks of Ward Productions, Inc.

National Wildlife Federation® and NWF® are trademarks of National Wildlife Federation.

Diet Pepsi® and "You Got The Right One Baby Uh-Huh!"® are trademarks of PepsiCo Inc.

Capitol Critters® is a trademark of Twentieth Century Fox.

SUN
SPORTSWEAR

6520 South 190th Street • Kent, Washington 98032
(206) 251-3565 • Telefax (206) 251-0527