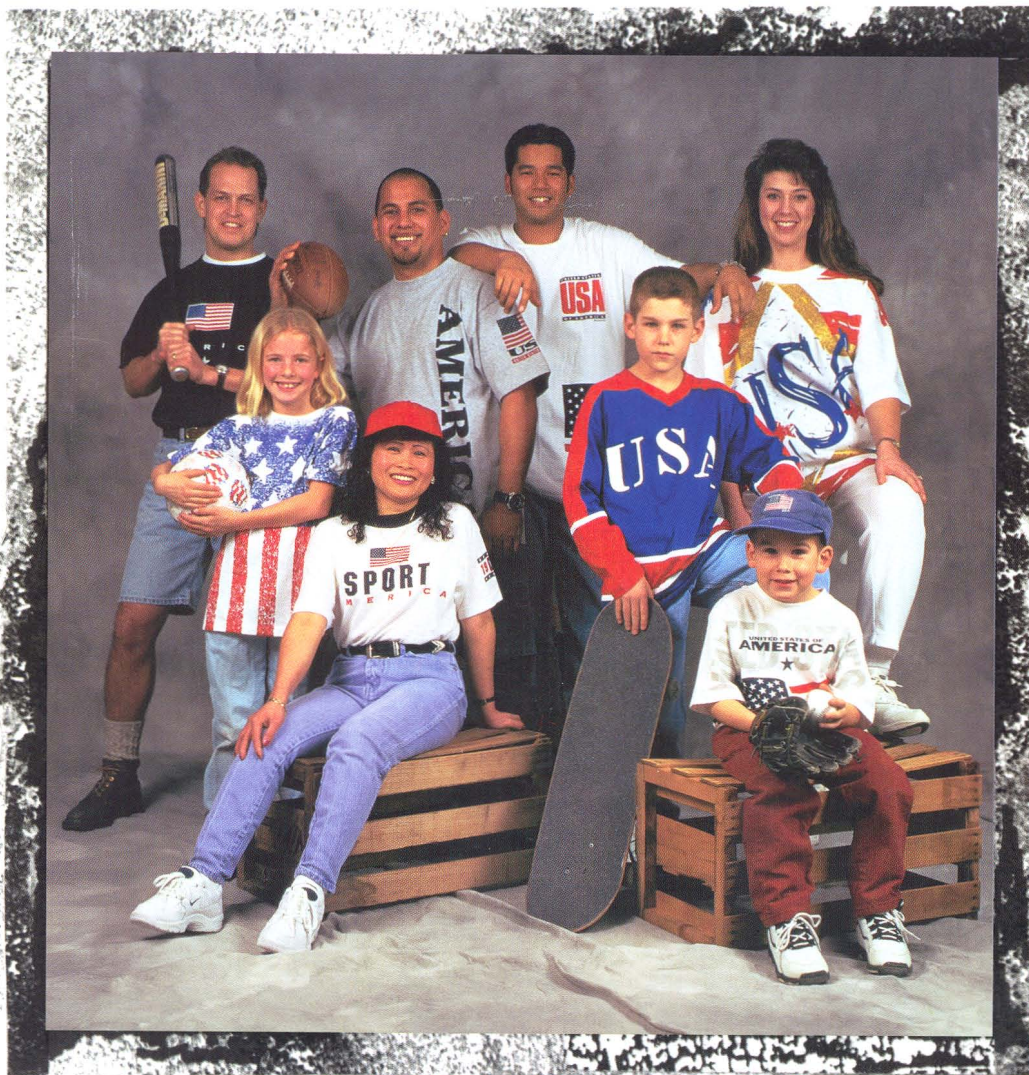


SUN SPORTSWEAR

1995



ANNUAL
REPORT

1995



To Our Shareholders

1995 was a challenging year for Sun Sportswear, as it was for the entire apparel industry. During the year, the company dealt with a very difficult retail marketplace and invested substantial sums to make its operations more efficient. In the end, the combined cost of these events resulted in Sun recording a net loss of \$3.7 million in 1995.

The brighter side of the picture is that Sun Sportswear has entered 1996 a stronger, more focused company poised to maintain its leadership position in the industry.

1995 RESULTS

The Company's sales fell 17%, to \$93 million in 1995, in a retail environment that was as poor as many industry veterans have seen in decades. Sales were impacted by the Major League Baseball strike and the loss of the joint National Football League/Looney Tunes cross license. Due to the falloff in sales and cancellations during this period, inventories backed up.

Gross margins fell in 1995, as Sun offered customer incentives to combat the inventory back-up, and recorded several million dollars in inventory markdowns arising from expected losses on the sale of surplus inventory. The Company's reduced overall sales levels in 1995 also diminished the Company's capacity to cover its fixed costs, which disproportionately lowered gross margins.

In 1995, the Company embarked upon efforts to streamline its sourcing, printing and distribution functions by re-engineering its operating processes. The Company's operating costs rose by over \$750,000 as a result of its investment in these re-engineering efforts, yet the benefits won't be recouped until 1996 and beyond.

MEETING CHALLENGES IN 1996

Many steps have been taken to meet the challenges posed in 1995 and we believe these efforts have given Sun a solid foundation for the future.

In February 1996, we combined our Women's/Girls' and Men's/Boys' divisions under the leadership of Sandy Teufel. Under Sandy's direction, our Women's/Girls' group has grown to a \$67 million division since its inception in

1989. We are applying her vision, energy and understanding of the market to our full product line.

Streamlined inventory purchase systems have already reduced current inventories by over \$10 million from the peak balance of \$30 million at September 30, 1995. This reduction, combined with the inventory purchase systems we have recently put in place, should minimize the impact of inventory circumstances on the Company's profitability going forward.

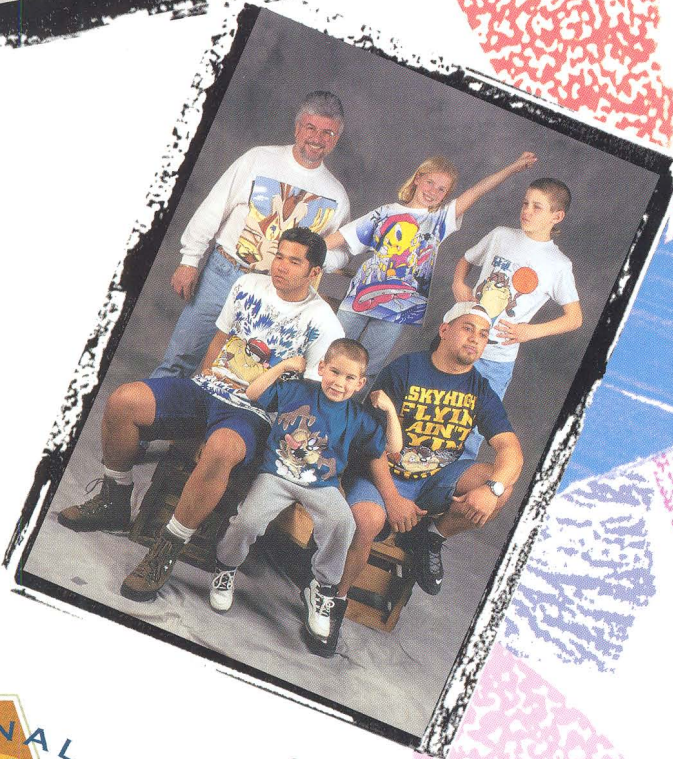
Re-engineering investments made during 1995, including improvements to our information system, use of automated manufacturing processes, and enhancement of Sun's high-tech approach to cutting-edge art, are already bolstering Sun's performance and will continue to do so in the months to come.

In February, we also initiated a restructuring plan geared toward flattening the organization, making it easier for customers to work with Sun and improving profitability. Through these efforts, we eliminated approximately 30 indirect positions from our 500 employee workforce.

We've added new, exciting licenses to our portfolio, including Walt Disney Pictures' 1996 animated movie *The Hunchback of Notre Dame* (©Disney) and the 1996 live action release *101 Dalmatians* (©Disney). We are optimistic about the 1996 prospects for *Pooh* the brand, based on the characters from Winnie the Pooh and Friends (©Disney), a license we acquired and began developing last year. We are enthused about the continued popularity of the *Looney Tunes* (©Warner Bros.) characters. In addition, we have developed new, private label, proprietary programs with our Men's/Boys' customers, including J.C. Penney's Arizona Jean Company™ and Sears' Canyon River Blues™ product lines.

As a result of these and other efforts, Sun is a stronger, more focused company. We are confident as we go forward in 1996 that our people and products will enhance Sun's leadership position in the most important arena of all: the marketplace.

William S. Wiley
Chairman, Chief Executive Officer
and President



Sun Sportswear is one of the largest designers and manufacturers of casual sportswear for adults and children. Since 1981, Sun has been providing graphically driven apparel to the mass and mid-tier retail market. 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 1995, 88% of Sun's sales were to three of the nation's largest mass merchandisers – Wal-Mart, Target and Kmart – with the balance spread over additional customers such as JCPenney, Sears and Montgomery Ward.

Within this customer base, Sun Sportswear provides product in two major divisions: Women's and Girls', and Men's and Boys'. In 1995, Women's/Girls' accounted for 69% of sales, while Men's/Boys' accounted for 31% of all sales.

Sun Sportswear's product line includes T-shirts, tank-tops, sweatshirts, shorts, nightshirts and more detailed, fashion-oriented garments, such as button-front baseball jerseys, polo shirts and women's leggings. The vast majority of Sun's products are screen printed and are offered as separates and coordinates.

Speed

QUALITY PRODUCTS

HIGH RETAIL SELL-THROUGH

MEETING DELIVERY SCHEDULES

"Our primary responsibility is to our customer. With every order our customers are confident they will receive quality garments, competitive pricing and on-time delivery."

Our customers demand quality in value-priced garments, so they, in turn, can provide the end consumer apparel they can depend on and wear confidently. To ensure our apparel quality, we work with "blank" garment vendors who adhere to our stringent quality requirements. We employ full-time field inspectors who regularly visit vendor factories to monitor and test garment quality. Once the garments are in-house, they are again examined for their adherence to Sun's specifications. We check for shrinkage, dye and finish consistency, color fastness, size specifications and construction strength and uniformity. Finally, before a production run is scheduled, extensive testing is conducted to assure the printability of our designs on a variety of garment fabrics and colors.

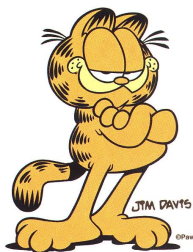
CUSTOMIZED APPAREL

While every Sun customer has the same needs for quality and quick response, many want garments that are unique to their store. To that end, Sun works closely with store buyers to develop exclusive art and garment designs for each merchant.

VALUE-ADDED SERVICES

Serving our customers entails more than supplying quality salable products. It also encompasses pre-shipment assistance that enhances the value of our products to the retailer. To ensure that product reaches the retail floor as quickly as possible, Sun Sportswear has systems in place to generate customer price tickets, attach hang-tags, bag orders and provide customers with goods hangered and ready to go. In addition, our EDI (Electronic Data Interchange) capability supports our customers' internal order processing and allows Sun to keep the retail floors stocked with the best selling items.

Since keeping salable product on the retail floor is imperative to our customers, Sun Sportswear works diligently to assure timely delivery. The enormous capacity of our state-of-the-art screen printing facility – 28 million units annually – allows us to screen print large orders with remarkable speed and slash the lead time for custom-order detailing.



LICENSED PRODUCT

PROPRIETARY DESIGNS

Sun Sportswear is recognized for its ability to attract retail shoppers' interests. We accomplish this by offering a well-designed garment and innovative, attractive artwork.

Sun Sportswear boasts one of the most dynamic art departments of any screen printer in the country. With state of the art technology at their fingertips, our in-house artists produce "licensed" designs – designs that creatively use licensed characters and trade names, and "proprietary" designs – art owned by and unique to Sun Sportswear. The extraordinary talent of the art staff enables Sun to respond quickly to our customer demands with variety and freshness in art designs.

Sun's ability to develop the right garments in step with the right design comes from a merchandising staff that continually monitors apparel trends. They are constantly on the lookout for new fashion trends, hot colors, exciting styles and unique fabrics.

Apparel bearing licensed designs has broad market appeal, capitalizing on the popularity of characters such as Looney Tunes (©Warner Bros.), Pocahontas (©Disney), Pooh, the brand (©Disney) and Garfield (©Paws, Inc.). Sun's licensed Looney Tunes products were its biggest sellers in 1995. Overall, licensed goods accounted for 83% of all sales in 1995.

The Company is constantly searching for new licensed opportunities and has recently strengthened its portfolio with the addition of Disney's 1996 animated feature movie, *The Hunchback of Notre Dame* (©Disney).

Our strong reputation for quality artwork and our emphasis on customer satisfaction continually attracts other key licensors as new licensing opportunities become available.

Sun's creative artists constantly produce original proprietary designs. Our strong reputation for these unique designs gives us an edge with all our customers. In 1995, proprietary designs accounted for 17% of our overall sales, and we believe they will continue to be an important part of our future business. Also, Sun has developed several proprietary design "brand names". These include GUTS®, U.S.A. Unique Sportswear Attitude® and Epic®.



"Trend is our job!"

Our expert merchandising and design staff consistently provides our customers with cutting edge graphic designs that capture the latest in fashion trends"

Efficiency

"It is the talent of our employees and the efficiency of our operations that enable us to maintain our status as the leader in our industry."

Our operation in Kent, Washington serves as the headquarters for Sun Sportswear. This 230,000 square foot facility houses everything under one roof, allowing for maximum efficiency. Sun Sportswear purchases approximately 19 million garments annually. We have developed an extensive network of domestic and international suppliers. Our offshore and domestic production provides a base of relatively low-cost, high-value products that ultimately result in a good value for the retail consumer.

Sun's state of the art printing equipment allows us to maintain the high levels of quality our customers expect. We print approximately 18 million garments a year - more than 72,000 per day. These huge quantities are achieved through the use of our 15 automatic color presses. This top-of-the-line equipment not only enables Sun to print garments with more color and special effects than ever before, but it ensures that Sun maintains the fastest possible response time.

Sun spares no effort in ensuring our facility provides a safe and pleasant work environment for Sun employees. All areas of our plant are kept meticulously clean and an emphasis is placed on maintaining an environmentally sound operation. 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 replenished every two minutes.





YEAR ENDED DECEMBER 31	(IN THOUSANDS, EXCEPT SHARE AMOUNTS)		
	1995	1994	1993
NET SALES	\$ 93,965	\$ 113,213	\$ 104,772
NET INCOME (LOSS)	\$ (3,736)	\$ 2,449	\$ 2,737
NET INCOME (LOSS) PER SHARE	\$ (0.65)	\$ 0.43	\$ 0.49
WEIGHTED AVERAGE SHARES OUTSTANDING	5,748,249	5,722,121	5,610,996
TOTAL ASSETS	\$ 47,315	\$ 62,384	\$ 42,247
SHAREHOLDERS' EQUITY	\$ 26,018	\$ 29,750	\$ 26,820

BOARD OF DIRECTORS AND MANAGEMENT

William S. Wiley, Chairman
President and Chief Executive Officer

Larry C. Mounger, Director
(Retired Chairman
Pacific Trail, Inc.)

James H. Williams, Director
(Executive Vice President
Bank of America)

Paul R. Rollins, Jr., Director
(Senior Vice President
Seafirst Bank)

James A. Walsh, Director
(Retired President
Allied Stores)

L. Kaye Counts
Executive Vice President
and Chief Operating Officer

Sandra L. Teufel
Senior Vice President
Sales & Merchandising

Kevin C. James
Senior Vice President
Chief Financial Officer

SHAREHOLDER INFORMATION

FORM 10-K, FORM 10-Q AND ANNUAL REPORTS: Copies of the Company's Form 10-K and Form 10-Q 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 98032

STOCK MARKET INFORMATION

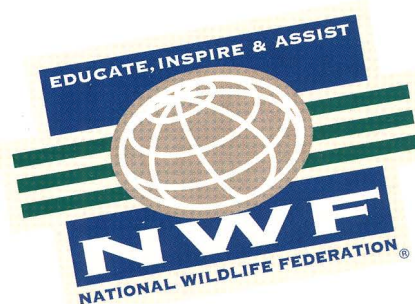
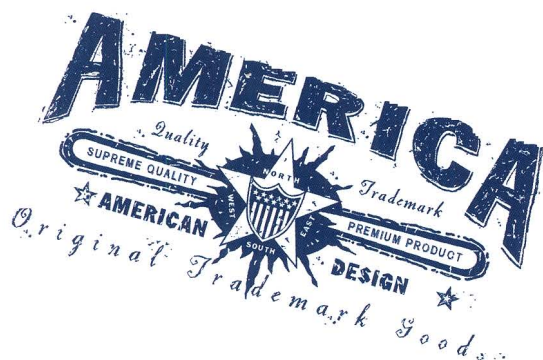
The Company's common stock trades on The NASDAQ Stock Market under the symbol SSPW. As of March 15, 1996, the number of beneficial shareholders was approximately 1,800.

INDEPENDENT PUBLIC ACCOUNTANTS

Price Waterhouse LLP
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



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U.S.A. Unique Sportswear Attitude® is a trademark owned by Sun Sportswear, Inc.

Disney's *Pocahontas* (©Disney) is a copyrighted property of The Walt Disney Company, now known as Disney Enterprises, Inc.

Disney's *Pooh* the brand (©Disney) based on "Winnie the Pooh" works (©A.A. Milne and E.H. Shepard).

Disney's *The Lion King* (©Disney) is a copyrighted property of The Walt Disney Company, now known as Disney Enterprises, Inc.

Disney's *101 Dalmatians* (©Disney) is a copyrighted property of The Walt Disney Company, now known as Disney Enterprises, Inc.

Disney's *The Hunchback of Notre Dame* (©Disney) is a copyrighted property of the Walt Disney Company, now known as Disney Enterprises, Inc.

Bugs Bunny, Tasmanian Devil, Tweety, Daffy Duck and Wiley Coyote are Looney Tunes characters. Looney Tunes are copyrighted characters and trademarks owned by Warner Bros., a Time Warner Entertainment Company, LP.

Garfield (©Paws) is a copyrighted character created by Jim Davis. Paws, Inc. owns the copyright and all proprietary rights to the character Garfield.

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Canyon River Blues® is a registered trademark of Sears.

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Text: Kevin James, Bill Wiley, Laura Johnson

Photographs: Brian Morris

Design: Arendt Graphics

