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OUR KENT, WASHINGTON HEADQUARTERS HOUSES OUR SCREENPRINT PRODUCTION, CUSTOMER SERVICE, SALES, MARKETING, DESIGN, SOURCING AND ADMINISTRATIVE OPERATIONS. WE ALSO OPERATE A CUT-AND-SEW GARMENT MANUFACTURING FACILITY IN JOHNSON CITY, TENNESSEE.



## **TO OUR SHAREHOLDERS**

1992 WAS A DIFFICULT YEAR FOR SUN SPORTSWEAR AS WE DEALT WITH SIGNIFICANT MARKETPLACE AND INTERNAL CHANGES. DURING THE YEAR, FINANCIAL PERFORMANCE LAGGED. COMPETITION WAS MORE FIERCE AND OUR CUSTOMERS INCREASED THEIR QUALITY REQUIREMENTS. INTERNALLY, WE FACED SIGNIFICANT CHANGES THAT CARRIED WITH THEM NON-RECURRING CHARGES, INCLUDING A SHIFT IN THE MAJORITY OWNERSHIP OF THE COMPANY AND CESSATION OF TWO OF OUR MANUFACTURING OPERATIONS.

ALTHOUGH NET SALES WERE VIRTUALLY UNCHANGED AT \$70.6 MILLION IN 1992 COMPARED TO \$71.8 MILLION IN 1991, THE COMBINATION OF THE PRECEDING FACTORS LED TO A DECLINE IN PROFITABILITY. WE RECORDED A NET LOSS OF \$517,000 OR \$.09 PER SHARE IN 1992 — DOWN FROM NET INCOME OF \$2.2 MILLION OR \$.39 PER SHARE LAST YEAR.

THE POSITIVE SIDE OF THE PICTURE IS THAT WE ENTERED 1993 A STRONGER, MORE FOCUSED COMPANY.

### **MARKET CONDITIONS CUT MARGINS**

COMPETITION IN THE MARKET PLACE WAS STRONG, STEMMING MAINLY FROM LICENSED PROFESSIONAL SPORTS GARMENTS, BRANDED GOODS, GOODS FROM VERTICAL MILLS AND DIRECT OFFSHORE BUYING BY OUR CUSTOMERS.

AT THE SAME TIME, OUR MAJOR MASS MERCHANT CUSTOMERS DEMANDED HIGHER QUALITY IN 1992 AS THEY SOUGHT TO ATTRACT A BROADER SEGMENT OF SHOPPERS. THESE NEW REQUIREMENTS AFFECTED SUN SPORTSWEAR IN TWO WAYS. NOT ONLY DID THE COMPANY EXPERIENCE GREATER COSTS TO ACHIEVE THE NEW QUALITY STANDARDS, BUT THERE WERE ALSO LOST SALES AND INCREASED RETURNS AS WE MADE OUR WAY THROUGH THE TRANSITION.

A CHANGE IN PRODUCT MIX WAS ALSO FELT IN 1992. A YEAR AGO, HEAT-SENSITIVE PRODUCTS, WHICH CARRIED A HIGHER PROFIT MARGIN, GENERATED \$6.6 MILLION IN SALES. THERE WERE NO SUCH SALES IN 1992.

### **CHANGES RESULT IN NON RECURRING CHARGES**

THE COMPANY'S FINANCIAL PERFORMANCE WAS AFFECTED NEGATIVELY BY \$880,000 OF NON-RECURRING ITEMS THAT RELATED TO OPERATIONAL, OWNERSHIP AND OTHER CHANGES.

IN THE THIRD QUARTER, \$410,000 WAS EXPENSED FOR THE SHUT-DOWN OF SCREENPRINTING OPERATIONS AT OUR JOHNSON CITY, TENNESSEE, FACILITIES AND DISCONTINUATION OF AN EXPLORATORY-STAGE MANUFACTURING JOINT VENTURE IN ISRAEL.

DURING THE FOURTH QUARTER, THE COMPANY RECORDED \$260,000 IN CHARGES RELATED TO PAYMENTS NECESSARY TO SATISFY "CHANGE OF CONTROL" AGREEMENTS WITH OFFICERS OF THE COMPANY. THIS RESULTED BECAUSE, IN DECEMBER, A CHANGE OF CONTROL OF SUN OCCURRED WHEN SEAFIRST BANK ACQUIRED 68 PERCENT OWNERSHIP OF SUN SPORTSWEAR FROM FORMER MAJORITY SHAREHOLDER DAVID SABEY UNDER A LOAN MODIFICATION AND SATISFACTION AGREEMENT BETWEEN SEAFIRST AND SABEY.

IN ADDITION, THROUGHOUT 1992, NATIONS BANK OF NORTH CAROLINA WAS ACTIVELY SEEKING A SALE OR MERGER PARTNER FOR SUN SPORTSWEAR. EARLY IN 1993 THE COMPANY DECIDED TO CEASE EFFORTS — FOR THE TIME BEING — TO SELL OR MERGE THE COMPANY. THIS RESULTED IN CHARGES IN 1992 OF \$210,000 FOR INVESTMENT BANKING AND OTHER EXPENSES.

### MEETING CHALLENGES IN 1993

WE'VE TAKEN MANY STEPS TO MEET THE CHALLENGES POSED IN 1992 AND WILL CONTINUE THOSE EFFORTS IN 1993.

TO COMBAT THE INCREASED COMPETITION, WE ARE PLACING MORE ATTENTION ON ADDING LICENSES AND BRANDS TO OUR PRODUCT LINE. IN LATE 1992, JOINT LOONEY TUNES/NATIONAL FOOTBALL LEAGUE AND JOINT LOONEY TUNES/MAJOR LEAGUE BASEBALL LICENSES WERE SIGNED AS WELL AS AN AGREEMENT TO USE THE BRAND NAME G.U.T.S.

A MAJOR INROAD WAS MADE EARLY IN 1993, WITH THE SIGNING OF OUR FIRST LICENSE AGREEMENT WITH WALT DISNEY FOR ITS LITTLE MERMAID CHARACTERS. WE ARE ALSO RE-DEDICATING OURSELVES TO WHAT WE DO BEST — CREATING PROPRIETARY SCREENPRINTED DESIGNS THAT SELL-THROUGH AT RETAIL.

BECAUSE OUR CUSTOMERS' QUALITY STANDARDS HAVE INCREASED, WE ARE WORKING MORE CLOSELY WITH GARMENT VENDORS TO ENSURE THAT THESE STANDARDS ARE MET. THIS HAS MEANT AN INCREASED EMPHASIS ON INSPECTING VENDORS' FACTORIES, CONVINCING OUR LARGEST OFFSHORE SUPPLIERS TO UPGRADE THEIR MANUFACTURING EQUIPMENT AND NARROWING OUR VENDOR BASE TO REWARD THOSE VENDORS WHO HELP US ADJUST TO CHANGING DEMANDS.

WE BELIEVE THAT THE ACTIONS WE ARE CURRENTLY UNDERTAKING WILL RESTORE SUN TO PROFITABILITY. WE ARE CONFIDENT THAT OUR PEOPLE AND PRODUCTS WILL ONCE AGAIN PREVAIL IN THE MOST IMPORTANT ARENA OF ALL: THE MARKETPLACE.

WE THANK YOU FOR YOUR CONTINUED SUPPORT.



LARRY C. MOUNGER

CHAIRMAN OF THE BOARD

AND CHIEF EXECUTIVE OFFICER







## WHO WE ARE

IN 1981, A SMALL COMPANY IN SEATTLE  
BEGAN PRODUCING SCREENPRINTED  
T-SHIRTS FOR MEN AND BOYS. SINCE THAT  
TIME, SUN SPORTSWEAR HAS GROWN INTO A BROAD-  
LINE SUPPLIER OF CASUAL SPORTSWEAR.

TODAY WE DESIGN, CUT, SEW, PRINT, MARKET  
AND SELL AN EXTENSIVE ARRAY OF PRINTED AND  
DECORATED CASUAL SPORTSWEAR FOR MEN, WOMEN  
AND CHILDREN. OUR PRODUCT LINE INCLUDES  
T-SHIRTS, SWEATSHIRTS, NIGHTSHIRTS, BOTTOMS  
AND COORDINATES.

IN 1992, APPROXIMATELY 74% OF OUR PRODUCTS  
WERE SCREENPRINTED. 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 RETAIL GIANTS ACCOUNTED FOR 81% OF OUR  
1992 SALES, AND WE ARE PROUD TO BE A PART OF  
THEIR BUSINESS.

## MEETING NEEDS

SUN HAS BEEN SUCCESSFUL AT ATTRACTING  
AND RETAINING CUSTOMERS FOR ONE REASON: WE DO  
EVERYTHING WE CAN TO MEET THEIR NEEDS QUICKLY  
AND ACCURATELY.



## A SUN

### CUSTOMER CAN EXPECT:

- A WIDE SELECTION OF CREATIVE DESIGNS
- COMPETITIVE PRICING
- HIGH VOLUME PRODUCTION
- A WIDE VARIETY OF STYLES
- RAPID RESPONSE TO CUSTOMER CHANGES
- QUICK DELIVERY SCHEDULES.

WITH SERVICE SUCH AS THIS, IT'S NOT  
SURPRISING THAT ONCE A RETAILER BECOMES A SUN  
CUSTOMER, IT USUALLY STAYS A SUN CUSTOMER.



## SERVING OUR CUSTOMERS

OUR PRIMARY RESPONSIBILITY IS TO  
OUR CUSTOMERS. IF A CUSTOMER  
WANTS SOMETHING, WE'LL  
FIND A WAY TO GET IT.





OUR DEDICATION TO CUSTOMER SATISFACTION BEGINS WITH FAST RESPONSE. KNOWING THAT QUICK TURNAROUND IS ESSENTIAL IN THE RETAIL MARKETPLACE, SUN HAS ESTABLISHED A NUMBER OF SYSTEMS DESIGNED TO MOVE ORDERS TO OUR CUSTOMERS' SALES FLOORS AS QUICKLY AS POSSIBLE. OUR JOHNSON CITY GARMENT MANUFACTURING FACILITY, TEAMED WITH OUR DOMESTIC CUT-AND-SEW CONTRACTORS, ALLOWS US TO RESPOND QUICKLY TO OUR CUSTOMERS' GARMENT ORDERS. THE ENORMOUS CAPACITY OF OUR STATE-OF-THE-ART MULTI-COLOR PRESSES—OVER 26 MILLION UNITS—ALLOWS US TO SCREENPRINT LARGE ORDERS WITH REMARKABLE SPEED AND SLASH THE LEAD TIME FOR CUSTOM ORDER DETAILING.



## EVERY ORDER IS UNIQUE

WHILE EVERY CUSTOMER HAS THE NEED FOR FAST RESPONSE, MANY HAVE NEEDS THAT ARE UNIQUE TO THEIR STORES. SUN CAN GENERATE CUSTOMER PRICE TICKETS, ATTACH HANG TAGS, BAG ORDERS, AND PROVIDE GOODS PRE-HANGERED AND READY TO GO. A CUSTOMER CAN LITERALLY PUT ONE OF OUR

SHIPMENTS ON ITS RACKS THE MOMENT IT'S RECEIVED.

SUN RECOGNIZES INCREASING ACCEPTANCE FOR "STORE BRANDED" MERCHANDISE. TO THAT END SUN WORKS CLOSELY WITH STORE BUYERS DEVELOPING EXCLUSIVE ART AND GARMENT DESIGNS FOR EACH CUSTOMER—OFTEN WITH THE CUSTOMER'S STORE LABEL SEWN IN.

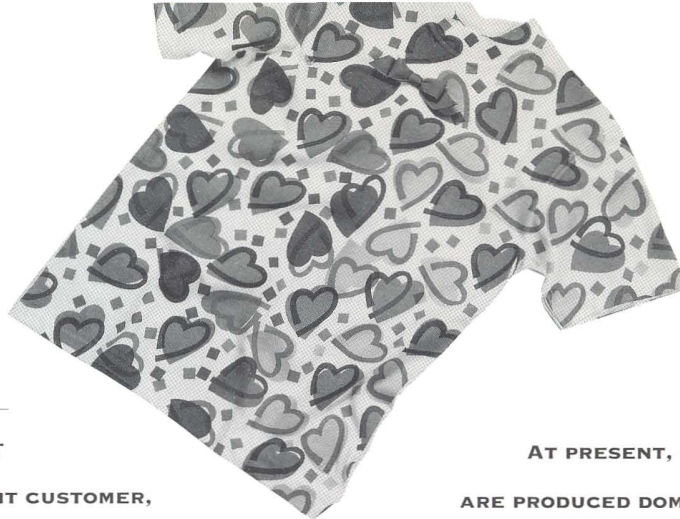
FIELD RESEARCH, ALONG WITH FOCUS GROUPS HELD IN KEY AREAS AROUND THE COUNTRY, GIVES SUN MERCHANTISERS, DESIGNERS AND ARTISTS UP-TO-DATE INFORMATION THEY NEED ON EMERGING TRENDS, HOT COLORS AND UNIQUE FABRICS. WE SHARE THIS INFORMATION WITH OUR CUSTOMERS, AND ADD OUR OWN INSIGHTS TO CREATE A SNAPSHOT OF A CONSTANTLY MOVING TARGET.

THEN OUR DESIGNERS AND GRAPHIC ARTISTS TRANSFORM THAT DIVERSE INPUT INTO ORIGINAL, PROGRESSIVE GARMENT AND ART DESIGN COMBINATIONS, SPECIFICALLY TARGETED TO THE MARKETS THAT BEST SERVE OUR CUSTOMERS' NEEDS.

IN SHORT, OUR "PARTNERING" APPROACH TO







DEVELOPING THE RIGHT PRODUCT FOR THE RIGHT CUSTOMER, ALONG WITH A WIDE RANGE OF GARMENTS AND ART DESIGNS, ENSURES OUR CUSTOMERS OF APPAREL THEY CAN REALLY CALL THEIR OWN. AND WHEN OUR CUSTOMERS CONSIDER US AN EXTENSION OF THEMSELVES—WE KNOW WE'RE DOING OUR JOB RIGHT.



## OPERATIONS

HERE ARE THREE WAYS WE OBTAIN THE BLANK GARMENTS THAT BECOME SUN SPORTSWEAR. WE:

- BUY PACKAGED GOODS FROM MILLS
- BUY FABRIC AND TRIM AND CONTRACT TO HAVE GARMENTS MANUFACTURED TO OUR SPECIFICATIONS
- MANUFACTURE GARMENTS OURSELVES AT OUR JOHNSON CITY, TENNESSEE, FACILITY.

OVER THE PAST 18 MONTHS, SUN HAS DEVELOPED THE ABILITY TO PURCHASE FABRIC AND TRIM AND HAVE GARMENTS MANUFACTURED TO OUR SPECIFICATIONS. THIS IS AN IMPORTANT STEP IN OUR EVOLUTION FROM SCREENPRINTER TO A BROADER BASED CASUAL APPAREL COMPANY.

AT PRESENT, 63% OF ALL GARMENTS WE SELL ARE PRODUCED DOMESTICALLY, WITH THE BALANCE COMING FROM OFFSHORE. PRODUCING GARMENTS DOMESTICALLY OFFERS SHORTER LEADTIMES, ALLOWING SUN TO MOVE QUICKLY TO FULFILL CUSTOMER NEEDS, WHILE OFFSHORE GARMENTS OFFER GREATER MARGINS.

## SCREENPRINTING

WE PRODUCE SOME 17 MILLION GARMENTS A YEAR, MORE THAN 67 THOUSAND PER DAY.

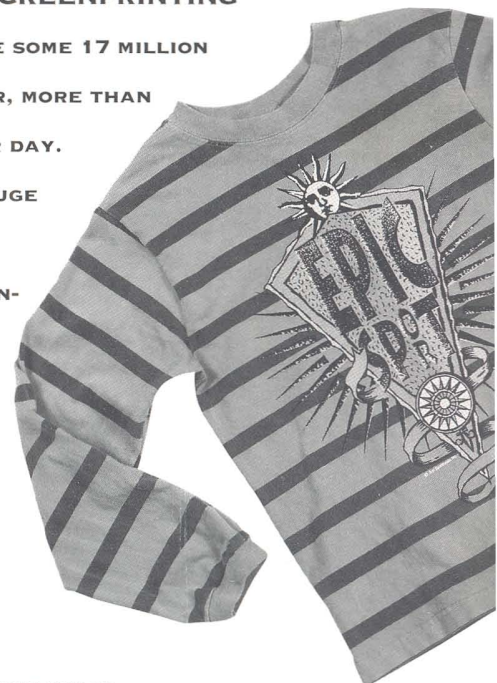
DESPITE THESE HUGE QUANTITIES, OUR ADVANCED SCREEN-PRINTING

EQUIPMENT ALLOWS US TO MAINTAIN THE HIGH QUALITY OUR CUSTOMERS HAVE COME TO

EXPECT. OUR CAPABILITY IN

THIS AREA CONTINUED TO GROW IN 1992. WE:

- ADDED 12 COLOR PRESSES THAT ALLOW US TO PRODUCE GARMENTS WITH MORE COLOR AND SPECIAL EFFECTS THAN EVER BEFORE
- PURCHASED A NEW BELT PRINTER THAT ALLOWS SUN TO PRINT SWEATSHIRTS WITH OVERALL COVERAGE.



# M

## COLOR ME FASHIONABLE

MORE THAN ANYTHING ELSE, COLOR IS  
WHAT MAKES SCREENPRINTED  
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 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 SCREEN PRINTING RUN BEGINS, WE  
CONDUCT EXTENSIVE HAND TESTING TO DETERMINE THE  
PRINTABILITY OF DESIGNS WITH VARIOUS FABRICS AND  
COLORS. GARMENTS ALSO UNDERGO COMPREHENSIVE  
WASHABILITY TESTING TO ENSURE THAT OUR IMPRINTED  
DESIGNS LOOK GOOD AND WEAR WELL DAY IN AND DAY  
OUT. AFTER ALL, THAT'S HOW THEY'RE WORN.



## PEOPLE- AND EARTH-FRIENDLY FACILITIES

THE DESIGN AND OPERATION OF BOTH OUR KENT,  
WASHINGTON, AND JOHNSON CITY, TENNESSEE  
FACILITIES REFLECT OUR OVERRIDING CONCERN WITH  
PROVIDING A SAFE, PLEASANT WORK ENVIRONMENT  
FOR SUN PEOPLE. FOR INSTANCE, THE FRESH AIR  
SUPPLY IN OUR SCREENPRINTING FACILITIES IS  
REPLENISHED EVERY TWO MINUTES.

WE'RE ALSO COMMITTED TO DOING OUR BEST  
TO PROTECT THE ENVIRONMENT. WE CONSISTENTLY  
OPERATE WELL ABOVE LOCAL, STATE AND FEDERAL  
ENVIRONMENTAL STANDARDS. SUN ACHIEVES 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.

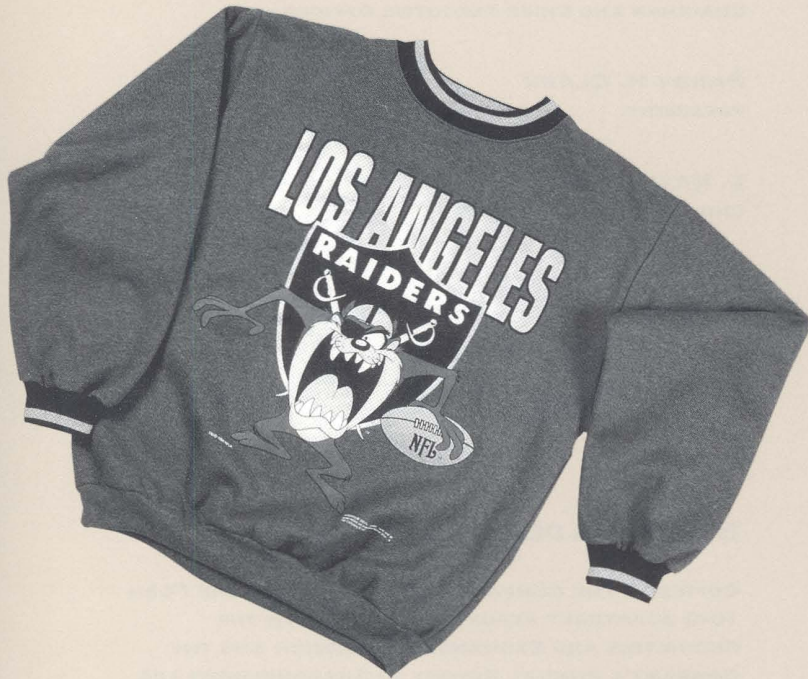


## THE LOOK

OUR UNIQUE IMPRINTED SPORTSWEAR PROVIDES A WAY FOR PEOPLE TO MAKE A STATEMENT ABOUT THEMSELVES AND THEIR INTERESTS. THAT STATEMENT IS EXPRESSED BY THE ART DESIGN. NEW ARTWORK IS CONSTANTLY BEING DEVELOPED BY SUN'S 30 ARTISTS. AT SUN, ARTWORK FALLS INTO ONE OF TWO CATEGORIES:

### PROPRIETARY ARTWORK

OUR ARTISTS AND MERCHANTISERS CONSTANTLY CREATE ORIGINAL PROPRIETARY ARTWORK. OUR STRONG REPUTATION FOR THESE UNIQUE DESIGNS GIVES US AN EDGE, PARTICULARLY WITH OUR MASS MERCHANDISE CUSTOMERS. IN 1992, PROPRIETARY DESIGNS ACCOUNTED FOR 82% OF OUR OVERALL SALES.



### LICENSED ARKWORK

THROUGH LICENSING AGREEMENTS, SUN IS ABLE TO ADAPT POPULAR THEMES AND CHARACTERS FOR USE ON A VARIETY OF APPARREL. OUR ACQUISITION STRATEGY IS TO BUILD A PORTFOLIO OF LONG TERM CLASSIC PROPERTIES, INCLUDING GARFIELD, THE NATIONAL WILDLIFE FEDERATION, MAJOR LEAGUE BASEBALL/LOONEY TUNES, NATIONAL FOOTBALL LEAGUE/LOONEY TUNES, ALL THE WHILE SEEKING OUT HOT NEW PROPERTIES, SUCH AS DISNEY'S "LITTLE MERMAID."



## FINANCIAL HIGHLIGHTS

YEAR ENDED DECEMBER 31

NET SALES

NET INCOME (LOSS)

NET INCOME (LOSS) PER SHARE

WEIGHTED AVERAGE SHARES OUTSTANDING

WORKING CAPITAL

TOTAL ASSETS

SHAREHOLDERS' EQUITY

IN THOUSANDS, EXCEPT SHARE AMOUNTS

1992	1991	1990
\$70,645	\$71,795	\$71,678
(517)	2,192	983
(0.09)	0.39	0.18
5,609,000	5,609,000	5,608,104
\$19,418	\$22,497	\$20,312
40,278	36,089	35,819
23,902	24,419	22,227

## BOARD OF DIRECTORS AND MANAGEMENT

**LARRY MOUNGER**

CHAIRMAN AND CHIEF EXECUTIVE OFFICER  
OF SUN SPORTSWEAR, INC.

**RANDY H. CLARK**

PRESIDENT OF SUN SPORTSWEAR, INC.

**DAVID A. SABEY, DIRECTOR**

CHAIRMAN OF SABEY COMPANIES

**JOHN W. PAXTON, DIRECTOR**

SENIOR VICE PRESIDENT AND  
GROUP EXECUTIVE OF LITTON INDUSTRIES, INC.

**JAMES WILLIAMS, DIRECTOR**

EXECUTIVE VICE PRESIDENT  
OF SEAFIRST BANK

**LARRY MOUNGER**

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

**RANDY H. CLARK**

PRESIDENT

**L. KAYE COUNTS**

CHIEF OPERATING OFFICER

**SANDRA L. TEUFEL**

VICE PRESIDENT, WOMEN'S AND GIRLS' DIVISION

**KEVIN JAMES**

VICE PRESIDENT OF FINANCE

## SHAREHOLDER INFORMATION

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 JAMES

VICE PRESIDENT OF 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 19, 1993, THE NUMBER OF SHAREHOLDERS OF RECORD WAS APPROXIMATELY 135.

### INDEPENDENT PUBLIC ACCOUNTANTS

PRICE WATERHOUSE

1001 FOURTH AVENUE PLAZA

SUITE 4200

SEATTLE, WA 98154

### TRANSFER AGENT AND REGISTRAR

U.S. STOCK TRANSFER CORPORATION

1745 GARDENA AVENUE 2ND FLOOR

GLENDAL, CA 91204





LITTLE MERMAID CHARACTERS ARE THE EXCLUSIVE  
PROPERTY OF THE WALT DISNEY COMPANY.

G.U.T.S.<sup>®</sup> IS A REGISTERED TRADEMARK OWNED BY  
RON STICKLEY.

EPIC<sup>®</sup> AND EPIC SURF & SKATE<sup>®</sup> ARE REGISTERED  
TRADEMARKS OWNED BY SUN SPORTSWEAR, INC.

LOONEY TUNES, CHARACTERS, NAMES AND ALL  
RELATED INDICIA ARE TRADEMARKS OF WARNER BROS.,  
A TIME WARNER ENTERTAINMENT COMPANY, L.P.

NFL, NATIONAL FOOTBALL LEAGUE, AND NFL CLUB  
TRADEMARKS, INDICIA AND SLOGANS ARE TRADEMARKS  
OF THE NATIONAL FOOTBALL LEAGUE AND ITS  
RESPECTIVE NFL CLUBS.

MAJOR LEAGUE BASEBALL AND MLB CLUB  
TRADEMARKS ARE THE EXCLUSIVE PROPERTY OF THE  
RESPECTIVE MAJOR LEAGUE CLUBS.



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