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SUN  
SPORTSWEAR  
ANNUAL  
REPORT  
1993

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Our Kent, Washington headquarters houses our screenprint production, customer service, sales, marketing, design, sourcing and administrative operations.

## TO OUR SHAREHOLDERS

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In a move that took us back to our core business strengths, Sun Sportswear returned to profitability and achieved record sales in 1993. It was a year of growth, progress and change - a marked difference after the company incurred a loss in 1992.

**SALES HIT RECORD** - Net sales rose almost 50% to \$104.8 million from \$70.6 million in 1992. We recorded net income of \$2.7 million as compared to a loss of \$517,000 the previous year. Our ending inventory of \$22.1 million was the same for both years. But because our sales volume increased almost 50%, our inventory turns (based on sales) increased to 4.8 from 3.2 in 1993. Operating expenses were kept in control and helped to boost bottom-line results.

**LICENSED AND WOMEN'S PRODUCTS LED SALES GROWTH** - Sales of garments bearing licensed characters and trademarks accounted for 56% of 1993's sales, up from 18% in 1992. The growth in licensed-product sales was led by our much sought-after products featuring licensed Looney Tune characters. T-shirts, sweatshirts, baseball shirts and other apparel carrying Looney Tunes, combination Looney Tunes/Major League Baseball, Looney Tunes/National Football League and Looney Tunes/National Hockey League accounted for 46% of total sales in 1993.

The Looney Tunes licensed products were extremely important to our sales success of 1993. Nevertheless, in the fashion-oriented retail market place, it is difficult to sustain the popularity of licensed properties. We fully expect customer response to Looney Tunes will plateau during 1994. In turn, our challenge is to add new licenses and brands appealing to our customers' changing tastes. In 1993 and early 1994, we added some very strong new licenses including: Teenage Mutant Ninja Turtles™, Batman®, and Disney's Home Improvement®, 101 Dalmations®, Little Mermaid®, Aladdin® and The Lion King®.

Demand for our Women's and Girls' garments was also strong in 1993. Sales for this relatively young division increased a dramatic 144% in 1993 to \$36 million from \$15 million the previous year. We anticipate continued growth in the Women's and Girls' Division, although at a slower rate than we experienced in 1993.

In addition, our G.U.T.S.® proprietary brand, first introduced in 1993, has been positively received by our retail customers and ultimately, the consumer. Besides our core apparel product line, we have eight G.U.T.S. licensees in the following product categories: shoes, hats, windwear, bags, sunglasses, denim, socks and sweaters. We look for continued growth in our G.U.T.S. brand.

**OPERATIONAL CAPABILITY UPGRADED** - We are seeking to grow earnings in two ways: by increasing sales and by investing in technological advances that diminish operating costs. During 1993, we embarked on two such investment programs that will help deliver financial rewards beginning in 1994.





First, we acquired and are installing a new computer-aided design system to speed up the production of artwork for our screen-printed designs. This system will allow our artists to quickly create art, make any customer changes with a few keystrokes and output the final design directly on film - saving considerable time and money.

Second, during 1993 and early 1994, we acquired eight new-generation "overall printing" and "12-color printing" presses. This decision was based on high customer demand in 1993 for designs with more colors and more printing on the garments. Limitations in our internal capacity for such work caused us to subcontract more than \$3 million in production, thus raising our costs in 1993. These presses now will allow us to print more production internally and at a lower cost.

**REFOCUS ON OUR CORE BUSINESS** - Our return to profitability in 1993 was achieved, in no small way, through increased attention to our core strength - designing, printing and selling screen-printed products. As we examined our business in 1993, it became apparent our Johnson City cut-and-sew garment-manufacturing factory would not fit into this business refocus. It's never an easy decision to

shut down an operation that affects employees. But the closure will result in significant cost savings for Sun Sportswear and renewed emphasis on our primary business. We will continue to concentrate on designing and screen printing garments. In turn, we will let our worldwide base of cut-and-sew contractors and package vendors do what they do best - manufacture blank garments.

**SENIOR MANAGEMENT POSITION FILLED** - In January 1994, President Randy Clark left the Company and his primary role as head of our Men's and Boys' Division. The latter responsibilities were assumed by Bill Kennedy, who joined Sun Sportswear in February 1994 as Senior Vice President of the Men's and Boys' Division. Bill has broad experience in the apparel industry - ranging from design and merchandising to strategic marketing and licensed-product development - with companies such as Nike, Dayton Hudson and Jostens Sportswear. We look forward to many positive contributions from Bill.

**POSITIONED FOR THE FUTURE** - Without a doubt, 1993 was a challenging year. Yet, the result was gratifying and worth the effort. The Company is now focused on our strength, which is designing and printing casual apparel. We added capacity and new technology to strengthen our market position as a low-cost producer of quality products delivered on a quick-response basis. Our licensing portfolio has never been stronger, and the future for our Women's and Girls' Division is promising. Such accomplishments give us confidence in our ability to successfully handle new growth opportunities in 1994 and beyond.



Sincerely,

**Larry C. Mounger**  
**Chairman, Chief Executive**  
**Officer and President**  
**Sun Sportswear, Inc.**

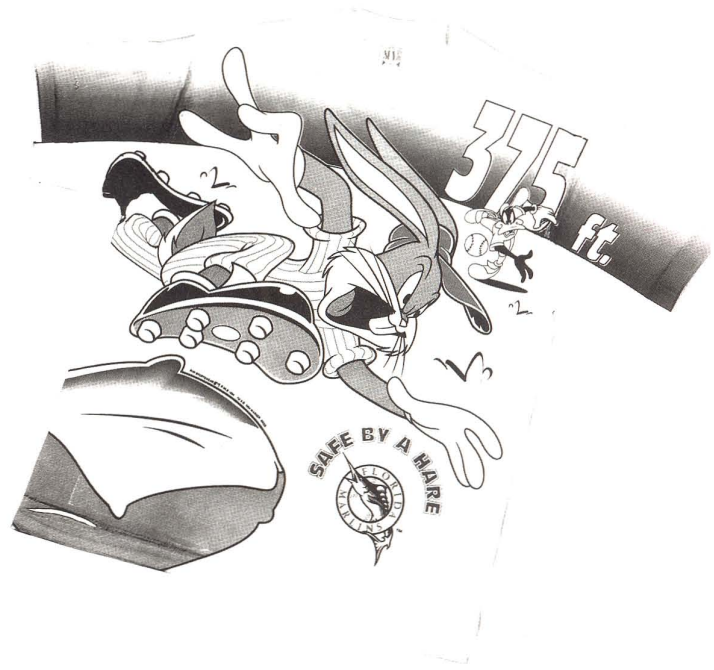
## SERVING THE MASS-MERCHANT MARKET

Sun Sportswear serves the mass-merchandise retail market as one of the world's largest designers and manufacturers of imprinted casual sportswear for adults and children. Selling apparel to this huge marketplace requires quality products at low prices, sufficient capacity to quickly produce large quantities, and outstanding customer service that adds value to products - all Sun Sportswear's strengths.

During 1993, 82% of Sun's sales were to three of the nation's largest mass merchandisers - Target, Wal-Mart and K mart - with the balance spread over another 30 customers such as Bradlees, Montgomery Ward, Hills Department Stores, Caldor and Sears.

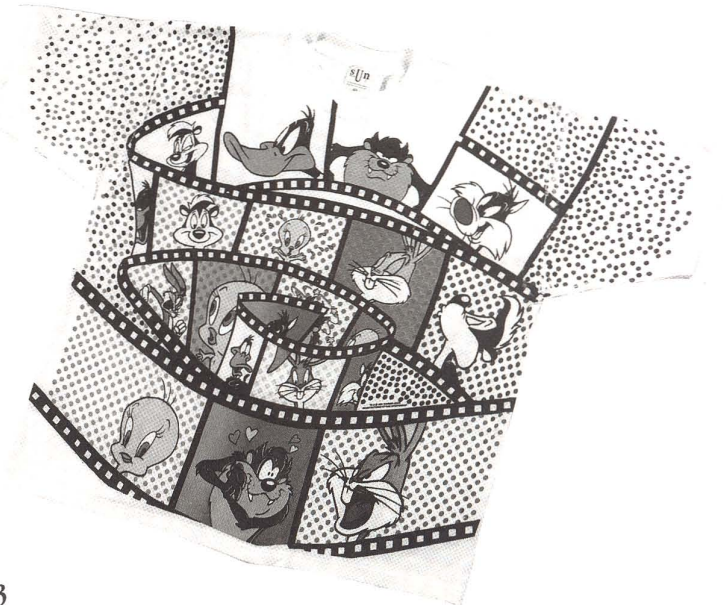
Within this customer base, Sun Sportswear provides product in two major divisions: Men's and Boys', the Company's foundation since beginning in 1981; and Women's and Girls', introduced in 1989. In 1993, Men's and Boys' accounted for 66% of all sales, while Women's and Girls' increased to 34% from 20% the previous year.

The Company's product mix includes T-shirts, tank-tops, sweatshirts, shorts, sweatpants, nightshirts and more-detailed, fashion-oriented garments, such as hooded tops, women's leggings and button-front baseball jerseys. The vast majority of Sun's products are screen printed.



## ANTICIPATING THE DEMANDS OF RETAIL SHOPPERS

Sun sportswear is recognized for its ability to attract retail shoppers' interests. We accomplish this by offering a well-designed product line and fresh, attractive artwork that *sells* our screen-printed goods.







To keep ahead of changing consumer demands and produce what shoppers want, company personnel monitor television shows, films, music and published media. Further, we stay abreast of available product licenses, hold regional focus groups and conduct field research on emerging trends, hot colors and unique fabrics. Armed with this information, Sun's large staff of 34 in-house artists produce "proprietary" designs - art owned by and unique to Sun Sportswear - and "licensed" designs - designs that creatively use licensed characters and trade names.

#### **ADAPTING LICENSES TO WINNING PRODUCTS:**

Apparel bearing licensed designs has broad - growing - market appeal, capitalizing on the popularity of characters such as Looney Tunes and Garfield, and trade names such as the National Wildlife Federation. Sun's licensed Looney Tunes products were its biggest hit in 1993. Overall, licensed goods accounted for 56% of all sales - considerably higher than a year ago.

The Company is constantly searching for new licensed opportunities and has recently strengthened its portfolio of licenses with the addition of Teenage Mutant Ninja Turtles™, Batman®, and the Walt Disney Company's Aladdin®, The Lion King®, 101 Dalmations® and Home Improvement®.

In addition, Sun Sportswear's strong reputation for quality artwork and mass-merchant customer satisfaction attract key licensors, such as Warner and Disney, as new licensing opportunities become available.

**PROPRIETARY DESIGNS GIVE BALANCE:** Our creative artists constantly produce original proprietary designs. Our strong reputation for these unique designs gives us an edge with our mass merchants. In 1993, proprietary designs accounted for 44% of our overall sales, and we believe they will continue to be an important part of our future business.

Sun has developed several proprietary design "brand names". These include G.U.T.S.®, which garnered enthusiastic market acceptance when introduced in 1993, as well as Unique Sportswear Attitude™ (U.S.A.), Epic®, and Boardheads®.

# TAILORING SERVICES FOR MASS-MERCHANT NEEDS

**S**un Sportswear's success is tied to the satisfaction of its retail mass-merchandise customers. That satisfaction is based on three major ingredients:

- providing quality, low-cost products that sell on the retail floor;
- offering customized apparel and value-added services;
- fulfilling orders in a complete and timely manner.

**SELL THROUGH IS KEY:** The retail "sell-through" rate of Sun Sportswear's adult and children's casual sportswear is high. It results from an attractive selection of creative designs using both licensed and proprietary artwork, and competitive pricing. Being able to move large quantities of inventory quickly for our retail customers - through high retail sell throughs - drives our success in the mass-merchandising market.

**QUALITY DEMANDS GROWING:** There is growing demand for quality in value-priced garments, ranging from minimal garment shrinkage to long-lasting color. Mass-merchandise shoppers want products they can depend on and wear confidently.

To assure our apparel quality, we have developed a worldwide base of "blank" garment vendors - suppliers who have demonstrated their willingness to adhere to our new quality requirements. We regularly visit these factories to monitor and test garment quality. In addition, before a screen printing run begins, we conduct extensive testing to determine the printability of our designs on various garment fabrics and colors

**CUSTOMIZING APPAREL:** Sun has seen increasing consumer acceptance of "store-branded" merchandise. To that end, Sun works closely with store buyers to develop exclusive art and garment designs for each merchant - often with the customer's label sewn in.







**PROVIDING VALUE-ADDED SERVICES:** Serving customers is more than supplying quality salable products. It also encompasses pre-shipment assistance that enhances the *value* of our products to the retailer. Sun Sportswear's in-house professionals are experts at customizing activities that speed the flow of goods from us to the retail sales floor, such as attaching customer sales tags to the finished goods and placing the apparel on hangers and in see-through plastic bags.

**MEETING DELIVERY SCHEDULES:** Understanding the importance of keeping salable product on the retail floor for its customers, Sun Sportswear works diligently to assure timely delivery. The enormous capacity of our state-of-the-art screen printing facility - over 28 million units annually - allows us to screen print large orders with remarkable speed and slash the lead time for custom-order detailing.

In addition, Sun maintains a large stock of blank inventory to quickly fill "at once" orders. We've also developed the ability to electronically receive orders from our retail customers and provide on-line status of their orders.

## KEEPING OUR OPERATIONS EFFECTIVE AND EFFICIENT



To help assure our continued ability to anticipate retail-shoppers' demands and tailor services for our mass merchants, we constantly seek ways to make our operations more effective and efficient. During 1993 and continuing into 1994, we have made significant investments in new production technology. We also take pride in the environmentally sound methods we have always employed in our operations.



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**ADDING STATE-OF-THE-ART PRESSES:** Between 1993 and early 1994, Sun acquired six new 12-color screen-printing presses and two 16-color "Ultimate" screen-printing presses. These new presses help us meet the increasing demand for larger designs printed with more colors, and in some instances the presses are less expensive to operate.

**COMPUTERS SPEED DESIGN:** In late 1993, we began installing a new computer-aided design (CAD) system that makes the mechanics of the art-design process easier and quicker, while freeing up more "creative" time. Using the new CAD system, the color and look of an initial design can be altered in just moments. A design now moves to its final stage in a fraction of the previous time. With the new system, artists can create dramatically more designs while decreasing overall production costs.

**OPERATIONS ARE ENVIRONMENTALLY SOUND:**

The safe, environmentally sound operation of our facility is important to us and our customers. We employ non-toxic plastisol and water-based inks for screen printing. Non-toxic citrus-based solvents are used to clean our equipment. We recycle nearly half of our solid waste, and the fresh-air supply in our plant is scrubbed every two minutes.



## FINANCIAL HIGHLIGHTS

IN THOUSANDS, EXCEPT SHARE AMOUNTS

YEAR ENDED DECEMBER 31	1993	1992	1991
NET SALES	\$104,772	\$70,645	\$71,795
NET INCOME (LOSS)	\$2,737	(\$517)	\$2,192
NET INCOME (LOSS) PER SHARE	\$0.49	(\$0.09)	\$0.39
WEIGHTED AVERAGE SHARES OUTSTANDING	5,611,000	5,609,000	5,609,000
TOTAL ASSETS	\$42,247	\$40,278	\$36,089
SHAREHOLDERS' EQUITY	\$26,820	\$23,902	\$24,419

## BOARD OF DIRECTORS AND MANAGEMENT

**Larry Mounger, Chairman**

Chairman and Chief Executive Officer  
of Sun Sportswear, Inc.

**James Williams, Director**

Executive Vice President  
of Seafirst Bank

**James Walsh, Director**

Retired President of Allied Stores

**Robert Pene, Director**

Principal in Wiley, Pene and Company

**Larry Mounger**

Chairman, President and Chief Executive Officer

**L. Kaye Counts**

Executive Vice President and Chief Operating Officer

**Sandra L. Teufel**

Senior Vice President - Women's and Girls' Division

**William "Bill" Kennedy**

Senior Vice President - Men's and Boys' Division

**Kevin James**

Senior Vice President and Chief Financial Officer

## SHAREHOLDER INFORMATION



**FORM 10-K, 10-Q AND ANNUAL REPORTS:** Copies of the Company's Form 10-K and 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  
Senior Vice President and Chief Financial Officer  
Sun Sportswear, Inc.  
6520 South 190th Street  
Kent, WA 98023

**STOCK MARKET INFORMATION:** Sun's stock is listed on the NASDAQ national market system. Our ticker symbol is SSPW. As of March 14, 1994, the number of shareholders of record was approximately 159.

**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  
Glendale, CA 91204



Aladdin, The Lion King, characters, names and all related indicia are trademarks and property of the Walt Disney Company.

G.U.T.S.® is a registered trademark owned by Ron Stickley.

Spirit Lake Outfitters™ is a trademark owned by Sun Sportswear.

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.

Garfield® is a registered trademark owned by Jim Davis.

Pro Spirit® is a registered trademark owned by Target.

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