
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 1, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 0-22512

WEST MARINE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

500 Westridge Drive, Watsonville, CA
(Address of Principal Executive Offices)

77-035502
(I.R.S. Employer
Identification No.)

95076-4100
(Zip Code)

Registrant's Telephone Number, Including Area Code: (831) 728-2700

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
None	None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.001 par value
(Title of Class)

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes No

At July 2, 2004 the aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant was approximately \$493.8 million based upon the last sale price reported for such date on The Nasdaq National Market. At February 26, 2005, the number of shares outstanding of the registrant's Common Stock was 20,919,191.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the 2005 Annual Meeting of Stockholders are incorporated by reference in Part II, Item 5 and Part III of this Form 10-K

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PRELIMINARY NOTE

This annual report on Form 10-K is for the year ended January 1, 2005. This annual report modifies and supersedes documents filed prior to this annual report. The Securities and Exchange Commission allows us to “incorporate by reference” information that we file with them, which means that we can disclose important information to you by referring you directly to those documents. Information incorporated by reference is considered to be part of this annual report. In addition, information that we file with the Securities and Exchange Commission in the future automatically will update and supersede information contained in this annual report.

We undertake no obligation (other than that required by law) to publicly update or revise any disclosures contained in this report, whether as a result of new information, future events or otherwise. Website references throughout this report are for information only, and the content of these websites is not incorporated by reference and should not otherwise be considered a part of this report.

PART I

ITEM 1—BUSINESS

General

West Marine is one of the largest boating supplies retailers in the world, with net sales in 2004 of \$683.0 million. Store operations, which generate approximately 86% of our net sales, are conducted under two brand names—West Marine and BoatU.S. Our 375 stores open at the end of 2004 are located in 38 states, Puerto Rico and Canada.

Our Port Supply wholesale division, representing approximately 7% of our net sales, is the largest wholesale distributor of marine equipment in the United States, serving boat manufacturers, marine services, commercial vessel operators and government agencies. Our Direct Sales division, which includes our catalog and Internet operations, accounted for the remaining 7% of our net sales and offers customers all over the world more than 50,000 products—far more than any competitor. Our three distribution centers are located in Rock Hill, South Carolina, Hollister, California and Hagerstown, Maryland.

West Marine, Inc. was incorporated in Delaware in September 1993 as the holding company for West Marine Products, Inc., which was incorporated in California in 1976. Unless the context otherwise requires, “West Marine”, “we”, “us” and “our” refer to West Marine, Inc. and its subsidiaries. Our principal executive offices are located at 500 Westridge Drive, Watsonville, California 95076-4100, and our telephone number is (831) 728-2700.

All references to 2004, 2003 and 2002 in this report refer to our fiscal years ended on January 1, 2005, January 3, 2004, and December 28, 2002, respectively. Fiscal year 2003 was a 53-week year, while both 2004 and 2002 were 52-week years.

Business Strategy

Our business strategy is to offer an extensive selection of high-quality marine supplies and apparel to the recreational aftermarket for both sailboats and powerboats at competitive prices in a convenient, one-stop shopping environment, emphasizing customer service and technical assistance. Most of our associates with customer contact participate in our comprehensive Technical Training Program, with almost a quarter of those participants achieving the highest certification level.

We pursue a growth strategy through geographic diversification. Our planned expansion is subject to a number of factors, including the adequacy of our capital resources, as well as our ability to locate suitable store sites and to negotiate acceptable lease terms, our ability to hire, train and integrate associates, and our ability to adapt our distribution and other operational systems.

In January 2003, we acquired the retail stores, catalog and wholesale operations of Boat America Corporation (“Boat America”) for \$72 million in cash and the assumption of certain liabilities. The acquisition provided us with greater operating flexibility and allowed us to achieve synergistic cost savings by immediately expanding our store base. The acquisition enhanced our presence in most major geographic boating markets within the United States, allowing us to better compete in the marine products aftermarket.

Historically, West Marine and Boat America have maintained different images with their customers. While West Marine’s brand name has long been associated with sail-boating as well as power-boating, many boaters have perceived Boat America’s trade name, BoatU.S., as synonymous with power-boating. Therefore, currently we plan to continue to operate the acquired stores and catalog operations (Direct Sales) under the BoatU.S. trade name to capitalize on the brand loyalty of Boat America customers and to foster cross-selling and cross-marketing opportunities. Of our 375 locations open at the end of 2004, 315 were West Marine stores and 60 were BoatU.S. stores.

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Stores Division

The following table sets forth the number of stores open at the end of each year, by geographic region:

	2004	2003	2002	2001	2000
Western (including Canada)	89	80	67	56	56
Northeast	147	141	103	102	97
Southeast (including Puerto Rico)	139	124	87	82	80
Total	375	345	257	240	233

Since opening our first store in Palo Alto, California in 1975, we have grown through internal expansion and through acquisitions.

We opened 34 new West Marine stores during 2004, including our first two locations in Ontario, Canada. In addition to our traditional stores, which average in the range of 6,000 to 8,000 square feet and carry about 7,000 items, we operate larger “superstore” and smaller “Express” store formats.

We launched our first superstore in Ft. Lauderdale, Florida during 2003. We opened our second superstore in June 2004 by expanding an existing San Diego, California location. Averaging approximately 25,000 square feet, our superstores feature an expansive array of merchandise—about 15,000 items—as well as interactive displays to help customers choose the right products for their boating needs.

We opened 13 new Express stores during 2004, ending the year with a total of 27 Express stores located on both coasts. Ranging from 2,200 to 3,000 square feet, these smaller stores stock about 3,000 items, mainly hardware and supplies needed for day-to-day boat maintenance, but Express stores can be serviced quickly with additional merchandise shipped from other locations.

We closed four traditional stores during 2004, of which only one was due to poor performance. The other three locations had been profitable: our Punta Gorda, Florida store was closed due to hurricane damage but is expected to re-open in a new location during 2005; a store in Houston, Texas was closed due to construction of a new freeway project; and a store in Santa Barbara, California was closed due to a major waterfront construction project, but is expected to re-open during spring 2005. We remodeled six locations during 2004, including a BoatU.S. store in Florida that we converted to a West Marine store.

We plan to open more than 50 new stores in 2005, consisting of approximately 25 West Marine Express stores, with the remainder being traditional format stores located mainly in higher volume U.S. coastal markets. We also plan to remodel approximately six existing stores and to close approximately three under-performing stores during 2005.

Wholesale Division

Port Supply, our wholesale division, was created to expand our market share across a broader customer base and to leverage our purchasing and distribution efficiencies. Our broad retail assortment gives Port Supply an advantage in serving wholesale customers looking for a larger assortment of products than that carried by typical distributors. We serve the wholesale market through 35 commissioned sales associates, our retail stores, our call center and our website, www.portsupply.com.

We distributed marine supplies to over 25,000 domestic and international wholesale customers in 2004. Our wholesale customers include businesses involved in boat sales, boat building, boat repair, yacht chartering and commissioning. In addition, Port Supply sells to government and industrial customers who use marine-related products. For example, we supply foul weather gear to several utility companies.

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Direct Sales Division

We process catalog orders at our Watsonville, California and Largo, Florida call centers for fulfillment by one of our three distribution facilities. We design and produce our catalogs at our Watsonville support center utilizing a desktop publishing system. This enables us to make both pricing and product changes until shortly before the catalogs are printed. In addition, we mail smaller, seasonal, full-color catalogs and flyers during the year. We plan to distribute, by direct mail and through our stores, over one million copies of our annual merchandise catalog during the first quarter of 2005.

Our Direct Sales division websites, www.westmarine.com and www.boatus-store.com, address the growing significance of e-commerce in the marketplace by targeting all segments of boat enthusiasts. Both websites are updated continuously with product, pricing and stocking changes, and both include online product advisors, technical information, consumer product reviews, news, feature stories and other information of interest to boaters. Customers may also research boat insurance and towing services, apply for boat financing and access membership program information through our websites.

Customer surveys show that both our catalogs and our websites serve as effective marketing and advertising tools for our retail stores by providing in-depth technical information and by assisting with product selection. During 2005, we plan to more than double the range of products offered through our websites and to promote cross-channel initiatives, such as offering web-to-store shopping and analyzing catalog and Internet sales data to help determine new store locations and product assortments.

Foreign Sales

We have six stores located in Canada and two stores located in Puerto Rico. We also sell our products in foreign countries through the West Marine catalog and the West Marine website. For each of the years ended 2004, 2003 and 2002, sales outside of the United States represented less than 4% of our net sales.

Merchandising

The merchandise that we sell can be divided into four general categories:

Maintenance. Maintenance products include engine and plumbing parts, paint and electrical supplies. Maintenance products represent the largest share of our sales and tend to have relatively high gross margins. Sales volumes in this category are relatively stable from year to year, since maintenance items are considered a necessity for boat owners. Over the past several years, satisfaction with the quality of our private label products in this category, including such high volume items as batteries, bottom paint and boat cleaning products, has resulted in a loyal base of repeat customers.

Safety. Safety is our second largest category in sales volume, but it is also our lowest in gross margin. Besides items like life jackets, flares, harnesses and first aid kits, the Safety category also includes electronics products such as global positioning navigational systems, ship-to-shore radios, marine stereos, autopilots, fish finders and radars. We also offer private label VHF radios and other electronics equipment. Private label products and items that we co-brand with manufacturers represent a significant portion of sales in this category.

Powerboat and Lifestyle. This broad category includes fishing and watersports products, small boats and motors, items for the cabin and galley, gift items, footwear and apparel. We substantially increased the number of fishing and watersports products we carried in 2004 and intend to continue to expand these categories in 2005 with more private label products. We feature a broad selection of high-quality boating apparel and footwear, a large portion of which are private label.

Hardware. Our focus is on basic marine hardware, where we provide the market for projects and applications. Hardware products include items such as rope, chain, anchors, trailers and deck hardware. Like

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Maintenance, products in this category tend to produce relatively high gross margins and are considered by boat owners to be more of a necessity than a discretionary purchase.

The following chart shows the approximate relative proportion of gross sales contributed by each of these four categories:

	Fiscal Year		
	2004	2003	2002
Maintenance	32%	32%	32%
Safety	29%	29%	29%
Powerboat and Lifestyle	22%	22%	21%
Hardware	17%	17%	18%
	100%	100%	100%

We strive to maintain consistent in-stock availability of merchandise. In most instances an individual store's merchandise mix is tailored to respond to local market conditions and buying preferences. Any items stocked by us but not available in a particular store can be shipped to the customer, usually overnight, from our distribution center. In addition, our special orders department can acquire products that we do not stock normally.

Our policy is to offer our products at prices that are competitive with prices charged by other national and regional marine supply specialty retailers. Our commitment to offering competitive prices is supported by our price protection program where we will either match a competitor's store price or refund the difference between our store price and the competitor's store price. Our merchandising group sets prices centrally. Store managers, however, are responsible for assessing the local market and recommending competitive price changes in response to regional market influences.

During 2005, we are implementing a major new merchandising initiative, called "Navigator", that gives customers in our stores on-line access to the entire marine assortment of products offered for sale by our major vendors, not just the products we stock.

Sourcing and Purchasing

Our Senior Vice President of Merchandising is responsible for the selection of vendors and products for our merchandise. This person supervises our category managers, who are responsible for judging the quality and arranging delivery of specific product categories, including the manufacture of private label merchandise. Our Senior Vice President of Planning and Replenishment is responsible for purchasing and for managing inventory levels in our distribution facilities and our stores while minimizing in-store out-of-stocks. Merchandise planners are assisted by a management information system that provides current inventory balance, price and usage information and that recommends purchase quantities, enabling our managers to react quickly to market changes and customer demand.

We purchased merchandise from more than 1,300 vendors during 2004 and realized significant savings through quantity purchases, advance deliveries and direct shipments. We offer many brands that are well known to our customers. In 2004, no one vendor accounted for more than 12% of our merchandise purchases, and our 20 largest vendors accounted for approximately 43% of our merchandise purchases. Generally we purchase merchandise from our suppliers on an order-by-order basis and we have a limited number of long-term purchase contracts or other contractual assurances of continued supply or pricing.

We strive to maintain strong relationships with our vendors. Our buyers meet regularly with major vendors to stay abreast of new products, new technology and new pricing. In addition, we conduct an annual program at which key vendors are encouraged to discuss their business and their relationship with West Marine with our key

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executives and buyers. We work closely with our vendors, frequently sharing information regarding market research, our sales performance and our mutual goals. We also share forecasts regularly with our top 150 vendors, collaborating closely for optimal fulfillment.

During 2004, we increased our offerings of high-end private label and exclusive merchandise. Our private label merchandise, which we sell under the “West Marine” and “Seafit” brand names, is manufactured to our specifications on a contract basis in the United States, Europe and the Pacific Rim, and typically has higher gross margins than comparable brand name merchandise. We have a limited number of long-term contracts with our manufacturing sources, and we compete with other companies for production facilities and import quota capacity.

Customer Service

We are committed to achieving “better than expected” customer service to encourage repeat business. In order to motivate responsive, well-trained sales associates, we devote significant resources to developing and implementing associate training programs aimed at increasing product knowledge and responsiveness to customer needs. In addition, we provide a price-protection program, special order capabilities and a “no hassle” satisfaction guarantee that permits customers who are not completely satisfied to return an item for exchange, credit or refund. To educate customers on the latest developments in boating and product offerings, we include an array of information such as the “West Advisor” sections in our catalogs and on our website. Most store managers are drawn from our sales associates and are avid boating enthusiasts.

Our annual merchandise catalogs provide technical information relating to various boating subjects, thereby providing customers with a higher degree of product knowledge. We place great emphasis on new hire training, on-the-job training, additional self-paced training and field tests to help ensure that sales associates are familiar with the technical elements of our product offerings. We also offer support for our customers and associates seven days a week, 24 hours a day, through our toll-free customer support line at 1-800-BOATING.

In order to provide customers with easy access to factory authorized repair service, we maintain in-house service centers at our facilities in Hollister, California and Rock Hill, South Carolina. Based upon information received from our customers, both in multiple focus groups conducted by an independent research firm and from our “How Are We Doing” cards at retail stores, we believe we have established a reputation for excellent customer service.

Site Selection and Store Design

To identify potential new store locations, we evaluate a number of factors, including proximity to existing stores and the volume of our catalog and Internet sales in the area, as well as the performance of local competitors. In choosing among specific sites available within a new market area, we apply standardized site selection criteria, including the number of boat slips and boat registrations within a certain radius, local demographics and overall retail activity.

Our stores generally are located either near boat marinas or at central locations readily accessible to boaters. Our stores typically are open seven days a week, including most holidays. Most stores feature large, readily visible outdoor signage, easy access from major roads and convenient customer parking.

Our brightly lit, well-organized stores are designed to provide a pleasant and convenient shopping environment. Store design depends mainly on the size of the store and local market characteristics. Merchandise is grouped by product category, clearly identified by signs marking each aisle. Store layout is designed to expose each customer to a large portion of the store’s product offerings and to stimulate purchases. Eye-catching end-cap displays feature new products or promotional items, or focus on a particular product category, such as safety equipment.

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Our superstores feature new designs, including interactive product displays, fully equipped galley presentations, complimentary Internet access for our traveling customers, a nautical library and print on demand charts.

Store Operations

Our stores are segregated into geographic regions with a regional manager responsible for each. Regional Vice Presidents report to the Senior Vice President of Stores. Each region is separated into districts, each with a District Manager responsible for store operations within his or her district. Our District Managers visit the stores within their districts frequently in order to monitor operating performance and to determine compliance with our operating standards. The typical staff for our stores consists of one Store Manager, an Assistant Store Manager and between four and twenty full-time and part-time sales associates. Store Managers make hiring decisions and monitor and respond to local competitive forces and seasonal requirements.

Store Managers and District Managers participate in an incentive plan that ties compensation awards to the achievement of specific store performance goals. We advocate broad-based participation in our stock purchase plans, and most associates are eligible to receive stock option grants.

West Marine holds a private “boating equipment show” featuring more than 80 of the industry’s most prominent vendors, exclusively for more than 400 of our key associates. This innovative training session is a powerful opportunity for vendors to provide store managers with product information. The equipment show is just one aspect of “West Marine University,” an intensive training program for store managers now in its 20th year. In addition to the equipment show, managers participate in classroom sessions and role-playing exercises and have the opportunity to hear from keynote speakers on subjects ranging from sales and management techniques to current marine industry topics.

See Note 10 of the Notes to Consolidated Financial Statements set forth in “Item 8—Financial Statements and Supplementary Data” for certain financial information regarding the Stores business segment.

Logistics

We operate three full-service distribution centers in support of our supply chain network: a 472,000 square foot facility in Rock Hill, South Carolina; a 287,000 square foot warehouse in Hagerstown, Maryland; and a 240,000 square foot facility in Hollister, California.

Vendors generally ship product to one of our three distribution centers, where merchandise is inspected, verified against the original purchase order and prepared for shipment to stores and customers. Some suppliers also ship directly to our stores. We intend to increase the volume of vendor-to-store shipments in 2005. We use several domestic and international transportation methods, including ground and air freight, as well as company-owned trucks and vans.

Our distribution centers utilize advanced material handling technologies as well as radio frequency communications to enable real-time management of inventory and production efforts. Each year for the past several years, we have reduced labor and process costs in our distribution centers significantly. While the pace of these annual cost savings is expected to slow, we intend to avoid major increases in labor and process costs in the next few years by increasing storage capacity and productivity in our existing warehouses, instead of building new facilities to accommodate our sales growth.

Most store inventories are replenished weekly, with many stores receiving a second weekly shipment during peak seasonal periods. Large volume stores may receive multiple shipments each week throughout the year. In 2005, we intend to implement a more regional strategy, which we expect will reduce our freight costs by replenishing store inventories from the closest distribution center.

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Information Systems

The Information Systems department continues to utilize advanced technology for the benefit of West Marine, developing business systems that compile transaction data for financial reporting and daily information on sales, gross margins, and inventory levels while providing company management with advanced planning and analytical tools. An integrated enterprise system runs on multiple IBM iSeries computers, supporting stores, catalog, Internet, and wholesale operations, with an emphasis on improved productivity and reduced cost. Inventory planning and purchasing functions are processed through suite software applications that are integrated with our core enterprise system.

Each of our stores is connected to the company's support center through a wide area network that provides up-to-the-minute transaction information and secure bi-directional communication for voice, inventory availability and pricing, credit card approval and customer service functions. We enhance this system continuously.

We see the Internet as a key component of our current and future plans. The Internet:

- Allows customers to access product information and place orders via our websites;
- Allows associates to find current information about an expansive array of products available across our vendor base; and
- Promotes education on boating topics for both customers and associates.

We believe our information systems provide us with a competitive advantage by enabling us to improve customer service, operational efficiency and management's ability to evaluate critical performance factors.

Marketing

Our overall marketing objective is to communicate the attributes of our brand while creating a compelling "value equation" for our customers. We position our brands to stand for superior selection, friendly and knowledgeable service, competitive prices and shopping convenience. We market our products and services through direct mail catalogs and flyers, email, space advertisements in boating specialty publications, cable television, newspapers and on the Internet.

We participate in a number of boat shows and sponsor a number of boating-related events each year, ranging from sailing regattas and fishing derbies to waterway clean-up and environmental-quality campaigns. We also sponsor the biennial West Marine Pacific Cup race from San Francisco to Oahu, as well as a series of youth regattas held annually around the country. These events are designed to encourage participation in boating and increase the number of people enjoying the boating lifestyle, while promoting environmental responsibility.

During 2004 our free customer loyalty program, West Advantage, reached 1.9 million members, while participation in our paid membership programs, under the West Advantage Plus and BoatU.S. trade names, reached over half a million boaters. These programs are the largest boating membership programs in the United States.

We intend to launch several key marketing initiatives during 2005, including the implementation of an advanced customer relations management system, a major restructuring of our loyalty program and the transition from a private label credit card to a personalized, co-branded credit card.

Competition

The retail market for marine supplies is highly competitive and our stores compete with other specialty supply stores. Many of these competitors have stores in markets where we now operate and in which we plan to

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expand. We compete with a wide variety of local and regional specialty stores, sporting goods stores and mass merchants. Also, we have a number of competitors in the catalog and wholesale distribution of marine products.

The principal factors of competition in our marketplace are quality, availability, price, customer service, convenience and access to a variety of merchandise. We believe that we compete successfully on the basis of all such factors.

Trademarks and Service Marks

We own the trademarks and service marks “West Marine” and “Port Supply,” among others. These marks and a number of others are registered with the United States Patent and Trademark Office and in certain foreign countries. Each federal registration is renewable indefinitely if the mark is still in use at the time of renewal. In January 2003, we acquired rights to use the name “BoatU.S.” in our retail and wholesale operations.

Associates

As of January 29, 2005, we had 4,661 associates, of whom 2,388 were full-time and 2,273 were part-time or temporary. A significant number of temporary associates are hired during our peak selling season.

Available Information

West Marine’s Internet address is www.westmarine.com. We make available, free of charge through the “Investor Relations” portion of our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Forms 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the Securities and Exchange Commission. Interested persons may also access copies of these reports through the Securities and Exchange Commission’s website, www.sec.gov.

Executive Officers

The following table sets forth information regarding our executive officers:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Peter L. Harris	61	Chief Executive Officer
Richard E Everett	51	President and Chief Operating Officer
Eric S. Nelson	48	Senior Vice President, Chief Financial Officer and Secretary

Peter L. Harris has served as a director and as Chief Executive Officer of West Marine since January 3, 2005. Mr. Harris began his retail career with GEMCO, the department store subsidiary of Lucky Stores, where he rose to become Chief Executive Officer in 1980. He then served as the Chief Executive Officer of FAO Schwarz from 1985 to 1992. Mr. Harris next became the Chief Executive Officer of software publisher Accolade, and from 1995 to 2000, he served as the Chief Executive Officer of The Picture People, a mall-based retailer. Most recently, Mr. Harris served as the Chief Executive Officer of the National Football League’s San Francisco 49ers, a position he held until July 2004. From July 2004 through December 2004, Mr. Harris performed management consulting services through Phoenix Retailing, a California corporation of which he is the sole shareholder.

Richard E Everett was promoted to President of West Marine in August 2003 while continuing as Chief Operating Officer, a position he has held since 1995. He has served as a director of West Marine since 1994. Mr. Everett currently oversees Merchandising, Marketing, Replenishment, Real Estate, Wholesale, Boat Services and Visual Merchandising. From 2001 to 2002, Mr. Everett served as President of Retail, which included the Stores and worldwide Catalog & Internet divisions. From 1998 to 2001, Mr. Everett was President of Stores, directing

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the day-to-day operations and expansion of West Marine's nationwide retail store network. From 1996 to 1998, he served as Executive Vice President and has held various other positions since joining West Marine in 1981.

Eric S. Nelson has served as Senior Vice President of Finance, Chief Financial Officer and Secretary since May 2003. Mr. Nelson joined West Marine in March 2000 as Vice President of Finance and Controller. He served as CFO for Dental Components International from 1999 to 2000, CFO for Fluid Air Components from 1995 to 1999 and CFO for Etcetera Retail Chain Stores, Inc. from 1989 to 1994. He was an Assistant Controller with May Department Stores from 1979 to 1989, and worked as a "troubled company" turnaround specialist from 1994 to 1995.

West Marine has adopted a code of ethics for its associates and Board of Directors, as well as an additional Code of Ethics for its senior financial officers (including our principal executive officer, principal financial officer and controller). Copies of these codes of ethics are available on West Marine's website at www.westmarine.com, or printed copies can be obtained by writing to the Secretary, West Marine, Inc., 500 Westridge Drive, Watsonville, California 95076. Any amendments to these codes of ethics, as well as any waivers that are required to be disclosed under the rules of the Securities and Exchange Commission or the Nasdaq Stock Market, are posted on our website.

ITEM 2—PROPERTIES

Our executive offices and support center are located in a 90,000 square foot facility in Watsonville, California, which we occupy under a lease that expires in 2006. We operate a 240,000 square foot distribution center located in Hollister, California, under a lease that expires in 2011, a 472,000 square foot distribution center located in Rock Hill, South Carolina, under a lease that expires in 2007, a 287,000 square foot distribution center located in Hagerstown, Maryland, under a lease that expires in 2006, and, starting in March 2005, a 10,000 square foot call center for processing catalog and Internet orders located in Largo, Florida, under a lease that expires in 2013.

At January 1, 2005, our 375 stores comprised an aggregate of approximately 2.8 million square feet of space. All of our stores, except three, are leased, typically for a five-year term, with options to renew for additional terms. In most cases, we pay a fixed rent. Substantially all of our leases require us to pay insurance, utilities, real estate taxes, repairs and maintenance expenses.

ITEM 3—LEGAL PROCEEDINGS

We are a party to legal proceedings that are ordinary and incidental to our business. We do not expect that any of these legal proceedings currently pending will have a material adverse impact on our consolidated financial position, consolidated results of operations or cash flows.

ITEM 4—SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5— MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

West Marine’s common stock trades on the Nasdaq National Market tier of the Nasdaq Stock Market under the symbol “WMAR”. The following table sets forth, for the periods indicated, the high and low closing sales prices for our common stock, as reported by the Nasdaq Stock Market.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2004				
High	\$32.70	\$33.25	\$24.00	\$ 25.35
Low	\$25.83	\$23.75	\$18.09	\$ 19.83
2003				
High	\$17.72	\$19.01	\$23.94	\$ 27.50
Low	\$13.69	\$14.91	\$17.50	\$ 18.92

As of March 1, 2005, there were approximately 7,531 holders of record of our common stock and the last sale price reported on the Nasdaq National Market was \$24.49 per share.

We have not paid any cash dividends on our common stock, and we do not anticipate doing so in the foreseeable future.

The information required by this item with respect to securities authorized for issuance under equity compensation plans is incorporated by reference from our Definitive Proxy Statement for the 2005 Annual Meeting of Stockholders.

ITEM 6— SELECTED CONSOLIDATED FINANCIAL DATA

The following consolidated balance sheet data for 2004 and 2003 and consolidated statement of income data for 2004, 2003 and 2002 has been derived from our consolidated financial statements for the fiscal years presented and should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operation in Item 7 and the Financial Statements and Supplementary Data and notes thereto in Item 8.

(in thousands, except per share and operating data)	2004	2003	2002	2001	2000
Consolidated Income Statement Information:					
Net sales	\$682,996	\$660,936	\$530,588	\$512,873	\$508,364
Income from operations	46,771(1)	41,286(3)	34,813	28,039	18,266(5)
Income before income taxes	39,459(1,2)	32,403(4)	31,253	23,193	12,304(5)
Net income	25,534(1,2)	20,090(4)	18,908	13,917	7,391(5)
Net income per share:					
Basic	\$ 1.23(1,2)	\$ 1.02(4)	\$ 1.00	\$ 0.79	\$ 0.43(5)
Diluted	\$ 1.20(1,2)	\$ 0.99(4)	\$ 0.97	\$ 0.77	\$ 0.42(5)
Consolidated Balance Sheet Information:					
Working capital	\$287,192	\$249,690	\$167,938	\$144,398	\$129,255
Total assets	532,315	493,258	358,487	320,809	307,782
Long-term debt, net of current portion	124,064	128,851	48,731	59,426	66,500
Operating Data:					
Stores open at year-end	375	345	257	240	233
Comparable stores net sales Increase (decrease)(6)	0.3%(7)	(2.5%)(7)	0.9%	(0.2%)	2.3%

(1) Includes a \$1.9 million pre-tax charge related to the correction of certain lease accounting practices (see Note 1, “Significant Accounting Policies—Deferred Rent”). The impact of this charge represents \$0.06 per basic and diluted share after tax.

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- (2) Includes both a \$1.1 million pre-tax gain on the sale of real property in Florida and a \$1.4 million pre-tax charge for unamortized portion of loan costs in connection with obtaining a new bank credit facility. The net impact of this gain and this charge represents \$0.01 per basic and diluted share after tax.
- (3) Includes a \$0.9 million pre-tax charge for integration costs associated with the Boat America acquisition.
- (4) Includes both a \$0.9 million pre-tax charge for integration costs associated with the Boat America acquisition and a \$1.9 million pre-tax charge for unamortized loan costs and other debt extinguishment costs associated with the Boat America acquisition. The impact of these charges represents \$0.08 per basic and diluted share after tax.
- (5) Includes a \$2.4 million pre-tax charge for costs related to uncollectible vendor receivables. The impact of this charge represents \$0.08 per basic and diluted share after tax.
- (6) Sales from stores that have been open at least 13 months and where selling square footage did not change by more than 40% in the previous 13 months.
- (7) Sales from the 62 BoatU.S. stores acquired in January 2003 from Boat America are included in comparable store sales statistics beginning in March 2004.

ITEM 7—MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion and analysis is based upon our financial statements as of the dates and for the periods presented in this section. You should read this discussion and analysis in conjunction with the Financial Statements and Supplementary Data and notes thereto found in Item 8.

“Safe Harbor” Statement Under the Private Securities Litigation Reform Act of 1995

The statements in this Form 10-K that relate to future plans, events, expectations, objectives or performance (or assumptions underlying such matters) are forward-looking statements that involve a number of risks and uncertainties. These forward-looking statements include, among other things, statements that relate to West Marine’s future plans, expectations, objectives, performance and similar projections, as well as facts and assumptions underlying these statements or projections. You should not place undue reliance on such forward-looking statements as they speak only as of the date they are made, and we assume no obligation to publicly update or revise any forward-looking statement even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized. Actual results may differ materially from the results expressed or implied in these forward-looking statements due to various risks, uncertainties or other factors.

Set forth below are certain important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements.

Because consumers often consider boats to be luxury items, the market is subject to changes in consumer confidence and spending habits. A slowdown in the domestic economy or an increase in interest rates may adversely affect sales volumes, as well as our ability to maintain current gross profit levels.

Our operations could be adversely affected if unseasonably cold weather, prolonged winter conditions, natural disasters, such as hurricanes, or extraordinary amounts of rainfall occur during the peak boating season in the second and third quarters.

Our Direct Sales division has faced market share erosion in areas where either we or our competitors have opened stores. Management expects this trend to continue.

As West Marine expands into new ventures, concepts and acquisitions, such as boat services, which includes the installation of certain products we sell, and Express stores, we face additional challenges including

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those related to hiring personnel and our unfamiliarity with local demographics. New markets may also have competitive conditions, consumer tastes and discretionary spending patterns that are different from our existing markets. Our acquisition of certain Boat America operations involves a number of risks, including reduced BoatU.S. store sales (“cannibalization”) in locations served by existing West Marine stores as we enhance service levels, gain incremental sales and increase market penetration.

Our growth principally has been related to our stores’ operations. Our continued growth depends to a significant degree on our ability to continue to expand our operations through the opening and profitable operation of new stores, as well as our ability to increase net sales at our existing stores. Our planned expansion is subject to a number of factors, including the adequacy of our capital resources, our ability to locate suitable store sites and negotiate acceptable lease terms, to hire, train and integrate employees and to adapt our distribution and other operations systems.

The markets for recreational watersports and boating supplies are highly competitive. Competitive pressures resulting from competitors’ pricing policies are expected to continue.

We believe that insurance coverage is prudent for risk management and we expect that our insurance costs will continue to increase. For certain types or levels of risk, including medical care and worker’s compensation, we have decided to limit our purchase of relevant insurance, choosing instead to self-insure certain levels of risk. In other cases, we have elected to retain a higher portion of the risk in the form of higher deductibles. If we suffer a substantial loss that is not covered by commercial insurance, the loss and attendant expenses could have a material adverse effect on our business and operating results.

The price of our common stock may be subject to volatile fluctuations based on general economic and market conditions and by our ability to meet analysts’ expectations. Failure to meet such expectations, even slightly, could have an adverse effect on the market price of our common stock. In addition, stock market volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to the operating performance of these companies. Variations in the market price of our common stock may be the result of changes in the trading characteristics that prevail in the market for our common stock including low trading volumes, trading volume fluctuations and other similar factors. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future.

Additional factors which may affect our financial results include inventory management issues, the impact of the Internet and e-commerce on the supply chain, fluctuations in consumer spending on recreational boating supplies, fluctuations in fuel prices, environmental regulations, demand for and acceptance of our products and other risk factors disclosed from time to time in our filings with the Securities and Exchange Commission.

Critical Accounting Policies and Estimates

Management’s discussion and analysis of West Marine’s financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States. The preparation of these financial statements requires the appropriate application of certain accounting policies, many of which require us to make estimates and assumptions about future events and their impact on amounts reported in our financial statements and related notes. Since future events and their impact cannot be determined with certainty, the actual results will inevitably differ from our estimates. Such differences could be material to the financial statements.

We believe our application of accounting policies, and the estimates inherently required therein, are reasonable. These accounting policies and estimates are constantly reevaluated and adjustments are made when facts and circumstances dictate a change. Our accounting policies are more fully described in Note 1 to the financial statements, located elsewhere in this Form 10-K. We have identified certain critical accounting policies, which are described below.

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Lease accounting. Our accounting practices and policies with respect to leasing transactions include: a) recording rent expense starting on the date we gain possession of leased property; b) conforming the lease term used in calculating straight-line rent expense with the term used to amortize improvements on leased property; and c) recording tenant improvement allowances received from landlords as an adjustment to deferred rent, reducing straight-line rent expense.

Deferred rent. Certain of our operating leases contain periods of free or reduced rent or contain predetermined fixed increases in the minimum rent amount during the lease term. For these leases, we recognize rent expense on a straight-line basis over the expected life of the lease, generally about ten years, including periods of free rent, and record the difference between the amount charged to rent expense and the rent paid as deferred rent. Tenant improvement allowances received from landlords are treated as deferred rent adjustments, reducing straight-line rent expense over the life of the lease.

Revenue recognition. Typically, we record sales, net of estimated returns, when merchandise is purchased by customers at retail locations. When merchandise is shipped from a warehouse directly to a customer, we record sales when such merchandise is received by the customer. Return allowances, which reduce net sales for expected product returns, are estimated using historical experience.

Comparable store sales. We define comparable store sales as sales from stores that have been open at least 13 months and where selling square footage did not change by more than 40% in the previous 13 months. Sales from the 62 BoatU.S. stores acquired in January 2003 from Boat America were included in comparable store sales beginning in March 2004.

Merchandise inventories. Our merchandise inventories are carried at the lower of cost or market on a first-in, first-out basis. Inventory cost includes certain indirect costs related to the purchasing, transportation and warehousing of merchandise. We make certain assumptions based upon historical experience and current information to adjust inventory value to the lower of cost or market.

Potentially obsolete inventories are marked down based upon current levels of discontinued product and historical analysis of the liquidation of discontinued inventory below cost. The nature of our inventory is such that the risk of obsolescence is not material.

Vendor allowances. We receive allowances from vendors through a variety of programs and arrangements, including cash discounts and purchase quantity discounts. We recognize such allowances as a reduction to cost of goods sold as the related products are sold or as a reduction in selling, general and administrative expenses.

Long-lived assets. We review long-lived assets for impairment whenever events or changes in circumstances, such as store closures, indicate that the carrying value of an asset may not be recoverable. At the time a decision is made to close a store, we record an impairment charge, if appropriate, and accelerate depreciation over the revised useful life. We believe at this time that the long-lived assets' carrying values and useful lives continue to be appropriate.

Income taxes. We record a valuation allowance to reduce our deferred tax assets to the amount we believe is more likely than not to be realized. While we have considered future taxable income, state tax apportionment and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made. Likewise, should we determine that we would be able to realize our deferred tax assets in the future in excess of our recorded amount, an adjustment to the deferred tax assets would increase income in the period such determination was made.

Our tax filings are subject to audit by authorities in the jurisdictions where we conduct business, which may result in assessments of additional taxes. We believe we have adequately provided for obligations that would

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result from these legal and tax proceedings which it is probable we will pay some amounts and the amounts can be estimated; in some cases, however, it is too early to predict a final outcome.

Foreign currency translation. In the preparation of consolidated financial statements, the assets and liabilities of our Canadian subsidiary are denominated in Canadian dollars and translated to U.S. dollars at the rate of exchange in effect at the balance sheet date; income and expenses are translated at average rates of exchange prevailing during the reporting period. The related translation adjustments are reflected in the other comprehensive income section of the consolidated statements of stockholders' equity. Almost all of the revenues and expenditures of West Marine are denominated in U.S. dollars. However, foreign currency gains and losses from transactions denominated in foreign currencies, including inter-company transactions, are included in operating results and have not been significant to date.

Results of Operations

The following table sets forth certain income statement components expressed as a percent of net sales:

	2004	2003	2002
Net sales	100.0%	100.0%	100.0%
Cost of goods sold including buying and occupancy	67.9%	68.7%	69.3%
Gross profit	32.1%	31.3%	30.7%
Selling, general and administrative expenses	25.2%	25.0%	24.1%
Income from operations	6.9%	6.3%	6.6%
Interest expense	1.1%	1.4%	0.7%
Income before income taxes	5.8%	4.9%	5.9%
Provision for income taxes	2.0%	1.9%	2.3%
Net income	3.8%	3.0%	3.6%

2004 Compared to 2003

In 2004, we had net sales of \$683.0 million, an increase of \$22.1 million, or 3.3%, over net sales of \$660.9 million in 2003. Net income was \$25.5 million, or \$1.20 per share, in 2004, compared to net income of \$20.1 million, or \$0.99 per share, in 2003. Fiscal year 2004 was a 52-week year, compared to a 53-week year in 2003. Net income for 2004 included six unusual items:

- \$1.9 million pre-tax cumulative charge related to the lease accounting correction (included in cost of goods sold);
- \$1.1 million pre-tax gain on sale of real property (included in selling, general and administrative (SG&A) expenses);
- \$0.9 million pre-tax charge for hurricane preparation and recovery costs (included in SG&A expenses);
- \$0.7 million pre-tax charge for costs associated with compliance with the Sarbanes Oxley Act of 2002, primarily costs associated with documenting and testing our internal control over financial reporting (included in SG&A expenses);
- \$1.4 million pre-tax charge for unamortized portion of loan costs in connection with obtaining our new credit facility; and
- \$0.8 million income tax benefit from state and local enterprise zone credits.

Division sales

Net sales attributable to our Stores division increased \$22.3 million, or 3.9%, to \$588.4 million in 2004, partly due to the addition of 34 new stores during the year, which contributed \$8.6 million in sales. Sales at boat

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shows, tent sales and remodeled stores also were higher than last year. The extra week in our 2003 fiscal year calendar represented \$6.2 million in additional sales, mainly in our Stores division, that are not reflected in 2004 results.

Port Supply sales through our distribution centers increased \$1.7 million, or 3.6%, to \$49.3 million in 2004, primarily as a result of higher sales to boat builders and yacht brokers, reflecting an overall growth in the market for new boats compared to last year. Net sales of our Direct Sales division decreased \$2.0 million, or 4.2%, to \$45.3 million, partly due to sales lost to our own stores in areas where we have opened new stores.

Comparable store sales

Comparable store sales are a key performance metric used by our management. While we ended 2004 with a slight increase in our comparable store sales of \$1.5 million, or 0.3%, results varied significantly between the first half and the second half of the year. Increases in comparable store sales of 10.2% and 4.6%, during the first and second quarters, respectively, were offset by decreases of -7.7% and -3.3% during the third and fourth quarters, respectively. Favorable comparable store sales results for the first half of 2004 largely were attributable to poor sales during the similar period last year caused by bad weather. Comparable store sales during the second half of 2004 primarily were adversely affected by four hurricanes in our Southeast region and higher fuel prices nationwide. Comparable store sales by region for 2004, based on the similar 52-week period the prior year, were as follows: Southeast 0.9%, Northeast -0.7% and Western 0.9%.

Gross profit

Gross profit is another key performance metric used by our management. Gross profit increased \$12.3 million, or 6.0%, in 2004, compared to 2003. Gross profit as a percentage of net sales increased to 32.1% in 2004 from 31.3% in 2003, primarily due to lower product costs and increased sales of higher-margin products, especially private-label merchandise. Management expects the upward trend in the proportion of our private-label merchandise sales to our total sales mix to continue. Gross profit in 2004 reflects a \$1.9 million charge for the cumulative effect of the lease accounting corrections, described below and in the "Critical Accounting Policies and Estimates" section of this report.

Lease accounting correction

Like many other companies in the retail industry, we recently reviewed our accounting practices and policies with respect to leasing transactions. Following this review, we have corrected an error in our prior practices, the primary result of which is the acceleration of the recognition of rent expense under certain leases, mostly for our stores, as more fully described in the "Critical Accounting Policies and Estimates" section of this report. The \$1.9 million pre-tax, or \$0.06 per share after tax, cumulative effect of this correction, of which \$1.6 million pre-tax, or \$0.05 per share after tax, relates to prior periods, has been included in cost of goods sold in the fourth quarter of 2004. In 2005, we expect incremental non-cash rent expense related to this computation to be about \$0.3 million pre-tax, or \$0.01 per share after tax. As this correction relates solely to accounting treatment, it does not affect cash flows or the timing of payments under related leases.

Selling, general and administrative expenses (SG&A)

SG&A expenses increased \$6.8 million, or 4.1%, in 2004, primarily due to expenses related to the opening of new stores during the year. Included in SG&A expenses are \$0.9 million in costs directly attributable to the four hurricanes that hit our Southeast region during the third and fourth quarters of 2004. We also recorded a \$1.1 million gain on the sale of certain real property located in Ft. Lauderdale, Florida in the fourth quarter of 2004. Included in 2004 SG&A expenses is \$0.7 million in costs directly associated with our Sarbanes Oxley Act of 2002 compliance efforts. Included in 2003 SG&A expenses is \$0.9 million for incremental integration costs. As a percentage of net sales, SG&A expenses increased to 25.2% in 2004 from 25.0% in 2003, primarily due to newly opened stores, which increase SG&A costs without providing a commensurate increase in sales during the first

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year of operation. Non-capital expenditures incurred in preparation for the opening of new retail stores (also called pre-opening costs) are expensed as incurred. The future profitability of our company is largely dependent on our ability to increase sales and gross profit while containing SG&A expenses.

Income from operations

Income from operations increased \$5.5 million, or 13.3%, in 2004, compared to 2003. As a percentage of net sales, income from operations increased to 6.9% in 2004, from 6.2% in 2003, primarily due to higher product gross margins, as described above.

Interest expense

Interest expense decreased \$1.1 million, or 15.6%, in 2004, compared to 2003, primarily due to lower average interest rates and lower average outstanding balances during 2004, compared to 2003. Upon obtaining a new credit facility in the fourth quarter of 2004, we recorded a \$1.4 million charge for writing off the unamortized portion of loan costs related to our prior credit facility.

Income taxes

Our 2004 income tax rate of 35.3% of pre-tax income decreased from 38.0% in the prior year, primarily due to a \$0.8 million tax benefit in the fourth quarter relating to current and prior years' enterprise zone tax credits.

2003 Compared to 2002

In 2003, we had net sales of \$660.9 million, an increase of \$130.3 million, or 24.6%, over net sales of \$530.6 million in 2002. Net income was \$20.1 million, or \$0.99 per diluted share, in 2003, compared to net income of \$18.9 million, or \$0.97 per diluted share, in 2002. Fiscal year 2003 was a 53-week year, compared to a 52-week year in 2002.

Division sales

Net sales attributable to our Stores division increased \$119.1 million, or 26.7%, to \$566.1 million in 2003, mostly due to the addition of 27 new stores, which contributed \$14.3 million, and 62 stores purchased from Boat America, which contributed \$95.1 million to net sales growth. Other contributing sources included boat shows, tent sales and remodeled stores.

Port Supply sales through our distribution centers increased \$2.8 million, or 6.2%, to \$47.6 million in 2003, primarily as a result of increased government sales during the year. Direct Sales net sales increased \$8.4 million, or 21.6%, to \$47.3 million, primarily due to gains in international sales aided by favorable foreign exchange rates.

Comparable store sales

The war in Iraq, the soft economy, unseasonably cold and wet weather nationwide and higher fuel prices all contributed to a decrease in our comparable store sales of \$10.4 million, or 2.5%, in 2003. The largest decreases were in sales of discretionary items, such as electronics, and in boating-frequency related items, such as maintenance products. Comparable store sales by region for 2003 were as follows: Southeast -1.0%; Northeast -2.8% and Western -4.7%. During the first quarter of 2003, approximately 85 of our stores in the Northeast region were closed for up to three days due to inclement weather, adversely affecting sales. The Southeast region contributed approximately 50 percent of our total sales in 2003. Comparable store sales for 2003 are based on a similar 53-week period in the prior year.

Gross profit

Gross profit increased \$43.4 million, or 26.6%, in 2003 compared to 2002. Gross profit as a percentage of net sales increased to 31.3% in 2003 from 30.7% in 2002, primarily due to lower product costs, supply chain

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efficiencies and increased sales volume of higher-margin private label products compared to a decline in the proportion of sales of lower-margin products, such as electronics.

Selling, general and administrative expenses (SG&A)

SG&A expenses increased \$36.9 million, or 28.8%, in 2003, primarily due to expenses related to the operations of the 62 BoatU.S. stores acquired, including \$0.9 million expended during the first quarter for incremental integration costs. SG&A expenses, as a percentage of net sales, increased to 25.0% in 2003 from 24.1% in 2002.

Income from operations

Income from operations increased \$6.5 million, or 18.6%, in 2003 compared to 2002. Income from operations, as a percentage of net sales, decreased to 6.2% in 2003, from 6.6% in 2002, primarily due to increases in SG&A expenses related to the acquisition of BoatU.S. retail operations.

Interest expense

Interest expense increased \$3.4 million, or 96.1%, in 2003 compared to 2002, primarily as a result of financing the acquisition of BoatU.S. retail operations, for which we also incurred a \$1.9 million charge for debt extinguishment costs and writing off the unamortized portion of capitalized loan costs upon the repayment of then existing debt.

Income taxes

Our 2003 income tax rate of 38.0% of pre-tax income decreased from 39.5% in the prior year, primarily due to a \$0.3 million benefit for enterprise zone tax credits.

Liquidity and Capital Resources

Our cash needs primarily are for working capital to support our inventory requirements and capital expenditures, pre-opening expenses and beginning inventory for new stores and for remodeling or relocating older stores. We also may require additional capital in the event we choose to pursue acquisition opportunities. We believe existing credit facilities and cash flows from operations will be sufficient to satisfy our liquidity needs through 2005.

Operating activities

During 2004, our primary sources of liquidity were cash flow from operations and proceeds from the exercise of stock options. Net cash provided by operations during 2004 was \$18.6 million, primarily consisting of net income, excluding depreciation and amortization, of \$52.1 million, offset by a \$32.6 million increase in inventory. The inventory increase reflects the increase in the number of stores, as well as our commitment to increasing fill rates and advanced stocking of merchandise at stores in preparation for the peak boating season.

Capital Growth

In 2004, we spent \$24.5 million on capital expenditures, mainly for new stores and information systems software and hardware. Also during 2004, we received \$1.9 million in proceeds from the sale of real property located in Ft. Lauderdale, Florida. We expect to spend between \$25.0 million and \$28.0 million on capital expenditures during 2005, mainly for new stores and information systems upgrades. We intend to fund our expansion through cash generated from operations and bank borrowings.

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Financing Arrangements

Net cash provided by financing activities was \$4.7 million in 2004, primarily consisting of \$124.1 million of net borrowings under our line of credit and \$10.2 million received from the exercise of stock options and the net sales of common stock pursuant to our associate stock purchase plan, offset by \$128.9 million used to pay off our former line of credit.

On October 14, 2004, we entered into a new, five-year, \$190.0 million credit agreement with a group of lenders that replaced the prior, three-year, \$175.0 million loan agreement. In connection with this transaction, we recorded a \$1.4 million charge in the fourth quarter of 2004, representing the unamortized portion of loan costs associated with our prior bank credit facility.

The amount available to be borrowed reduces annually over the term of the new credit agreement. At our option, subject to certain conditions and restrictions, the agreement provides up to \$150.0 million in additional financing at various times during the term. The credit facility is guaranteed by West Marine and its subsidiaries and is secured by a security interest in substantially all of the assets of West Marine and its subsidiaries. The credit facility includes a \$30.0 million sub-facility available for the issuance of commercial and stand-by letters of credit. The credit facility also includes a sub-limit of up to \$20.0 million for same day advances.

Depending on our election at the time of borrowing, our credit facility bears interest at either (a) the higher of (i) the agent's prime rate plus a margin or (ii) the federal funds rate plus 0.5% or (b) LIBOR plus a margin. For 2004 and 2003, the weighted average interest rate on all of our outstanding borrowings was 3.8% and 4.9%, respectively.

The credit facility contains various covenants which require us to maintain certain financial ratios, including fixed charge coverage, debt to earnings and current ratios. The covenants also require us to maintain minimum levels of net worth and place limitations on the levels of certain investments. These covenants also restrict the repurchase or redemption of our common stock and payment of dividends, investments in subsidiaries and annual capital expenditures. As of January 1, 2005, we were in compliance with all such covenants.

At the end of fiscal year 2004, borrowings under this credit facility were \$124.1 million, bearing interest at rates ranging from 3.9% to 5.3% and \$65.9 million was available to be borrowed. At the end of 2003, borrowings under a previous credit facility were \$128.9 million, bearing interest at rates ranging from 3.6% to 5.0%. At the end of 2004 and 2003, we had \$5.8 million and \$5.7 million, respectively, of outstanding commercial and stand-by letters of credit.

Contractual obligations

Aggregated information about our unconditional contractual obligations as of January 1, 2005 is presented in the following table (dollars in thousands).

	Total	2005	2006	2007	2008	2009	After 5 years
Contractual cash obligations:							
Long-term debt (1)	\$124,064	\$ 0	\$ 0	\$ 0	\$ 0	\$124,064	\$ 0
Operating leases (2)	193,995	41,844	38,441	30,361	23,922	17,622	41,805
Other long-term liabilities (3)	5,795	5,795	0	0	0	0	0
Total cash contractual obligations	\$323,854	\$47,639	\$38,441	\$30,361	\$23,922	\$141,686	\$41,805

(1) Assumes that our long-term debt is repaid at maturity and not re-financed.

(2) Operating leases are the only financing arrangements not reported on our consolidated balance sheets. Operating lease amounts in this table are not reduced for sublease income.

(3) Other long-term liabilities consist of our outstanding commercial and standby letters of credit at January 1, 2005.

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We are a party to various arrangements that are conditional in nature and obligate us to make payments only upon the occurrence of certain events, such as delivery of functioning software products. Because it is not possible to predict the timing or amounts that may be due under these conditional arrangements, no such amounts have been included in the table above. In addition, all but a limited number of our purchase commitments, which are not material, are cancelable by us without payment, and we have excluded such commitments, along with all associate employment commitments.

Off-Balance Sheet Arrangements

We do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as special purpose entities or variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other limited purposes. As of January 1, 2005, we are not involved in any unconsolidated special purpose entities or variable interest entities.

Seasonality

Historically, our business has been highly seasonal. In 2004, 64% of our net sales and all of our net income occurred during the second and third quarters, principally during the period from April through July, which represents the peak months for boat buying, usage and maintenance in most of our markets. Management expects the seasonal fluctuation in net sales to become more pronounced as we continue to expand our operations.

Business Trends

The health of our business is directly related to the number of domestic boat owners and the frequency of boating activities. According to a survey by National Marine Manufacturer's Association, recreational boating boasted 72 million participants in 2003, the second consecutive year of growth and an increase of six percent or 4 million participants from 2001. However, new boat sales—of powerboats and sailboats—declined in 2001, 2002 and 2003 from a ten-year high in 2000, corresponding with a general softening of the U.S. economy during the same period. This trend may continue in the future.

For the long-term, demographics appear to favor the boating industry through the end of the decade. According to the U.S. Census Bureau, the portion of the population aged 45 to 54, which represents a key component of boat owners and our customer base, is expected to grow significantly before peaking in 2010.

Our growth has been principally fueled by geographic expansion through the opening of new stores and the acquisition of Boat America's retail operations in January 2003. Future net sales and profit growth, if any, increasingly will be dependent upon our ability to open new profitable stores. Our Direct Sales division continues to face market share erosion in geographic markets where either we or our competitors have opened new stores. We expect this trend to continue.

We operate in a highly competitive industry, and we expect competition to increase in the future. An increase in competition in our markets may result in pressure on our pricing policies.

ITEM 7A—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not undertake any specific actions to diminish our exposure to interest rate risk, and we are not a party to any interest rate risk management transactions. We do not purchase or hold any derivative financial instruments.

A 38 basis point change in the interest rate (10% of our weighted-average interest rate) affecting our floating financial instruments would have an effect of approximately \$0.5 million on our pretax income and cash flows over the next year, and would have an immaterial effect on the fair value of our fixed-rate financial instruments (see Note 4 to the Notes to Consolidated Financial Statements set forth in Item 8—Financial Statements and Supplementary Data).

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ITEM 8—FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
West Marine, Inc.

We have audited the accompanying consolidated balance sheets of West Marine, Inc. and subsidiaries (the “Company”) as of January 1, 2005 and January 3, 2004, and the related consolidated statements of income, stockholders’ equity, and cash flows for each of the three years in the period ended January 1, 2005. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of West Marine, Inc. and subsidiaries at January 1, 2005 and January 3, 2004, and the results of their operations and their cash flows for each of the three fiscal years in the period ended January 1, 2005, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company’s internal control over financial reporting as of January 1, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 25, 2005 expressed an unqualified opinion on management’s assessment of the effectiveness of the Company’s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP
San Francisco, California
March 25, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

To the Board of Directors and Stockholders of
West Marine, Inc.

We have audited management’s assessment, included in the accompanying Management’s Reports—Management’s Responsibility on Internal Control over Financial Reporting, that West Marine, Inc. and subsidiaries (the “Company”) maintained effective internal control over financial reporting as of January 1, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management’s assessment and an opinion on the effectiveness of the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management’s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management’s assessment that the Company maintained effective internal control over financial reporting as of January 1, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 1, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended January 1, 2005 of the Company and our report dated March 25, 2005 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP
San Francisco, California
March 25, 2005

WEST MARINE, INC.
CONSOLIDATED BALANCE SHEETS
JANUARY 1, 2005 AND JANUARY 3, 2004
(in thousands, except share data)

	Year-End	
	2004	2003
ASSETS		
Current assets:		
Cash	\$ 5,459	\$ 4,737
Trade receivables, net of allowances of \$487 in 2004 and \$428 in 2003	6,209	6,094
Merchandise inventories	346,663	314,021
Other current assets	29,156	23,874
Total current assets	387,487	348,726
Property and equipment, net	82,292	80,764
Goodwill	56,905	56,905
Intangibles	2,557	2,875
Other assets	3,074	3,988
TOTAL ASSETS	\$ 532,315	\$ 493,258
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 65,421	\$ 72,635
Accrued expenses	28,145	22,921
Deferred current liabilities	6,729	3,480
Total current liabilities	100,295	99,036
Long-term debt	124,064	128,851
Deferred items and other non-current liabilities	13,525	11,324
Total liabilities	237,884	239,211
Stockholders' equity:		
Preferred stock, \$.001 par value: 1,000,000 shares authorized; no shares outstanding	—	—
Common stock, \$.001 par value: 50,000,000 shares authorized; issued and outstanding: 20,894,240 at January 1, 2005 and 20,130,053 at January 3, 2004	21	20
Additional paid-in capital	155,400	140,348
Accumulated other comprehensive income	305	508
Retained earnings	138,705	113,171
Total stockholders' equity	294,431	254,047
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 532,315	\$ 493,258

See notes to consolidated financial statements.

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WEST MARINE, INC.
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)

	2004	2003	2002
Net sales	\$ 682,996	\$ 660,936	\$ 530,588
Cost of goods sold, including buying and occupancy	464,075	454,315	367,422
Gross profit	218,921	206,621	163,166
Selling, general and administrative expense	172,150	164,426	128,353
Acquisition integration costs	—	909	—
Income from operations	46,771	41,286	34,813
Interest expense	5,893	6,981	3,560
Charges for unamortized portion of loan costs and debt extinguishment costs	1,419	1,902	—
Income before taxes	39,459	32,403	31,253
Provision for income taxes	13,925	12,313	12,345
Net income	\$ 25,534	\$ 20,090	\$ 18,908
Net income per common and common equivalent share:			
Basic	\$ 1.23	\$ 1.02	\$ 1.00
Diluted	\$ 1.20	\$ 0.99	\$ 0.97
Weighted average common and common equivalent shares outstanding:			
Basic	20,695	19,716	18,816
Diluted	21,310	20,380	19,521

See notes to consolidated financial statements.

WEST MARINE, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share data)

	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Accumulated Stockholders Equity	Total Comprehensive Income
Balance at year-end, 2001	18,134,152	\$ 18	\$113,622	\$ 74,173		\$ 187,813	\$ 13,917
Net income				18,908		18,908	18,908
Foreign currency translation adjustment					\$ 31	31	31
Exercise of stock options	1,082,163	1	10,443			10,444	
Tax benefit from exercise of stock options			4,219			4,219	
Sale of common stock pursuant to associate stock purchase plan	54,642		649		—	649	
Balance at year-end, 2002	19,270,957	19	128,933	93,081	31	222,064	\$ 18,939
Net income				20,090		20,090	\$ 20,090
Foreign currency translation adjustment					477	477	477
Exercise of stock options	792,609	1	7,299			7,300	
Tax benefit from exercise of stock options			3,247			3,247	
Sale of common stock pursuant to associate stock purchase plan	66,487		869		—	869	
Balance at year-end, 2003	20,130,053	20	140,348	113,171	508	254,047	\$ 20,567
Net income				25,534		25,534	\$ 25,534
Foreign currency translation adjustment					(203)	(203)	(203)
Exercise of stock options	702,907	1	8,886			8,887	
Tax benefit from exercise of stock options			4,888			4,888	
Sale of common stock pursuant to associate stock purchase plan	61,280		1,278		—	1,278	
Balance at year-end, 2004	20,894,240	\$ 21	\$155,400	\$138,705	\$ 305	\$ 294,431	\$ 25,331

See notes to consolidated financial statements.

WEST MARINE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	2004	2003	2002
OPERATING ACTIVITIES:			
Net income	\$ 25,534	\$ 20,090	\$ 18,908
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	25,139	23,829	19,416
Charges for unamortized portion of loan costs	1,419	580	—
Provision for deferred income taxes	2,628	2,681	832
Tax benefit from exercise of stock options	4,888	3,247	4,219
Provision for doubtful accounts	449	408	288
Loss (gain) on asset disposals	(558)	367	40
Changes in assets and liabilities:			
Accounts receivable	(564)	(818)	(873)
Merchandise inventories	(32,642)	(38,568)	(28,244)
Prepaid expenses and other current assets	(5,305)	(6,254)	(3,572)
Other assets	(922)	(163)	(185)
Accounts payable	(7,214)	16,021	8,968
Accrued expenses	5,224	676	4,210
Deferred items	517	—	185
Net cash provided by operating activities	<u>18,593</u>	<u>22,096</u>	<u>24,192</u>
INVESTING ACTIVITIES:			
Acquisitions, net of cash acquired	—	(74,487)	(843)
Proceeds from sale of property	1,903	—	—
Purchases of property and equipment	(24,507)	(24,135)	(19,921)
Net cash used in investing activities	<u>(22,604)</u>	<u>(98,622)</u>	<u>(20,764)</u>
FINANCING ACTIVITIES:			
Net repayments on prior line of credit	(128,851)	(40,731)	(2,069)
Net borrowings on new line of credit	124,064	128,851	—
Repayments on long-term debt	—	(16,626)	(8,774)
Payment of loan costs	(645)	(3,122)	—
Proceeds from sale of common stock pursuant to associate stock purchase plan	1,278	869	649
Proceeds from exercise of stock options	8,887	7,300	10,444
Net cash provided by financing activities	<u>4,733</u>	<u>76,541</u>	<u>250</u>
NET INCREASE IN CASH	722	15	3,678
CASH AT BEGINNING OF PERIOD	4,737	4,722	1,044
CASH AT END OF PERIOD	\$ 5,459	\$ 4,737	\$ 4,722
Other cash flow information:			
Cash paid for interest	\$ 6,451	\$ 6,378	\$ 3,468
Cash paid for income taxes	9,476	14,549	8,100

See notes to consolidated financial statements.

WEST MARINE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS—West Marine, Inc. (“West Marine” or “the Company”) is a specialty retailer of boating supplies. The Company has three divisions - Stores, Port Supply (wholesale) and Direct Sales (catalog and Internet) - which all sell aftermarket recreational boating supplies directly to customers. At year-end 2004, West Marine offered its products through 375 stores in 38 states, Puerto Rico and Canada, through our catalog and on the Internet. The Company is also engaged, through its Port Supply division and its stores, in the wholesale distribution of products to commercial customers and other retailers.

West Marine was incorporated in Delaware in September 1993 as the holding company for West Marine Products, Inc., which was incorporated in California in 1976. The Company’s principal executive offices are located in Watsonville, California.

PRINCIPLES OF CONSOLIDATION—The consolidated financial statements include the accounts of West Marine, Inc. and its subsidiaries, all of which are wholly-owned, directly or indirectly. Intercompany balances and transactions are eliminated in consolidation.

YEAR-END—The Company’s fiscal year ends on the Saturday closest to December 31 based on a 52- or 53-week year. The years 2004 and 2002 ended on January 1, 2005 and December 28, 2002, respectively, and were 52-week years, while the year 2003 ended on January 3, 2004 and was a 53-week year.

ACCOUNTING ESTIMATES—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

INVENTORIES—Merchandise inventories are stated at the lower of cost or market (first-in, first-out method). Cost includes acquisition and distribution costs in order to better match net sales with these related costs.

DEFERRED CATALOG AND ADVERTISING COSTS—The Company capitalizes the direct cost of producing and distributing its catalogs. Capitalized catalog costs are amortized, once a catalog is mailed, over the expected net sales period, which is generally from two months to ten months. Deferred catalog costs were \$0.02 million at both year-end 2003 and 2004. Advertising costs, which are expensed as incurred, were \$21.7 million, \$19.6 million and \$14.4 million in 2004, 2003 and 2002, respectively.

PROPERTY AND EQUIPMENT—Property and equipment is stated at cost and depreciated—using the straight-line method over the estimated useful lives of the various assets, as follows:

	Estimated Useful Lives
Furniture and equipment	3 –7 years
Computer hardware and software	2 –7 years
Buildings	25 years

Leasehold improvements are amortized over the lesser of the expected lease term or the estimated useful life of the improvement, which amortization period is usually about ten years.

WEST MARINE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

CAPITALIZED INTEREST—The Company capitalizes interest on major capital projects. The Company capitalized approximately \$0.4 million in such interest during each of the years 2004, 2003 and 2002.

CAPITALIZED SOFTWARE COSTS—Capitalized computer software, included in property and equipment, reflects costs related to internally developed or purchased software that are capitalized and amortized on a straight-line basis, generally over a three-to-five year period. Internally developed software costs are capitalized in accordance with Statement of Position 98-1, “Accounting for Costs of Computer Software Developed or Obtained for Internal Use.”

GOODWILL AND OTHER INTANGIBLE ASSETS—The changes in the carrying amount of goodwill for the years ended January 1, 2005 and January 3, 2004 are as follows (in thousands):

	2004	2003
Beginning balance	\$56,905	\$33,998
Goodwill acquired during the year	-0-	22,907
Impairment losses	-0-	-0-
Ending balance	\$56,905	\$56,905

Intangibles represent the value of a marketing agreement between West Marine and BoatU.S., and are being amortized on a straight-line basis over ten years. Amortization expense for this intangible asset was \$0.3 million for both 2004 and 2003. Accumulated amortization at year-end 2004 and 2003 was \$0.6 million and \$0.3 million, respectively.

	As of January 1, 2005		As of January 3, 2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets (in thousands)				
BoatU.S. marketing agreement	\$ 3,180	\$ (623)	\$ 3,180	\$ (305)

Amortization expense for the next five years is estimated at \$0.3 million per year.

IMPAIRMENT OF LONG-LIVED ASSETS—The Company reviews long-lived assets, including intangible assets, for impairment annually in the third quarter and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the undiscounted future cash flows from the long-lived asset are less than the carrying value, a loss equal to the difference between carrying value and the fair market value of the asset is recorded. No impairment charges were recorded during 2004, 2003 or 2002.

OTHER ASSETS—Other assets includes loan costs of \$0.7 million and \$2.2 million at year-end 2004 and 2003, respectively, incurred in connection with obtaining bank credit facilities (see Note 4, “Lines of Credit and Long-Term Debt”). Loan costs are amortized on a straight-line basis over the term of the credit facility as interest expense. The Company reported charges for the unamortized portion of loan costs of \$1.4 million and \$0.6 million in 2004 and 2003, respectively, in connection with obtaining new credit facilities.

DEFERRED RENT—Certain of the Company’s operating leases contain periods of free or reduced rent or contain predetermined fixed increases in the minimum rent amount during the lease term. For these leases, the Company recognizes rent expense on a straight-line basis over the expected life of the lease, generally about ten years, including periods of free rent, and records the difference between the amount charged to rent expense and the rent paid as deferred rent. Tenant improvement allowances received from landlords are treated as deferred rent adjustments, reducing straight-line rent expense over the life of the lease.

WEST MARINE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

West Marine recently reviewed its accounting practices and policies with respect to leasing transactions. Following this review, the Company corrected an error in its prior lease accounting practices, and the Company now: a) records rent expense starting on the date it gains possession of leased property; b) conforms the lease term used in calculating straight-line rent expense with the term used to amortize improvements on leased property; and c) records tenant improvement allowances received from landlords as an adjustment to deferred rent, reducing straight-line rent expense. The primary result of this correction is an acceleration of the recognition of rent expense under certain leases, mostly for its stores. The correction does not affect historical or future cash flows or the timing of payments under the related leases. As the effect of this correction on West Marine's current and prior years' net income, cash from operations and shareholders' equity is immaterial, the cumulative \$1.9 million pre-tax adjustment, of which \$1.6 million relates to prior periods, is included in cost of goods sold in the fourth quarter of 2004. Net property and equipment at year-end 2004 increased by \$0.7 million as a result of this correction.

INCOME TAXES—Income taxes are accounted for using the asset and liability method under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109 "Accounting for Income Taxes". Under this method, deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements. A valuation allowance is recorded to reduce deferred tax assets to the amount estimated as more likely than not to be realized.

FAIR VALUE OF FINANCIAL INSTRUMENTS—The carrying values of cash, accounts receivable, accounts payable and long-term debt approximate their estimated fair value.

STOCK-BASED COMPENSATION—At January 1, 2005, West Marine had two stock-based employee compensation plans, which are more fully described in Note 7, "Stock Option Plans". The Company accounts for these plans under the recognition and measurement principles of Accounting Principles Bulletin ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of the grant, and all stock purchase awards employed a discount not greater than 15%.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation.

	2004	2003	2002
Net income, as reported	\$25,534	\$20,090	\$18,908
Deduct: total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(3,780)	(2,804)	(2,088)
Pro forma net income	\$21,754	\$17,286	\$16,820
Earnings per share:			
Basic—as reported	\$ 1.23	\$ 1.02	\$ 1.00
Basic—pro forma	\$ 1.05	\$ 0.88	\$ 0.89
Diluted—as reported	\$ 1.20	\$ 0.99	\$ 0.97
Diluted—pro forma	\$ 1.03	\$ 0.85	\$ 0.86

WEST MARINE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

West Marine's calculations were made using the Black-Scholes option pricing model with the following weighted average assumptions:

	2004	2003	2002
Dividend Yield	—	—	—
Volatility	66%	65%	63%
Risk-Free interest rate range	1.3%–4.1%	1.3%–3.9%	2.1%–4.8%
Expected Term (years)	6.0	8.0	7.9

REVENUE RECOGNITION—Sales, net of estimated returns, are recorded when merchandise is purchased by customers at retail locations. Revenue is recognized when merchandise shipped from a warehouse directly to a customer is received by the customer. Reserves for sales returns were \$0.2 million at the end of 2004 and \$0.1 million at the end of each of 2003 and 2002.

COST OF GOODS SOLD—Cost of goods sold includes store occupancy and buying costs. Consideration in the form of cash or credits received from vendors is recorded as a reduction to cost of goods sold as the related product is sold.

COMPREHENSIVE INCOME—Comprehensive income is defined as the change in equity during a period from transactions and other events, except those resulting from investments by and distributions to stockholders. The components of comprehensive income are reported in the Consolidated Statements of Stockholders' Equity.

FOREIGN CURRENCY—Translation adjustments result from translating foreign subsidiaries' financial statements into U.S. dollars. Balance sheet accounts are translated at exchange rates in effect at the balance sheet date. Income statement accounts are translated at average exchange rates during the year. Resulting translation adjustments are included as a component of Other Comprehensive Income in the Consolidated Statements of Stockholders' Equity.

NET INCOME PER SHARE—Basic net income per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income per share reflects the potential dilution that could occur if outstanding options to issue common stock were exercised. The following is a reconciliation of the Company's basic and diluted net income per share computations (shares in thousands):

	2004		2003		2002	
	Shares	Per Share Amount	Shares	Per Share Amount	Shares	Per Share Amount
Basic	20,695	\$ 1.23	19,716	\$ 1.02	18,816	\$ 1.00
Effect of dilutive stock options	615	(0.03)	664	(0.03)	705	(0.03)
Diluted	21,310	\$ 1.20	20,380	\$ 0.99	19,521	\$ 0.97

Excluded from the above computations of diluted net income per share are options to purchase 692,000, 472,000 and 1,281,000 shares of common stock in 2004, 2003 and 2002, respectively, as these shares were anti-dilutive.

DERIVATIVE INSTRUMENTS—West Marine did not purchase or hold any derivative financial instruments.

WEST MARINE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

RECENT ACCOUNTING PRONOUNCEMENTS—In December 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 123 (revised 2004), “Share-Based Payment” (“SFAS No. 123R”), which requires the recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements and measurement based on the grant-date fair value of the award. It also requires the cost to be recognized over the period during which an employee is required to provide service in exchange for the award (presumptively the vesting period). SFAS No. 123R replaces SFAS No. 123 and supersedes APB Opinion No. 25, and its related interpretations. SFAS No. 123R is effective for periods beginning after June 15, 2005. The Company will adopt SFAS No. 123R on July 3, 2005, as required.

Adoption of SFAS No. 123R will not affect West Marine’s cash flow or financial position, but it will reduce reported net income and earnings per share because West Marine currently uses the intrinsic value method as permitted by APB Opinion No. 25. Accordingly, no compensation expense is currently recognized for share purchase rights granted under the Company’s associate and director stock option and associate stock purchase plans. Specifically, the adoption of SFAS No. 123R will result in West Marine recording compensation cost for associate and director stock options and associate stock purchase rights. The Company is currently evaluating the impact of the adoption of this standard.

In November 2004, the FASB issued SFAS No. 151, “Inventory Costs, an amendment of ARB No. 43.” This statement clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not believe the adoption of SFAS No. 151 will have a material effect on its financial position, results of operations or cash flows.

On December 16, 2004, the FASB issued SFAS No. 153, “Exchanges of Nonmonetary Assets, an amendment of ABP Opinion No. 29”. SFAS No. 153 addresses the measurement of exchanges of nonmonetary assets and redefines the scope of transactions that should be measured based on the fair value of the assets exchanged. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not believe the adoption of SFAS No. 153 will have a material effect on its financial position, results of operations or cash flows.

NOTE 2: ACQUISITION

On January 14, 2003, West Marine Products, Inc. acquired the retail stores, catalog and wholesale operations of Boat America Corporation (“Boat America”). The consideration consisted of \$72 million in cash, the assumption of certain liabilities and approximately \$2.1 million of acquisition costs, which include investment advisory, legal and accounting fees and other third-party expenses directly related to the transaction.

At the time of the acquisition, Boat America operated 62 boating supply specialty stores under the name BoatU.S. and a Florida catalog call center. The acquisition was made in order to increase earnings, primarily by growing store sales and gross margins without significantly raising overhead costs. The purchase price exceeded the fair value of the acquired assets because management determined that the ongoing business could easily be integrated into West Marine’s existing operations and, therefore, produce positive cashflows and contribute to earnings relatively quickly. The statement of income includes the results of the acquired operations since the date of the acquisition.

The cost of the acquisition has been allocated to the tangible and intangible assets acquired and liabilities assumed based on their respective fair values. Intangible assets other than goodwill—primarily trademarks—are amortized over ten years. All goodwill is assigned to the Stores operating segment and approximately \$20.8 million of such goodwill is deductible for tax purposes.

WEST MARINE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The total cost of the acquisition has been allocated as follows (dollars in thousands):

Inventory	\$ 54,059
Other current assets	835
Property and equipment	6,124
Trademarks and other intangible assets, excluding goodwill	3,180
Goodwill	22,588
Deferred taxes	1,210
Current liabilities	(11,194)
Long term liabilities	(2,713)
	<hr/>
Fair value of assets acquired, including intangibles	<u>\$ 74,089</u>

The following pro forma combined financial information presents the combined consolidated results of operations of West Marine and the acquired operations of Boat America as if the acquisition had occurred on December 29, 2001, after giving effect to certain adjustments including amortization of intangible assets, interest expense, depreciation expense and related income tax effects. No costs related to extinguishment of debt are included in the pro forma results. No adjustments have been made to recognize anticipated cost savings and synergies. The pro forma combined consolidated financial information does not necessarily reflect the results of operations that would have occurred had West Marine and the acquired operations of Boat America constituted a single entity during such periods (in thousands, except per share amounts).

	53 weeks ended January 3, 2004	52 weeks ended December 28, 2002
	<hr/>	<hr/>
Net sales	\$ 663,011	\$ 671,405
Net income	19,547	23,623
Earnings per share—basic	\$ 0.99	\$ 1.26
Earnings per share—diluted	\$ 0.96	\$ 1.21

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at year-end 2004 and 2003 (in thousands):

	At Year-End	
	2004	2003
	<hr/>	<hr/>
Furniture and equipment	\$ 59,989	\$ 53,028
Computer hardware and software	96,551	87,508
Leasehold improvements	56,806	48,751
Land and building	3,290	3,716
	<hr/>	<hr/>
Accumulated depreciation and amortization	216,636	193,003
	(134,344)	(112,239)
	<hr/>	<hr/>
Net property and equipment	<u>\$ 82,292</u>	<u>\$ 80,764</u>

Depreciation and amortization expense for property and equipment was \$23.9 million, \$23.5 million and \$19.2 million in 2004, 2003 and 2002, respectively.

WEST MARINE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 4: LINES OF CREDIT AND LONG-TERM DEBT

On October 14, 2004, West Marine entered into a new, five-year, \$190 million credit agreement with a group of lenders that replaced the prior, three-year, \$175 million loan agreement. In connection with this transaction, the Company recorded a \$1.4 million charge in the fourth quarter of 2004, representing the unamortized portion of loan costs associated with the prior bank credit facility.

The amount available to be borrowed reduces annually over the term of the new credit agreement and is due in 2009. At the Company's option, subject to certain conditions and restrictions, the agreement provides up to \$150 million in additional financing at various times during the term. The credit facility is guaranteed by West Marine and its subsidiaries and is secured by a security interest in substantially all of the assets of West Marine and its subsidiaries. The credit facility includes a \$30 million sub-facility available for the issuance of commercial and stand-by letters of credit. The credit facility also includes a sub-limit of up to \$20 million for same day advances.

Depending on the Company's election at the time of borrowing, the credit facility bears interest at either (a) the higher of (i) the agent's prime rate plus a margin or (ii) the federal funds rate plus 0.5% or (b) LIBOR plus a margin. For 2004 and 2003, the weighted average interest rate on all outstanding borrowings was 3.8% and 4.9%, respectively.

The credit facility contains various covenants which require West Marine to maintain certain financial ratios, including fixed charge coverage, debt to earnings and current ratios. The covenants also require minimum levels of net worth and place limitations on the levels of certain investments. These covenants also restrict the repurchase or redemption of the Company's common stock and payment of dividends, investments in subsidiaries and annual capital expenditures. As of January 1, 2005, West Marine was in compliance with all such covenants.

At the end of fiscal year 2004, borrowings under this credit facility were \$124.1 million, bearing interest at rates ranging from 3.9% to 5.3%. At the end of 2003, borrowings under a previous credit facility were \$128.9 million, bearing interest at rates ranging from 3.6% to 5.0%. At the end of 2004 and 2003, the Company had \$5.8 million and \$5.7 million, respectively, of outstanding commercial and stand-by letters of credit.

NOTE 5: RELATED PARTY TRANSACTIONS

The Company purchases merchandise from a supplier in which the Company's principal stockholder is an investor and a member of the board of directors. Additionally, the principal stockholder's brother is the president and his father is a member of the board of directors and a major stockholder of the supplier. Using comparative information, management has determined that these transactions are at terms that are favorable to the Company. The Company's cost of sales during 2004, 2003 and 2002 included \$10.0 million, \$7.9 million and \$7.1 million, respectively, related to purchases from such related party. Accounts payable to the supplier at year-end 2004 were \$0.2 million; no amount was outstanding at year-end 2003.

The Company leases its Watsonville Support Center and two retail stores from three partnerships, for each of which the Company's principal stockholder serves as the general partner. Each of the partnerships is substantially owned by the principal stockholder and certain members of his family (see Note 6). The Company leases a third retail store from a corporation of which certain members of the family of the Company's principal stockholder are the President and a member of the board of directors and a major stockholder. The Company's President is a 2.5% limited partner in one of the partnerships and a director of the Company is a 7.5% limited partner in two of the partnerships. In addition, one retail store is leased directly from the Company's principal stockholder. Using comparative information, management has determined that these transactions are at terms that are favorable to the Company.

WEST MARINE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 6: COMMITMENTS AND CONTINGENCIES

The Company leases certain equipment, retail stores, its distribution centers and its support center. The Company also sublets space at various locations with both month-to-month and non-cancelable sublease agreements. The operating leases of certain stores provide for rent adjustments based on the consumer price index and contractual rent increases.

The aggregate minimum annual contractual payments under non-cancelable leases, reduced for sublease income, in effect at fiscal year-end 2004 were as follows (in thousands):

	<u>Net Lease Commitments</u>
2005	\$ 41,804
2006	38,435
2007	30,361
2008	23,922
2009	17,622
Thereafter	41,805
Total minimum lease commitment	\$ 193,949

There were no assets subject to capital leases at year-end 2004 or 2003. West Marine is party to various arrangements that are conditional in nature and obligate the Company to make payments only upon the occurrence of certain events, such as delivery of functioning software products. Because it is not possible to predict the timing or amounts that may be due under these conditional arrangements, no such amounts have been included in the table above. In addition, all but a limited number of the Company's purchase commitments, which are not material, are cancelable without payment, and therefore, have been excluded from the table, along with all associate employment commitments.

The Company is party to various legal proceedings arising from normal business activities. In addition, the Company's tax filings are subject to audit by authorities in the jurisdictions where it conducts business, which may result in assessments of additional taxes. The Company believes it has adequately provided for obligations that would result from these legal and tax proceedings where it is probable it will pay some amounts and the amounts can be estimated; in some cases, however, it is too early to predict a final outcome. Management believes that the ultimate resolution of these matters will not have a material effect on the Company's financial condition taken as a whole.

A summary of rent expense by component for 2004, 2003 and 2002 is as follows (in thousands):

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Minimum rent	\$39,766	\$36,310	\$25,397
Percent rent	188	195	169
Sublease income	(146)	(183)	(152)
Rent paid to related parties	1,611	1,552	1,441
Total rent	\$41,419	\$37,874	\$26,855

NOTE 7: STOCK OPTION PLANS**Fixed Stock Option Plans**

The Company's Omnibus Equity Incentive Plan (the "Omnibus Plan") provides for options to be granted for the purchase of West Marine's common stock at prices not less than 50% of fair market value at the date of grant.

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WEST MARINE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Since inception, however, options granted under the Omnibus Plan have been priced at 100% of fair market value. Options under the Omnibus Plan generally are exercisable equally over five years from the date of grant, unless otherwise provided, and expire ten years after the date of grant.

Under the Omnibus Plan, 6,450,000 shares were reserved for grants to both employees and directors. At year-end 2004, 504,205 shares were available for future grants.

With respect to the Company's non-employee directors, options are generally granted at 100% of fair market value at the date of grant, and are generally exercisable six months after the grant date. Options awarded to its non-employee directors generally are exercisable over ten years from the date of grant. However, if a non-employee director ceases to be a director before an option becomes exercisable, then the option will terminate and be forfeited as of the date his or her services as a director terminate.

A summary of stock option transactions under the fixed stock option plans for the years 2004, 2003 and 2002 is as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at year-end 2001 (2,058,343 exercisable at a weighted average price of \$13.33)	3,872,133	\$ 10.94
Granted (weighted average fair value at grant date: \$11.80)	802,470	17.13
Exercised	(1,082,163)	9.64
Canceled	(233,973)	13.17
Outstanding at year-end 2002 (1,432,986 exercisable at a weighted average price of \$14.63)	3,358,467	12.67
Granted (weighted average fair value at grant date: \$11.12)	658,281	16.04
Exercised	(792,609)	9.33
Canceled	(273,283)	14.67
Outstanding at year-end 2003 (1,127,542 exercisable at a weighted average price of \$15.86)	2,950,856	14.13
Granted (weighted average fair value at grant date: \$18.28)	627,750	29.61
Exercised	(702,907)	12.68
Canceled	(189,298)	16.48
Outstanding at year-end 2004 (943,504 exercisable at a weighted average price of \$15.92)	2,686,401	\$ 17.95

Additional information regarding options outstanding at year-end 2004 under the fixed stock option plans is as follows:

Range of Exercise Prices	Outstanding Options			Exercisable Options	
	Shares Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$ 4.375 – \$ 9.9375	671,498	5.35	\$ 6.7389	355,846	\$ 7.4162
10.75 – 17.50	1,094,063	7.46	16.3930	252,353	15.8515
18.25 – 34.50	920,840	6.87	27.9697	335,305	25.0019
\$ 4.375 – \$34.50	2,686,401	6.73	\$ 17.9481	943,504	\$ 15.9220

WEST MARINE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Associate Stock Purchase Plan

The Company has a stock purchase plan covering all eligible associates. Participants in the plan may purchase West Marine stock through regular payroll deductions. The stock is purchased on the last business day of April and October at 85% of the lower of the closing price of its common stock on the grant date or the purchase date. In 2004, 2003 and 2002, respectively, 61,280, 66,487 and 54,642 shares were issued under the plan. At the end of 2004, 271,907 shares were available for future issuance under the stock purchase plan.

Accounting for Stock-Based Compensation

SFAS 123 requires the disclosure of pro forma net income and net income per share had the Company adopted the fair value method of accounting for stock-based compensation as of the beginning of 1995 (see Note 1). Under SFAS 123, the fair value of stock-based awards is calculated through the use of option pricing models, even though such models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values.

NOTE 8: INCOME TAXES

The components of the provision for income taxes for 2004, 2003 and 2002 are as follows (in thousands):

	2004	2003	2002
Currently payable:			
Federal	\$ 9,438	\$ 7,601	\$10,115
State	1,848	1,992	1,398
Foreign	11	38	—
Total current	<u>11,297</u>	<u>9,631</u>	<u>11,513</u>
Deferred:			
Federal	4,635	3,150	150
State	(2,029)	(406)	682
Foreign	22	(62)	—
Total deferred	<u>2,628</u>	<u>2,682</u>	<u>832</u>
Total current and deferred	<u>\$13,925</u>	<u>\$12,313</u>	<u>\$12,345</u>

The difference between the effective income tax rate and the statutory federal income tax rate is summarized as follows:

	2004	2003	2002
Statutory federal tax rate	35.0%	35.0%	35.0%
Non-deductible permanent items	0.1	0.3	0.3
State income taxes, net of federal tax benefit	(0.2)	3.2	4.3
Other	0.4	(0.5)	(0.1)
Effective tax rate	<u>35.3%</u>	<u>38.0%</u>	<u>39.5%</u>

The state income tax benefit in 2004 arises from \$0.8 million in current and prior years' enterprise zone credits. Deferred tax assets and liabilities are determined based upon the estimated future tax effects of the

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WEST MARINE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

difference between the financial statement and tax basis of assets and liabilities using enacted tax rates. Tax effects of temporary differences that give rise to significant components of deferred tax assets and (liabilities) for 2004 and 2003 are presented as follows (in thousands):

	2004	2003
Current:		
Reserves	\$ 2,164	\$ 2,408
Deferred compensation costs	1,682	1,044
Prepaid expenses	(2,049)	(1,957)
Capitalized inventory costs	(8,470)	(6,191)
Other	(56)	207
Total current deferred tax liability	(6,729)	(4,489)
Non-current:		
Deferred rent	2,194	2,065
Fixed assets	(10,492)	(8,629)
Intangible assets	(1,010)	(463)
Net operating loss carryforward	422	823
State tax credits	4,896	2,612
Other	(76)	(154)
Total non-current deferred tax liability	(4,066)	(3,746)
Valuation allowance	(1,671)	(1,603)
Total deferred tax liability	\$(12,466)	\$(9,838)

At year-end 2004 and 2003, total current deferred tax liabilities are included in “Deferred Current Liabilities” on the consolidated balance sheets. Total non-current deferred tax liabilities are included in “Deferred Items and Other Non-Current Obligations.”

At year-end 2004 for state tax purposes, the Company has net loss carryforwards of approximately \$11.3 million that expire between 2005 and 2024. In addition, the Company has enterprise zone credits of \$3.5 million that may be used for an indefinite period of time, and South Carolina tax credits of \$1.7 million that expire between 2014 and 2018. These carryforwards are available to offset future taxable income. A valuation allowance must be provided when it is more likely than not that a deferred income tax asset will not be realized. Accordingly, these state tax credits have been reduced by \$1.7 million for amounts not expected to be fully utilized.

At year-end 2004, the Company had foreign net loss carryforwards of approximately \$3.2 million that expire between 2007 and 2011.

NOTE 9: EMPLOYEE BENEFIT PLANS

The Company has a defined contribution savings plan covering all eligible associates. The Company matches 33% of an employee’s contribution up to 5% of the employee’s annual compensation, subject to statutory limitations. The Company’s contributions to the plan for 2004, 2003 and 2002 were \$0.6 million, \$0.6 million and \$0.5 million, respectively. Plan participants may choose from an array of mutual fund investment options. The plan does not permit investments in West Marine stock.

NOTE 10: SEGMENT INFORMATION

The Company has three divisions—Stores, Port Supply (wholesale) and Direct Sales (catalog and Internet)—all of which sell aftermarket recreational boating supplies directly to customers. The customer base

WEST MARINE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

overlaps between the Company's Stores and Port Supply divisions, and between its Stores and Direct Sales divisions. All processes for the three divisions within the supply chain are commingled, including purchases from merchandise vendors, distribution center activity and customer delivery.

Segment assets are not presented, as the Company's assets are commingled and are not available by segment. Contribution is defined as net sales, less product costs and direct expenses. Following is financial information related to the Company's business segments (in thousands):

	2004	2003	2002
Net sales:			
Stores	\$588,409	\$566,072	\$446,922
Port Supply	49,279	47,561	44,767
Direct Sales	45,308	47,303	38,899
	<u>682,996</u>	<u>660,936</u>	<u>530,588</u>
Consolidated net sales	\$682,996	\$660,936	\$530,588
Contribution:			
Stores	\$ 78,528	\$ 76,751	\$ 64,790
Port Supply	8,174	7,497	6,758
Direct Sales	8,740	8,341	7,660
	<u>95,442</u>	<u>92,589</u>	<u>79,208</u>
Consolidated contribution	\$ 95,442	\$ 92,589	\$ 79,208
Reconciliation of consolidated contribution to net income:			
Consolidated contribution	\$ 95,442	\$ 92,589	\$ 79,208
Less:			
Cost of goods sold not included in consolidated contribution	(24,213)	(26,444)	(24,092)
General and administrative expenses	(24,458)	(24,859)	(20,303)
Interest expense, net	(5,893)	(6,981)	(3,560)
Charges for unamortized portion of loan costs and debt extinguishment costs	(1,419)	(1,902)	—
Income tax expense	(13,925)	(12,313)	(12,345)
	<u>25,534</u>	<u>20,090</u>	<u>18,908</u>
Net income	\$ 25,534	\$ 20,090	\$ 18,908

NOTE 11: QUARTERLY FINANCIAL DATA
(Unaudited, in thousands, except per share data)

	2004			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	\$129,196	\$252,606	\$183,115	\$118,079
Gross profit	33,721	94,610	56,810	33,780(1)
Income (loss) from operations	(3,282)	42,827	12,676	(5,450)(1,2)
Net income (loss)	(3,086)	25,163	6,886	(3,429)(1,2,3)
Net income (loss) per share:				
Basic	\$ (0.15)	\$ 1.21	\$ 0.33	\$ (0.16)(1,2,3)
Diluted	(0.15)	1.17	0.32	(0.16)(1,2,3)
Stock trade price:				
High	\$ 32.70	\$ 33.25	\$ 24.00	\$ 25.35
Low	25.83	23.75	18.09	19.83

WEST MARINE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	2003			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	\$111,148	\$232,964	\$191,916	\$124,908
Gross profit	29,753	81,325	57,789	37,754
Income (loss) from operations	(6,462)	34,477	14,705	(1,434)
Net income (loss)	(6,094)(4)	19,752	8,063	(1,631)
Net income (loss) per share:				
Basic	\$ (0.32)(4)	\$ 1.01	\$ 0.41	\$ (0.08)
Diluted	(0.32)(4)	0.98	0.39	(0.08)
Stock trade price:				
High	\$ 17.72	\$ 19.01	\$ 23.94	\$ 27.50
Low	13.69	14.91	17.50	18.92

- (1) Includes a charge of \$1.9 million pre-tax, or \$0.06 per share after tax, related to certain lease accounting corrections (see Note 1, "Significant Accounting Policies—Deferred Rent").
- (2) Includes a gain of \$1.1 million pre-tax, or \$0.03 per share after tax, on the sale of real property in Florida.
- (3) Includes a charge of \$1.4 million pre-tax, or \$0.04 per share after tax, for the unamortized portion of loan costs upon repayment of then existing debt, in connection with obtaining a new bank credit facility.
- (4) Includes \$0.9 million pre-tax charge for integration costs and a \$1.9 million pre-tax charge for debt extinguishment costs and the unamortized portion of loan costs, all associated with the Boat America acquisition (see Note 2, "Acquisition"). The combined impact of these charges represents \$0.08 per share after tax.

West Marine, Inc. common stock trades on the Nasdaq National Market System under the symbol WMAR.

ITEM 9— CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A— CONTROLS AND PROCEDURES

EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES AND MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

West Marine’s management (including its Chief Executive Officer and Chief Financial Officer—its principal executive officer and principal financial officer, respectively) is responsible for establishing and maintaining disclosure controls and procedures (as defined in the Securities and Exchange Act of 1934, as amended (“Exchange Act”), Rules 13a-15(e)). Management, including the Chief Executive Officer and Chief Financial Officer, has concluded, based on its evaluation as of January 1, 2005, that West Marine’s disclosure controls and procedures are effective to ensure that information required to be disclosed by West Marine in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by West Marine in such reports is accumulated and communicated to West Marine’s management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. West Marine’s disclosure controls and procedures are designed to provide a reasonable level of assurance of reaching West Marine’s desired disclosure control objectives, and management has concluded that disclosure controls and procedures in place are effective in reaching that level of reasonable assurance.

In addition, West Marine’s management, with the participation of the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f)). West Marine’s internal control system is designed to provide reasonable assurance to the company’s management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

West Marine’s management assessed the effectiveness of the company’s internal control over financial reporting as of January 1, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. Based on this assessment, management has concluded that the company’s internal control over financial reporting was effective as of January 1, 2005. During this process, we identified control improvements, none of which constitute a material weakness, and implemented a process to investigate and, as appropriate, remediate such matters. We are continuing to review, evaluate, document and test our internal controls and procedures and may identify areas where disclosure and additional corrective measures are advisable or required. We also continue to look for methods to improve our overall system of controls.

There were no changes in West Marine’s internal controls or in other factors that have materially affected, or are reasonably likely to materially affect, West Marine’s internal control over financial reporting during the quarter ended January 1, 2005, other than refinements to implement the lease accounting corrections described under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates.”

Management’s assessment of the effectiveness of West Marine’s internal control over financial reporting as of January 1, 2005 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in its attestation included elsewhere in this report.

ITEM 9B— OTHER INFORMATION

The following descriptions of award agreements under the West Marine, Inc. Omnibus Equity Incentive Plan are summaries and are qualified by reference to the award agreements filed as Exhibits 10.3.1, 10.3.2 and 10.3.3 with this report.

Directors Non-Qualified Stock Option Agreement. Annually, each non-employee director receives a non-qualified stock option immediately after the annual meeting, provided the non-employee director is nominated for reelection and is so elected by the shareholders. The options awarded to directors become exercisable six months following the grant date, provided the director does not terminate his or her service as a director prior to that date. If the option vests, it can be exercised at any time during its ten year life. The options bear an exercise price equal to the fair market value of West Marine's common stock on the grant date.

Employees Non-Qualified Stock Option Agreement. Options awarded to employees generally become exercisable in five equal installments (of 20%) on each of the succeeding five anniversaries of the grant date. The options bear an exercise price equal to the fair market value of West Marine's common stock on the grant date. If the options vest, they generally may be exercised during the period the employee is employed, but not beyond the ten year life of the option. If the employee terminates employment with West Marine, he or she generally will forfeit any options which are not vested as of the date of termination, and he or she will have a period of three months following termination of employment to exercise the stock option. Under the non-qualified stock option agreement Mr. Harris received upon accepting the position of CEO, his right to exercise the options vests 20% on the first anniversary of the award and thereafter vests in equal monthly installments over 48 months. In the event of a change in control of West Marine, or if Mr. Harris's employment terminates as a result of his death or disability, all of his stock options will become fully vested. In addition, if Mr. Harris's employment terminates as a result of his death or disability, his stock options will remain exercisable for 2 years after his termination of employment.

PART III

ITEM 10— DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is incorporated by reference from our Definitive Proxy Statement for the 2005 Annual Meeting of Stockholders under the captions “Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance.” See Item 1 above, for information about executive officers and related matters.

ITEM 11— EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference from our Definitive Proxy Statement for the 2005 Annual Meeting of Stockholders under the caption “Executive Compensation.”

ITEM 12— SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is incorporated by reference from our Definitive Proxy Statement for the 2005 Annual Meeting of Stockholders under the caption “Security Ownership of Management and Certain Beneficial Owners” and “Equity Compensation Plan Information.”

ITEM 13— CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated by reference from our Definitive Proxy Statement for the 2005 Annual Meeting of Stockholders under the caption “Executive Compensation.”

ITEM 14— PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference from our Definitive Proxy Statement for the 2005 Annual Meeting of Stockholders under the caption “Principal Accounting Firm Fees.”

ITEM 15— EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

- 1 & 2. [Reports of Independent Registered Public Auditing Firm](#)
[Consolidated Balance Sheets as of year-end 2004 and 2003](#)
[Consolidated Statements of Income for years 2004, 2003 and 2002](#)
[Consolidated Statements of Stockholders' Equity for years 2004, 2003 and 2002](#)
[Consolidated Statements of Cash Flows for years 2004, 2003 and 2002](#)
[Notes to Consolidated Financial Statements](#)

3. Exhibits:

See attached [Exhibit Index](#) on pages 42 – 44 of this Form 10-K.

Exhibit Index

Exhibit Number	Exhibit
3.1	Certificate of Incorporation of West Marine, Inc., as amended (incorporated by reference to Exhibit 3.1 to West Marine's Annual Report of Form 10-K filed March 18, 2004).
3.2	Bylaws of West Marine, Inc., as amended (incorporated by reference to Exhibit 3.2 to West Marine's Annual Report of Form 10-K filed March 18, 2004).
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to West Marine's Registration Statement on Form S-1 (Registration No. 33-69604)).
10.1	Form of Indemnification Agreement between West Marine, Inc. and its directors and officers (incorporated by reference to Exhibit 10.4 to West Marine's Registration Statement on Form S-1 (Registration No. 33-69604)).
10.2	Form of Indemnification Agreement between West Marine, Inc. and its directors and officers (incorporated by reference to Exhibit 10.1 to West Marine's Quarterly Report on Form 10-Q for the quarter ended June 29, 2002).
10.3*	Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to West Marine's Quarterly Report on Form 10-Q for the quarter ended June 29, 2002).
10.3.1*	Form of Notice of Grant of Stock Options and Option Agreement for Employees.
10.3.2*	Form of Notice of Grant of Stock Options for Non-Employee Directors.
10.3.3*	Form of Notice of Grant of Stock Options and Option Agreement for Peter Harris.
10.4*	Associates Stock Buying Plan, as amended through March 2002 (incorporated by reference to Exhibit 10.3 to West Marine's Quarterly Report on Form 10-Q for the quarter ended June 29, 2002).
10.5	Lease Agreement, dated June 15, 1995, among John E. Van Valkenburgh, Carl D. Panattoni and West Marine Products, Inc. for the Hollister, California distribution facility (incorporated by reference to Exhibit 10.9 to West Marine's Annual Report on Form 10-K for the year ended December 30, 1995).
10.5.1	Addendum, dated June 3, 1996, to Lease Agreement for the Hollister, California distribution facility (incorporated by reference to Exhibit 10.10.1 to West Marine's Annual Report on Form 10-K for the year ended December 29, 2001).
10.5.2	First Amendment, dated March 23, 1999, to Lease Agreement for the Hollister, California distribution facility (incorporated by reference to Exhibit 10.10.2 to West Marine's Annual Report on Form 10-K for the year ended December 29, 2001).
10.5.3	Second Amendment, dated as of June 11, 2002, to Lease Agreement for the Hollister, California distribution facility (incorporated by reference to Exhibit 10.7 to West Marine's Quarterly Report on Form 10-Q for the quarter ended March 29, 2003).
10.5.4	Third Amendment, dated as of April 1, 2003, to Lease Agreement for the Hollister, California distribution facility (incorporated by reference to Exhibit 10.7.1 to West Marine's Quarterly Report on Form 10-Q for the quarter ended March 29, 2003).
10.6	Lease Agreement, dated March 11, 1997, between Cabot Industrial Venture A, LLC, a Delaware limited liability company, as successor to Cabot Industrial Properties, L.P., a Delaware limited partnership, as successor to W/H No. 31, L.L.C., a South Carolina limited liability company and West Marine, Inc. for the Rock Hill, South Carolina Distribution facility and other agreements thereto (incorporated by reference to Exhibit 10.14 to West Marine's Quarterly Report on Form 10-Q for the quarter ended March 29, 1997).
10.6.1	First Amendment, dated August 11, 1998, to Lease Agreement for the Rock Hill, South Carolina Distribution facility and other agreements thereto (incorporated by reference to Exhibit 10.11.1 to West Marine's Annual Report on Form 10-K for the year ended December 29, 2001).

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<u>Exhibit Number</u>	<u>Exhibit</u>
10.6.2	Second Amendment, dated April 18, 2000, to Lease Agreement, between Cabot Industrial Properties, L.P. and West Marine, Inc., for the Rock Hill, South Carolina Distribution facility and other agreements thereto (incorporated by reference to Exhibit 10.11.2 to West Marine's Quarterly Report on Form 10-K for the year ended December 29, 2001).
10.6.3	Third Amendment, dated as of July 26, 2004, to Lease Agreement, dated March 11, 1997, between Cabot Industrial Venture A, LLC (as assignee of Cabot Industrial Properties, L.P.) and West Marine, Inc., for the Rock Hill, South Carolina distribution facility (incorporated by reference to Exhibit 10.1 to West Marine's Current Report on Form 8-K dated October 4, 2004 and filed with the Commission on October 8, 2004).
10.7	Lease Agreement, dated June 26, 1997, between Watsonville Freeholders and West Marine Products Inc. for the Watsonville, California offices and other agreements thereto (incorporated by reference to Exhibit 10.14 to West Marine's Quarterly Report on Form 10-Q for the quarter ended June 28, 1997).
10.8	Lease Agreement, dated December 1, 1986, between SCP Green Hagerstown, LLC, as successor to Indian Creek Company, L.P. and West Marine Products, Inc., as successor to Boat America Corporation, for the Hagerstown, Maryland distribution facility.
10.8.1	Lease Amendment I, dated November 25, 1996, to the Lease Agreement, dated December 1, 1986, between SCP Green Hagerstown, LLC, as successor to Indian Creek Company, L.P. and West Marine Products, Inc., as successor to Boat America Corporation, for the Hagerstown, Maryland distribution facility.
10.8.2	Lease Amendment II, dated June 25, 1998, to the Lease Agreement, dated December 1, 1986, between SCP Green Hagerstown, LLC, as successor to Indian Creek Company, L.P. and West Marine Products, Inc., as successor to Boat America Corporation, for the Hagerstown, Maryland distribution facility.
10.8.3	Landlord Subordination, dated February 25, 2003, to the Lease Agreement, dated December 1, 1986, between SCP Green Hagerstown, LLC, as successor to Indian Creek Company, L.P. and West Marine Products, Inc., as successor to Boat America Corporation, for the Hagerstown, Maryland distribution facility.
10.8.4	Third Amendment of Lease, dated April 23, 2004, to the Lease Agreement, dated December 1, 1986, between SCP Green Hagerstown, LLC, as successor to Indian Creek Company, L.P. and West Marine Products, Inc., as successor to Boat America Corporation, for the Hagerstown, Maryland distribution facility.
10.9	Credit Agreement, dated October 14, 2004, by and among West Marine Products, Inc., the Lenders named therein, Wells Fargo Bank, National Association, as Administrative Agent and Arranger, Union Bank Of California, N.A., as Syndication Agent and Bank Of America, N.A., as Documentation Agent (incorporated by reference to Exhibit 10.1 to West Marine's Current Report on Form 8-K dated October 14, 2004 and filed with the Commission on October 19, 2004).
10.10	Security Agreement, dated as of October 14, 2004, among West Marine Products, Inc., other Persons from time to time party thereto and Wells Fargo Bank, National Association, as Administrative Agent (incorporated by reference to Exhibit 10.2 to West Marine's Current Report on Form 8-K dated October 14, 2004 and filed with the Commission on October 19, 2004).
10.11	Security Agreement (Intellectual Property), dated as of October 14, 2004, among West Marine Products, Inc., other Persons from time to time party thereto and Wells Fargo Bank, National Association, as Administrative Agent (incorporated by reference to Exhibit 10.3 to West Marine's Current Report on Form 8-K dated October 14, 2004 and filed with the Commission on October 19, 2004).

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<u>Exhibit Number</u>	<u>Exhibit</u>
10.12	General Security Agreement, dated as of October 14, 2004, between West Marine Canada Corp. and Wells Fargo Bank, National Association, as Administrative Agent (incorporated by reference to Exhibit 10.3 to West Marine's Current Report on Form 8-K dated October 14, 2004 and filed with the Commission on October 19, 2004).
10.13	Guarantee Agreement (Canada), dated as of October 14, 2004, by each Guarantor party thereto in favour of Wells Fargo Bank, National Association, as Administrative Agent.
10.14	Guaranty Agreement, dated as of October 14, 2004, by each Guarantor party thereto in favor of Wells Fargo Bank, National Association, as Administrative Agent.
10.15	Marketing Agreement, dated as of January 14, 2003, between and among Boat America Corporation, the Boat Owners Association of The United States and West Marine Products, Inc. (incorporated by reference to Exhibit 10.1 to West Marine's Quarterly Report on Form 10-Q for the quarter ended October 2, 2004).
10.16*	Executive Termination Compensation Agreement, dated August 24, 1999, between West Marine, Inc. and Richard Everett (incorporated by reference to Exhibit 10.20 to West Marine's Annual Report on Form 10-K for the year ended January 2, 2001).
10.16.1*	First Amendment to Executive Termination Compensation Agreement, effective as of August 25, 2003, between West Marine, Inc. and Richard Everett (incorporated by reference to Exhibit 10.2 to West Marine's Quarterly Report on Form 10-Q for the quarter ended September 29, 2003).
10.16.2*	Second Amendment to Executive Termination Compensation Agreement, effective as of January 12, 2005, between West Marine, Inc. and Richard Everett.
10.17*	Letter Agreement, dated as of February 7, 2000, between West Marine, Inc. and Eric Nelson (incorporated by reference to Exhibit 10.6 to West Marine's Quarterly Report on Form 10-Q for the quarter ended March 29, 2003).
10.17.1*	Executive Termination Compensation Agreement, dated as of August 10, 2004, between West Marine, Inc. and Eric Nelson.
10.18*	Letter Agreement, dated as of December 6, 2004, between West Marine, Inc. and Peter Harris (incorporated by reference to Exhibit 10.1 to West Marine's Current Report on Form 8-K dated December 6, 2004 and filed with the Commission on December 9, 2004).
10.19*	Employee Agreement Regarding Confidentiality and Non-Solicitation, dated as of December 6, 2004, between West Marine, Inc. and Peter Harris (incorporated by reference to Exhibit 10.2 to West Marine's Current Report on Form 8-K dated December 6, 2004 and filed with the Commission on December 9, 2004).
21.1	List of Subsidiaries.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended.

* Indicates a management contract or compensatory plan or arrangement within the meaning of Item 601(b)(10)(iii) of Regulation S-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 25, 2005

WEST MARINE, INC.

By: _____ /s/ PETER L. HARRIS
Peter L. Harris
Chief Executive Officer

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Power of Attorney

West Marine, Inc. a Delaware corporation, and each person whose signature appears below, constitutes and appoints Peter L. Harris and Eric S. Nelson, and either of them, with full power to act without the other, such person's true and lawful attorneys-in-fact, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign this annual report on Form 10-K and any and all amendments to such annual report on Form 10-K and other documents in connection therewith, and to file the same, and all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing necessary or desirable to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, thereby ratifying and confirming all that said attorneys-in-fact, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of West Marine, Inc. and in the capacities and on the dates indicated.

Signature Capacity

/s/ PETER L. HARRIS
Peter L. Harris
Chief Executive Officer and Director
March 25, 2005

/s/ RICHARD E. EVERETT
Richard E. Everett
President, Chief Operating Officer and Director
March 25, 2005

/s/ ERIC S. NELSON
Eric S. Nelson
Senior Vice President and Chief Financial Officer
March 25, 2005

/s/ RANDOLPH K. REPASS
Randolph K. Repass
Chairman of the Board and Director
March 25, 2005

/s/ GEOFFREY A. EISENBERG
Geoffrey A. Eisenberg
Director
March 25, 2005

/s/ DIANE GREENE
Diane Greene
Director
March 25, 2005

/s/ DAVID MCCOMAS
David McComas
Director
March 25, 2005

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 /s/ ALICE M. RICHTER
 Alice M. Richter
 Director

March 25, 2005

 /s/ PETER ROY
 Peter Roy
 Director

March 25, 2005

 /s/ DANIEL J. SWEENEY
 Daniel J. Sweeney
 Director

March 25, 2005

 /s/ WILLIAM U. WESTERFIELD
 William U. Westerfield
 Director

March 25, 2005

NOTICE OF GRANT OF STOCK OPTIONS AND OPTION AGREEMENT

Non-Qualified Stock Option Agreement
 Under the Omnibus Equity Incentive Plan

West Marine, Inc.
 ID: 94-2374523
 500 Westridge Drive
 Watsonville, GA 95076

Employee: _____ Option Number: _____
 ID #: _____ Effective Date: _____
 _____ Number of Shares: _____
 _____ Exercise Price/Share: _____

As of the effective date specified above, you have been granted a Non-Qualified Stock Option to buy the number of shares of West Marine, Inc. (the "Company") common stock specified above at the exercise price per share specified above. All of the options will expire no later than the tenth anniversary of the effective date. The options will vest as follows, assuming continuous employment:

No. Shares	% of Total	Date Vest
00	20%	1st Anniversary of Effective Date
00	20%	2nd Anniversary of Effective Date
00	20%	3rd Anniversary of Effective Date
00	20%	4th Anniversary of Effective Date
00	20%	5th Anniversary of Effective Date

By your signature and the Company's signature below, you and the Company agree that these options are granted under and governed by the terms and conditions of the Company's Omnibus Equity Incentive Plan, as amended, and Appendix A hereto, Terms and Conditions of Non-Qualified Stock Option, all of which are incorporated herein and made a part of this document.

West Marine, Inc.

By: _____ Date: _____
 Employee: _____ Date: _____
 Address: _____

Exhibit A
West Marine, Inc.
Omnibus Equity Incentive Plan
Nonqualified Stock Option Agreement

1. GRANT OF OPTION. West Marine, Inc. (the "Company") hereby grants to the Associate named in the "Notice of Grant of Stock Options and Option Agreement" under the West Marine, Inc. Omnibus Equity Incentive Plan (the "Plan"), as a separate incentive in connection with his or her employment and not in lieu of any salary or other compensation for his or her services, a nonqualified stock option to purchase, on the terms and conditions set forth in this Agreement and the Plan, all or any part of an aggregate of the number of shares, as stated in the Notice of Grant, of the Common Stock, at the purchase price set forth in the Notice of Grant. The option granted hereby is not intended to be an Incentive Stock Option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.

2. EXERCISE PRICE. The purchase price per share (the "Option Price") shall be as set forth in the Notice of Grant of Stock Options and Option Agreement, which is the fair market value per share of the Common Stock on the effective date specified in the Notice of Grant of Stock Options and Option Agreement. The Option Price shall be payable in the legal tender of the United States or, in the discretion of the Committee, in shares of the Common stock of the Company or in a combination of such legal tender and such shares.

3. NUMBER OF SHARES. The number and class of shares specified in the Notice of Grant of Stock Options, and/or the Option Price, are subject to appropriate adjustment in the event of changes in the capital stock of the Company by reason of stock dividends, split-ups or combinations of shares, reclassifications, mergers, consolidations, reorganizations or liquidations. Subject to any required action of the stockholders of the Company, if the Company shall be the surviving corporation in any merger or consolidation, the option granted hereunder (to the extent that it is still outstanding) shall pertain to and apply to the securities to which a holder of the same number of shares of Common Stock that are then subject to the option would have been entitled. To the extent that the foregoing adjustments relate to stock or securities of the Company, such adjustments shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive.

4. COMMENCEMENT OF EXERCISABILITY. Except as otherwise provided in this Agreement, the right to exercise the option awarded by this Agreement shall accrue:

- (a) as to 20% of the shares subject to such option on the day after the first anniversary of the effective date of this Agreement,
- (b) as to an additional 20% on the day after the second anniversary of this Agreement,
- (c) as to an additional 20% on the day after the third anniversary of this Agreement,
- (d) as to an additional 20% on the day after the fourth anniversary of this Agreement, and
- (e) as to the remaining 20% on the day after the fifth anniversary of this Agreement.

In the event of termination of the Associate's employment with the Company and its Subsidiaries for any reason, the Associate will accrue no further entitlement in the Plan, and all options which are not vested as of the earlier of the date the Associate's employment is terminated or the date the Associate receives notice of such termination shall lapse and expire immediately. That is, the Associate will not continue to accrue any benefits in the Plan during any actual or deemed reasonable notice of termination period.

5. TERMINATION OF OPTION. In the event of termination of the Associate's employment with the Company or a Subsidiary for any reason, the Associate may, within three (3) months after the date of such termination, but in no event after ten (10) years from the date of this agreement, whichever shall first occur, exercise the option to the extent the right to exercise the option had accrued as of the date of such termination. In the event the Associate shall die within such three (3) month period, the option may be exercised by the Associate's transferee, as hereinafter provided, to the same extent that the right to exercise the option had accrued immediately prior to the Associate's death, for a period of three (3) months after the date of the Employee's death.

6. PERSONS ELIGIBLE TO EXERCISE. The option shall be exercisable during the Associate's lifetime only by the Associate. The option shall be non-transferable by the Associate other than by a beneficiary designation made in a form and manner acceptable to the Committee, or by will or the applicable laws of descent and distribution.

7. AFTER THE DEATH OF ASSOCIATE. To the extent exercisable after the Associate's death, the option shall be exercised only by the Associate's designated beneficiary or beneficiaries, or if no beneficiary survives the Associate, by the person or persons entitled to the option under the Associate's will, or if the Associate shall fail to make testamentary disposition of the option, by his or her legal representative. Any transferee exercising the option must furnish the Company (a) written notice of his or her status as transferee, (b) evidence satisfactory to the Company to establish the validity of the transfer of the option and compliance with any laws or regulations pertaining to said transfer, and (c) written acceptance of the terms and conditions of the option as prescribed in this Agreement.

8. EXERCISE OF OPTION. The option may be exercised by the person then entitled to do so as to any shares which may then be purchased (a) by giving written notice of exercise to the Company, specifying the number of full shares to be purchased and accompanied by full payment of the purchase price thereof (and the amount of any income tax the Company is required by law to withhold by reason of such exercise), and (b) by giving satisfactory assurances in writing if requested by the Company, signed by the person exercising the option, that the shares to be purchased upon such exercise are being purchased for investment and not with a view to the distribution thereof.

9. SUSPENSION OF EXERCISABILITY. If at any time the Company shall determine, in its discretion, that the listing, registration or qualification of the shares covered by the option or any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory authority, is necessary or desirable as a condition of the purchase of shares hereunder, the option may not be exercised, in whole or in part, unless and until such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company. The Company shall make reasonable efforts to meet the requirements of any such state or federal law or securities exchange and to obtain any such consent or approval of any such governmental authority.

10. NO RIGHTS OF STOCKHOLDER. Neither the Associate nor any person claiming under or through said Associate shall be or have any of the rights or privileges of a stockholder of the Company in respect of any of the shares issuable upon the exercise of the option, unless and until certificates representing such shares shall have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Associate.

11. OPTION HAS NO EFFECT ON EMPLOYMENT. The terms of Associate's employment shall be determined from time to time by the Company, or the Subsidiary employing the Associate, as the case may be, and the Company, or the Subsidiary employing the Associate, as the case may be, shall have the right, which is hereby expressly reserved, to terminate or change the terms of the employment of the Associate at any time for any reason whatsoever, with or without good cause.

12. ADDRESSES FOR NOTICES. Any notice to be given to the Company under the terms of this Agreement shall be addressed to the Company, in care of its Secretary, at West Marine, Inc., 500 Westridge Drive, Watsonville, CA 95076, or at such other address as the Company may hereafter designate in writing. Any notice to be given to the Associate shall be addressed to the Associate at the address set forth below the Associate's signature in the Notice of Grant of Stock Options, or at such other address as the Associate may hereafter designate in writing. Any such notice shall be deemed to have been duly given if and when enclosed in a properly sealed envelope, addressed as aforesaid, registered or certified and deposited, postage and registry fee prepaid, in a United States post office.

13. NON-TRANSFERABILITY OF OPTION. Except as otherwise herein provided, the option herein granted and the rights and privileges conferred hereby shall not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to sale under execution, attachment or similar process. Upon any attempt

to transfer, assign, pledge, hypothecate or otherwise dispose of said option, or of any right or privilege conferred hereby, contrary to the provisions hereof, or upon any attempted sale under any execution, attachment or similar process upon the rights and privileges conferred hereby, said option and the rights and privileges conferred hereby shall immediately become null and void.

14. MAXIMUM TERM OF OPTION. Notwithstanding any other provision of this Agreement, this option is not exercisable after the expiration of ten (10) years from the effective date of this Agreement.

15. BINDING AGREEMENT. Subject to the limitation on the transferability of the option contained herein, this Agreement shall be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

16. PLAN GOVERNS. This Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan shall govern. Terms used and not defined in this Agreement shall have the meaning set forth in the Plan.

17. COMMITTEE AUTHORITY. The Committee shall have the discretionary power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon Associate, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

18. CAPTIONS. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

19. AGREEMENT SEVERABLE. In the event that any provision in this Agreement shall be held invalid or unenforceable, such provision shall be severable from, and such invalidity or unenforceability shall not be construed to have any effect on, the remaining provisions of this Agreement.

20. FURTHER ASSURANCES. At any time, and from time to time after executing this Agreement, the Associate will execute such additional instruments and take such actions as may be reasonably requested by the Company to confirm or perfect or otherwise to carry out the intent and purpose of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement, in duplicate, effective as of the day and year specified in paragraph 2 of this Agreement.

West Marine, Inc.

NOTICE OF GRANT OF STOCK OPTIONS

Non-Qualified Stock Option Agreement
Under the Omnibus Equity Incentive Plan

West Marine, Inc.
ID: 94-2374523
500 Westridge Drive
Watsonville, GA 95076

Director: _____

Option Number: _____

Effective Date: _____

ID #: _____

Number of Shares: _____

Exercise Price: _____

As of the effective date specified above, you have been granted a Non-Qualified Stock Option to buy the number of shares of West Marine, Inc. (the "Company") common stock specified above at the exercise price per share specified above. All of the options will expire no later than the tenth anniversary of the effective date. All of the options will vest and become exercisable, assuming continuous service as a director, on the date six months after the effective date.

By your signature and the Company's signature below, you and the Company agree that these options are granted under and governed by the terms and conditions of the Company's Omnibus Equity Incentive Plan, as amended, and Appendix A hereto, Non-Qualified Stock Option Agreement, all of which are incorporated herein and made a part of this document.

West Marine, Inc.

By: _____

Date: _____

Director: _____

Date: _____

Address: _____

Appendix A

**West Marine, Inc.
Omnibus Equity Incentive Plan
Nonqualified Stock Option Agreement**

1. **Grant of Option.** The Company hereby grants a non-qualified stock option to the Director under the terms of the Omnibus Equity Incentive Plan (the "Plan"). This option entitles the Director to purchase, on the terms and conditions set forth in this Agreement and the Plan, all or any part of the number of shares of Common Stock set forth in the Notice of Grant of Stock Options, at the purchase price set forth in the Notice of Grant of Stock Options. The option granted hereby is not an Incentive Stock Option with the meaning of Section 422 of the Code.
2. **Exercise Price.** The purchase price per share (the "Option Price") shall be as set forth in the Notice of Grant of Stock Options, which is the fair market value per share of Common Stock on the effective date specified in the Notice of Grant of Stock Options and Option Agreement. The Option Price shall be payable in the legal tender of the United States or, in the discretion of the Committee, in shares of Common Stock of the Company or in a combination of such legal tender and shares.
3. **Number of Shares.** The number and class of shares specified in the Notice of Grant of Stock Options, and/or the Option Price, are subject to appropriate adjustment in the event of changes in the capital stock of the Company by reason of stock dividends, split-ups or combinations of shares, reclassifications, mergers, consolidations, reorganizations or liquidations. Subject to any required action of the stockholders of the Company, if the Company shall be the surviving corporation in any merger or consolidation, the option granted hereunder (to the extent that it is still outstanding) shall pertain to and apply to the securities to which a holder of the same number of shares of Common Stock that are then subject to the option would have been entitled. To the extent that the foregoing adjustments relate to stock or securities of the Company, such adjustments shall be made by the Governance and Compensation Committee of the Board (the "Committee"), whose determination in that respect shall be final, binding and conclusive.
4. **Commencement of Exercisability.** Except as otherwise provided in this Agreement, the right to exercise the option awarded by this Agreement shall accrue as to 100% of the shares subject to such option on the date which is six months following the effective date of this Agreement, as set forth in the Notice of Grant of Stock Options.
5. **Termination of Option.** The option awarded by this Agreement shall terminate upon the expiration of ten (10) years from the date the option was granted, provided that if the Director ceases to be a Director prior to the date that the option has become exercisable under paragraph 4 of this Appendix A, such option shall terminate on the date the Director ceases to serve as a Director.
6. **Persons Eligible to Exercise.** The option shall be exercisable during the Director's lifetime only by the Director. The option shall be non-transferable by the Director other than by a beneficiary designation made in a form and manner acceptable to the Committee, or by will or the applicable laws of descent and distribution.
7. **Death of Director.** To the extent exercisable after the Director's death, the option shall be exercised only by the Director's designated beneficiary or beneficiaries, or if no beneficiary survives the Director, by the person or persons entitled to the option under the Director's will, or if the Director shall fail to make testamentary disposition of the option, by his or her legal representative. Any transferee exercising the option must furnish the Company (a) written notice of his or her status as transferee, (b) evidence satisfactory to the Company to establish the validity of the transfer of the option and compliance with any laws or regulations pertaining to said transfer, and (c) written acceptance of the terms and conditions of the option as prescribed in this Agreement.
8. **Exercise of Option.** The option may be exercised by the person then entitled to do so as to any shares which may then be purchased (a) by giving written notice of exercise to the Company, specifying the number of full shares

to be purchased and accompanied by full payment of the purchase price thereof (and the amount of any income tax the Company is required by law to withhold by reason of such exercise), and (b) by giving satisfactory assurances in writing if requested by the Company signed by the person exercising the option, that the shares to be purchased upon such exercise are being purchased for investment and not with a view to the distribution thereof.

9. Suspension of Exercisability. If at any time the Company shall determine, in its discretion, that the listing registration or qualification of the shares covered by the option on any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory authority, is necessary or desirable as a condition of the purchase of shares hereunder, the option may not be exercised, in whole or in part, unless and until such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company. The Company shall make reasonable efforts to meet the requirements of any such state or federal law or securities exchange and to obtain any such consent or approval of any such governmental authority.

10. No Rights of Stockholder. Neither the Director nor any person claiming under or through said Director shall be or have any of the rights or privileges of a stockholder of the Company in respect of any of the shares issuable upon the exercise of the option, unless and until certificates representing such shares shall have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Director.

11. No Effect on Service. Nothing in this Agreement shall confer upon the Director the right to continue in service on the Board.

12. Addresses for Notices. Any notice to be given to the Company under the terms of this Agreement shall be addressed to the Company, in care of its Secretary, at West Marine Products, Inc., 500 Westridge Drive, Watsonville, California 95076, or at such other address as the Company may hereafter designate in writing. Any notice to be given to the Director shall be addressed to the Director at the address set forth beneath the Director's signature in the Notice of Grant of Stock Options, or at such other address as the Director may hereafter designate in writing. Any such notice shall be deemed to have been duly given if and when enclosed in a properly sealed envelope, addressed as aforesaid, registered or certified and deposited, postage and registry fee prepaid, in a United States post office.

13. Non-Transferability of Option. Except as otherwise herein provided, the option herein granted and the rights and privileges conferred hereby shall not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of said option, or of any right or privilege conferred hereby, contrary to the provisions hereof, or upon any attempted sale under any execution, attachment or similar process upon the rights and privileges conferred hereby, said option and the rights and privileges conferred hereby shall immediately become null and void.

14. Maximum Term of Option. Notwithstanding any other provision of this Agreement, this option is not exercisable after the expiration of ten (10) years from the effective date of this Agreement, as set forth in the Notice of Grant of Stock Options.

15. Binding Agreement. Subject to the limitation on the transferability of the option contained herein, this Agreement shall be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

16. Plan Governs. This Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan shall govern. Terms used and not defined in this Agreement shall have the meaning set forth in the Plan.

17. Committee Authority. The Committee shall have the discretionary power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent

therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon Director, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

18. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

19. Agreement Severable. In the event that any provision in this Agreement shall be held invalid or unenforceable, such provision shall be severable from, and such invalidity or unenforceability shall not be construed to have any effect on, the remaining provisions of this Agreement.

20. Further Assurances. At any time, and from time to time after executing this Agreement, the Director will execute such additional instruments and take such actions as may be reasonably requested by the Company to confirm or perfect or otherwise to carry out the intent and purpose of this Agreement.

21. Governing Law. This Agreement is to be governed by the laws of the State of California without regard to conflicts of law principles thereof.

West Marine, Inc.

NOTICE OF GRANT OF STOCK OPTIONS AND OPTION AGREEMENT

Non-Qualified Stock Option Agreement
Under the Omnibus Equity Incentive Plan

West Marine, Inc.
ID: 94-2374523
500 Westridge Drive
Watsonville, GA 95076

Employee: _____

Option Number: _____

Effective Date: _____

ID #: _____

Number of Shares: _____

Exercise Price/Share: _____

As of the effective date specified above, you have been granted a Non-Qualified Stock Option to buy the number of shares of West Marine, Inc. (the "Company") common stock specified above at the exercise price per share specified above. All of the options will expire no later than the tenth anniversary of the effective date. The options will vest as follows, assuming continuous employment:

options for 20% of the shares shall become exercisable on the day prior to the first anniversary of the date of this agreement; and

options for the remaining 80% of the shares shall become exercisable a rate of 1/48th per month commencing [date]

By your signature and the Company's signature below, you and the Company agree that these options are granted under and governed by the terms and conditions of the Company's Omnibus Equity Incentive Plan, as amended, and Appendix A hereto, Terms and Conditions of Non-Qualified Stock Option, all of which are incorporated herein and made a part of this document.

West Marine, Inc.

By: _____

Date: _____

Employee: _____

Date: _____

Address: _____

Exhibit A

**West Marine, Inc.
Omnibus Equity Incentive Plan
Nonqualified Stock Option Agreement**

1. **GRANT OF OPTION.** West Marine, Inc. (the "Company") hereby grants to the Associate named in the "Notice of Grant of Stock Options and Option Agreement" under the West Marine, Inc. Omnibus Equity Incentive Plan (the "Plan"), as a separate incentive in connection with his or her employment and not in lieu of any salary or other compensation for his or her services, a nonqualified stock option to purchase, on the terms and conditions set forth in this Agreement and the Plan, all or any part of an aggregate of the number of shares, as stated in the Notice of Grant, of the Common Stock, at the purchase price set forth in the Notice of Grant. The option granted hereby is not intended to be an Incentive Stock Option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.
2. **EXERCISE PRICE.** The purchase price per share (the "Option Price") shall be as set forth in the Notice of Grant of Stock Options and Option Agreement, which is the fair market value per share of Common Stock on the effective date specified in the Notice of Grant of Stock Options and Option Agreement. The Option Price shall be payable in the legal tender of the United States or, in the discretion of the Committee, in shares of the Common stock of the Company or in a combination of such legal tender and such shares.
3. **NUMBER OF SHARES.** The number and class of shares specified in the Notice of Grant of Stock Options, and/or the Option Price, are subject to appropriate adjustment in the event of changes in the capital stock of the Company by reason of stock dividends, split-ups or combinations of shares, reclassifications, mergers, consolidations, reorganizations or liquidations. Subject to any required action of the stockholders of the Company, if the Company shall be the surviving corporation in any merger or consolidation, the option granted hereunder (to the extent that it is still outstanding) shall pertain to and apply to the securities to which a holder of the same number of shares of Common Stock that are then subject to the option would have been entitled. To the extent that the foregoing adjustments relate to stock or securities of the Company, such adjustments shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive.
4. **COMMENCEMENT OF EXERCISABILITY.** Except as otherwise provided in this Agreement, the right to exercise the option awarded by this Agreement shall accrue:
 - (a) as to 20% of the shares subject to such option on the day prior to the first anniversary of the effective date of this agreement; and
 - (b) as to the remaining 80%, the option shall vest at a rate of 1/48th per month commencing after the first anniversary of the effective date of this agreement.

In the event of termination of the Associate's employment with the Company and its Subsidiaries for any reason, the Associate will accrue no further entitlement in the Plan, and all options which are not vested as of the earlier of the date the Associate's employment is terminated or the date the Associate receives notice of such termination shall lapse and expire immediately. That is, the Associate will not continue to accrue any benefits in the Plan during any actual or deemed reasonable notice of termination period.

5. **TERMINATION OF OPTION.** In the event of termination of employment, the option shall be governed by and in accordance with the terms of that certain employment letter agreement dated December 6, 2004 between the Associate and the Company. In the event the Associate shall die, the option may be exercised, by the Associate's transferee, as hereinafter provided, to the same extent that the right to exercise the option had accrued immediately prior to the Associate's death, for a period of three (3) months after the date of the Associate's death.
6. **PERSONS ELIGIBLE TO EXERCISE.** The option shall be exercisable during the Associate's lifetime only by the Associate. The option shall be non-transferable by the Associate other than by a beneficiary designation made in a form and manner acceptable to the Committee, or by will or the applicable laws of descent and distribution.

7. AFTER THE DEATH OF ASSOCIATE. To the extent exercisable after the Associate's death, the option shall be exercised only by the Associate's designated beneficiary or beneficiaries, or if no beneficiary survives the Associate, by the person or persons entitled to the option under the Associate's will, or if the Associate shall fail to make testamentary disposition of the option, by his or her legal representative. Any transferee exercising the option must furnish the Company (a) written notice of his or her status as transferee, (b) evidence satisfactory to the Company to establish the validity of the transfer of the option and compliance with any laws or regulations pertaining to said transfer, and (c) written acceptance of the terms and conditions of the option as prescribed in this Agreement.

8. EXERCISE OF OPTION. The option may be exercised by the person then entitled to do so as to any shares which may then be purchased (a) by giving written notice of exercise to the Company, specifying the number of full shares to be purchased and accompanied by full payment of the purchase price thereof (and the amount of any income tax the Company is required by law to withhold by reason of such exercise), and (b) by giving satisfactory assurances in writing if requested by the Company, signed by the person exercising the option, that the shares to be purchased upon such exercise are being purchased for investment and not with a view to the distribution thereof.

9. SUSPENSION OF EXERCISABILITY. If at any time the Company shall determine, in its discretion, that the listing, registration or qualification of the shares covered by the option on any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory authority, is necessary or desirable as a condition of the purchase of shares hereunder, the option may not be exercised, in whole or in part, unless and until such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company. The Company shall make reasonable efforts to meet the requirements of any such state or federal law or securities exchange and to obtain any such consent or approval of any such governmental authority.

10. NO RIGHTS OF STOCKHOLDER. Neither the Associate nor any person claiming under or through said Associate shall be or have any of the rights or privileges of a stockholder of the Company in respect of any of the shares issuable upon the exercise of the option, unless and until certificates representing such shares shall have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Associate.

11. OPTION HAS NO EFFECT ON EMPLOYMENT. The terms of Associate's employment shall be determined from time to time by the Company, or the Subsidiary employing the Associate, as the case may be, and the Company, or the Subsidiary employing the Associate, as the case may be, shall have the right, which is hereby expressly reserved, to terminate or change the terms of the employment of the Associate at any time for any reason whatsoever, with or without good cause.

12. ADDRESSES FOR NOTICES. Any notice to be given to the Company under the terms of this Agreement shall be addressed to the Company, in care of its Secretary, at West Marine, Inc., 500 Westridge Drive, Watsonville, CA 95076, or at such other address as the Company may hereafter designate in writing. Any notice to be given to the Associate shall be addressed to the Associate at the address set forth below the Associate's signature in the Notice of Grant of Stock Options, or at such other address as the Associate may hereafter designate in writing. Any such notice shall be deemed to have been duly given if and when enclosed in a properly sealed envelope, addressed as aforesaid, registered or certified and deposited, postage and registry fee prepaid, in a United States post office.

13. NON-TRANSFERABILITY OF OPTION. Except as otherwise herein provided, the option herein granted and the rights and privileges conferred hereby shall not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of said option, or of any right or privilege conferred hereby, contrary to the provisions hereof, or upon any attempted sale under any execution, attachment or similar process upon the rights and privileges conferred hereby, said option and the rights and privileges conferred hereby shall immediately become null and void.

14. MAXIMUM TERM OF OPTION. Notwithstanding any other provision of this Agreement, this option is not exercisable after the expiration of ten (10) years from the effective date of this Agreement.

15. BINDING AGREEMENT. Subject to the limitation on the transferability of the option contained herein, this Agreement shall be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

16. PLAN GOVERNS. This Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan shall govern. Terms used and not defined in this Agreement shall have the meaning set forth in the Plan.

17. COMMITTEE AUTHORITY. The Committee shall have the discretionary power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon Associate, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

18. CAPTIONS. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

19. AGREEMENT SEVERABLE. In the event that any provision in this Agreement shall be held invalid or unenforceable, such provision shall be severable from, and such invalidity or unenforceability shall not be construed to have any effect on, the remaining provisions of this Agreement.

20. FURTHER ASSURANCES. At any time, and from time to time after executing this Agreement, the Associate will execute such additional instruments and take such actions as may be reasonably requested by the Company to confirm or perfect or otherwise to carry out the intent and purpose of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement, in duplicate, effective as of the day and year specified in paragraph 2 of this Agreement.

West Marine, Inc.

LEASE AGREEMENT

THIS LEASE AGREEMENT ("Lease") is made this 1st day of December, 1986, by and between Indian Creek Company, a Virginia general partnership ("Landlord"), and Boat America Corporation, a Virginia corporation ("Tenant").

WHEREAS, Landlord is the owner of certain real property and improvements located at Long Meadow and Porter Chemical Road, Hagerstown, Maryland, such improvements presently consisting of warehouse and office space containing approximately 287,300 square feet, more particularly described in Exhibit A attached hereto ("Premises"); and

WHEREAS, Landlord desires to lease the Premises to Tenant, and Tenant desires to lease the premises from Landlord, upon the terms, conditions, covenants, and agreements set forth herein;

NOW, THEREFORE, Landlord and Tenant, do hereby covenant and agree as follows:

I. Premises, Term and Surrender

A. Premises. Landlord hereby leases the Premises to Tenant, for the "Term" and upon the conditions, covenants and agreements hereinafter provided.

B. Term. The term of this Lease shall be for a period commencing on even date herewith and expiring at midnight on November 30, 1996, (the "Term"), unless sooner terminated in accordance with the provisions hereof. At the option of the Tenant, the Lease may be renewed for two (2) additional five-year periods.

C. Surrender. Tenant shall, upon expiration of the Term hereof, quit and surrender the Premises to Landlord in good order and condition, reasonable wear and tear excepted. In the event that Tenant is prevented from quitting and surrendering the Premises upon the expiration of the Term due to any cause beyond the control of Tenant, then Tenant shall be allowed to remain at and in the Premises as a month-to-month Tenant, upon the same terms, conditions, covenants and agreements as are set forth herein and at a monthly rent derived by dividing the annual rent set forth in paragraph II-A by twelve (12), until such time as Tenant shall be able to quit and surrender the Premises to Landlord.

II. Rent, Impositions and Liens.

A. Rent. Tenant covenants and agrees to pay to Landlord rent in the following amounts ("Base Rent");

(1) Upon commencement of this Lease, and continuing on the first day of each subsequent month during the Term of this Lease, Tenant shall pay to Landlord, in advance, rent in the amount of \$46,000 per month.

(2) If the first and last month during the Term of this Lease is less than a full calendar month, the rent due in such month(s) shall be proportionately reduced by

multiplying the rent that would otherwise be due for the full month by a fraction, the numerator of which is the number of days in the month during the Term, and the denominator of which is the number of days in such month.

(3) All rent shall be paid to Landlord at the Premises, unless Landlord gives Tenant notice of a different address in accordance with paragraph XIII-C below.

B. Rental Adjustments. On the first day of the sixty-first (61st) month after the commencement of this Lease, and at the beginning of each renewal option period, the then Base Rent shall be adjusted upwards by the increase, if any, in the U.S. Consumer Price Index, or in any interest adjustment by First National Bank of Maryland ("Bank"), whichever is greater, by multiplying the Base Rent then due each month by a fraction, the numerator of which shall be the Consumer Price Index or Bank interest rate, as of the most recent date prior to such adjustment, and the denominator of which shall be the Consumer Price Index as of the commencement date of this Lease.

C. Liens. Tenant shall pay all workmen and materialmen providing services or materials to the Premises at the request of Tenant and shall not allow any mechanic's or materialmen's lien to attach to or become a lien against the Premises. If any such lien attaches to or becomes a lien against the Premises, Tenant agrees to discharge such lien within ten (10) days after written notice thereof from Landlord to Tenant or to provide a satisfactory bond against any such lien.

D. Impositions.

(1) Tenant covenants and agrees to pay all lawful real estate taxes, assessments, general or special, sewer and water charges and any other governmental charges, levied, imposed or which become a lien against the Premises allocable to the Term of this Lease (all or any of which are hereinafter referred to as the "Imposition" or "Impositions").

(2) If any Imposition may, at the election of Tenant, be paid in installments (whether or not interest shall be imposed as a condition of payment in installments), Landlord hereby authorizes and permits Tenant to pay such Imposition in such installments as Tenant and the imposing authority may agree upon.

(3) If any such Imposition payable by Landlord prior to the commencement of this Lease or after termination of this Lease covers a period during the Term of this Lease, or if any such Imposition payable by Tenant covers a period prior to the commencement of this Lease or subsequent to the termination of this Lease, such Imposition (including interest thereon, if any) shall be prorated between Landlord and Tenant as of the date of commencement or termination of this Lease, as the case may be, and paid to the appropriate party at such time.

(4) Tenant shall have the right to protest and/or contest any Imposition which is required to be paid by Tenant hereunder by appropriate administrative or legal proceedings, provided, however:

(i) Such protest or contest shall not cause or result in a sale or foreclosure of the Premises which cannot be terminated by payment of said protested or contested Imposition;

(ii) Tenant shall diligently prosecute such protest and/or contest; and

(iii) Tenant shall be responsible for the payment of any penalties, interest or fees with respect to the Imposition protested or contested.

E. Right of Landlord. If Tenant shall fail to pay any liens in accordance with paragraph II-C; or fail to discharge or bond any lien, or, if Tenant shall fail to pay any Imposition in accordance with paragraph II-D, Landlord shall have the right, after prior written notice thereof to Tenant, to pay or discharge such lien or Imposition on behalf of Tenant. Any amount so paid by Landlord on behalf of Tenant shall be deemed additional rent hereunder and shall be paid by Tenant within ten (10) days of written demand thereof by Landlord.

III. Use, Maintenance and Alterations.

A. Use.

(1) Tenant shall have the exclusive right to use and occupy the Premises for its business operations, together with activities related thereto including any storage of Tenant's line of products.

(2) Tenant agrees to comply with all lawful governmental requirements in connection with the use and occupancy of the Premises. It is expressly understood that if any present or future law, ordinance, regulation or order requires an occupancy permit for the Premises, Tenant will obtain such permit at Tenant's own expense.

B. Repairs. Tenant agrees to maintain the Premises in good condition and repair, reasonable wear and tear excepted, at its sole cost and expense.

C. Alterations. Tenant will not make or permit anyone to make any material alterations, additions or improvements, structural or otherwise, in or to the Premises without the prior written consent of Landlord.

IV. Assignment and Subletting. Tenant shall have the right, with the prior written approval of Landlord, not to be unreasonably withheld, to assign this Lease and/or to sublet all or any portion or portions of the Premises at any time, Tenant to remain obligated for the rent in the event of any default by the assignee or subtenant.

V. Insurance. Tenant shall obtain and maintain insurance in accordance with the requirements set forth in Exhibit B attached hereto and made a part hereof.

VI. Default.

A. Default. Tenant shall be in default hereunder if Tenant shall fail to timely pay rent hereunder or comply with any of Tenant's obligations hereunder where such failure to comply shall continue for a period of ten (10) days after the due date or required date of

performance; provided, however, that Tenant shall not be deemed in default if any such default may be reasonably cured within thirty (30) days and Tenant is diligently proceeding with the curing of such default.

B. Remedies. In the event that Tenant is in default, Landlord, upon ten (10) days prior written notice to Tenant, may terminate this Lease and reenter the Premises. In addition, Landlord shall have the right to pursue any claim or action against Tenant for damages or equitable relief, and/or the right to cure such default on behalf of tenant (which shall not constitute a waiver of such default) and charge Tenant the cost of effecting such cure as additional rent hereunder.

VII. Title.

A. Warranty. Landlord represents, warrants and covenants that it has good and marketable title to the Premises and that it has the full right, power and authority to enter into this Lease.

B. Quiet Enjoyment. Landlord represents, warrants and covenants that for so long as Tenant complies fully with the terms of this Lease, Tenant shall have, occupy and hold and use the Premises lawfully and for its quiet enjoyment during the term of this Lease.

VIII. Casualty and Condemnation.

A. Condemnation. If, during the Term of this Lease, the whole or any part of the Premises or the improvements located thereon shall be taken as a result of the exercise of any power or condemnation or eminent domain (or by private purchase in lieu thereof), Landlord shall be entitled to retain the entire condemnation award and Tenant shall have no claim or rights with respect thereto. In the event of any partial taking as aforesaid, Tenant shall have the right of either (1) accepting an equitable reduction in the rent or (2) terminating this Lease, in which case Tenant shall be relieved of any further obligation to Landlord. In the event that the Premises are wholly taken as a result of any condemnation of eminent domain (or private purchase in lieu thereof), this Lease shall immediately terminate and be automatically cancelled.

B. Casualty. In the event that the Premises or any substantial part thereof or any buildings or other improvements to the Premises or any substantial part thereof (greater than fifty (50%) percent) are destroyed by fire or other casualty, Landlord shall have the option in its sole discretion of (1) terminating this Lease as of the date of such casualty or destruction or (2) applying the proceeds of any existing insurance policies, if any, to the restoration of the Premises and/or any buildings or other improvements thereon. In the event that Landlord elects to restore the Premises, the rent payable pursuant to this Lease shall abate in whole or in part, as the case may be, (any rent reduction based upon the percentage destruction of the Premises) during the period commencing on the date of such damage or destruction and ending on the date upon which Landlord finishes restoring the Premises.

IX. Bankruptcy or Insolvency of Tenant. In the event of the adjudication of bankruptcy or insolvency of Tenant or in the event that Tenant makes an assignment for the benefit of its creditors or enters into any composition or similar arrangement with creditors, this Lease shall automatically terminate and the provisions hereof shall be of no further force of effect.

X. Inspection. Tenant will permit Landlord, or its agents or other representatives, to enter the Premises, without charge therefore to Landlord and without diminution of the rent payable by Tenant, to examine, inspect and protect the Premises throughout the Term or to exhibit the same to prospective tenants or purchasers during the last one hundred eighty (180) days of the Term of this Lease.

XI. Subordination and Attornment.

A. Subordination. This Lease is subject and subordinate to the lien of a first Deed of Trust dated _____ (the "Deed of Trust") between Indian Creek Company and Patricia A. Brion and Laura J. Russell (the "Trustees"), which secures First National Bank of Maryland, and to all and any renewals, extensions, modifications, recasting or refinancings thereof. In confirmation of such subordination, Tenant shall, at Landlord's request, promptly execute, acknowledge and deliver to Landlord any requisite or appropriate certificate or other document. Tenant hereby constitutes and appoints Landlord as Tenant's attorney-in-fact to execute any such certificate or certificates for or on behalf of Tenant if Tenant does not execute said certificate within five (5) days of receipt thereof.

B. Attornment.

(1) Tenant agrees that in the event of such a foreclosure pursuant to the Deed of Trust, Tenant shall attorn to the Bank or its successors in interest, if requested to do so by such successor and to recognize such successor as the Landlord under this Lease, and Tenant waives the provisions of any statute or rule of law, now or hereafter in effect, which may give or purport to give Tenant any right to terminate or otherwise adversely affect this Lease and the obligations of Tenant hereunder in the event that any such foreclosure proceeding is prosecuted or completed.

(2) Provided Trustees have given Tenant written notice of where such notices are to be sent, Tenant shall not terminate this Lease for any default on the part of the Landlord without first giving thirty (30) days written notice by certified or registered mail, return receipt requested, to the Trustees, specifying the default in reasonable detail, and affording the Trustees a reasonable opportunity to make performance within the time period specified in such notice, at their election, for and on behalf of the Landlord.

XII. Utilities. Tenant shall pay all costs and charges for all utilities and services provided or used in or at the Premises.

XIII. Other Provisions.

A. No Broker. Landlord and Tenant each represent and warrant to the other that they have not authorized any broker, agent or finder to act on their behalf nor do they have any knowledge of any broker, agent or finder purporting to act on their behalf in respect to this transaction, and Landlord and Tenant hereby agree to indemnify and hold harmless the other from and against any cost, expense, claim, liability or damage resulting from a breach of the representation and warranty contained herein.

B. No Partnership or Joint Venture Created. Nothing contained in this Lease shall be deemed or construed to create a partnership or joint venture of or between Landlord and Tenant, or to create any relationship between the parties hereto other than that of Landlord and Tenant.

C. Notice. Any and all notices, requests or other communications hereunder shall be deemed to have been duly given if in writing and if transmitted by hand delivery with receipt therefor, or by registered or certified mail, return receipt requested, and first class postage prepaid, as follows: (i) To Landlord, at the Premises; or (ii) to Tenant, at the Premises; or to such other address as either party may furnish to the other by notice in accordance with this paragraph XIII-C. Notice shall be deemed effective when received.

D. Governing Law. This Lease shall be construed and enforced in accordance with the laws of the State of Maryland.

E. Invalidity of Particular Provisions. If any provision of this Lease or the application thereof to any person or circumstances shall to any extent be invalid or unenforceable, the remainder of this Lease, or the application of such provision to persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each provision of this Lease shall be valid and be enforced to the fullest extent permitted by law.

F. Headings. The captions and headings herein are for convenience of reference only and in no way define or limit the scope or content of this Lease or in any way affect its provisions.

G. Binding Effect. This Lease shall be binding upon, and inure to the benefit of, the parties hereto and their respective legal representatives, heirs, executors, administrators, successors and assigns.

H. Entire Lease. This Lease contains the final and entire agreement between the parties hereto and is intended to be an integration of all prior negotiations and understandings. Landlord, Tenant and their respective agents shall not be bound by any terms, conditions, statements, warranties or representations, oral or written, not contained herein. No change or modification of this Lease shall be valid unless the same is in writing and is signed by the party against which it is sought to be enforced.

IN WITNESS WHEREOF, the parties hereto have executed this Lease under seal on the day and year set forth below.

LANDLORD:

INDIAN CREEK COMPANY,
a Virginia general partnership

By: /s/ Richard Schwartz (SEAL)

Richard Schwartz, Partner

TENANT:

BOAT AMERICA CORPORATION,
A Virginia corporation

By: /s/ Thomas J. Petrash (SEAL)

Thomas J. Petrash,
Vice President

WITNESS:

/s/ Richard Ellison

Dated: November 25, 1986

WITNESS:

/s/ Steven G. Schwartz

(SEAL)

Dated: November 25, 1986

EXHIBIT "B"

INSURANCE COVERAGE

A. Property Insurance. Tenant shall, at all times during the term hereof, insure the premises against loss or damage from fire, smoke, lightning, windstorm, explosion, vandalism, malicious mischief and the other hazards ordinarily included under standard broad form extended coverage endorsements in amounts equal to the full replacement cost of the Premises (that amount having been determined to be \$7,000,000.00).

B. Public Liability, Workman's Compensation, and Property Damage Insurance. Tenant shall, at all times during the term hereof, maintain general public liability insurance coverage of \$5,000,000.00 and workmen's compensation as required by law insuring against claims for bodily injury or death occurring upon, in or about, or resulting from the use of, the Premises with the insurance (other than workmen's compensation) to afford protection to the limit of not less than \$500,000.00 in respect of bodily injury or death to any one person and to the limit of no less than \$1,000,000.00 in respect of any one accident.

C. Loss of Rents. Landlord shall maintain insurance with respect to loss of rents for a period equal to one year.

D. Insurance Companies. All required insurance shall be carried with responsible insurance companies selected by the party responsible for obtaining such insurance, and approved by Landlord on even date herewith (which approval shall not be unreasonably withheld), and may be effected by endorsement of blanket insurance policies; provided, however, that all policies of insurance shall be written by companies authorized to do business in the State of Maryland.

E. Certificates of Insurance. Each party shall deliver to the other (i) promptly upon the execution and delivery of this Lease, original policies or duplicates, or certificates or binders, evidencing that all required insurance is in full force and effect, and (ii) at least twenty (20) business days prior to the expiration of any insurance, additional policies or duplicates, or certificates or binders, evidencing the renewal of the insurance and the payment of the premiums.

F. Named Insureds. All policies shall name Landlord, its partners, Tenant, and the Trustees as additional insureds as their interests may appear, if any.

G. Mortgage Clauses. The property insurance policy required by (A) and all renewals of its shall contain standard clauses naming First National Bank of Maryland ("Holder") as mortgages and requiring that all proceeds payable under the policy (other than proceeds for claims of less than \$1,000.00, which shall be payable to Landlord) be paid to Holder and Landlord. Accordingly, the policy shall have attached to it standard non-contributing, non-reporting mortgage clauses in form acceptable to the Holder, in favor of and entitling the Holder without contribution, to collect any and all proceeds payable under that insurance as its interest may appear.

H. Cancellation. Each insurance policy required by this exhibit shall contain an agreement by the issuer that it will not cancel the policy or modify it in a manner which is adverse to the interests of Landlord, Tenant, or the Holder, except upon prior written notice to all named insureds, in accordance with law (but not less than fifteen (15) days), and that any loss otherwise payable under the policy shall be payable notwithstanding any act of negligence by the Landlord, or Tenant, which might, absent that agreement, result in forfeiture of all or part of the insurance payment. Either party shall immediately notify the other of any cancellation of or change in any insurance policy.

I. Failure to Effect Insurance. In the event that either party fails to effect, maintain or renew any of the insurance required of it, then the other party shall have the right, but not the obligation, to procure said insurance, and the premium therefore shall be immediately reimbursed by the defaulting party; provided, however, it is expressly understood that procurement of the insurance shall not be deemed to waive or release such default.

J. Umbrella Policies. In lieu of separate policies, either party may maintain or cause to be maintained blanket or umbrella policies if those policies provide the coverage required by this Exhibit.

K. Revised Limits. Landlord shall have the right to require different limits for the insurance required hereunder if, in Landlord's sole discretion, the limits are necessary to adequately protect the interests of the Landlord; provided, however, that the revised limits are (i) readily available in the market and (ii) obtainable at standard premium rates.

LEASE AMENDMENT I

This lease amendment is made this 25th day of November 1996, and attached to that certain lease agreement dated the 1st day of December 1986, by and between Indian Creek Company (ICC), a Virginia Limited Partnership ("Landlord") and Boat America Corporation, a Virginia Corporation ("Tenant").

Whereas, that certain lease is to expire on November 30, 1996, and that both Landlord and Tenant desire the lease to continue; now, therefore, Landlord and Tenant agree to continue to be bound by the terms, conditions and covenants of that certain lease dated the 1st day of December 1986, except as amended as follows: (all section headings refer to that certain lease dated the 1st of December 1986).

1. The name Indian Creek Company, a Virginia general partnership, shall be replaced by Indian Creek Company, a Virginia limited partnership.
2. I.B. Term: The term of this lease shall be for a period commencing on December 1, 1996, and expiring at midnight on November 30, 2001, (the "Term"), unless sooner terminated in accordance with the provisions hereof. At the option of the Tenant, the Lease may be renewed for one (1) additional five-year period.
3. Delete II.-B. Rental Adjustments.

In witness whereof, the parties hereto have executed this lease amendment on the day and year set forth below.

LANDLORD

WITNESS:

/s/ Debbie Hart

Dated: June 18, 1997

INDIAN CREEK, L.P., a Virginia limited partnership

By: /s/ Richard Schwartz

Richard Schwartz, President
Marlboro Technologies, Inc.,
General Partner

TENANT

WITNESS:

/s/ P. Bass

Dated: June 18, 1997

BOAT AMERICA CORPORATION, a Virginia Corporation

By: /s/ William M. Oakerson

William M. Oakerson, President

LEASE AMENDMENT II

This lease amendment is made this 25th day of June 1998, and attached to that certain lease agreement dated the 1st day of December 1986, by and between Indian Creek Company (ICC), a Virginia Limited Partnership ("Landlord") and Boat America Corporation, a Virginia Corporation ("Tenant").

Whereas, that certain lease is to expire on November 30, 2001, and that both Landlord and Tenant desire the lease to continue; now, therefore, Landlord and Tenant agree to continue to be bound by the terms, conditions and covenants of that certain lease dated the 1st day of December 1986, except as amended as follows: (all section headings refer to that certain lease dated the 1st of December 1986).

Term: The term of this lease shall be for a period commencing on December 1, 2001, and expiring at midnight on November 30, 2006, (the "Term"), unless sooner terminated in accordance with the provisions hereof. At the option of the Tenant, the Lease may be renewed for one (1) additional five-year period.

In witness whereof, the parties hereto have executed this lease amendment on the day and year set forth below.

LANDLORD

WITNESS:

/s/ Debbie Hart

Dated: June 25, 1998

INDIAN CREEK, L.P., a Virginia limited partnership

By: /s/ Richard Schwartz

Richard Schwartz, President
Marlboro Technologies, Inc., General Partner

TENANT

WITNESS:

/s/ Debbie Hart

Dated: June 25, 1998

BOAT AMERICA CORPORATION, a Virginia Corporation

By: /s/ William M. Oakerson

William M. Oakerson, President

REQUESTED BY AND
WHEN RECORDED MAIL TO:

Wells Fargo Bank, National Association
65 West Alisal Street, 2nd Floor
Salinas, CA 93901
Attn: Patrick Bishop

LANDLORD SUBORDINATION

Address: 19224 Longmeadow Road, Hagerstown, Maryland

WHEREAS, Wells Fargo Bank, National Association in its capacity as administrative agent (the "Administrative Agent") for a syndicate of lenders (collectively, the "Lenders") has entered into or is about to enter into security transactions with West Marine Finance Company, Inc., West Marine, Inc., West Marine Products, Inc., West Marine Canada Corp., West Marine Puerto Rico, Inc., West Marine FSC, Inc., W. Marine Management Co., Inc., West Marine LBC, Inc., West Marine IHC I, Inc., E&B Marine Supply, Inc. (NJ), E&B Marine Supply, Inc. (MD), Goldbergs' Marine Distributors, Inc., James Bliss & Co., Inc., Sea Ranger Marine, Inc., Krista Corporation, and Central Marine Supply, Inc. and any other subsidiary of West Marine Finance Company, Inc., or West Marine, Inc. now or hereafter existing (any one or more of them, as applicable, shall be referred to herein as the "Company"), covering, in part, all accounts, inventory, equipment and other property of Company, whether now owned or hereafter acquired by Company, and the proceeds and products thereof, and all replacements, substitutions, additions and accessions thereto (collectively, "Personal Property"); and

WHEREAS, the Personal Property is now or may in the future be located at the location described in Exhibit "A" attached hereto and by this referenced incorporated herein (the "Premises"); and

WHEREAS, the undersigned has an interest in the Premises as owner and as lessor under a lease agreement between the undersigned, as lessor, and Company, as lessee, with respect to the Premises (together with any amendments, modifications, supplements or renewals thereof, the "Lease");

NOW, THEREFORE, in consideration of the foregoing, and other good and valuable consideration, each of the undersigned agrees as follows:

The undersigned hereby subordinates all liens, claims, demands, rights of levy, distraint, other rights or interests, right of possession or sale for unpaid rent or other payments due and payable to the undersigned with respect to the Personal Property which the undersigned may now have or hereafter acquire in the Personal Property to rights and claims of the Administrative Agent and the Lenders in the Personal Property;

The Personal Property may be installed on or otherwise affixed to the Premises and shall not be deemed an accession or addition to or fixture or part of the Premises but shall at all times be considered Personal Property;

The Administrative Agent or its representatives may advertise and conduct a public auction or private sale of the Personal Property on the Premises and the undersigned shall not interfere with any such auction or sale.

At the option of the Administrative Agent, the Personal Property may remain upon the Premises (without the Administrative Agent or the Lenders being deemed to be taking possession on the Premises) for a period of 90 days after the Administrative Agent's receipt of written notice from the undersigned directing removal. During said 90-day period, the Administrative Agent shall pay rent to the undersigned lessor in an amount equal to the rentals for such period provided under the Lease prorated per diem on the basis of a 30-day month, but without incurring any other obligation of Company.

The undersigned lessor agrees to give notice within five(5) days of any default by Company of any of the provisions of the Lease to the Administrative Agent at the addresses set forth above.

Upon receipt of said notice, the Administrative Agent shall thereupon have the right but not the obligation to cure such default within ten (10) days. Any failure by the Administrative Agent to cure such default shall not otherwise affect the rights of the Administrative Agent hereunder.

This document is binding upon the undersigned and the heirs, personal representatives, successors and assigns of the undersigned and inures to the benefit of the Administrative Agent, the Lenders and the successors and assigns of same.

Dated as of this 25th day of February, 2003.

LANDLORD: Indian Creek Company, L.P.
By Marlboro Technologies, General Partner

By: /s/ Richard Schwartz

Richard Schwartz, President

Store No. 650-Hagerstown DC

EXHIBIT A

Description of the Premises

Common Address: 19224 Longmeadow Road, Hagerstown, Maryland

Legal Description:

(see attached legal description)

THIRD AMENDMENT OF LEASE

THIS THIRD AMENDMENT OF LEASE (hereinafter called "Amendment") is made this April 23, 2004, between **SCP Green Hagerstown, LLC**, a limited liability company, as successor to Indian Creek Company, L.P. (hereafter called "Landlord") and **West Marine Products, Inc.**, a California corporation, as successor to Boat America Corporation (hereinafter called "Tenant").

RECITALS

A. By lease agreement dated December 1, 1986, as amended by (a) Lease Amendment I, dated November 25, 1996, (b) Lease Amendment II, dated June 25, 1998, and (c) Landlord Subordination, dated February 25, 2003 (hereinafter collectively "Lease"), Landlord leased to Tenant an approximately two hundred thousand eighty-seven, three hundred (287,300) square-foot premises commonly known as 19224 Longmeadow Road, Hagerstown, MD 21742 (the "Demised Premises"). The Demised Premises is more particularly described in the Lease.

B. Landlord and Tenant now desire to further amend the Lease in certain respects.

AGREEMENT

For and in consideration of the recitals above made and the promises and agreements that follow, and other good and valuable consideration, the parties agree as follows:

1. **Waiver of Subrogation.** Landlord and Tenant shall obtain from their respective insurers endorsements whereby the insurers agree to waive any right of subrogation against Landlord or Tenant, as the case may be, in connection with fire or other risks or casualties covered by insurance required to be carried under the Lease. Each party, notwithstanding any provisions of the Lease to the contrary, hereby waives any rights of recovery against the other for injury or loss due to hazards which are covered by insurance required to be carried under the Lease.

2. **Methods of Giving Notice.** In addition to the method by which Landlord and Tenant may give notice to the other as set forth in the Lease, any such notices may be given by a nationally recognized overnight delivery service providing proof of delivery.

3. **Defined Terms.** All defined terms used herein and not otherwise defined in this Amendment shall have the same meaning(s) attributed to them by the Lease.

4. **Affirmation.** Except as modified by this Amendment, the Lease remains unchanged.

IN WITNESS WHEREOF, the parties have executed this Amendment.

LANDLORD:

SCP Green Hagerstown, LLC

By: /s/ Benjamin S. Buscher

Printed Name: Benjamin S. Buscher
Title: Manager

TENANT:

West Marine Products, Inc.

By: /s/ Richard Everett

Richard Everett
President and C.O.O.

By: /s/ Linda I. Leyba

Linda I. Leyba, A.V.P.

GUARANTEE AGREEMENT
(Canada)

Dated as of October 14, 2004

by

EACH GUARANTOR PARTY HERETO

in favour of

WELLS FARGO BANK, NATIONAL ASSOCIATION,

as the Administrative Agent

GUARANTEE AGREEMENT
(Canada)

This GUARANTEE AGREEMENT (Canada) (this "**Guarantee**"), dated as of October 14, 2004, is made by each of the Persons listed on the signature pages hereto and each of the other entities which becomes a party hereto pursuant to Section 4.14 hereof (each a "**Guarantor**" and jointly and severally, the "**Guarantors**") in favour of WELLS FARGO BANK, NATIONAL ASSOCIATION, as administrative agent for the Lenders referred to below (in such capacity, together with its successors in such capacity, the "**Administrative Agent**").

Each of the Guarantors and WEST MARINE PRODUCTS, INC., a California corporation (the "**Borrower**") are Subsidiaries of West Marine, Inc.

The Borrower has entered that certain Credit Agreement, dated as of October 14, 2004 (as the same from time to time hereafter may be amended, modified, supplemented or restated, the "**Credit Agreement**"), by and among the Borrower, the financial institutions party thereto from time to time (collectively, the "**Lenders**") and the Administrative Agent, pursuant to which the Lenders have agreed to extend loans and other financial accommodations to the Borrower for the purposes, and on the terms and subject to the conditions, set forth in the Credit Agreement.

The Lenders are willing to make and maintain loans and other financial accommodations to the Borrower on and after the date of the Credit Agreement, but only upon the condition, among others, that the Guarantors shall have executed and delivered this Guarantee to the Administrative Agent.

Each Guarantor has obtained and will continue to obtain working capital and loans needed for its operations from Borrower, and Borrower will obtain funds to provide and lend to the Guarantors from the Lenders under the Credit Agreement. In addition, Guarantors expect to realize direct and indirect benefits as the result of the availability of the aforementioned credit facilities to Borrower, as the result of financial or business support which the Borrower will provide to the Guarantors.

To induce the Administrative Agent and the Lenders to enter and to extend credit under, the Credit Agreement and the other Loan Documents, and for other good and valuable consideration, the receipt and sufficiency of which each of the undersigned hereby acknowledges, each Guarantor agrees to guarantee the Guaranteed Obligations upon the terms and conditions of this Guarantee. Accordingly, each Guarantor agrees with the Administrative Agent as follows:

SECTION 1. DEFINITIONS.

1.01. Definitions. Unless otherwise defined herein, all capitalized terms used in this Guarantee that are defined in the Credit Agreement (including those terms incorporated by reference) shall have the respective meanings assigned to them in the Credit Agreement. In addition, the following terms shall have the following meanings under this Guarantee:

"**Bankruptcy and Insolvency Act**" shall mean the *Bankruptcy and Insolvency Act* R.S.C. 1985, c.B-3, as amended and in force from time to time.

“Guaranteed Obligations” shall mean (a) any and all Obligations of the Borrower and any and all other obligations of the Borrower for the performance of its agreements, covenants and undertakings under or in respect of the Loan Documents, it being acknowledged by each Guarantor that some extensions of credit under the Credit Agreement are available on a revolving basis, and (b) any and all other obligations of the Borrower for the payment of all amounts, liabilities and indebtedness (whether for principal, interest, reimbursement, fees, charges, indemnification or otherwise) now or in the future owed to the Administrative Agent, the Lenders or any such Person individually, and for the performance by the Borrower of its agreements, covenants and undertakings, in each case under or in respect of any and all of the Loan Documents and the Lender Interest Rate Protection Agreements, it being acknowledged by each Guarantor that such other obligations may arise or be created, incurred or assumed at any time and from time to time and in such manner and such circumstances and with such terms and provisions as the Borrower, the Administrative Agent and the Lenders or any such Person individually may agree without notice or demand of any kind or nature whatsoever to the Guarantors.

1.02. **Interpretation.** In this Guarantee, unless otherwise indicated, the singular includes the plural and plural the singular; words importing any gender include the other gender; references to statutes or regulations are to be construed as including all statutory or regulatory provisions consolidating, amending or replacing the statute or regulation referred to; references to “writing” include printing, typing, lithography and other means of reproducing words in a tangible visible form; the words “including,” “includes” and “include” shall be deemed to be followed by the words “without limitation”; references to articles, sections (or subdivisions of sections), exhibits, annexes or schedules are to this Guarantee; references to agreements and other contractual instruments shall be deemed to include all subsequent amendments, extensions and other modifications to such instruments (without, however, limiting any prohibition on any such amendments, extensions or modifications by the terms of the Credit Agreement); and references to Persons include their respective successors and permitted assigns and, in the case of Governmental Authorities, Persons succeeding to their respective functions and capacities.

SECTION 2. THE GUARANTEE.

2.01. **Guarantee.** Subject to the limitation set forth in Section 2.09, each Guarantor hereby guarantees to the Administrative Agent and each Lender the timely payment in full when due (whether at stated maturity, by acceleration or otherwise) and performance of the Guaranteed Obligations in each case strictly in accordance with their terms. Each Guarantor hereby further agrees that if the Borrower shall fail to pay in full when due (whether at stated maturity, by acceleration or otherwise) all or any part of the Guaranteed Obligations, such Guarantor will immediately pay the same, without any demand or notice whatsoever, and that in the case of any extension of time of payment or renewal of all or any part of the Guaranteed Obligations, the same will be timely paid in full when due (whether at extended maturity, by acceleration or otherwise) in accordance with the terms of such extension or renewal. This Guarantee is absolute, irrevocable and unconditional in nature and is made with respect to any and all Guaranteed Obligations now existing or in the future arising. Each Guarantor’s liability under this Guarantee shall continue until full satisfaction of all Guaranteed Obligations. This Guarantee is a guarantee of due and punctual payment and performance and not of collectibility.

2.02. Acknowledgments, Waivers and Consents. Each Guarantor acknowledges that the obligations undertaken by it under this Guarantee involve the guarantee of obligations of Persons other than such Guarantor and that such obligations of each Guarantor are absolute, irrevocable and unconditional under any and all circumstances. In full recognition and in furtherance of the foregoing, each Guarantor agrees that:

(a) Without affecting the enforceability or effectiveness of this Guarantee in accordance with its terms and without affecting, limiting, reducing, discharging or terminating the liability of such Guarantor, or the rights, remedies, powers and privileges of the Administrative Agent and the Lenders under this Guarantee, the Administrative Agent and the Lenders may, at any time and from time to time and without notice or demand of any kind or nature whatsoever:

(i) amend, supplement, modify, extend, renew, waive, accelerate or otherwise change the time for payment or performance of, or the terms of, all or any part of the Guaranteed Obligations (including any increase or decrease in the principal portion of, or rate or rates of interest on, all or any part of the Guaranteed Obligations);

(ii) amend, supplement, modify, extend, renew, waive or otherwise change, or enter into or give, any Loan Document or any agreement, security document, guarantee, approval, consent or other instrument with respect to all or any part of the Guaranteed Obligations, any Loan Document or any such other instrument or any term or provision of the foregoing;

(iii) accept or enter into new or additional agreements, security documents, guarantees (including letters of credit) or other instruments in addition to, in exchange for or relative to any Loan Document, all or any part of the Guaranteed Obligations or any collateral now or in the future serving as security for the Guaranteed Obligations;

(iv) accept or receive (including from any other guarantor) partial payments or performance on the Guaranteed Obligations (whether as a result of the exercise of any right, remedy, power or privilege or otherwise);

(v) accept, receive and hold any additional collateral for all or any part of the Guaranteed Obligations (including from any other guarantor);

(vi) release, reconvey, terminate, waive, abandon, allow to lapse or expire, fail to perfect, subordinate, exchange, substitute, transfer, foreclose upon or enforce any collateral, security documents or guarantees (including letters of credit or the obligations of any other guarantor) for or relative to all or any part of the Guaranteed Obligations;

(vii) apply any collateral or the proceeds of any collateral or guarantee (including any letter of credit or the obligations of any other guarantor) to all or any part of the Guaranteed Obligations in such manner and extent as the Administrative Agent or any Lender may in its discretion determine;

(viii) release any Person (including any other guarantor) from any personal liability with respect to all or any part of the Guaranteed Obligations;

(ix) settle, compromise, release, liquidate or enforce upon such terms and in such manner as the Administrative Agent or the Lenders may determine or as applicable law may dictate all or any part of the Guaranteed Obligations or any collateral on or guarantee of (including any letter of credit issued with respect to) all or any part of the Guaranteed Obligations (including with any other guarantor);

(x) consent to the merger or consolidation of, the sale of substantial assets by, or other restructuring or termination of the existence of the Borrower or any other Person (including any other guarantor);

(xi) proceed against the Borrower, such Guarantor or any other guarantor of (including any issuer of any letter of credit issued with respect to) all or any part of the Guaranteed Obligations or any collateral provided by any Person and exercise the rights, remedies, powers and privileges of the Administrative Agent and the Lenders under the Loan Documents or otherwise in such order and such manner as the Administrative Agent or any Lender may, in its discretion, determine, without any necessity to proceed upon or against or exhaust any collateral, right, remedy, power or privilege before proceeding to call upon or otherwise enforce this Guarantee as to such Guarantor;

(xii) foreclose upon any deed of trust, mortgage or other instrument creating or granting liens on any interest in real property by judicial or nonjudicial sale or by deed in lieu of foreclosure, bid any amount or make no bid in any foreclosure sale or make any other election of remedies with respect to such liens or exercise any right of set-off;

(xiii) obtain the appointment of a receiver with respect to any collateral for all or any part of the Guaranteed Obligations and apply the proceeds of such receivership as the Administrative Agent or any Lender may in its discretion determine (it being agreed that nothing in this clause (xiii) shall be deemed to make the Administrative Agent or any Lender a party in possession in contemplation of law, except at its option);

(xiv) enter into such other transactions or business dealings with the Borrower, any Subsidiary or Affiliate of the Borrower or any other guarantor of all or any part of the Guaranteed Obligations as the Administrative Agent or any Lender may desire; and

(xv) do all or any combination of the actions set forth in this Section 2.02(a).

(b) The enforceability and effectiveness of this Guarantee and the liability of such Guarantor, and the rights, remedies, powers and privileges of the Administrative Agent and the Lenders, under this Guarantee shall not be affected, limited, reduced, discharged or terminated, and each Guarantor hereby expressly waives to the fullest extent not prohibited by applicable law any defense now or in the future arising (other than a defense that the Guaranteed Obligations have been paid in full in cash), by reason of:

(i) the illegality, invalidity or unenforceability of all or any part of the Guaranteed Obligations, any Loan Document or any agreement, security document, guarantee or other instrument relative to all or any part of the Guaranteed Obligations;

(ii) any disability or other defense with respect to all or any part of the Guaranteed Obligations of the Borrower, or any other guarantor of all or any part of the Guaranteed Obligations (including any issuer of any letters of credit), including the effect of any statute of limitations that may bar the enforcement of all or any part of the Guaranteed Obligations or the obligations of any such other guarantor;

(iii) the illegality, invalidity or unenforceability of any security or guarantee (including any letter of credit) for all or any part of the Guaranteed Obligations or the lack of perfection or continuing perfection or failure of the priority of any lien on any collateral for all or any part of the Guaranteed Obligations;

(iv) the cessation, for any cause whatsoever, of the liability of the Borrower or any other guarantor of all or any part of the Guaranteed Obligations (other than, subject to Section 2.05, by reason of the full payment and performance of all Guaranteed Obligations);

(v) any failure of the Administrative Agent or any Lender to marshal assets in favor of the Borrower or any other Person (including any other guarantor), to exhaust any collateral for all or any part of the Guaranteed Obligations, to pursue or exhaust any right, remedy, power or privilege it may have against the Borrower, any other guarantor of all or any part of the Guaranteed Obligations (including any issuer of any Letter of Credit) or any other Person or to take any action whatsoever to mitigate or reduce such or any other liability of such Guarantor under this Guarantee, neither the Administrative Agent nor any Lender being under any obligation to take any such action notwithstanding the fact that all or any part of the Guaranteed Obligations may be due and payable and that the Borrower may be in default of its obligations under any Loan Document;

(vi) any failure of the Administrative Agent or any Lender to give notice of sale or other disposition of any collateral (including any notice of any judicial or nonjudicial foreclosure or sale of any interest in real property serving as collateral for all or any part of the Guaranteed Obligations) for all or any part of the Guaranteed Obligations to the Borrower, such Guarantor or any other Person or any defect in, or any failure by such Guarantor or any other Person to receive, any notice that may be given in connection with any sale or disposition of any collateral;

(vii) any failure of the Administrative Agent or any Lender to comply with applicable laws in connection with the sale or other disposition of any collateral for all or any part of the Guaranteed Obligations;

(viii) any judicial or nonjudicial foreclosure or sale of, or other election of remedies with respect to, any interest in real property or other collateral serving as security for all or any part of the Guaranteed Obligations, even though such foreclosure, sale or election of remedies may impair the subrogation rights of such Guarantor or may preclude such Guarantor from obtaining reimbursement, contribution, indemnification or other recovery from the Borrower, any other guarantor or any other Person and even though the Borrower may not, as a result of such foreclosure, sale or election of remedies, be liable for any deficiency;

(ix) any act or omission of the Administrative Agent, any Lender or any other Person that directly or indirectly results in or aids the discharge or release of the Borrower or any other guarantor of all or any part of the Guaranteed Obligations or any security or guarantee for all or any part of the Guaranteed Obligations by operation of law or otherwise;

(x) any law which provides that the obligation of a surety or guarantor must neither be larger in amount nor in other respects more burdensome than that of the principal or which reduces a surety's or guarantor's obligation in proportion to the principal obligation;

(xi) the possibility that the obligations of the Borrower to the Administrative Agent and the Lenders may at any time and from time to time exceed the aggregate liability of such Guarantor under this Guarantee;

(xii) any counterclaim, set-off or other claim which the Borrower or any other guarantor has or alleges to have with respect to all or any part of the Guaranteed Obligations;

(xiii) any failure of the Administrative Agent or any Lender to file or enforce a claim in any bankruptcy or other proceeding with respect to any Person.

(xiv) any agreement or stipulation with respect to the provision of adequate protection in any bankruptcy proceeding of any Person;

(xv) the avoidance of any Lien in favor of the Administrative Agent or any Lender for any reason;

(xvi) any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, liquidation or dissolution proceeding commenced by or against any Person, including any discharge of, or bar or stay against collecting, all or any part of the Guaranteed Obligations (or any interest on all or any part of the Guaranteed Obligations) in or as a result of any such proceeding;

(xvii) any action taken by the Administrative Agent or any Lender, whether similar or dissimilar to any of the foregoing, that is authorized by this Section 2.02 or otherwise in this Guarantee or by any other provision of any Loan Document or any omission to take any such action; or

(xviii) any other circumstance whatsoever, whether similar or dissimilar to any of the foregoing, that might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor.

(c) Each Guarantor waives all rights and defenses arising out of an election of remedies by the Administrative Agent and the Lenders, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a guaranteed obligation, has destroyed such Guarantor's rights of subrogation and reimbursement against the principal by the operation of law or otherwise.

(d) Each Guarantor expressly waives, for the benefit of the Administrative Agent and the Lenders, all set-offs and counterclaims and all presentments, demands for payment or performance, notices of nonpayment or nonperformance, protests, notices of protest, notices of dishonor and all other notices or demands of any kind or nature whatsoever with respect to the Guaranteed Obligations, and all notices of acceptance of this Guarantee or of the existence, creation, incurring or assumption of new or additional Guaranteed Obligations. Each Guarantor further expressly waives the benefit of any and all statutes of limitation and any and all laws providing for the exemption of property from execution or for valuation and appraisal upon foreclosure, to the maximum extent not prohibited by applicable law.

(e) Each Guarantor represents and warrants to the Administrative Agent and the Lenders that it has established adequate means of obtaining financial and other information pertaining to the business, operations and condition (financial and otherwise) of the Borrower and its properties on a continuing basis and that such Guarantor is now and will in the future remain fully familiar with the business, operations and condition (financial and otherwise) of the Borrower and its properties. Each Guarantor further represents and warrants that it has reviewed and approved each of the Loan Documents and is fully familiar with the transaction contemplated by the Loan Documents and that it will in the future remain fully familiar with such transaction and with any new Loan Documents and the transactions contemplated by such Loan Documents. Each Guarantor hereby expressly waives and relinquishes any duty on the part of the Administrative Agent or the Lenders (should any such duty exist) to disclose to such or any other guarantor any matter of fact or other information related to the business, operations or condition (financial or otherwise) of the Borrower or its properties or to any Loan Document or the transactions undertaken pursuant to, or contemplated by, any such Loan Document, whether now or in the future known by the Administrative Agent or any Lender.

(f) Each Guarantor intends that its rights and obligations shall be those expressly set forth in this Guarantee and that its obligations shall not be affected, limited, reduced, discharged or terminated by reason of any principles or provisions of law which conflict with the terms of this Guarantee.

(g) Nothing in this Guarantee amends, modifies or otherwise affects any agreement between Borrower, the Administrative Agent and the Lenders regarding the amendment of, modification of or supplement to any Loan Document.

2.03. Understanding With Respect to Waivers and Consents. Each Guarantor warrants and agrees that each of the waivers and consents set forth in this Guarantee is made voluntarily and unconditionally after consultation with outside legal counsel and with full knowledge of its significance and consequences, with the understanding that events giving rise to any defense or right waived may diminish, destroy or otherwise adversely affect rights which such or any other guarantor otherwise may have against the Borrower, the Administrative Agent, any Lender or any other Person or against any collateral. If, notwithstanding the intent of the parties that the terms of this Guarantee shall control in any and all circumstances, any such waivers or consents are determined to be unenforceable under applicable law, such waivers and consents shall be effective to the maximum extent not prohibited by law.

2.04. Subrogation. Each Guarantor hereby agrees that, until the payment and satisfaction in full of all of the Guaranteed Obligations and the expiration and termination of the commitments of the Lenders under the Loan Documents, it shall not exercise any right, remedy, power or privilege, such as any right of subrogation, contribution or indemnity or related remedy, power or privilege, arising (whether by contract or operation of law, including under the Bankruptcy and Insolvency Act) against the Borrower or any other guarantor of all or any part of the Guaranteed Obligations or any collateral for all or any part of the Guaranteed Obligations by reason of any payment or other performance pursuant to the provisions of this Guarantee and, if any amount shall be paid to such Guarantor on account of such rights, remedies, powers or privileges, it shall hold such amount in trust for the benefit of, and pay the same over to, the Administrative Agent (for the benefit of the Lenders) on account of the Guaranteed Obligations. Each Guarantor understands that the exercise by the Administrative Agent or any Lender of any right, remedy, power or privilege that it may have under the Loan Documents, any agreement, security document, guarantee or other instrument relative to all or any part of the Guaranteed Obligations or otherwise may affect or eliminate such or any other guarantor's right of subrogation or similar recovery against the Borrower, any other guarantors or any collateral and that such Guarantor may therefore incur partially or totally nonreimbursable liability under this Guarantee. Nevertheless, each Guarantor hereby authorizes and empowers the Administrative Agent and the Lenders to exercise, in its or their sole discretion, any combination of such rights, remedies, powers and privileges.

2.05. Reinstatement. The obligations of each Guarantor under this Guarantee shall be automatically reinstated if and to the extent that for any reason any payment by or on behalf of the Borrower, any other guarantor or any other Person or any other application of funds (including the proceeds of any collateral for all or any part of the Guaranteed Obligations) in respect of all or any part of the Guaranteed Obligations is rescinded or must be otherwise restored by any holder of such Guaranteed Obligations, whether as a result of any proceedings in bankruptcy, reorganization or otherwise and each Guarantor agrees that it will indemnify the Administrative Agent and each Lender on demand for all costs and expenses (including fees and expenses of counsel) incurred by the Administrative Agent or such Lender in connection with such rescission or restoration.

2.06. Remedies. Each Guarantor hereby agrees that, between it and the Lenders, the obligations of the Borrower under the Credit Agreement and the other Loan Documents may be declared to be forthwith (or may become automatically) due and payable as provided in the Credit Agreement for purposes of Section 2.01 notwithstanding any stay, injunction or other prohibition preventing such declaration (or such obligations becoming due and payable as against the Borrower) and that, in the event of such declaration (or such obligation being deemed due and payable), such obligations (whether or not due and payable by the Borrower) shall forthwith become due and payable for purposes of Section 2.01.

2.07. Separate Action. The Administrative Agent may bring and prosecute a separate action or actions against each Guarantor (or any one of them) whether or not the Borrower, any other guarantor or any other Person is joined in any such action or a separate action or actions are brought against the Borrower, any other guarantor, any other Person, or any collateral for all or any part of the Guaranteed Obligations. The obligations of each Guarantor under, and the effectiveness of, this Guarantee are not conditioned upon the existence or

continuation of any other guarantee (including any letter of credit) of all or any part of the Guaranteed Obligations. By its acceptance hereof, each Lender agrees that this Guarantee may be enforced only by action of the Administrative Agent upon the instructions of the Required Lenders and that no Lender shall have any right individually to seek to enforce this Guarantee.

2.08. Subordination of Indebtedness of the Borrower. Each Guarantor agrees that any indebtedness of the Borrower now or in the future owed to such Guarantor is hereby subordinated to the Guaranteed Obligations. If the Administrative Agent so requests after the occurrence and during the continuation of an Event of Default, any such indebtedness shall be collected, enforced and received by any Guarantor as trustee for the Administrative Agent and shall be paid over to the Administrative Agent (for the benefit of the Lenders) in kind on account of the Guaranteed Obligations. If, after the Administrative Agent's request, any Guarantor fails to collect or enforce any such indebtedness or to pay the proceeds of such indebtedness to the Administrative Agent, the Administrative Agent as such Guarantor's attorney-in-fact may do such acts and sign such documents in such Guarantor's name and on such Guarantor's behalf as the Administrative Agent considers necessary or desirable to effect such collection, enforcement or payment, the Administrative Agent being hereby appointed each Guarantor's attorney-in-fact for such purpose.

2.09. Limitation on Guarantee. If under any applicable law (including without limitation applicable fraudulent transfer or similar laws) the obligations of any Guarantor under Section 2.01 would otherwise be held or determined to be void, invalid or unenforceable or if the claims of the Lenders in respect of such obligations would be subordinated to the claims of any other creditors on account of such Guarantor's liability under Section 2.01, then, notwithstanding any other provision of this Guarantee to the contrary, the amount of such liability shall, without any further action by the Guarantors, any Lender, the Administrative Agent or any other Person, be automatically limited and reduced to the highest amount which is valid and enforceable and not subordinated to the claims of other creditors as determined in such action or proceeding. Each Guarantor agrees and acknowledges that it has obtained and will continue to obtain working capital and loans needed for its operations from Borrower, and Borrower will obtain funds to provide and lend to the Guarantors from the Lenders under the Credit Agreement and each Guarantor agrees and acknowledges that it is receiving reasonably equivalent value in the form of (i) the substantial advances being made to such Guarantor through Borrower under the Credit Agreement for its ongoing operations and (ii) the direct and indirect benefits as the result of the availability of the aforementioned credit facilities to Borrower, as the result of financial or business support which will be provided to the Guarantors by Borrower.

2.10. Revocation. To the fullest extent not prohibited by law, each Guarantor hereby waives all right of revocation with respect to the Guaranteed Obligations.

2.11. Right to Offset Balances. Each Guarantor agrees that, in addition to (and without any limitation of) any right of set-off, banker's lien or counterclaim any Lender may otherwise have, each Lender shall be entitled, at its option but only with the prior written consent of the Administrative Agent, to offset balances held by it for the account of such Guarantor at any of its offices, in Dollars or in any other currency, against any Obligations of the Borrower to such Lender after the occurrence and during the continuance of an Event of Default (regardless of whether such balances are then due to such Guarantor). Any Lender so entitled shall promptly

notify the applicable Guarantor and the Administrative Agent of any offset effected by it; provided that such Lender's failure to give such notice shall not affect the validity of such offset or the obligations of any Guarantor hereunder or under any other Loan Document.

SECTION 3. REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE GUARANTORS.

(a) In order to induce the Administrative Agent and the Lenders to enter into the Credit Agreement and the other Loan Documents, to make Advances and to issue and participate in Letters of Credit thereunder, each Guarantor represents and warrants to the Administrative Agent and each of the Lenders, as of the date hereof and as of the date of any advance, loan or other transfer of Property from Borrower directly or indirectly to such Guarantor, that all representations and warranties in Article 4 of the Credit Agreement which are applicable to such Guarantor are true and correct in all material respects as if such Guarantor were a party to the Credit Agreement.

(b) So long as any Advance or Letter of Credit remains unpaid, or any other non-contingent Obligation remains unpaid or unperformed, or any portion of any of the Commitments remains in force, each Guarantor shall, and shall cause each of each other Guarantor to, unless the Requisite Lenders otherwise consent, comply with all covenants, agreements and requirements of Article 5 of the Credit Agreement that are applicable to such Guarantor as if such Guarantor were a party to the Credit Agreement and each Guarantor expressly agrees to be bound thereby.

(c) So long as any Advance or Letter of Credit remains unpaid, or any other non-contingent Obligation remains unpaid or unperformed, or any portion of any of the Commitments remains in force, each Guarantor shall not, and shall not permit any other Guarantor to, unless the Requisite Lenders or, if required by Section 11.2 of the Credit Agreement, all of the Lenders, otherwise consent, fail to comply with all covenants, agreements, restrictions and requirements of Article 6 of the Credit Agreement that are applicable to such Guarantor as if such Guarantor were a party to the Credit Agreement and each Guarantor expressly agrees to be bound thereby.

(d) All other provisions contained in the Credit Agreement and all provisions contained in any other Loan Document that apply to Loan Documents generally are fully applicable to this Guarantee and are incorporated herein by this reference, including, without limitation, Article 10 and 11 of the Credit Agreement and all other the representations, warranties, covenants, arbitration provisions and negative covenants that apply to Borrower, Parent and their Subsidiaries as set forth in the Credit Agreement and each Guarantor expressly agrees to be bound thereby as if such Guarantor were a party to each Loan Document.

SECTION 4. MISCELLANEOUS PROVISIONS.

4.01. Waiver. No failure or delay by the Administrative Agent or any Lender in exercising any remedy, right, power or privilege under this Guarantee or any other Loan Document shall operate as a waiver of such remedy, right, power or privilege, nor shall any single or partial exercise of such remedy, right, power or privilege preclude any other or further exercise of such remedy, right, power or privilege or the exercise of any other remedy, right, power or privilege. The remedies, rights, powers and privileges provided by this Guarantee are, to the extent not prohibited by law, cumulative and not exclusive of any remedies, rights, powers or privileges provided by the other Loan Documents or by law.

4.02. Notices. All notices, requests, demands, consents, instructions and other communications to or upon the Guarantors or any one of them (care of the Borrower) or the Administrative Agent under this Guarantee shall be given as provided in Section 11.6 of the Credit Agreement.

4.03. Expenses, Etc. Each Guarantor agrees to pay or to reimburse the Administrative Agent and the Lenders for all costs and expenses (including fees and expenses of counsel) that may be incurred by the Administrative Agent or the Lenders in any effort to enforce any of the obligations of the Guarantors under this Guarantee, whether or not any lawsuit is filed, including all such costs and expenses (and attorneys' fees and expenses on a solicitor and own client basis) incurred by the Administrative Agent and the Lenders in any bankruptcy, reorganization, workout or similar proceeding. All amounts due under this Guarantee (including under Section 2.01) and not paid when due shall bear interest until paid at a *per annum* rate equal to the Alternate Base Rate plus the Applicable Alternate Base Rate Margin for Alternate Base Rate Advances plus two percent (2.00%).

4.04. Amendments, Etc. No amendment, modification, supplement, extension, termination or waiver of any provision of this Guarantee, no approval or consent thereunder, and no consent to any departure by any Guarantor therefrom, may in any event be effective unless in writing signed by the Administrative Agent with the written approval or upon the instructions of the Requisite Lenders, and then only in the specific instance and for the specific purpose given and any such amendment, modification, supplement, extension, termination or waiver shall be binding upon the Administrative Agent, each holder of Guaranteed Obligations and the Guarantors; and, without the approval in writing of all the Lenders, no amendment, modification, supplement, termination, waiver or consent may be effective as to the matters set forth in the Credit Agreement, including, without limitation, except as expressly provided in the Credit Agreement, the release of any Guarantor and no amendment, modification, or supplement of any provision of this Guarantee may in any event be effective unless in writing signed by each Guarantor who is a party to the Guarantee at the time any such amendment, modification, or supplement is made. Nothing herein shall in any way modify or limit the effect of terms or conditions set forth in any other document, instrument or agreement executed by any Guarantor or applicable to any Guarantor or in connection with the Guaranteed Obligations, but each and every term and condition hereof shall be in addition thereto.

4.05. Successors and Assigns. This Guarantee shall be binding upon and inure to the benefit of the Guarantors, the Administrative Agent and their respective successors and

assigns. No Guarantor may assign or transfer its rights or obligations under this Guarantee without the prior written consent of the Required Lenders. Any attempted assignment or transfer in violation of this Section 4.05 shall be null and void.

4.06. Survival. All representations and warranties made in this Guarantee or in any certificate or other document delivered pursuant to or in connection with this Guarantee shall survive the execution and delivery of this Guarantee or such certificate or other document (as the case may be) or any deemed repetition of any such representation or warranty.

4.07. ENTIRE AGREEMENT. THIS GUARANTEE REPRESENTS THE COMPLETE AND FINAL AGREEMENT AMONG THE GUARANTORS AND THE ADMINISTRATIVE AGENT AND SUPERSEDES ALL PRIOR AGREEMENTS, WRITTEN OR ORAL, ON THE SUBJECT MATTER HEREOF AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF SUCH PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN OR AMONG THE GUARANTORS, THE ADMINISTRATIVE AGENT AND THE LENDERS.

4.08. Partial Invalidity. If at any time any provision of this Guarantee is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions of this Guarantee nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

4.09. Captions. The table of contents, captions and section headings appearing in this Guarantee are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Guarantee.

4.10. Counterparts. This Guarantee may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties to this Guarantee may execute this Guarantee by signing any such counterpart. Transmission by telecopier of an executed counterpart of this Guarantee shall be deemed to constitute due and sufficient delivery of such counterpart.

4.11. GOVERNING LAW; SUBMISSION TO JURISDICTION. THIS GUARANTEE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS APPLICABLE IN BRITISH COLUMBIA, CANADA.

EACH GUARANTOR HEREBY SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF THE COURTS OF BRITISH COLUMBIA, CANADA FOR THE PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS GUARANTEE OR THE TRANSACTIONS CONTEMPLATED BY THIS GUARANTEE. EACH GUARANTOR IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

4.12. WAIVER OF JURY TRIAL. EACH GUARANTOR HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS GUARANTEE OR THE TRANSACTIONS CONTEMPLATED BY THIS GUARANTEE.

4.13. Power of Attorney. Each Guarantor hereunder hereby grants to the Borrower an irrevocable power of attorney to act as its attorney-in-fact with regard to matters relating to this Guarantee and each other Loan Document after the occurrence and during the continuance of an Event of Default, including execution and delivery of any amendments, supplements, waivers or other modifications hereto or thereto, receipt of any notices hereunder or thereunder and receipt of service of process in connection herewith or therewith. Each Guarantor hereby explicitly acknowledges that the Administrative Agent has executed and delivered this Guarantee and each other Loan Document to which it is a party, and has performed its obligations under this Guarantee and each other Loan Document to which it is a party, in reliance upon the irrevocable grant of such power of attorney pursuant to this Section 4.13.

4.14. Additional Guarantors. If, pursuant to the terms and conditions of the Credit Agreement, the Borrower shall be required to cause any Subsidiary of Borrower or Parent that is not a Guarantor to become a Guarantor hereunder, such Subsidiary shall execute and deliver to the Administrative Agent a Joinder Agreement in the form of Annex 1 and shall thereafter for all purposes be a party hereto and have the same rights, benefits and obligations as a Guarantor party hereto.

IN WITNESS WHEREOF, the undersigned have executed this Guarantee as of the date first above written.

GUARANTOR(S):

WEST MARINE CANADA CORP.,
a Nova Scotia unlimited liability company

By: /s/ John Edmondson

Name: John Edmondson
Title: Chief Executive Officer
[Printed Name & Title]

ANNEX 1

JOINDER AGREEMENT

This **JOINDER AGREEMENT**, dated as of _____, _____, is delivered pursuant to Section 4.14 of the Guarantee Agreement (Canada) dated as of October 14, 2004 (the "**Guarantee Agreement**"), among one or more direct and indirect Subsidiaries of West Marine, Inc. and West Marine Products, Inc. ("**Borrower**") from time to time party thereto as Guarantors in favor of Wells Fargo Bank, National Association, as administrative agent for the Lenders referred to therein (the "**Guarantee Agreement**"). Capitalized terms used herein but not defined herein are used herein with the meaning given them in the Guarantee Agreement.

By executing and delivering this Joinder Agreement, the undersigned, as provided in Section 4.14 of the Guarantee Agreement, hereby becomes a party to the Guarantee Agreement as a Guarantor thereunder with the same force and effect as if originally named as a Guarantor therein.

The undersigned at all times will obtain working capital and loans needed for its operations from Borrower, and Borrower will obtain funds to provide and lend to the Guarantors from the Lenders under the Credit Agreement. In addition, the undersigned expect to realize direct and indirect benefits as the result of the availability of the aforementioned credit facilities to Borrower, as the result of financial or business support which will be provided to the undersigned by Borrower.

The undersigned hereby represents and warrants that each of the representations and warranties contained in or incorporated into the Guarantee Agreement applicable to it is true and correct in all material respects on and as the date hereof as if made on and as of such date.

IN WITNESS WHEREOF, the undersigned has caused this Joinder Agreement to be duly executed and delivered as of the date first above written.

[ADDITIONAL GUARANTOR]

By: _____ c/s

Name:

Title:

ACKNOWLEDGED AND AGREED

as of the date of this Joinder Agreement
first above written.

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent

By: _____

Name:

Title:

GUARANTY AGREEMENT

Dated as of October 14, 2004

by

EACH GUARANTOR PARTY HERETO

in favor of

WELLS FARGO BANK, NATIONAL ASSOCIATION,

as the Administrative Agent

GUARANTY AGREEMENT

This GUARANTY AGREEMENT (this "Guaranty"), dated as of October 14, 2004, is made by each of the Persons listed on the signature pages hereto and each of the other entities which becomes a party hereto pursuant to Section 4.14 hereof (each a "Guarantor" and jointly and severally, the "Guarantors") in favor of WELLS FARGO BANK, NATIONAL ASSOCIATION, as administrative agent for the Lenders referred to below (in such capacity, together with its successors in such capacity, the "Administrative Agent").

Each of the Guarantors is in the same corporate family as WEST MARINE PRODUCTS, INC., a California corporation (the "Borrower"). Each Guarantor and Borrower are Subsidiaries of West Marine, Inc.

The Borrower has entered into that certain Credit Agreement, dated as of October 14, 2004 (as the same from time to time hereafter may be amended, modified, supplemented or restated, the "Credit Agreement"), by and among the Borrower, the financial institutions party thereto from time to time (collectively, the "Lenders") and the Administrative Agent, pursuant to which the Lenders have agreed to extend loans and other financial accommodations to the Borrower for the purposes, and on the terms and subject to the conditions, set forth in the Credit Agreement.

The Lenders are willing to make and maintain loans and other financial accommodations to the Borrower on and after the date of the Credit Agreement, but only upon the condition, among others, that the Guarantors shall have executed and delivered this Guaranty to the Administrative Agent.

Each Guarantor has obtained and will continue to obtain working capital and loans needed for its operations from Borrower, and Borrower will obtain funds to provide and lend to the Guarantors from the Lenders under the Credit Agreement. In addition, Guarantors expect to realize direct and indirect benefits as the result of the availability of the aforementioned credit facilities to Borrower, as the result of financial or business support which will be provided to the Guarantors by Borrower.

To induce the Administrative Agent and the Lenders to enter into, and to extend credit under, the Credit Agreement and the other Loan Documents, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each Guarantor has agreed to guarantee the Guaranteed Obligations upon the terms and conditions of this Guaranty. Accordingly, each Guarantor agrees with the Administrative Agent as follows:

SECTION 1. DEFINITIONS.

1.01. Definitions. Unless otherwise defined herein, all capitalized terms used in this Guaranty that are defined in the Credit Agreement (including those terms incorporated by reference) shall have the respective meanings assigned to them in the Credit Agreement. In addition, the following terms shall have the following meanings under this Guaranty:

"Bankruptcy Code" shall mean Title 11 of the United States Code.

“Guaranteed Obligations” shall mean (a) any and all Obligations of the Borrower and any and all other obligations of the Borrower for the performance of its agreements, covenants and undertakings under or in respect of the Loan Documents, it being acknowledged by each Guarantor that some extensions of credit under the Credit Agreement are available on a revolving basis, and (b) any and all other obligations of the Borrower for the payment of all amounts, liabilities and indebtedness (whether for principal, interest, reimbursement, fees, charges, indemnification or otherwise) now or in the future owed to the Administrative Agent, the Lenders or any such Person individually, and for the performance by the Borrower of its agreements, covenants and undertakings, in each case under or in respect of any and all of the Loan Documents and the Lender Interest Rate Protection Agreements, it being acknowledged by each Guarantor that such other obligations may arise or be created, incurred or assumed at any time and from time to time and in such manner and such circumstances and with such terms and provisions as the Borrower, the Administrative Agent and the Lenders or any such Person individually may agree without notice or demand of any kind or nature whatsoever to the Guarantors.

1.02. Interpretation. In this Guaranty, unless otherwise indicated, the singular includes the plural and plural the singular; words importing any gender include the other gender; references to statutes or regulations are to be construed as including all statutory or regulatory provisions consolidating, amending or replacing the statute or regulation referred to; references to “writing” include printing, typing, lithography and other means of reproducing words in a tangible visible form; the words “including,” “includes” and “include” shall be deemed to be followed by the words “without limitation”; references to articles, sections (or subdivisions of sections), exhibits, annexes or schedules are to this Guaranty; references to agreements and other contractual instruments shall be deemed to include all subsequent amendments, extensions and other modifications to such instruments (without, however, limiting any prohibition on any such amendments, extensions or modifications by the terms of the Credit Agreement); and references to Persons include their respective successors and permitted assigns and, in the case of Governmental Authorities, Persons succeeding to their respective functions and capacities.

SECTION 2. THE GUARANTEE.

2.01. Guarantee. Subject to the limitation set forth in Section 2.09, each Guarantor hereby guarantees to the Administrative Agent and each Lender the timely payment in full when due (whether at stated maturity, by acceleration or otherwise) and performance of the Guaranteed Obligations in each case strictly in accordance with their terms. Each Guarantor hereby further agrees that if the Borrower shall fail to pay in full when due (whether at stated maturity, by acceleration or otherwise) all or any part of the Guaranteed Obligations, such Guarantor will immediately pay the same, without any demand or notice whatsoever, and that in the case of any extension of time of payment or renewal of all or any part of the Guaranteed Obligations, the same will be timely paid in full when due (whether at extended maturity, by acceleration or otherwise) in accordance with the terms of such extension or renewal. This Guaranty is absolute, irrevocable and unconditional in nature and is made with respect to any and all Guaranteed Obligations now existing or in the future arising. Each Guarantor’s liability under this Guaranty shall continue until full satisfaction of all Guaranteed Obligations. This Guaranty is a guarantee of due and punctual payment and performance and not of collectibility.

2.02. Acknowledgments, Waivers and Consents. Each Guarantor acknowledges that the obligations undertaken by it under this Guaranty involve the guarantee of obligations of Persons other than such Guarantor and that such obligations of each Guarantor are absolute, irrevocable and unconditional under any and all circumstances. In full recognition and in furtherance of the foregoing, each Guarantor agrees that:

(a) Without affecting the enforceability or effectiveness of this Guaranty in accordance with its terms and without affecting, limiting, reducing, discharging or terminating the liability of such Guarantor, or the rights, remedies, powers and privileges of the Administrative Agent and the Lenders under this Guaranty, the Administrative Agent and the Lenders may, at any time and from time to time and without notice or demand of any kind or nature whatsoever:

(i) amend, supplement, modify, extend, renew, waive, accelerate or otherwise change the time for payment or performance of, or the terms of, all or any part of the Guaranteed Obligations (including any increase or decrease in the principal portion of, or rate or rates of interest on, all or any part of the Guaranteed Obligations);

(ii) amend, supplement, modify, extend, renew, waive or otherwise change, or enter into or give, any Loan Document or any agreement, security document, guarantee, approval, consent or other instrument with respect to all or any part of the Guaranteed Obligations, any Loan Document or any such other instrument or any term or provision of the foregoing;

(iii) accept or enter into new or additional agreements, security documents, guarantees (including letters of credit) or other instruments in addition to, in exchange for or relative to any Loan Document, all or any part of the Guaranteed Obligations or any collateral now or in the future serving as security for the Guaranteed Obligations;

(iv) accept or receive (including from any other guarantor) partial payments or performance on the Guaranteed Obligations (whether as a result of the exercise of any right, remedy, power or privilege or otherwise);

(v) accept, receive and hold any additional collateral for all or any part of the Guaranteed Obligations (including from any other guarantor);

(vi) release, reconvey, terminate, waive, abandon, allow to lapse or expire, fail to perfect, subordinate, exchange, substitute, transfer, foreclose upon or enforce any collateral, security documents or guarantees (including letters of credit or the obligations of any other guarantor) for or relative to all or any part of the Guaranteed Obligations;

(vii) apply any collateral or the proceeds of any collateral or guarantee (including any letter of credit or the obligations of any other guarantor) to all or any part of the Guaranteed Obligations in such manner and extent as the Administrative Agent or any Lender may in its discretion determine;

(viii) release any Person (including any other guarantor) from any personal liability with respect to all or any part of the Guaranteed Obligations;

(ix) settle, compromise, release, liquidate or enforce upon such terms and in such manner as the Administrative Agent or the Lenders may determine or as applicable law may dictate all or any part of the Guaranteed Obligations or any collateral on or guarantee of (including any letter of credit issued with respect to) all or any part of the Guaranteed Obligations (including with any other guarantor);

(x) consent to the merger or consolidation of, the sale of substantial assets by, or other restructuring or termination of the existence of the Borrower or any other Person (including any other guarantor);

(xi) proceed against the Borrower, such Guarantor or any other guarantor of (including any issuer of any letter of credit issued with respect to) all or any part of the Guaranteed Obligations or any collateral provided by any Person and exercise the rights, remedies, powers and privileges of the Administrative Agent and the Lenders under the Loan Documents or otherwise in such order and such manner as the Administrative Agent or any Lender may, in its discretion, determine, without any necessity to proceed upon or against or exhaust any collateral, right, remedy, power or privilege before proceeding to call upon or otherwise enforce this Guaranty as to such Guarantor;

(xii) foreclose upon any deed of trust, mortgage or other instrument creating or granting liens on any interest in real property by judicial or nonjudicial sale or by deed in lieu of foreclosure, bid any amount or make no bid in any foreclosure sale or make any other election of remedies with respect to such liens or exercise any right of set-off;

(xiii) obtain the appointment of a receiver with respect to any collateral for all or any part of the Guaranteed Obligations and apply the proceeds of such receivership as the Administrative Agent or any Lender may in its discretion determine (it being agreed that nothing in this clause (xiii) shall be deemed to make the Administrative Agent or any Lender a party in possession in contemplation of law, except at its option);

(xiv) enter into such other transactions or business dealings with the Borrower, any Subsidiary or Affiliate of the Borrower or any other guarantor of all or any part of the Guaranteed Obligations as the Administrative Agent or any Lender may desire; and

(xv) do all or any combination of the actions set forth in this Section 2.02(a).

(b) The enforceability and effectiveness of this Guaranty and the liability of such Guarantor, and the rights, remedies, powers and privileges of the Administrative Agent and the Lenders, under this Guaranty shall not be affected, limited, reduced, discharged or terminated, and each Guarantor hereby expressly waives to the fullest extent not prohibited by applicable law any defense now or in the future arising (other than a defense that the Guaranteed Obligations have been paid in full in cash), by reason of:

(i) the illegality, invalidity or unenforceability of all or any part of the Guaranteed Obligations, any Loan Document or any agreement, security document, guarantee or other instrument relative to all or any part of the Guaranteed Obligations;

(ii) any disability or other defense with respect to all or any part of the Guaranteed Obligations of the Borrower, or any other guarantor of all or any part of the Guaranteed Obligations (including any issuer of any letters of credit), including the effect of any statute of limitations that may bar the enforcement of all or any part of the Guaranteed Obligations or the obligations of any such other guarantor;

(iii) the illegality, invalidity or unenforceability of any security or guarantee (including any letter of credit) for all or any part of the Guaranteed Obligations or the lack of perfection or continuing perfection or failure of the priority of any lien on any collateral for all or any part of the Guaranteed Obligations;

(iv) the cessation, for any cause whatsoever, of the liability of the Borrower or any other guarantor of all or any part of the Guaranteed Obligations (other than, subject to Section 2.05, by reason of the full payment and performance of all Guaranteed Obligations);

(v) any failure of the Administrative Agent or any Lender to marshal assets in favor of the Borrower or any other Person (including any other guarantor), to exhaust any collateral for all or any part of the Guaranteed Obligations, to pursue or exhaust any right, remedy, power or privilege it may have against the Borrower, any other guarantor of all or any part of the Guaranteed Obligations (including any issuer of any Letter of Credit) or any other Person or to take any action whatsoever to mitigate or reduce such or any other liability of such Guarantor under this Guaranty, neither the Administrative Agent nor any Lender being under any obligation to take any such action notwithstanding the fact that all or any part of the Guaranteed Obligations may be due and payable and that the Borrower may be in default of its obligations under any Loan Document;

(vi) any failure of the Administrative Agent or any Lender to give notice of sale or other disposition of any collateral (including any notice of any judicial or nonjudicial foreclosure or sale of any interest in real property serving as collateral for all or any part of the Guaranteed Obligations) for all or any part of the Guaranteed Obligations to the Borrower, such Guarantor or any other Person or any defect in, or any failure by such Guarantor or any other Person to receive, any notice that may be given in connection with any sale or disposition of any collateral;

(vii) any failure of the Administrative Agent or any Lender to comply with applicable laws in connection with the sale or other disposition of any collateral for all or any part of the Guaranteed Obligations;

(viii) any judicial or nonjudicial foreclosure or sale of, or other election of remedies with respect to, any interest in real property or other collateral serving as security for all or any part of the Guaranteed Obligations, even though such foreclosure, sale or election of remedies may impair the subrogation rights of such Guarantor or may preclude such Guarantor from obtaining reimbursement, contribution, indemnification or other recovery from the Borrower, any other guarantor or any other Person and even though the Borrower may not, as a result of such foreclosure, sale or election of remedies, be liable for any deficiency;

(ix) any act or omission of the Administrative Agent, any Lender or any other Person that directly or indirectly results in or aids the discharge or release of the Borrower or any other guarantor of all or any part of the Guaranteed Obligations or any security or guarantee for all or any part of the Guaranteed Obligations by operation of law or otherwise;

(x) any law which provides that the obligation of a surety or guarantor must neither be larger in amount nor in other respects more burdensome than that of the principal or which reduces a surety's or guarantor's obligation in proportion to the principal obligation;

(xi) the possibility that the obligations of the Borrower to the Administrative Agent and the Lenders may at any time and from time to time exceed the aggregate liability of such Guarantor under this Guaranty;

(xii) any counterclaim, set-off or other claim which the Borrower or any other guarantor has or alleges to have with respect to all or any part of the Guaranteed Obligations;

(xiii) any failure of the Administrative Agent or any Lender to file or enforce a claim in any bankruptcy or other proceeding with respect to any Person.

(xiv) the election by the Administrative Agent or any Lender in any bankruptcy proceeding of any Person, of the application or nonapplication of Section 1111(b)(2) of the Bankruptcy Code;

(xv) any extension of credit or the grant of any Lien under Section 364 of the Bankruptcy Code;

(xvi) any use of cash collateral under Section 363 of the Bankruptcy Code;

(xvii) any agreement or stipulation with respect to the provision of adequate protection in any bankruptcy proceeding of any Person;

(xviii) the avoidance of any Lien in favor of the Administrative Agent or any Lender for any reason;

(xix) any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, liquidation or dissolution proceeding commenced by or against any Person, including any discharge of, or bar or stay against collecting, all or any part of the Guaranteed Obligations (or any interest on all or any part of the Guaranteed Obligations) in or as a result of any such proceeding;

(xx) any action taken by the Administrative Agent or any Lender, whether similar or dissimilar to any of the foregoing, that is authorized by this Section 2.02 or otherwise in this Guaranty or by any other provision of any Loan Document or any omission to take any such action; or

(xxi) any other circumstance whatsoever, whether similar or dissimilar to any of the foregoing, that might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor, including by reason of Sections 2787 to 2855, inclusive, 2899, 3275 and 3433 of the California Civil Code, and any future judicial decisions or legislation or of any comparable provisions of the laws of any other jurisdiction.

(c) Each Guarantor has been made aware of the provisions of California Civil Code Section 2856, has read and understands the provisions of that statute, has been advised by its counsel as to the scope, purpose and effect of that statute, and based thereon, and without limiting the foregoing waivers, each Guarantor agrees to waive all suretyship rights and defenses described in California Civil Code Section 2856(a). Without limiting any other waivers herein, each Guarantor hereby gives the following waivers pursuant to Sections 2856(c) and 2856(d) of the California Civil Code:

“The guarantor waives all rights and defenses that the guarantor may have because the debtor’s debt is secured by real property. This means, among other things:

(1) The creditor may collect from the guarantor without first foreclosing on any real or personal property collateral pledged by the debtor;

(2) If the creditor forecloses on any real property collateral pledged by the debtor:

(A) The amount of the debt may be reduced only by the price for which that collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price.

(B) The creditor may collect from the guarantor even if the creditor, by foreclosing on the real property collateral, has destroyed any right the guarantor may have to collect from the debtor.

This is an unconditional and irrevocable waiver of any rights and defenses the guarantor may have because the debtor’s debt is secured by real property. These rights and defenses include, but are not limited to, any rights or defenses based upon Section 580a, 580b, 580d, or 726 of the Code of Civil Procedure.”

(d) Each Guarantor waives all rights and defenses arising out of an election of remedies by the Administrative Agent and the Lenders, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a guaranteed obligation, has destroyed such Guarantor’s rights of subrogation and reimbursement against the principal by the operation of Section 580d of the Code of Civil Procedure or otherwise.

(e) Each Guarantor expressly waives, for the benefit of the Administrative Agent and the Lenders, all set-offs and counterclaims and all presentments, demands for payment or performance, notices of nonpayment or nonperformance, protests, notices of protest,

notices of dishonor and all other notices or demands of any kind or nature whatsoever with respect to the Guaranteed Obligations, and all notices of acceptance of this Guaranty or of the existence, creation, incurring or assumption of new or additional Guaranteed Obligations. Each Guarantor further expressly waives the benefit of any and all statutes of limitation and any and all laws providing for the exemption of property from execution or for valuation and appraisal upon foreclosure, to the maximum extent not prohibited by applicable law.

(f) Each Guarantor represents and warrants to the Administrative Agent and the Lenders that it has established adequate means of obtaining financial and other information pertaining to the business, operations and condition (financial and otherwise) of the Borrower and its properties on a continuing basis and that such Guarantor is now and will in the future remain fully familiar with the business, operations and condition (financial and otherwise) of the Borrower and its properties. Each Guarantor further represents and warrants that it has reviewed and approved each of the Loan Documents and is fully familiar with the transaction contemplated by the Loan Documents and that it will in the future remain fully familiar with such transaction and with any new Loan Documents and the transactions contemplated by such Loan Documents. Each Guarantor hereby expressly waives and relinquishes any duty on the part of the Administrative Agent or the Lenders (should any such duty exist) to disclose to such or any other guarantor any matter of fact or other information related to the business, operations or condition (financial or otherwise) of the Borrower or its properties or to any Loan Document or the transactions undertaken pursuant to, or contemplated by, any such Loan Document, whether now or in the future known by the Administrative Agent or any Lender.

(g) Each Guarantor intends that its rights and obligations shall be those expressly set forth in this Guaranty and that its obligations shall not be affected, limited, reduced, discharged or terminated by reason of any principles or provisions of law which conflict with the terms of this Guaranty.

(h) Nothing in this Guaranty amends, modifies or otherwise affects any agreement between Borrower, the Administrative Agent and the Lenders regarding the amendment of, modification of or supplement to any Loan Document.

2.03. Understanding With Respect to Waivers and Consents. Each Guarantor warrants and agrees that each of the waivers and consents set forth in this Guaranty is made voluntarily and unconditionally after consultation with outside legal counsel and with full knowledge of its significance and consequences, with the understanding that events giving rise to any defense or right waived may diminish, destroy or otherwise adversely affect rights which such or any other guarantor otherwise may have against the Borrower, the Administrative Agent, any Lender or any other Person or against any collateral. If, notwithstanding the intent of the parties that the terms of this Guaranty shall control in any and all circumstances, any such waivers or consents are determined to be unenforceable under applicable law, such waivers and consents shall be effective to the maximum extent not prohibited by law.

2.04. Subrogation. Each Guarantor hereby agrees that, until the payment and satisfaction in full of all of the Guaranteed Obligations and the expiration and termination of the commitments of the Lenders under the Loan Documents, it shall not exercise any right, remedy, power or privilege, such as any right of subrogation, contribution or indemnity or related

remedy, power or privilege, arising (whether by contract or operation of law, including under the Bankruptcy Code) against the Borrower or any other guarantor of all or any part of the Guaranteed Obligations or any collateral for all or any part of the Guaranteed Obligations by reason of any payment or other performance pursuant to the provisions of this Guaranty and, if any amount shall be paid to such Guarantor on account of such rights, remedies, powers or privileges, it shall hold such amount in trust for the benefit of, and pay the same over to, the Administrative Agent (for the benefit of the Lenders) on account of the Guaranteed Obligations. Each Guarantor understands that the exercise by the Administrative Agent or any Lender of any right, remedy, power or privilege that it may have under the Loan Documents, any agreement, security document, guarantee or other instrument relative to all or any part of the Guaranteed Obligations or otherwise may affect or eliminate such or any other guarantor's right of subrogation or similar recovery against the Borrower, any other guarantors or any collateral and that such Guarantor may therefore incur partially or totally nonreimbursable liability under this Guaranty. Nevertheless, each Guarantor hereby authorizes and empowers the Administrative Agent and the Lenders to exercise, in its or their sole discretion, any combination of such rights, remedies, powers and privileges.

2.05. Reinstatement. The obligations of each Guarantor under this Guaranty shall be automatically reinstated if and to the extent that for any reason any payment by or on behalf of the Borrower, any other guarantor or any other Person or any other application of funds (including the proceeds of any collateral for all or any part of the Guaranteed Obligations) in respect of all or any part of the Guaranteed Obligations is rescinded or must be otherwise restored by any holder of such Guaranteed Obligations, whether as a result of any proceedings in bankruptcy, reorganization or otherwise and each Guarantor agrees that it will indemnify the Administrative Agent and each Lender on demand for all costs and expenses (including fees and expenses of counsel) incurred by the Administrative Agent or such Lender in connection with such rescission or restoration.

2.06. Remedies. Each Guarantor hereby agrees that, between it and the Lenders, the obligations of the Borrower under the Credit Agreement and the other Loan Documents may be declared to be forthwith (or may become automatically) due and payable as provided in the Credit Agreement for purposes of Section 2.01 notwithstanding any stay, injunction or other prohibition preventing such declaration (or such obligations becoming due and payable as against the Borrower) and that, in the event of such declaration (or such obligation being deemed due and payable), such obligations (whether or not due and payable by the Borrower) shall forthwith become due and payable for purposes of Section 2.01.

2.07. Separate Action. The Administrative Agent may bring and prosecute a separate action or actions against each Guarantor (or any one of them) whether or not the Borrower, any other guarantor or any other Person is joined in any such action or a separate action or actions are brought against the Borrower, any other guarantor, any other Person, or any collateral for all or any part of the Guaranteed Obligations. The obligations of each Guarantor under, and the effectiveness of, this Guaranty are not conditioned upon the existence or continuation of any other guarantee (including any letter of credit) of all or any part of the Guaranteed Obligations. By its acceptance hereof, each Lender agrees that this Guaranty may be enforced only by action of the Administrative Agent upon the instructions of the Required Lenders and that no Lender shall have any right individually to seek to enforce this Guaranty.

2.08. Subordination of Indebtedness of the Borrower. Each Guarantor agrees that any indebtedness of the Borrower now or in the future owed to such Guarantor is hereby subordinated to the Guaranteed Obligations. If the Administrative Agent so requests after the occurrence and during the continuation of an Event of Default, any such indebtedness shall be collected, enforced and received by any Guarantor as trustee for the Administrative Agent and shall be paid over to the Administrative Agent (for the benefit of the Lenders) in kind on account of the Guaranteed Obligations. If, after the Administrative Agent's request, any Guarantor fails to collect or enforce any such indebtedness or to pay the proceeds of such indebtedness to the Administrative Agent, the Administrative Agent as such Guarantor's attorney-in-fact may do such acts and sign such documents in such Guarantor's name and on such Guarantor's behalf as the Administrative Agent considers necessary or desirable to effect such collection, enforcement or payment, the Administrative Agent being hereby appointed each Guarantor's attorney-in-fact for such purpose.

2.09. Limitation on Guarantee. If under any applicable law (including without limitation state and Federal fraudulent transfer laws) the obligations of any Guarantor under Section 2.01 would otherwise be held or determined to be void, invalid or unenforceable or if the claims of the Lenders in respect of such obligations would be subordinated to the claims of any other creditors on account of such Guarantor's liability under Section 2.01, then, notwithstanding any other provision of this Guaranty to the contrary, the amount of such liability shall, without any further action by the Guarantors, any Lender, the Administrative Agent or any other Person, be automatically limited and reduced to the highest amount which is valid and enforceable and not subordinated to the claims of other creditors as determined in such action or proceeding. Each Guarantor agrees and acknowledges that it has obtained and will continue to obtain working capital and loans needed for its operations from Borrower, and Borrower will obtain funds to provide and lend to the Guarantors from the Lenders under the Credit Agreement and each Guarantor agrees and acknowledges that it is receiving reasonably equivalent value in the form of (i) the substantial advances being made to such Guarantor through Borrower under the Credit Agreement for its ongoing operations and (ii) the direct and indirect benefits as the result of the availability of the aforementioned credit facilities to Borrower, as the result of financial or business support which will be provided to the Guarantors by Borrower.

2.10. Revocation. To the fullest extent not prohibited by law, each Guarantor hereby waives all right of revocation with respect to the Guaranteed Obligations.

2.11. Right to Offset Balances. Each Guarantor agrees that, in addition to (and without any limitation of) any right of set-off, banker's lien or counterclaim any Lender may otherwise have, each Lender shall be entitled, at its option but only with the prior written consent of the Administrative Agent, to offset balances held by it for the account of such Guarantor at any of its offices, in Dollars or in any other currency, against any Obligations of the Borrower to such Lender after the occurrence and during the continuance of an Event of Default (regardless of whether such balances are then due to such Guarantor). Any Lender so entitled shall promptly notify the applicable Guarantor and the Administrative Agent of any offset effected by it; provided that such Lender's failure to give such notice shall not affect the validity of such offset or the obligations of any Guarantor hereunder or under any other Loan Document.

SECTION 3. REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE GUARANTORS.

(a) In order to induce the Administrative Agent and the Lenders to enter into the Credit Agreement and the other Loan Documents, to make Advances and to issue and participate in Letters of Credit thereunder, each Guarantor represents and warrants to the Administrative Agent and each of the Lenders, as of the date hereof and as of the date of any advance, loan or other transfer of Property from Borrower directly or indirectly to such Guarantor, that all representations and warranties in Article 4 of the Credit Agreement which are applicable to such Guarantor are true and correct in all material respects as if such Guarantor were a party to the Credit Agreement.

(b) So long as any Advance or Letter of Credit remains unpaid, or any other non-contingent Obligation remains unpaid or unperformed, or any portion of any of the Commitments remains in force, each Guarantor shall, and shall cause each of each other Guarantor to, unless the Requisite Lenders otherwise consent, comply with all covenants, agreements and requirements of Article 5 of the Credit Agreement that are applicable to such Guarantor as if such Guarantor were a party to the Credit Agreement and each Guarantor expressly agrees to be bound thereby.

(c) So long as any Advance or Letter of Credit remains unpaid, or any other non-contingent Obligation remains unpaid or unperformed, or any portion of any of the Commitments remains in force, each Guarantor shall not, and shall not permit any other Guarantor to, unless the Requisite Lenders or, if required by Section 11.2 of the Credit Agreement, all of the Lenders, otherwise consent, fail to comply with all covenants, agreements, restrictions and requirements of Article 6 of the Credit Agreement that are applicable to such Guarantor as if such Guarantor were a party to the Credit Agreement and each Guarantor expressly agrees to be bound thereby.

(d) All other provisions contained in the Credit Agreement and all provisions contained in any other Loan Document that apply to Loan Documents generally are fully applicable to this Guaranty and are incorporated herein by this reference, including, without limitation, Articles 10 and 11 of the Credit Agreement and all other representations, warranties, covenants, arbitration provisions and negative covenants that apply to Borrower, Parent and their Subsidiaries as set forth in the Credit Agreement and each Guarantor expressly agrees to be bound thereby as if such Guarantor were a party to each Loan Document.

SECTION 4. MISCELLANEOUS PROVISIONS.

4.01. Waiver. No failure or delay by the Administrative Agent or any Lender in exercising any remedy, right, power or privilege under this Guaranty or any other Loan Document shall operate as a waiver of such remedy, right, power or privilege, nor shall any

single or partial exercise of such remedy, right, power or privilege preclude any other or further exercise of such remedy, right, power or privilege or the exercise of any other remedy, right, power or privilege. The remedies, rights, powers and privileges provided by this Guaranty are, to the extent not prohibited by law, cumulative and not exclusive of any remedies, rights, powers or privileges provided by the other Loan Documents or by law.

4.02. Notices. All notices, requests, demands, consents, instructions and other communications to or upon the Guarantors or any one of them (care of the Borrower) or the Administrative Agent under this Guaranty shall be given as provided in Section 11.6 of the Credit Agreement.

4.03. Expenses, Etc. Each Guarantor agrees to pay or to reimburse the Administrative Agent and the Lenders for all costs and expenses (including fees and expenses of counsel) that may be incurred by the Administrative Agent or the Lenders in any effort to enforce any of the obligations of the Guarantors under this Guaranty, whether or not any lawsuit is filed, including all such costs and expenses (and attorneys' fees and expenses) incurred by the Administrative Agent and the Lenders in any bankruptcy, reorganization, workout or similar proceeding. All amounts due under this Guaranty (including under Section 2.01) and not paid when due shall bear interest until paid at a *per annum* rate equal to the Alternate Base Rate plus the Applicable Alternate Base Rate Margin for Alternate Base Rate Advances plus two percent (2.00%).

4.04. Amendments, Etc. No amendment, modification, supplement, extension, termination or waiver of any provision of this Guaranty, no approval or consent thereunder, and no consent to any departure by any Guarantor therefrom, may in any event be effective unless in writing signed by the Administrative Agent with the written approval or upon the instructions of the Requisite Lenders, and then only in the specific instance and for the specific purpose given and any such amendment, modification, supplement, extension, termination or waiver shall be binding upon the Administrative Agent, each holder of Guaranteed Obligations and the Guarantors; and, without the approval in writing of all the Lenders, no amendment, modification, supplement, termination, waiver or consent may be effective as to the matters set forth in the Credit Agreement, including, without limitation, except as expressly provided in the Credit Agreement, the release of any Guarantor and no amendment, modification, or supplement of any provision of this Guaranty may in any event be effective unless in writing signed by each Guarantor who is a party to the Guaranty at the time any such amendment, modification, or supplement is made. Nothing herein shall in any way modify or limit the effect of terms or conditions set forth in any other document, instrument or agreement executed by any Guarantor or applicable to any Guarantor or in connection with the Guaranteed Obligations, but each and every term and condition hereof shall be in addition thereto.

4.05. Successors and Assigns. This Guaranty shall be binding upon and inure to the benefit of the Guarantors, the Administrative Agent and their respective successors and assigns. No Guarantor may assign or transfer its rights or obligations under this Guaranty without the prior written consent of the Required Lenders. Any attempted assignment or transfer in violation of this Section 4.05 shall be null and void.

4.06. Survival. All representations and warranties made in this Guaranty or in any certificate or other document delivered pursuant to or in connection with this Guaranty shall survive the execution and delivery of this Guaranty or such certificate or other document (as the case may be) or any deemed repetition of any such representation or warranty.

4.07. ENTIRE AGREEMENT. THIS GUARANTY REPRESENTS THE COMPLETE AND FINAL AGREEMENT AMONG THE GUARANTORS AND THE ADMINISTRATIVE AGENT AND SUPERSEDES ALL PRIOR AGREEMENTS, WRITTEN OR ORAL, ON THE SUBJECT MATTER HEREOF AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF SUCH PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN OR AMONG THE GUARANTORS, THE ADMINISTRATIVE AGENT AND THE LENDERS.

4.08. Partial Invalidity. If at any time any provision of this Guaranty is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions of this Guaranty nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

4.09. Captions. The table of contents, captions and section headings appearing in this Guaranty are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Guaranty.

4.10. Counterparts. This Guaranty may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties to this Guaranty may execute this Guaranty by signing any such counterpart. Transmission by telecopier of an executed counterpart of this Guaranty shall be deemed to constitute due and sufficient delivery of such counterpart.

4.11. GOVERNING LAW; SUBMISSION TO JURISDICTION. THIS GUARANTY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF CALIFORNIA.

EACH GUARANTOR HEREBY SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA AND OF ANY CALIFORNIA STATE COURT SITTING IN SAN FRANCISCO, CALIFORNIA FOR THE PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS GUARANTY OR THE TRANSACTIONS CONTEMPLATED BY THIS GUARANTY. EACH GUARANTOR IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

4.12. WAIVER OF JURY TRIAL. EACH GUARANTOR HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS GUARANTY OR THE TRANSACTIONS CONTEMPLATED BY THIS GUARANTY.

4.13. Power of Attorney. Each Guarantor hereunder hereby grants to the Borrower an irrevocable power of attorney to act as its attorney-in-fact with regard to matters relating to this Guaranty and each other Loan Document after the occurrence and during the continuance of an Event of Default, including execution and delivery of any amendments, supplements, waivers or other modifications hereto or thereto, receipt of any notices hereunder or thereunder and receipt of service of process in connection herewith or therewith. Each Guarantor hereby explicitly acknowledges that the Administrative Agent has executed and delivered this Guaranty and each other Loan Document to which it is a party, and has performed its obligations under this Guaranty and each other Loan Document to which it is a party, in reliance upon the irrevocable grant of such power of attorney pursuant to this Section 4.13.

4.14. Additional Guarantors. If, pursuant to the terms and conditions of the Credit Agreement, the Borrower shall be required to cause any Subsidiary of Borrower or Parent that is not a Guarantor to become a Guarantor hereunder, such Subsidiary shall execute and deliver to the Administrative Agent a Joinder Agreement in the form of Annex 1 and shall thereafter for all purposes be a party hereto and have the same rights, benefits and obligations as a Guarantor party hereto.

[This Space Intentionally Left Blank]

IN WITNESS WHEREOF, the undersigned have executed this Guaranty as of the date first above written.

GUARANTOR(S):

WEST MARINE, INC.,
a Delaware corporation

By: /s/ John Edmondson

Name: John Edmondson
Title: Chief Executive Officer
[Printed Name & Title]

WEST MARINE PUERTO RICO, INC.,
a California corporation

By: /s/ John Edmondson

Name: John Edmondson
Title: Chief Executive Officer
[Printed Name & Title]

W MARINE MANAGEMENT COMPANY, INC.,
a California corporation

By: /s/ John Edmondson

Name: John Edmondson
Title: Chief Executive Officer
[Printed Name & Title]

WEST MARINE LBC, INC.,
a California corporation

By: /s/ John Edmondson

Name: John Edmondson
Title: Chief Executive Officer
[Printed Name & Title]

WEST MARINE IHC I, INC.,
a California corporation

By: /s/ John Edmondson

Name: John Edmondson
Title: Chief Executive Officer
[Printed Name & Title]

ANNEX 1

JOINDER AGREEMENT

This **JOINDER AGREEMENT**, dated as of _____, _____, is delivered pursuant to Section 4.14 of the Guaranty Agreement dated as of October 14, 2004, among one or more direct and indirect Subsidiaries of West Marine, Inc. and West Marine Products, Inc. ("**Borrower**") from time to time party thereto as Guarantors in favor of Wells Fargo Bank, National Association, as administrative agent for the Lenders referred to therein (the "Guaranty Agreement"). Capitalized terms used herein but not defined herein are used herein with the meaning given them in the Guaranty Agreement.

By executing and delivering this Joinder Agreement, the undersigned, as provided in Section 4.14 of the Guaranty Agreement, hereby becomes a party to the Guaranty Agreement as a Guarantor thereunder with the same force and effect as if originally named as a Guarantor therein.

The undersigned at all times will obtain working capital and loans needed for its operations from Borrower, and Borrower will obtain funds to provide and lend to the Guarantors from the Lenders under the Credit Agreement. In addition, the undersigned expect to realize direct and indirect benefits as the result of the availability of the aforementioned credit facilities to Borrower, as the result of financial or business support which will be provided to the undersigned by Borrower.

The undersigned hereby represents and warrants that each of the representations and warranties contained in or incorporated into the Guaranty Agreement applicable to it is true and correct in all material respects on and as the date hereof as if made on and as of such date.

IN WITNESS WHEREOF, the undersigned has caused this Joinder Agreement to be duly executed and delivered as of the date first above written.

[ADDITIONAL GUARANTOR]

By: _____

Name:

Title:

ACKNOWLEDGED AND AGREED

as of the date of this Joinder Agreement
first above written.

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent

By: _____

Name:

Title:

SECOND AMENDMENT TO EXECUTIVE TERMINATION COMPENSATION AGREEMENT

This is a second amendment ("Second Amendment"), effective as of this 12th day of January, 2005, to that certain Executive Termination Compensation Agreement, entered into on or about August 17, 1999, as amended by a first amendment dated as of August 25, 2003 (collectively, "Agreement"), between West Marine, Inc., a Delaware corporation ("Company"), with an address at 500 Westridge Drive, Watsonville, California 95076, and Richard Everett ("Executive"), residing at 565 Twin Lanes, Soquel, California 95073.

WHEREAS, The Company and its Board of Directors ("Board") recognize that the Executive's contributions as the President and Chief Operating Officer to the growth and success of the Company have been substantial; and that Executive and Company, with approval of the Board, desire to amend certain provisions of the Agreement by extending the period of time during which Executive may elect to provide notice to Company of the termination of his employment resulting from a "Constructive Termination" (as such term is defined in the Agreement).

NOW, THEREFORE, in consideration of the foregoing premises and mutual covenants hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Company and Executive agree as follows:

1. The foregoing recitals are incorporated herein.
2. This Second Amendment will be effective as of the date first written above ("Effective Date").
3. All capitalized terms used but not defined herein shall have the same meaning ascribed to such terms as in the Agreement.
4. Section 2(d)(2) of the Agreement is hereby amended by deleting the reference to the "18-month period" and substituting the "22-month period" in lieu thereof.
5. Except as modified hereby, the Agreement remains unmodified and in full force and effect. In the event of any conflict between the terms of the Agreement and this Second Amendment, the terms of this Second Amendment will govern.

IN WITNESS WHEREOF, the parties have executed this Second Amendment, effective as of the Effective Date.

COMPANY:
West Marine, Inc.:

/s/ Peter Harris

By: Peter Harris
Its: Chief Executive Officer

EXECUTIVE:

/s/ Richard Everett

Richard Everett



Dear Eric Nelson:

Date: August 10, 2004

Because you are a highly regarded member of the senior management team here at West Marine, we want to take this opportunity to commend you for your performance to date and to reconfirm to you our hope for a long, continuing relationship that will be mutually beneficial to both you and the company. As you know, however, in a management environment uncertainties can exist regarding employment status, including a substantial reduction in your job responsibilities, title, position or full-time commitment to the company (collectively, "Job Change") or even a termination by the company "at will." Despite these uncertainties, we nevertheless feel it is important that you have assurances of our confidence in you so that you can devote your full time and energies to the success of the company. Therefore, as approved by West Marine's Board of Directors ("Board"), if the company notifies you that you will be subject to a Job Change for any reason (other than any of the reasons set forth in next paragraph), the company agrees to retain you as an employee to provide personal services to the company, on an on-call basis, for the number of hours and type of services to be mutually determined by you and the company ("Personal Services") for a twelve (12) month period from the effective date of the Job Change indicated in the notice ("Term"). In such event, the company agrees to provide you with the following benefits ("Benefits") during the Term: (i) you will continue to receive your base salary in effect for the last pay period immediately prior the effective date of your Job Change, payable on the company's regularly scheduled pay days; (ii) you will continue to receive health insurance benefits only (i.e., medical, dental, optical, and mental health), in all aspects significantly comparable to those in place from time to time for senior vice presidents of the company, at the company's cost, subject to any portion of the costs required to be contributed by you. During the Term, you hereby waive any other company benefits not specifically mentioned in this letter and after the Term, you will be offered continued health care benefits required to be offered under Federal or state law [e.g., COBRA]; (iii) in accordance with the terms of your stock option agreement(s), you may exercise your vested stock options at any time over the Term and upon expiration of the Term, your employment with the company will terminate and you will have the additional period specified under such agreement(s) in which to exercise any remaining vested stock options after termination of employment (currently at ninety (90) days) ("Extended Period") and upon termination of the Extended Period any unexercised vested stock options automatically will be forfeited. Also, during the Term, you will not receive any further stock option grants and any options that were issued prior to the effective date of the Job Change but which did not vest by such date automatically will be forfeited; and (iv) if the effective date of your Job Change occurs at any time after the first six (6) months of the company's then current fiscal year, the annual bonus you would have been paid for that year will be prorated for the period of your employment in your capacity as a senior vice president during that year (i.e., from the commencement of such fiscal year up through the effective date of your Job Change), payable at the time the company normally pays such bonuses. Also, you will receive no bonus amount if the effective date of your Job Change occurs at any time on or before such six (6) month period and no bonus amount for services to be performed over the Term as a result of your Job Change. Any Benefits described above will be subject to employment taxes and as required by company policy and/or by applicable laws and regulations. Additionally, I want to emphasize that no Benefits will be due to you unless and until you receive a written notification from the Company that you will be subject to a Job Change for any reason (other than any of the reasons set forth in the next paragraph) – i.e., your sole determination either that you are subject to or have experienced a Job Change will not give rise to the Benefits offered in this letter.

You will not be entitled to the above Benefits in the event of any of the following: (i) Your death or disability (in which case there will be no payment or benefits beyond the insurance proceeds, disability payments and/or retirement benefits to which you or your estate, beneficiaries or designees are otherwise entitled); (ii) a determination by the Governance and Compensation Committee of the Board ("Committee") that at any time you have engaged in a significant breach of company policy, or participated in a significant act of insubordination; (iii) a determination by the Committee that substantial evidence exists that your acts or omissions have materially injured the company (financially, by reputation or otherwise) or that you are guilty of a crime classified under applicable law as a felony (or the equivalent of a felony) or of any misdemeanor involving moral turpitude, or you have been convicted of or pleaded no contest to such a crime; or (iv) you terminate your employment with the company for any reason.

In consideration of this agreement, you agree to continue to abide by and comply with the provisions of the company's associate handbook and other company policies in effect from time to time ("Company Policies") at all times during and after your period of employment with the company, which covenants include, without

limitation, the following: (i) you will not disclose or otherwise use (except in the ordinary course of West Marine's business) any trade secrets relating to the business of the company or any of its affiliates (trade secrets include, but are not necessarily limited to, company processes, systems, methods, materials, research activities, prices, volume of sales, promotional methods, list of names or classes of customers, personnel and financial information, vendor names and information, product cost information, computer software of any type, pricing and billing policies, data, forecasts, plans, and strategies for all aspects of operations, marketing, and sales, and expansion and acquisition strategies, including new store openings/closings); and (ii) you will not disparage the company or its employees, officers or directors in their personal or business reputations or make any disparaging remarks or statements to anyone regarding your employment, your Job Change or the termination of your employment.

Moreover, in consideration of the Benefits to be provided to you under this agreement, you agree as follows: (i) during the Term, you will provide the Personal Services to West Marine, except that you may provide services to and/or be employed by another person or entity during the Term, provided that such person or entity does not engage in competing activities with those engaged in by the company; (ii) prior to the expiration of the Term, you will not solicit or cause to be employed or retained any person who is (or within the prior 6 months was) an associate of the company or its affiliates by any person or entity with whom or which you become associated; and (iii) immediately upon company's request, you will execute and deliver to company a general release releasing West Marine and its officers, directors, owners, affiliates, successors and assigns, from any and all actual or potential, suspected or unsuspected, foreseen or unforeseen, and patent or latent causes of actions, claims and demands whatsoever, whether in law or in equity, which may exist as of the date of the release or which may arise after such date as a result of your employment or termination of employment with West Marine. Such release also will include a waiver of § 1542 of the California Civil Code, which provides as follows: "A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor," your agreement to indemnify, defend, and hold harmless each released person or entity against any claim, including attorney fees and costs, resulting from a breach of your covenants contained in the release, and a provision that such covenants survive the termination of your employment and/or of this letter agreement.

You further acknowledge that irreparable injury will result to the company in the event of your breach of any of the provisions in this letter agreement. Consequently, in addition to any other rights or remedies available to the company for such breach, the company also will be entitled to enforcement by preliminary restraining order and injunction. If any legal or equitable action is necessary to interpret or enforce any term of this letter agreement, the company will be entitled to recover reasonable attorney fees and other costs incurred in connection with that action. This letter agreement is governed by and construed in accordance with the laws of the State of California. If any provision of this letter agreement is held to be invalid, unenforceable, or void, the remainder of this letter agreement will remain in full force and effect. The terms of this paragraph will survive the termination of your employment and/or of this letter agreement.

If the content of this letter is acceptable to you, please sign and return the enclosed copy, and then this letter agreement will supersede any previous oral or written agreements relating to the subject matter hereof.

I look forward to your continuing with the company as a valued member of our management team.

Sincerely,
West Marine

/s/ John Edmondson

By: John Edmondson, CEO

Read, Acknowledged and Accepted:

/s/ Eric Nelson

(Signature)
Name: Eric Nelson

West Marine, Inc. and its subsidiaries do business under the following names: West Marine Products, West Marine, BoatU.S., and Port Supply. The following is a list of the subsidiaries of West Marine, Inc., including the state of incorporation or jurisdiction of organization of each subsidiary:

- West Marine Products, Inc., a California corporation
- West Marine Puerto Rico, Inc., a California corporation
- W Marine Management Company, Inc., a California corporation
- West Marine LBC, Inc., a California corporation
- West Marine IHC I, Inc., a California corporation
- West Marine Canada Corp., a Nova Scotia Unlimited Liability Company

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 333-04712, No. 333-03728, No. 33-89322, No. 333-02903, No. 333-71147, No. 333-87124, No. 333-38882, No. 333-102108 and No. 333-102109 of West Marine, Inc., all on Form S-8, of (i) our report dated March 25, 2005, relating to the financial statements of West Marine, Inc. and (ii) our report dated March 25, 2005, relating to management's report on the effectiveness of internal controls over financial reporting, appearing in this annual report on Form 10-K of West Marine, Inc. for the year ended January 1, 2005.

/s/ DELOITTE & TOUCHE LLP

San Francisco, California
March 25, 2005

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14 OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Peter L. Harris, Chief Executive Officer of West Marine, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of West Marine, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2005

/s/ PETER L. HARRIS
Peter L. Harris
Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14 OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Eric S. Nelson, Chief Financial Officer of West Marine, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of West Marine, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2005

/s/ ERIC S. NELSON
Eric S. Nelson
Chief Financial Officer

**CERTIFICATION PURSUANT TO RULE
13a – 14(b) OF THE
SECURITIES EXCHANGE ACT OF 1934**

In connection with the annual report on Form 10-K of West Marine, Inc. (the “Company”) for the year ended January 1, 2005, as filed with the Securities and Exchange Commission as of the date hereof (the “Report”) I, Peter L. Harris, Chief Executive Officer of the Company, and I, Eric S. Nelson, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as appropriate, of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ PETER L. HARRIS

Name: Peter L. Harris
Title: Chief Executive Officer

Date: March 25, 2005

/s/ ERIC S. NELSON

Name: Eric S. Nelson
Title: Chief Financial Officer

Date: March 25, 2005

A signed original of this written statement required by Rule 13a-14(b), or other documentation authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Rule 13a-14(b), has been provided to West Marine, Inc. and will be retained by West Marine, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

This certification “accompanies” the annual report on Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission, and is not to be incorporated by reference into any filing of West Marine, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the annual report on Form 10-K, irrespective of an general incorporation language contained in such filing).