Jeffrey Blaeser
212-218-3739
jblaeser@morganjoseph.com

Company Update / Estimates Change

EQUITY RESEARCH

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West Marine Inc.

Rating: Hold

3Q EPS $0.02 Above Expectations; 4Q/FY09 Estimates Reduced; Hold

Key Metrics

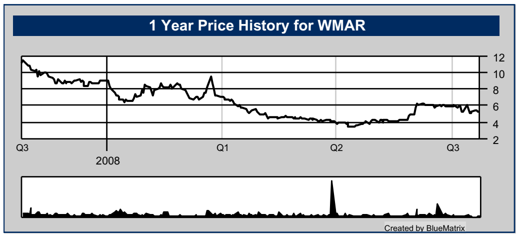
WMAR - NASDAQ	$5.32
Pricing Date	10/23/2008
Price Target	NA
52-Week Range	$11.90-$3.40
Shares Outstanding (mm)	22.0
Market Capitalization ($mm)	$117.0
3-Mo Average Daily Volume	108,221
Institutional Ownership	76%
Debt/Total Capital	11.9%
ROE	NM
Book Value/Share	$9.84
Price/Book	0.5x
Dividend Yield	NM
LTM EBITDA Margin	1.88%

EPS($) FY: December

	2007A	Prior 2008E	Curr. 2008E	Prior 2009E	Curr. 2009E
1Q-Mar	(0.53)	--	(0.81)A	(0.67)E	(0.72)E
2Q-Jun	0.95	--	0.93A	0.98E	0.92E
3Q-Sep	0.28	0.20E	0.22A	0.27E	0.18E
4Q-Dec	(0.54)	(0.67)E	(0.88)E	(0.47)E	(0.55)E
FY	0.18	(0.34)E	(0.54)E	0.11E	(0.17)E
P/E	29.6x		NM		NM

Revenue($mm)

	2007A	Prior 2008E	Curr. 2008E	Prior 2009E	Curr. 2009E
1Q-Mar	125.8	--	113.3A	106.3E	104.3E
2Q-Jun	247.1	--	226.7A	212.8E	209.2E
3Q-Sep	188.4	--	180.2A	173.5E	173.0E
4Q-Dec	118.3	108.8E	106.9E	111.9E	104.7E
FY	679.5	628.9E	627.1E	604.5E	591.2E



***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.*

Investment Highlights:

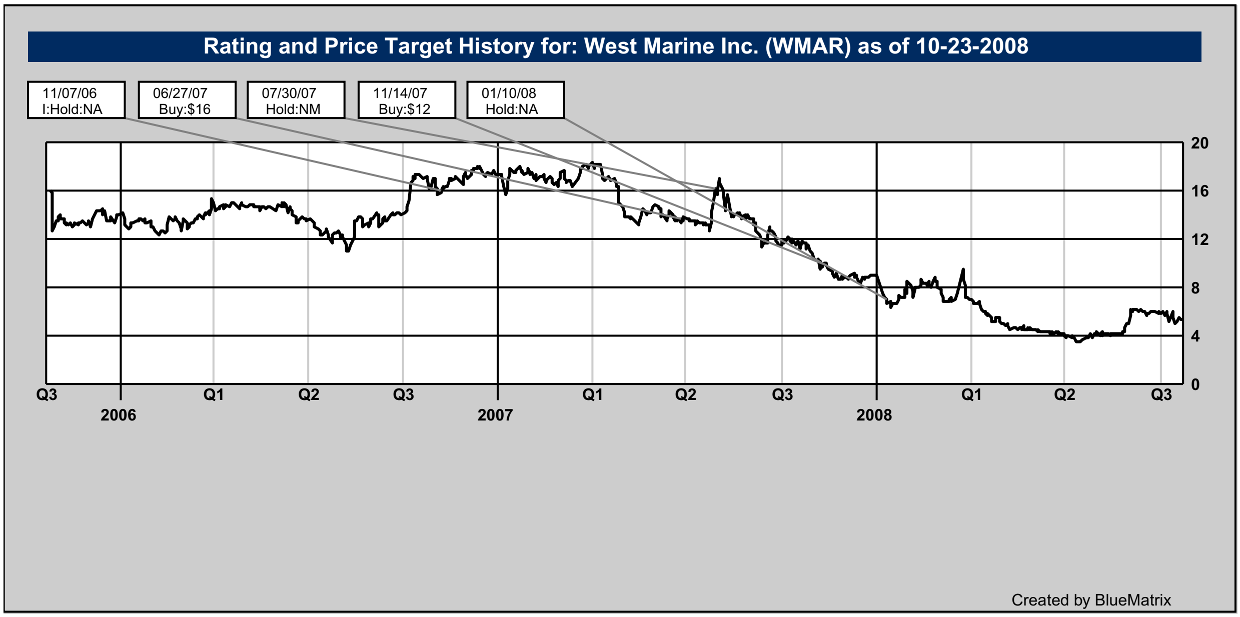
- **3Q EPS of $0.22 exceeds our estimate by $0.02, $0.07 ahead of Street consensus.** West Marine reported 3Q08 EPS, excluding one-time charge of roughly $1.4mm, $0.22 versus our estimate of $0.20 and LY's comparable $0.28 result. Reduced operating costs offset lower than expected gross margins. The upside to EPS was generated primarily from a lower than expected tax rate.
- **Aggressive 4Q promotional activity expected; 4Q EPS reduced by $0.21 on lower tax rate (negative impact due to expected 4Q EPS loss).** 3Q inventories declined Y/Y $10mm and further reductions could materialize in 4Q. Expected increased promotional activity, store closure clearance sales, and reduced purchases should continue to effectively reduce inventory levels, while pressuring gross margins. 3Q08 gross margins declined 310bps Y/Y and could decline by roughly 210bps in 4Q08. While we are modeling for lower gross margins, the majority of the 4Q08 EPS reduction should come from a lower tax rate due to limitations in the company's ability to benefit from loss carrybacks.
- **Restructuring/trimming operating costs; still targeting roughly $20mm in cost savings next year.** Operating costs declined Y/Y $3mm Y/Y, $3.9mm excluding FX adjustments, and previously announced cost reduction plans appear to be on track. In 2009, the company is targeting between $20mm to $25mm in cost savings from a distribution and call center closure, staffing and port supply business adjustments, and reduced catalog distribution.
- **Balance sheet remains solid: debt down slightly.** Despite an extremely challenging environment, West Marine's balance sheet remains solid. Debt declined slightly Y/Y with a debt-to-capital ratio of 12%. While YTD free cash flow declined by $13mm to $23mm and could turn slightly negative in 2008, availability under its credit facility appears more than sufficient to fund both near-term and long-term requirements.
- **Promotional activity could extend into 2009; reducing 2009 EPS estimates by $0.28 to ($0.17).** With industry conditions not likely to improve next year, we are assuming ongoing gross margin pressures associated with promotional activity. Accordingly, we are reducing our 2009 gross margin expectations by roughly 100 bps and EPS estimates by $0.28.
- **Near-term challenges not improving; maintain Hold rating.** West Marine appears to be taking the necessary steps to survive a very challenging boating environment, with longer-term benefits expected should the environment improve. While trading well below its tangible book value of $9.84, we maintain our Hold rating until clearer visibility emerges on the horizon for improved industry conditions.

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	Q3 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**	**106.9**	**627.1**	**104.3**	**209.2**	**173.0**	**104.7**	**591.2**
% Increase	3.5%	-5.0%	-6.3%	-4.2%	-4.6%	-5.2%	-10.0%	-8.3%	-4.3%	-9.6%	-7.7%	-7.9%	-7.7%	-4.0%	-2.1%	-5.7%
Cost of Goods Sold	509.4	98.7	161.2	130.5	94.4	484.7	90.8	148.3	130.5	87.7	457.2	83.4	136.2	124.6	83.8	427.9
As % Sales	71.1%	78.5%	65.2%	69.3%	79.8%	71.3%	80.1%	65.4%	72.4%	82.0%	72.9%	80.0%	65.1%	72.0%	80.0%	72.4%
Gross Profit	**207.2**	**27.1**	**85.9**	**57.9**	**23.9**	**194.8**	**22.5**	**78.4**	**49.7**	**19.2**	**169.9**	**20.9**	**73.0**	**48.4**	**20.9**	**163.3**
Margin	28.9%	21.5%	34.8%	30.7%	20.2%	28.7%	19.9%	34.6%	27.6%	18.0%	27.1%	20.0%	34.9%	28.0%	20.0%	27.6%
% Increase	0.9%	-15.6%	-3.9%	-1.7%	-10.8%	-6.0%	-17.0%	-8.7%	-14.1%	-19.5%	-12.8%	-7.2%	-6.9%	-2.6%	8.8%	-3.9%
Operating/SG&A Expense	197.1	44.1	51.2	46.9	42.5	184.6	47.1	48.4	43.8	40.0	179.3	42.8	43.2	42.0	37.5	165.5
As % Sales	27.5%	35.0%	20.7%	24.9%	36.0%	27.2%	41.6%	21.4%	24.3%	37.4%	28.6%	41.0%	20.7%	24.3%	35.8%	28.0%
Total Expense	706.5	142.7	212.4	177.3	136.9	669.4	137.9	196.7	174.3	127.7	636.5	126.2	179.4	166.6	121.3	593.4
As % Sales	98.6%	113.5%	85.9%	94.1%	115.7%	98.5%	121.7%	86.8%	96.7%	119.4%	101.5%	121.0%	85.8%	96.3%	115.8%	100.4%
Operating Profit	**10.1**	**(17.0)**	**34.7**	**11.0**	**(18.6)**	**10.2**	**(24.6)**	**30.0**	**5.9**	**(20.8)**	**(9.4)**	**(21.9)**	**29.8**	**6.4**	**(16.6)**	**(2.2)**
Margin	1.4%	-13.5%	14.1%	5.9%	-15.7%	1.5%	-21.7%	13.2%	3.3%	-19.4%	-1.5%	-21.0%	14.2%	3.7%	-15.8%	-0.4%
% Increase	-35.9%	NA	16.7%	48.8%	NA	0.8%	NA	-13.6%	-46.2%	NA	NA	NA	-0.6%	8.3%	NA	NA
Interest (Exp.)/Inc.	6.4	1.4	1.3	0.5	0.8	4.0	0.8	0.8	0.3	0.8	2.7	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
Pretax Profit	**3.7**	**(18.4)**	**33.4**	**10.5**	**(19.4)**	**6.2**	**(25.4)**	**29.2**	**5.6**	**(21.6)**	**(12.2)**	**(22.7)**	**29.0**	**5.6**	**(17.4)**	**(5.4)**
Margin	0.5%	-14.6%	13.5%	5.6%	-16.4%	0.9%	-22.5%	12.9%	3.1%	-20.2%	-1.9%	-21.8%	13.9%	3.3%	-16.6%	-0.9%
% Increase	-61.0%	NA	21.5%	69.5%	NA	NA	NA	-12.6%	-46.6%	NA	NA	NA	-0.7%	0.4%	NA	NA
Taxes(benefit)	1.6	(7.0)	12.6	4.4	(7.6)	2.3	(7.8)	8.7	0.8	(2.1)	(0.4)	(6.8)	8.7	1.7	(5.2)	(1.6)
Rate	43.3%	38.3%	37.8%	41.5%	39.5%	37.4%	30.6%	29.8%	14.3%	9.7%	3.0%	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**	**4.8**	**(19.5)**	**(11.8)**	**(15.9)**	**20.3**	**3.9**	**(12.2)**	**(3.8)**
Margin	0.3%	-9.0%	8.4%	3.3%	-9.9%	0.6%	-15.6%	9.0%	2.7%	-18.2%	-1.9%	-15.3%	9.7%	2.3%	-11.6%	-0.6%
% Increase	-67.0%	NA	26.1%	57.7%	NA	NA	NA	-1.5%	-21.8%	NA	NA	NA	-0.9%	-18.0%	NA	-67.7%
EPS--Operations	**0.10**	**(0.53)**	**0.95**	**0.28**	**(0.54)**	**0.18**	**(0.81)**	**0.93**	**0.22**	**(0.88)**	**(0.54)**	**(0.72)**	**0.92**	**0.18**	**(0.55)**	**(0.17)**
% Increase	-67.7%	NA	24.0%	54.7%	NA	82.4%	NA	-1.7%	-22.1%	NA	NA	NA	-1.0%	-17.9%	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

Required Disclosures



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		Investment Banking Services/Past 12 Mos.
Rating	**Percent**	**Percent**
BUY [B]	**57.45**	**37.04**
HOLD [H]	**41.49**	**30.77**
SELL [S]	**1.06**	**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 over 12-18 months.

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Morgan Joseph & Co. Inc.
600 Fifth Avenue, 19th Fl
New York, NY 10020
Tel. 212.218.3700
Fax. 212.218.3789

Sales and Trading

New York
Tel. 212.218.3767
Fax. 212.218.3705

Pittsford
Tel. 877.237.6542
Fax. 585.899.6029