

WEST MARINE INC  
Form 10-Q  
August 11, 2005  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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

For the quarterly period ended July 2, 2005

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-22512

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**WEST MARINE, INC.**

(Exact Name of Registrant as Specified in Its Charter)

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**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**77-0355502**  
(IRS Employer  
Identification No.)

**500 Westridge Drive**  
**Watsonville, CA 95076-4100**  
(Address of Principal Executive Offices) (Zip Code)

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

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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 whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☐ No ☒

At July 29, 2005, the number of shares outstanding of the registrant's common stock was 21,097,146.

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1 FINANCIAL STATEMENTS****WEST MARINE, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****JULY 2, 2005, JANUARY 1, 2005 AND JULY 3, 2004**

(Unaudited, in thousands, except share data)

|  | <b>July 2,<br/>2005</b> | <b>January<br/>1,<br/>2005</b> | <b>July 3,<br/>2004</b> |
|--|-------------------------|--------------------------------|-------------------------|
| <b>ASSETS</b>  |                         |                                |                         |
| Current assets:  |                         |                                |                         |
| Cash   | \$ 14,718               | \$ 5,459                       | \$ 15,802               |
| Trade receivables, net   | 10,050                  | 6,209                          | 9,335                   |
| Merchandise inventories  | 355,482                 | 346,663                        | 350,161                 |
| Other current assets   | 31,680                  | 29,156                         | 25,967                  |
| <b>Total current assets</b>  | <b>411,930</b>          | <b>387,487</b>                 | <b>401,265</b>          |
| Property and equipment, net  | 90,470                  | 82,292                         | 80,139                  |
| Goodwill   | 56,905                  | 56,905                         | 56,905                  |
| Intangibles  | 2,399                   | 2,557                          | 2,716                   |
| Other assets   | 3,365                   | 3,074                          | 3,831                   |
| <b>TOTAL ASSETS</b>  | <b>\$ 565,069</b>       | <b>\$ 532,315</b>              | <b>\$ 544,856</b>       |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                         |                                |                         |
| Current liabilities:   |                         |                                |                         |
| Accounts payable   | \$ 83,443               | \$ 65,421                      | \$ 89,321               |
| Accrued expenses   | 47,642                  | 28,145                         | 42,165                  |
| Current portion of deferred liabilities  | 6,730                   | 6,729                          | 3,480                   |
| <b>Total current liabilities</b>   | <b>137,815</b>          | <b>100,295</b>                 | <b>134,966</b>          |
| Long-term debt   | 98,806                  | 124,064                        | 109,996                 |
| Deferred items and other non-current obligations   | 14,080                  | 13,525                         | 11,324                  |
| <b>Total liabilities</b>   | <b>250,701</b>          | <b>237,884</b>                 | <b>256,286</b>          |
| 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: 21,092,532 at July 2, 2005, 20,894,240 at January 1, 2005 and 20,791,582 at July 3, 2004 | 21                      | 21                             | 21                      |

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|   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|
| Additional paid-in capital                        | 158,368           | 155,400           | 153,247           |
| Accumulated other comprehensive income (loss)     | (12)              | 305               | 54                |
| Retained earnings                                 | 155,991           | 138,705           | 135,248           |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Total stockholders' equity                        | 314,368           | 294,431           | 288,570           |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> | <b>\$ 565,069</b> | <b>\$ 532,315</b> | <b>\$ 544,856</b> |
|   | <u>          </u> | <u>          </u> | <u>          </u> |

See notes to condensed consolidated financial statements.

**Table of Contents****WEST MARINE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited, in thousands, except per share data)

|   | <b>13 Weeks Ended</b> |                | <b>26 Weeks Ended</b> |                |
|---|-----------------------|----------------|-----------------------|----------------|
|   | <b>July 2,</b>        | <b>July 3,</b> | <b>July 2,</b>        | <b>July 3,</b> |
|   | <b>2005</b>           | <b>2004</b>    | <b>2005</b>           | <b>2004</b>    |
| Net sales   | \$ 253,547            | \$ 252,606     | \$ 378,885            | \$ 381,802     |
| Cost of goods sold, including buying and occupancy                | 159,631               | 158,087        | 252,141               | 253,562        |
| Gross profit  | 93,916                | 94,519         | 126,744               | 128,240        |
| Selling, general and administrative expense                       | 55,463                | 51,692         | 95,680                | 88,695         |
| Income from operations  | 38,453                | 42,827         | 31,064                | 39,545         |
| Interest expense, net   | 1,624                 | 1,576          | 3,259                 | 3,353          |
| Income before income taxes  | 36,829                | 41,251         | 27,805                | 36,192         |
| Income taxes  | 14,038                | 16,088         | 10,519                | 14,115         |
| Net income  | \$ 22,791             | \$ 25,163      | \$ 17,286             | \$ 22,077      |
| Net income per share:   |                       |                |                       |                |
| - Basic   | \$ 1.08               | \$ 1.21        | \$ 0.82               | \$ 1.07        |
| - Diluted   | \$ 1.07               | \$ 1.17        | \$ 0.81               | \$ 1.04        |
| Weighted average common and common equivalent shares outstanding: |                       |                |                       |                |
| - Basic   | 21,070                | 20,765         | 21,005                | 20,566         |
| - Diluted   | 21,358                | 21,441         | 21,398                | 21,328         |

See notes to condensed consolidated financial statements.

**Table of Contents****WEST MARINE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited, in thousands)

|   | <b>26 Weeks Ended</b>   |                         |
|---|-------------------------|-------------------------|
|   | <b>July 2,<br/>2005</b> | <b>July 3,<br/>2004</b> |
| <b>OPERATING ACTIVITIES:</b>  |                         |                         |
| Net income  | \$ 17,286               | \$ 22,077               |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |                         |
| Depreciation and amortization   | 11,373                  | 11,874                  |
| Tax benefit from exercise of stock options  | 745                     | 4,203                   |
| Provision for doubtful accounts   | 67                      | 206                     |
| Loss (gain) on sale of assets   | (8)                     | 127                     |
| Changes in assets and liabilities:  |                         |                         |
| Accounts receivable   | (3,908)                 | (3,447)                 |
| Merchandise inventories   | (8,819)                 | (36,140)                |
| Prepaid expenses and other current assets   | (2,524)                 | (2,093)                 |
| Other assets  | (550)                   | (864)                   |
| Accounts payable  | 17,971                  | 16,686                  |
| Accrued expenses  | 19,497                  | 19,244                  |
| Deferred items  | 555                     |                         |
| Net cash provided by operating activities   | 51,685                  | 31,873                  |
| <b>INVESTING ACTIVITY -</b>   |                         |                         |
| Purchases of property and equipment   | (19,252)                | (10,650)                |
| Net cash used in investing activity   | (19,252)                | (10,650)                |
| <b>FINANCING ACTIVITIES:</b>  |                         |                         |
| Net repayments on line of credit  | (25,258)                | (18,855)                |
| Payment of loan costs   | (139)                   |                         |
| Proceeds from exercise of stock options   | 1,546                   | 8,106                   |
| Proceeds from sale of common stock pursuant to associate stock purchase plan      | 677                     | 591                     |
| Net cash used in financing activities   | (23,174)                | (10,158)                |
| <b>NET INCREASE IN CASH</b>   | <b>9,259</b>            | <b>11,065</b>           |
| <b>CASH AT BEGINNING OF PERIOD</b>  | <b>5,459</b>            | <b>4,737</b>            |
| <b>CASH AT END OF PERIOD</b>  | <b>\$ 14,718</b>        | <b>\$ 15,802</b>        |

See notes to condensed consolidated financial statements.





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**WEST MARINE, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Thirteen and Twenty-six Weeks Ended July 2, 2005 and July 3, 2004

(Unaudited)

**NOTE 1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared from the records of West Marine, Inc. in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting only of normal recurring items) necessary to fairly present the financial position at July 2, 2005 and July 3, 2004, and the interim results of operations for the 13-week and the 26-week periods and cash flows for the 26-week period then ended have been included.

The condensed consolidated balance sheet at January 1, 2005, presented herein, has been derived from the audited consolidated financial statements of West Marine for the year then ended which were included in West Marine's Annual Report on Form 10-K.

Accounting policies followed by West Marine are described in Note 1 to its audited consolidated financial statements for the year ended January 1, 2005. Certain information and disclosures normally included in the notes to financial statements prepared in accordance with generally accepted accounting principles have been omitted for purposes of the condensed consolidated interim financial statements presented herein. These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements, including the notes thereto, for the fiscal year ended January 1, 2005, which were included in West Marine's Annual Report on Form 10-K.

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The results of operations for the 13-week and 26-week periods ended July 2, 2005 are not necessarily indicative of the results to be expected for the year ending December 31, 2005, or any other interim period.

**NOTE 2. Stock-based Compensation**

West Marine has two stock-based employee compensation plans. West Marine accounts for those plans under the recognition and measurement principles of Accounting Principles Board (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. Stock options issued to employees on or after June 1, 2005, vest over four years (options issued prior to June 1, 2005 have a five-year vesting period) and issuance is subject to meeting job performance criteria. The Company also issues restricted awards under its equity incentive plan. To date, restricted awards have been issued at no cost to recipients. Restricted stock awards issued to Company employees have restrictions that lapse over four years from the date of grant or as specified in the award, and issuance is subject to job performance criteria.

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The following table illustrates the effect on net income and earnings per share if West Marine had applied the fair value recognition provisions of Statement of Financial Accounting Standards ( SFAS ) No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation. Our calculations are based on a single option valuation approach and forfeitures are recognized as they occur (in thousands, except share and per share amounts).

|   | 13 Weeks Ended  |                 | 26 Weeks Ended  |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | July 2,<br>2005 | July 3,<br>2004 | July 2,<br>2005 | July 3,<br>2004 |
| Net income, as reported   | \$ 22,791       | \$ 25,163       | \$ 17,286       | \$ 22,077       |
| Deduct : Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects | 1,101           | 1,014           | 2,074           | 1,802           |
| Pro forma net income  | \$ 21,690       | \$ 24,149       | \$ 15,212       | \$ 20,275       |
| Basic earnings per share:   |                 |                 |                 |                 |
| As reported   | \$ 1.08         | \$ 1.21         | \$ 0.82         | \$ 1.07         |
| Pro forma   | \$ 1.03         | \$ 1.16         | \$ 0.72         | \$ 0.99         |
| Diluted earnings per share:   |                 |                 |                 |                 |
| As reported   | \$ 1.07         | \$ 1.17         | \$ 0.81         | \$ 1.04         |
| Pro forma   | \$ 1.02         | \$ 1.13         | \$ 0.71         | \$ 0.95         |

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

|                               | July 2, 2005 |      | July 3, 2004 |      |
|-------------------------------|--------------|------|--------------|------|
| Dividend yield                |              |      |              |      |
| Volatility                    | 60%          |      | 65%          |      |
| Risk-Free interest rate range | 2.6%         | 4.3% | 1.3%         | 4.1% |
| Expected term (years)         | 6.2          |      | 6.0          |      |

### NOTE 3. Segment Information

West Marine has three divisions - Stores, Port Supply (wholesale) and Direct Sales (catalog and Internet) all of which sell aftermarket recreational boating supplies directly to customers. West Marine's customer base overlaps between its 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.

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Assets are not presented by segment, as West Marine's assets overlap among segments. Contribution is defined as net sales, less product costs and direct expenses. The following is financial information related to West Marine's business segments (in thousands):

|  | 13 Weeks Ended |            | 26 Weeks Ended |            |
|--|----------------|------------|----------------|------------|
|  | July 2,        | July 3,    | July 2,        | July 3,    |
|  | 2005           | 2004       | 2005           | 2004       |
| Net sales:   |                |            |                |            |
| Stores   | \$ 222,874     | \$ 220,958 | \$ 328,876     | \$ 328,993 |
| Direct Sales   | 15,145         | 16,449     | 23,165         | 25,652     |
| Port Supply  | 15,528         | 15,199     | 26,844         | 27,157     |
| Consolidated net sales   | \$ 253,547     | \$ 252,606 | \$ 378,885     | \$ 381,802 |
| Contribution:  |                |            |                |            |
| Stores   | \$ 47,869      | \$ 52,118  | \$ 47,116      | \$ 54,437  |
| Direct Sales   | 2,690          | 3,489      | 4,360          | 5,506      |
| Port Supply  | 2,798          | 2,629      | 4,547          | 4,601      |
| Consolidated contribution  | \$ 53,357      | \$ 58,236  | \$ 56,023      | \$ 64,544  |
| Reconciliation of consolidated contribution to net income:             |                |            |                |            |
| Consolidated contribution  | \$ 53,357      | \$ 58,236  | \$ 56,023      | \$ 64,544  |
| Less:  |                |            |                |            |
| Indirect costs of goods sold not included in consolidated contribution | (6,315)        | (7,990)    | (9,945)        | (12,278)   |
| Selling, general and administrative expense                            | (8,589)        | (7,419)    | (15,014)       | (12,721)   |
| Interest expense, net  | (1,624)        | (1,576)    | (3,259)        | (3,353)    |
| Income taxes   | (14,038)       | (16,088)   | (10,519)       | (14,115)   |
| Net income   | \$ 22,791      | \$ 25,163  | \$ 17,286      | \$ 22,077  |

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

West Marine, Inc.

Watsonville, California

We have reviewed the accompanying condensed consolidated balance sheets of West Marine, Inc. and subsidiaries as of July 2, 2005, and July 3, 2004, and the related condensed consolidated statements of income for the 13-week and 26-week periods ended July 2, 2005 and July 3, 2004, and cash flows for the 26-week periods ended July 2, 2005 and July 3, 2004. These interim financial statements are the responsibility of West Marine's management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of West Marine, Inc. and subsidiaries as of January 1, 2005, and the related consolidated statements of income, stockholders equity, and cash flows for the year then ended (not presented herein); and in our report dated March 25, 2005, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of January 1, 2005 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

San Francisco, California

August 11, 2005

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### **ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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 notes thereto found in Item 1 of this Form 10-Q.

#### **General**

West Marine is one of the largest boating supplies retailers in the world. We have three divisions—Stores, Port Supply (wholesale) and Direct Sales (catalog and Internet)—all of which sell aftermarket recreational boating supplies directly to customers. At the end of the second quarter of 2005, we offered our products through 390 stores in 38 states, Puerto Rico and Canada; on the Internet ([www.westmarine.com](http://www.westmarine.com) and [www.boatus-store.com](http://www.boatus-store.com)); and through catalogs. Also, we are engaged, through our Port Supply division, our stores and the Internet ([www.portsupply.com](http://www.portsupply.com)), in the wholesale distribution of boating products to commercial customers and other retailers.

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 the second quarter and first six months of 2005 mean the 13-week and 26-week periods, respectively, ended July 2, 2005, and all references to the second quarter and first six months of 2004 mean the 13-week and 26-week periods, respectively, ended July 3, 2004.

#### **Recent Accounting Pronouncements**

In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 47, Accounting for Conditional Asset Retirement Obligations, an Interpretation of FASB Statement No. 143, which requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. We are required to adopt the provisions of FIN 47 no later than the end of fiscal 2005. We do not expect the adoption of this Interpretation to have a material impact on our financial position, results of operations or cash flows.

In December 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment, (SFAS No. 123(R)). SFAS No. 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. SFAS No. 123(R) requires the estimated fair market value of all share-based payments to employees, including grants of employee stock options, to be recognized as expense in the income statement. Based on a Securities and Exchange Commission final rule issued on April 15, 2005, we plan to adopt SFAS No. 123(R) at the beginning of the first quarter of fiscal year 2006. We are currently evaluating the impact of SFAS No. 123(R) and expect that adopting SFAS No. 123(R) will cause a significant increase in compensation expense. We do not expect SFAS No. 123(R) to have a material impact on our cash flows. We currently disclose in our financial statement footnotes (see Note 2 in Item 1 of this Form 10-Q) the pro forma effect of expensing the fair value of stock option grants on net income and earnings per share using one of the option-pricing models permitted by SFAS No. 123(R).

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In November 2004, the FASB issued SFAS No. 151, *Inventory Costs*, which adopts wording from the International Accounting Standards Board's IAS 2 *Inventories* in an effort to improve the comparability of international financial reporting. The new standard indicates that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) are required to be treated as current period charges rather than as a portion of inventory cost. Additionally, the standard clarifies that fixed production overhead should be allocated based on the normal capacity of a production facility. The provisions of SFAS No. 151 are effective for fiscal years beginning after June 15, 2005. We are currently evaluating the effect of SFAS No. 151 and do not expect it to have a material impact on our financial position, results of operations or cash flows.

### 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 of America. The preparation of these financial statements requires the 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.

We describe our stock-based compensation accounting policies in Note 2 to the financial statements located in Item 1 of this Form 10-Q. We have identified certain other critical accounting policies, which are described below.

*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. As of each of July 2, 2005, January 1, 2005 and July 3, 2004, reserves for allowances and returns were less than \$0.4 million. The issuance of gift cards is recorded initially as a liability. Revenue is recognized at the time the customer redeems the gift card and takes possession of merchandise.

*Comparable store sales.* We define comparable store sales as sales from stores that have been open at least 13 months, where selling square footage did not change by more than 40% in the previous 13 months.

*Merchandise categories.* The merchandise that we sell can be divided into four general categories: Maintenance, which includes engine systems, plumbing and electrical; Safety, which includes electronics, navigation and media; Powerboat and Lifestyle, which includes apparel, cabin and galley, fishing, watersports, boats, motors and gift items; and Hardware, which includes fasteners, trailers, deck hardware, ropes, chains, anchors and ventilation. The following chart shows the relative proportion of gross sales contributed by each of these four merchandise categories:

|                         | <b>26 Weeks Ended</b>   |                         |
|-------------------------|-------------------------|-------------------------|
|                         | <b>July 2,<br/>2005</b> | <b>July 3,<br/>2004</b> |
| Maintenance             | 34%                     | 33%                     |
| Safety                  | 28%                     | 29%                     |
| Powerboat and Lifestyle | 21%                     | 21%                     |
| Hardware                | 17%                     | 17%                     |
|                         | <b>100%</b>             | <b>100%</b>             |

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*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. We adjust our inventories for estimated shrinkage based upon historical analysis.

*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 expense when earned.

*Long-lived assets.* We depreciate furniture and equipment over useful lives of two to seven years, depending upon the specific category of asset. We depreciate leasehold improvements over the lesser of the lease term or the estimated useful lives of the improvements, usually ten years, and we depreciate buildings over 25 years. 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 our long-lived assets carrying values and useful lives continue to be appropriate.

*Income taxes.* We account for income taxes using the asset and liability method under the provisions of 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. 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 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 governmental authorities in the jurisdictions where we conduct business, which audits may result in assessments of additional taxes. We believe we have adequately provided for obligations that would result from these legal and tax proceedings where it is probable we will be required to pay some amounts and where we can estimate such amounts.

*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 while 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**



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

|  | <b>13 Weeks Ended</b> |                | <b>26 Weeks Ended</b> |                |
|--|-----------------------|----------------|-----------------------|----------------|
|  | <b>July 2,</b>        | <b>July 3,</b> | <b>July 2,</b>        | <b>July 3,</b> |
|  | <b>2005</b>           | <b>2004</b>    | <b>2005</b>           | <b>2004</b>    |
| Net sales  | 100.0%                | 100.0%         | 100.0%                | 100.0%         |
| Cost of goods sold, including buying and occupancy | 63.0%                 | 62.6%          | 66.5%                 | 66.4%          |
| Gross profit                                       | 37.0%                 | 37.4%          | 33.5%                 | 33.6%          |
| Selling, general and administrative expense        | 21.8%                 | 20.5%          | 25.3%                 | 23.2%          |
| Income from operations                             | 15.2%                 | 16.9%          | 8.2%                  | 10.4%          |
| Interest expense, net                              | 0.7%                  | 0.6%           | 0.9%                  | 0.9%           |
| Income before income taxes                         | 14.5%                 | 16.3%          | 7.3%                  | 9.5%           |
| Provision for income taxes                         | 5.5%                  | 6.4%           | 2.7%                  | 3.7%           |
| Net income   | 9.0%                  | 9.9%           | 4.6%                  | 5.8%           |

Net sales for the second quarter of 2005 were \$253.5 million, an increase of \$0.9 million, or 0.4%, compared to net sales of \$252.6 million for the second quarter of 2004. Net income for the second quarter of 2005 was \$22.8 million, or \$1.07 per share, compared to net income of \$25.2 million, or \$1.17 per share, for the same period last year. Net income for the second quarter of 2005 decreased by \$2.4 million, or \$0.10 per share, compared to last year, because gross profit remained relatively unchanged, while selling, general and administrative expense increased by \$3.8 million, largely due to the opening of new stores, as well as additional costs associated with several new business initiatives, more fully described in the [Business Trends](#) section below.

Net sales attributable to our Stores division increased \$1.9 million to \$222.9 million for the second quarter of 2005, a 0.9% increase compared to the second quarter of 2004, primarily due to new store openings. Comparable store sales are an important performance metric used by our management. Comparable store sales decreased (3.5%) for the second quarter of 2005 compared to the same period a year ago, partly due to poor weather on both coasts compared to great spring weather last year and higher fuel costs. This year, many boats in our Northeast region, from the mid-Atlantic up through the northeastern seaboard and across to the Great Lakes, remained in storage until June. Comparable store sales by region for the second quarter of 2005 were as follows: Northeast down (6.5%); Southeast up 2.1%; and Western down (5.5%). Port Supply (wholesale) sales through our distribution centers increased 2.2%, to \$15.5 million in 2005, compared to the 2004 comparable quarter, primarily due to new marketing initiatives. Direct Sales division revenues for the second quarter of 2005 were \$15.1 million, a decrease of \$1.3 million, or 7.9%, compared to last year, primarily due to market share erosion in areas where we have opened new stores.

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Net sales for the first six months of 2005 were \$378.9 million, a decrease of \$2.9 million, or 0.8%, compared to net sales of \$381.8 million for the first six months of 2004. Net income for the first six months of 2005 was \$17.3 million, or \$0.81 per share, compared to net income of \$22.1 million, or \$1.04 per share, for the same period last year. Net income for the first six months of 2005 decreased by \$4.8 million, or \$0.23 per share, mainly because sales and gross profit decreased, primarily during the first quarter of 2005, while selling, general and administrative expense increased, primarily due to additional costs from the opening of new stores, as well as new business initiatives, more fully described in the Business Trends section below.

Net sales attributable to our Stores division decreased \$0.1 million to \$328.9 million for the first six months of 2005, relatively unchanged compared to the first six months of 2004, partly due to winter-like weather patterns causing boating season activities to be delayed in markets from the mid-Atlantic up into the northeast and across to the Great Lakes. Comparable store sales decreased (4.6%) for the first six months of 2005, compared to the same period a year ago, partly due to poor weather on both coasts compared to great spring weather for the first half of 2004 and higher fuel costs. Comparable store sales by region for the first six months of 2005 were as follows: Northeast down (10.0%); Southeast up 1.7%; and Western down (5.2%). Port Supply (wholesale) net sales through our distribution centers for the first six months of 2005 were \$26.8 million, a decrease of \$0.3 million, or 1.2%, compared to 2004, primarily because wholesale customers purchased more merchandise through our store locations. Direct Sales division revenues for the first six months of 2005 were \$23.2 million, a decrease of \$2.5 million, or 9.7%, compared to the same period last year, primarily due to market share erosion in areas where we have opened new stores.

Gross profit decreased by \$0.6 million, or 0.6%, to \$93.9 million for the second quarter of 2005, compared to \$94.5 million for the second quarter of 2004. Gross profit percentage is another key performance metric used by our management. Gross profit as a percentage of net sales for the second quarter of 2005 decreased by 0.4% to 37.0%, compared to 37.4% for the same period last year, primarily due to additional operating costs for the opening of new stores, which add occupancy costs much like those of a mature store without the corresponding increase in sales, as well as new initiatives, including instituting lower everyday pricing in some key merchandising areas. Our gross profit was \$126.7 million for the first six months of 2005, a decrease of \$1.5 million, or 1.2%, compared to gross profit of \$128.2 million for the same period a year ago. Gross profit represented 33.5% of net sales for the first six months of 2005, relatively unchanged, compared to 33.6% for the same period last year, primarily because higher costs for new stores were offset by a higher proportion of our sales mix from higher-margin, non-discretionary products, such as maintenance.

Selling, general and administrative expense increased \$3.8 million, or 7.3%, to \$55.5 million for the second quarter of 2005, compared to \$51.7 million for the same period last year. Selling, general and administrative expense increased as a percentage of sales to 21.8% for the second quarter of 2005, compared to 20.5% for the second quarter last year, mainly due to lower than expected sales combined with additional operating costs for the opening of new stores and the implementation of new business initiatives in 2005, such as additional store associate training and changes in our merchandising organization. For the first six months of 2005, selling, general and administrative expense increased by \$7.0 million, or 7.9%, to \$95.7 million compared to \$88.7 million for the first six months of 2004. Selling, general and administrative expense represented 25.3% of net sales for the first six months of 2005, compared to 23.2% for the same period a year ago, mainly due to lower than expected sales combined with additional operating costs for new stores and new business initiatives in 2005. The future profitability of our company largely is dependent on our ability to increase sales and gross profit while containing selling, general and administrative expense.

Interest expense was \$1.6 million for the second quarter of 2005, unchanged from the second quarter last year. Our effective income tax rate decreased to 38.1% of pre-tax income for the second quarter of 2005, compared to 39.0% for the second quarter of 2004, primarily due to the revaluation of deferred tax allowances.

For the first six months of 2005, interest expense of \$3.3 million remained relatively unchanged compared to the same period last year. Our effective income tax rate decreased to 37.8% of pre-tax income for the first six months of 2005, compared to 39.0% for the first six months of 2004, primarily due to the revaluation of deferred tax allowances.

## **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 remodeling or relocating older stores. We also may require additional capital in the event we choose to pursue acquisition opportunities. We believe our existing credit facility and cash flows from operations will be sufficient to satisfy our liquidity needs for the next 12 months.

### ***Operating Activities***

During the first six months of 2005, net cash provided by operating activities consisted primarily of net income of \$17.3 million plus \$11.4 million in depreciation and amortization and an increase in trade payables and accrued expenses of \$37.5 million. This was partially offset by increases in inventories of \$8.8 million and increases in trade receivables, prepaid expenses and other current assets of \$7.0 million. Cash used for inventory during the first six months of 2005 decreased \$27.3 million, or 75.6%, compared to the same period last year, primarily due to lower electronics merchandise purchases and lower peak season replenishment needs compared to the same period last year, as well as supply chain efficiencies. On a per square foot basis, inventory decreased by approximately 3.4%. We expect lower inventory purchases during the remaining six months of fiscal 2005 compared to the same period last year.

### ***Investing Activity***

During the first six months of 2005, we spent \$19.3 million on capital expenditures, primarily for information systems improvements and for building new and remodeled stores. We expect to spend from \$28.0 million to \$30.0 million on capital expenditures during 2005, mainly for new stores and information systems improvements. We intend to pay for our expansion through cash generated from operations and bank borrowings.

### ***Financing Arrangements***

We have a bank credit facility that expires in October 2009. Borrowings under this credit facility at the end of the second quarter of 2005 were \$98.8 million, bearing interest at rates ranging from 4.3% to 6.8%. Pursuant to the terms of the credit facility, the borrowing limit under this credit facility was reduced from \$190.0 million to \$125.0 million on June 16, 2005, and is scheduled to increase to \$170.0 million on December 15, 2005 to support seasonal borrowing needs. At West Marine's option, subject to certain conditions and restrictions, the credit facility provides up to \$150.0 million in additional financing at various times during the term. This 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 and 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.

Our credit facility contains various covenants which require us to maintain certain financial ratios, including debt service coverage, debt to earnings and current ratio. The covenants also require us to maintain minimum levels of net worth and place limitations on the types and levels of certain investments. These covenants also restrict the repurchase or redemption of our common stock and payment of dividends, investments

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in subsidiaries and annual capital expenditures. All of the repayment obligations under our credit facility may be accelerated and come due prior to the scheduled payment date if certain covenants are breached or an event of default occurs. As of July 2, 2005, we were in compliance with all of our covenants.

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At the end of the second quarter of 2005, we had \$5.2 million of outstanding stand-by letters of credit and \$0.1 million of outstanding commercial letters of credit, compared to \$5.6 million and \$0.3 million, respectively, outstanding at the end of second quarter last year.

For the second quarter of 2005, the weighted average interest rate on all of our outstanding borrowings was 4.7%.

## **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 July 2, 2005, we were 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 retail markets. Management expects the seasonal fluctuation in net sales to become more pronounced as we continue to expand our operations.

## **Business Trends**

We believe people look to West Marine expecting high levels of personalized service delivered by associates who sincerely care about customers and are passionate about boating; they look for a broad assortment of high quality merchandise, priced fairly and in stock when they need it; they have come to expect the convenience of stores located near where they boat or live. We believe all of this comes together in the mind of the customer to represent exceptional value.

With a clear understanding of where we are and with a focus on long-term shareholder value, during the first quarter of 2005 we launched a number of new initiatives intended to improve inventory turnover, increase comparable store sales and strengthen our operations. By delivering what customers want, everyday, we expect to continue to be their boating supplier of choice, our position in the market should continue to grow and we plan to achieve maximum long-term value for our shareholders. These initiatives include:

Lowering our inventories without reducing merchandise in-stock levels for our customers by reducing inventory purchases in 2005;

Increasing customer traffic, expanding our market share and strengthening customer loyalty by refocusing on value pricing in certain key merchandise areas;

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Increasing store sales by boosting training and adding store associate hours during peak selling periods;

Expanding our efforts to build sales through the Internet channel;

Delaying some stores we planned to open during the key boating season, shifting the schedule for opening some of the new stores planned for 2005 while we focus on prototypes and tests of new merchandising strategies; and

Restructuring our merchandising organization and processes to add accountability and allow for more product assortment strategy and analysis.

In the long term, we believe these new initiatives will create a stronger West Marine and, over time, will enhance value by creating additional new strategies that build on this solid foundation.

We opened nine traditional stores and seven express stores during the first six months of 2005, compared to six traditional stores and five express stores opened during the same period last year. We currently plan to open a total of 46 stores, as well as close five stores, during fiscal year 2005.

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.

### Internet Address and Access to SEC Filings

Our Internet address is [www.westmarine.com](http://www.westmarine.com). Interested readers may access our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, in the Investor Relations portion of our website as well as through the Securities and Exchange Commission's website, [www.sec.gov](http://www.sec.gov).

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

The statements in this Form 10-Q that relate to future plans, events, expectations, objectives or performance (or assumptions underlying such matters) are forward-looking statements that are predictive or express expectations that depend on future events or conditions that affect financial performance, including future revenues, earnings or growth rates, and 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, except as required by applicable law, 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.

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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 in the level of retail spending, or an increase in interest rates, may adversely affect sales volumes, as well as our ability to maintain current gross profit levels.

Our results of operations could be negatively impacted if our new initiatives to reduce inventories, reduce prices, increase associate hours, delay store openings, build sales through the Internet channel and restructure our merchandising organization fail to create the cost savings or increases in sales that we expect.

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Our operations could be adversely affected if fuel prices increase or 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 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 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 workers' 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.

Investors should be aware that while we do, from time to time, communicate with securities analysts and others, we do not, by policy, selectively disclose to them any material nonpublic information or other confidential commercial information. Accordingly, you should not assume that we agree with any statement or report issued by any analyst regardless of the content of the statement or report. We do not, by policy, confirm forecasts or projections issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not our responsibility.

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, our ability to transport merchandise, environmental



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regulations, periodic audits by regulatory agencies which may result in fines or penalties, 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.

### ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We believe there has been no material change in our exposure to market risk from that discussed in our last Annual Report on Form 10-K.

Based on our operating results for the year ended January 1, 2005, a 10% change in the 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 Consolidated Financial Statements set forth in Item 8 Financial Statements and Supplementary Data of our fiscal year 2004 Form 10-K).

### ITEM 4 CONTROLS AND PROCEDURES

West Marine maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to West Marine's management, including its Chief Executive Officer and its Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures which, by their nature, can provide only reasonable assurance regarding management's control objectives. Management, including West Marine's Chief Executive Officer and Chief Financial Officer, concluded that West Marine's disclosure controls and procedures are effective in reaching a level of reasonable assurance regarding management's control objectives.

West Marine has carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and its Chief Financial Officer, of the effectiveness of the design and operation of West Marine's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon this evaluation, as of July 2, 2005, West Marine's Chief Executive Officer and Chief Financial Officer concluded that West Marine's disclosure controls and procedures are effective in timely alerting them to material information relating to West Marine required to be included in West Marine's Exchange Act reports. During West Marine's fiscal quarter ended July 2, 2005 there has been no change in West Marine's internal control over financial reporting that was identified in connection with the evaluation required by Exchange Act Rule 13a-15(d) which has materially affected, or is reasonably likely to materially affect, West Marine's internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****ITEM 1 LEGAL PROCEEDINGS**

Currently and from time to time, we are a party to various legal proceedings incidental to the conduct of our business, including inquiries or notices that we receive from time to time from jurisdictions or regulatory authorities, which we respond to in the ordinary course of business. In our opinion, after consultation with legal counsel responsible for these matters, the ultimate liability, if any, with respect to those proceedings is not presently expected to materially affect the financial position, results of operations or cash flows of West Marine.

**ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3 DEFAULTS UPON SENIOR SECURITIES**

None.

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

West Marine held its Annual Meeting of Stockholders on May 11, 2005. At this meeting, West Marine's stockholders elected ten directors, approved an amendment to the West Marine, Inc. Omnibus Equity Incentive Plan and ratified the selection of Deloitte and Touche LLP as West Marine's independent auditors for the year ending December 31, 2005.

The following table sets forth the names of the nominees for director and the votes for and withheld with respect to each such nominee:

| <u>Nominee</u>                  | <u>Votes For</u> | <u>Votes Withheld</u> |
|---------------------------------|------------------|-----------------------|
| Randolph K. Repass              | 17,876,080       | 2,199,920             |
| Peter L. Harris                 | 18,895,056       | 1,090,944             |
| Richard E. Everett <sup>1</sup> | 18,971,581       | 1,104,419             |
| Geoffrey A. Eisenberg           | 18,971,418       | 1,104,582             |
| Diane Greene                    | 19,231,266       | 844,734               |
| David McComas                   | 14,123,820       | 5,952,180             |
| Alice M. Richter                | 19,464,395       | 611,605               |

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|                        |            |         |
|------------------------|------------|---------|
| Peter Roy              | 19,464,473 | 611,527 |
| Daniel J. Sweeney      | 19,229,602 | 846,398 |
| William U. Westerfield | 19,462,306 | 613,694 |

(1) As previously reported, Mr. Everett resigned from West Marine's board of directors effective as of June 10, 2005.

In connection with the approval of an amendment to the West Marine, Inc. Omnibus Equity Incentive Plan, 14,658,062 shares were voted in favor of approval, 3,634,156 against, 23,223 abstained and there were 1,760,559 broker non-votes.

In connection with the ratification of the selection of Deloitte and Touche LLP as West Marine's independent auditors for the year ending December 31, 2005, 19,786,528 shares were voted in favor of approval, 284,712 against and 4,760 abstained.

### ITEM 5 OTHER INFORMATION

None.

### ITEM 6 EXHIBITS

(a) Exhibits:

- 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 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).
- 10.1.1 Amendment, dated as of April 7, 2005, to 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 10.1.1 to West Marine's Quarterly Report on Form 10-Q for the quarter ended April 2, 2005).
- 10.2\* Third Amendment to Executive Termination Compensation Agreement, effective as of June 10, 2005, between West Marine, Inc. and Richard Everett.

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- 10.4 Amendment No. 1, dated as of March 25, 2005, to Credit Agreement, dated as of October 14, 2004, by and among West Marine Products, Inc., the Lenders named therein, Wells Fargo Bank, National Association, as Administrative Agent, a Lender, the Issuing Lender and the Swing Line Lender (incorporated by reference to Exhibit 10.1 to West Marine's Current Report on Form 8-K dated March 25, 2005 and filed with the Commission on March 29, 2005).
- 15.1 Letter regarding Unaudited Interim Financial Information.
- 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.

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\* 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 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: August 11, 2005

WEST MARINE, INC.

By: /s/ Peter L. Harris

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Peter L. Harris  
Chief Executive Officer

By: /s/ Eric S. Nelson

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Eric S. Nelson  
Senior Vice President, Finance and Chief Financial Officer