

October 9, 2008

Key Metrics

WMAR - NASDAQ	\$5.72
Pricing Date	10/09/2008
Price Target	NA
52-Week Range	\$12.24-\$3.40
Shares Outstanding (mm)	22.0
Market Capitalization (\$mm)	\$125.8
3-Mo Average Daily Volume	112,971
Institutional Ownership	76%
Debt/Total Capital	19.3%
ROE	NM
Book Value/Share	\$9.67
Price/Book	0.6x
Dividend Yield	NM
LTM EBITDA Margin	2.66%

EPS(\$) FY: December

	2007A	Prior 2008E	Curr. 2008E	Prior 2009E	Curr. 2009E
1Q-Mar	(0.53)	--	(0.81)A	--	(0.67)E
2Q-Jun	0.95	--	0.93A	--	0.98E
3Q-Sep	0.28	0.16E	0.20E	--	0.27E
4Q-Dec	(0.54)	(0.66)E	(0.67)E	--	(0.47)E
FY	0.18	(0.37)E	(0.34)E	--	0.11E
P/E	31.8x		NM		52.0x

Revenue(\$mm)

	2007A	Prior 2008E	Curr. 2008E	Prior 2009E	Curr. 2009E
1Q-Mar	125.8	--	113.3A	--	106.3E
2Q-Jun	247.1	--	226.7A	--	212.8E
3Q-Sep	188.4	172.9E	180.2A	169.1E	173.5E
4Q-Dec	118.3	110.8E	108.8E	--	111.9E
FY	679.5	623.6E	628.9E	600.1E	604.5E



Company Description: West Marine, Inc. (www.westmarine.com) operates as a specialty retailer of boating supplies in the U.S., Puerto Rico, and Canada. The company operates in three divisions: stores, port supply, and direct sales. The store division operates roughly 380 stores located in 38 states. The port supply division comprises wholesale distribution operation of marine equipment. The direct sales division includes its catalog and Internet operations.

West Marine Inc.

Rating: Hold

3Q Sales Down 4.4%; \$7mm Above Our Expectation; Hold

Investment Highlights:

- **3Q sales of \$180.2mm down \$8.2mm on (4.7%) comp - exceeds our expectation by \$7.3mm.** West Marine reported a 4% Y/Y decline in 3Q08 revenues with comparable store sales of (4.7%). While down, the results came in roughly \$7mm above our expectations with Y/Y comps improving sequentially from (9.4%) in 1Q08 and (7.8%) in 2Q08.
- **Industry weakness remains; upside could indicate a relatively early end to the boating season.** Retail (down 4.5%), port supply (down 2.3%), and direct (down 4%) all declined Y/Y with retail/store sales providing upside to our estimates. Industry conditions remained soft with the southeastern part of the country continuing to underperform other territories. While the sequential improvement is encouraging, it could be attributed to potential hurricane impact, which may have accelerated boat winterization and reduced 4Q activity. We have reduced our 4Q08E sales expectation slightly.
- **Increasing F3Q08E EPS \$0.04 on better than expected sales results.** Based on the stronger than expected F3Q08 sales results, we are adjusting our F3Q08 EPS estimate up \$0.04 to \$0.20 and have reduced F4Q08E EPS by \$0.01 on slightly lower 4Q08 revenue projections.
- **Maintain Hold rating; awaiting improved industry conditions.** Despite very challenging industry conditions, West Marine's balance sheet appears to be in good shape with a debt to capitalization ratio (as of F2Q08 end) of 19.3% and excess availability (as of F2Q08 end) under its \$250mm revolving credit facility of roughly \$173mm. While shares currently trade at roughly 60% of tangible book value of \$9.67 per share, we see no immediate catalyst and maintain our Hold rating.

EQUITY RESEARCH

West Marine, Inc. Quarterly Earnings Model

(In Millions, Except Per Share Data)

	FY 2006	Q1 Mar-07	Q2 Jun-07	Q3 Sep-07	Q4 Dec-07	FY 2007	Q1 Mar-08	Q2 Jun-08	Q3E Sep-08	Q4E Dec-08	FYE 2008	Q1E Mar-09	Q2E Jun-09	Q3E Sep-09	Q4E Dec-09	FYE 2009
Total Revenues	716.6	125.8	247.1	188.4	118.3	679.5	113.3	226.7	180.2	108.8	628.9	106.3	212.8	173.5	111.9	604.5
<i>% Increase</i>	3.5%	-5.0%	-6.3%	-4.2%	-4.6%	-5.2%	-10.0%	-8.3%	-4.3%	-8.0%	-7.4%	-6.1%	-6.1%	-3.7%	2.8%	-3.9%
Cost of Goods Sold	509.4	98.7	161.2	130.5	94.4	484.7	90.8	148.3	126.1	87.0	452.2	83.8	138.1	121.1	88.4	431.4
<i>As % Sales</i>	71.1%	78.5%	65.2%	69.3%	79.8%	71.3%	80.1%	65.4%	70.0%	80.0%	71.9%	78.8%	64.9%	69.8%	79.0%	71.4%
Gross Profit	207.2	27.1	85.9	57.9	23.9	194.8	22.5	78.4	54.1	21.8	176.7	22.5	74.7	52.4	23.5	173.1
<i>Margin</i>	28.9%	21.5%	34.8%	30.7%	20.2%	28.7%	19.9%	34.6%	30.0%	20.0%	28.1%	21.2%	35.1%	30.2%	21.0%	28.6%
<i>% Increase</i>	0.9%	-15.6%	-3.9%	-1.7%	-10.8%	-6.0%	-17.0%	-8.7%	-6.7%	-9.0%	-9.3%	0.2%	-4.7%	-3.1%	8.0%	-2.0%
Operating/SG&A Expense	197.1	44.1	51.2	46.9	42.5	184.6	47.1	48.4	47.0	42.0	184.5	42.8	43.2	43.0	37.5	166.5
<i>As % Sales</i>	27.5%	35.0%	20.7%	24.9%	36.0%	27.2%	41.6%	21.4%	26.1%	38.6%	29.3%	40.3%	20.3%	24.8%	33.5%	27.5%
Total Expense	706.5	142.7	212.4	177.3	136.9	669.4	137.9	196.7	173.1	129.0	636.7	126.6	181.3	164.1	125.9	597.9
<i>As % Sales</i>	98.6%	113.5%	85.9%	94.1%	115.7%	98.5%	121.7%	86.8%	96.1%	118.6%	101.2%	119.1%	85.2%	94.6%	112.5%	98.9%
Operating Profit	10.1	(17.0)	34.7	11.0	(18.6)	10.2	(24.6)	30.0	7.1	(20.2)	(7.8)	(20.3)	31.5	9.4	(14.0)	6.6
<i>Margin</i>	1.4%	-13.5%	14.1%	5.9%	-15.7%	1.5%	-21.7%	13.2%	3.9%	-18.6%	-1.2%	-19.1%	14.8%	5.4%	-12.5%	1.1%
<i>% Increase</i>	-35.9%	NA	16.7%	48.8%	NA	0.8%	NA	-13.6%	-36.1%	NA	NA	NA	5.0%	33.1%	NA	NA
Interest (Exp.)/Inc.	6.4	1.4	1.3	0.5	0.8	4.0	0.8	0.8	0.8	0.8	3.2	0.8	0.8	0.8	0.8	3.2
Other (Exp.)/Inc.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-Operating Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Profit	3.7	(18.4)	33.4	10.5	(19.4)	6.2	(25.4)	29.2	6.3	(21.0)	(11.0)	(21.1)	30.7	8.6	(14.8)	3.4
<i>Margin</i>	0.5%	-14.6%	13.5%	5.6%	-16.4%	0.9%	-22.5%	12.9%	3.5%	-19.3%	-1.7%	-19.8%	14.4%	5.0%	-13.2%	0.6%
<i>% Increase</i>	-61.0%	NA	21.5%	69.5%	NA	NA	NA	-12.6%	-40.6%	NA	NA	NA	5.0%	37.3%	NA	NA
Taxes(benefit)	1.6	(7.0)	12.6	4.4	(7.6)	2.3	(7.8)	8.7	1.9	(6.3)	(3.5)	(6.3)	9.2	2.6	(4.4)	1.0
<i>Rate</i>	43.3%	38.3%	37.8%	41.5%	39.5%	37.4%	30.6%	29.8%	30.0%	30.0%	31.8%	30.0%	30.0%	30.0%	30.0%	30.0%
Net Income	2.1	(11.4)	20.8	6.2	(11.7)	3.9	(17.7)	20.5	4.4	(14.7)	(7.5)	(14.7)	21.5	6.0	(10.4)	2.4
<i>Margin</i>	0.3%	-9.0%	8.4%	3.3%	-9.9%	0.6%	-15.6%	9.0%	2.4%	-13.5%	-1.2%	-13.9%	10.1%	3.5%	-9.3%	0.4%
<i>% Increase</i>	-67.0%	NA	26.1%	57.7%	NA	NA	NA	-1.5%	-28.9%	NA	NA	NA	4.8%	37.3%	NA	NA
EPS--Operations	0.10	(0.53)	0.95	0.28	(0.54)	0.18	(0.81)	0.93	0.20	(0.67)	(0.34)	(0.67)	0.98	0.27	(0.47)	0.11
<i>% Increase</i>	-67.7%	NA	24.0%	54.7%	NA	82.4%	NA	-1.7%	-29.0%	NA	NA	NA	4.7%	37.3%	NA	NA
Shares Out	21.5	21.6	21.9	22.0	21.9	21.8	21.9	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0

Source: Company reports and Morgan Joseph estimates

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Rating	Investment Banking Services/Past 12 Mos.	
	Percent	Percent
BUY [B]	56.67	37.25
HOLD [H]	42.22	31.58
SELL [S]	1.11	0.00

Meaning of Ratings

- A) Buy means reasonable outperformance relative to the market over 12-18 months.
- B) Hold means market-type risk adjusted performance; potential source of funds.
- C) Sell means expected to underperform the market.

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