About West Marine

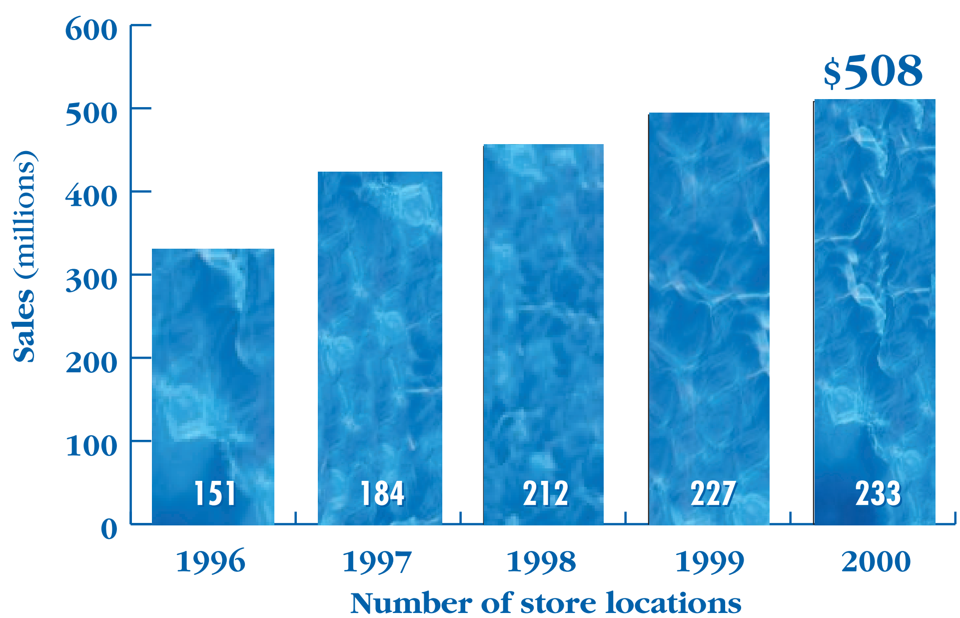
West Marine, Inc. is the nation's largest specialty retailer of recreational boating supplies and apparel. The Company provides customers with leading national brands of marine hardware, electronics and apparel, plus its own well-regarded lines of high-quality private-label products. Along with offering a huge selection of boating gear and services, West Marine is committed to serving the needs of every boater.

The Company offers its broad assortment to consumers and professionals in the marine industry through many convenient business channels: its Stores, Catalog, Internet and Port Supply (wholesale) divisions. The Company's goal is to offer boater's solutions to their boating needs, any time, any place. More than 3,500 associates in 38 states across the country and in Puerto Rico provide our customers with friendly, knowledgeable service, competitive prices and a "No Hassle" satisfaction guarantee.

At the end of 2000, the Stores division operated 233 retail locations. With more than twice the number of retail locations as its nearest competitor, West Marine has more products and services conveniently available to more boaters than anyone else in its industry.

The Company is well known for providing its customers with valuable technical information and advice on product selection through its experienced associate team and through 'West Advisor' articles published in its catalogs and on the West Marine web site.

The Company's Port Supply division provides products and services to boat manufacturers, marine services, commercial vessel operators and government agencies worldwide.



Dear Stockholders,

West Marine's brand may well be our Company's greatest asset. Based on our commitment to knowledgeable, helpful customer service and fair pricing of quality merchandise, our brand identity has been nurtured carefully over the years. The fact that West Marine is one of the most recognizable, positively perceived names in specialty retailing is a tribute to the people whose attitudes, boating knowledge and dedication have helped us earn the loyalty of our customers. We are proud of our reputation, and we understand its value.

Our brand is our most powerful marketing tool and the key to our growth. In the pages that follow, we will not only report on the Company's performance last year, we will tell you how we are building our brand to achieve continuing financial growth in the future.

The year 2000 saw the completion of much of the preparatory work begun two years ago when I joined West Marine. Every strategy, system and process has been reviewed, analyzed and improved.

Our new senior management team, made up of both newcomers and long-time West Marine associates boasts top retail executives. We believe we have the talent in place to take the Company to the next level. The marketing programs we have launched are designed to increase revenues and profits by building a strong bond with our customers. We are dedicated to creating new ways to keep our customers coming back for more. The next section of this report is devoted to a discussion among some of West Marine's senior managers about some of these initiatives and other changes we have made as we reshaped the Company.

Net sales last year crossed the $500 million mark, finishing the year at $508 million, compared with $492 million a year earlier. Gross margin in 2000 increased to $137.1 million, or 27.0 percent, from $130.3 million, or 26.5 percent in 1999. Our net income was $7.4 million, or 42 cents per share, compared with $8.7 million, or 50 cents per share in the previous year. Net income for 2000 includes a $1.5 million, or 8 cents per share, charge related to uncollectible vendor receivables. Without that charge, our earnings for the year would have been consistent with 1999.

We opened nine new stores in 2000: St. Augustine, FL; Destin, FL; Bradenton, FL; Bear, DE; Venice, FL; Jackson, MS; Seabrook, NH; Marina Del Rey, CA and Fajardo, Puerto Rico. We also closed three unproductive stores, bringing our total number of locations to 233. For the year, our Stores division generated net sales of $418 million, compared with $396 million in 1999.

In addition, we now offer boaters almost 50,000 products on the Internet and more than 40,000 products through our catalogs, channels we are expanding rapidly. Many of our stores now have Internet access, enabling customers to combine the conveniences and advantages of the two channels of business while simplifying West Marine's inventory management and distribution. Online customers will soon have the option of picking up their orders at one of our stores or having them delivered direct from a West Marine distribution center — another example of how we combine good customer service with efficient business practice.

Our strong balance sheet is the foundation of our conservative business approach and growth strategy. In 2000, we increased net worth, reduced debt, improved our in-store stock position and leveraged receivables and


West Marine
West Marine
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payables. We believe our balance sheet affords us the opportunity to continue to pursue our growth strategy, but also gives us a cushion to withstand the effects of the economic downturn currently threatening us. As has been widely reported, November and December 2000 sales of most major retailers were less than anticipated, and West Marine was similarly affected. Although a lasting general economic downturn will impact us, we still believe West Marine is well-positioned for the future.

- First, we are largely an aftermarket company rather than a boat-builder. Because consumers consider boats to be a luxury item, sales of them generally decline during economic downturns. However, although boat enthusiasts may not purchase as many new boats during these downturns, they do continue to outfit and refit the boats they have. As a result, our business generally weathers these downturns better than boat-builders. According to the National Marine Manufacturers Association, there are approximately 17 million boats in the United States. We see those as a very substantial base of business in good times and bad.
- Next, West Marine's position as the strongest, most successful company in a highly fragmented business, and our solid financial condition, put us in a position to gain market share if weaker competitors fall by the wayside during the downturn.
- Finally, thanks to the improvements we have made over the past two years in the way we do business, we believe we are well-positioned for the events that lie ahead. Costs have been reduced and inventory levels are being managed more efficiently than ever before. We believe we will continue to grow, but we are prepared to scale back the scheduled new stores, if necessary.

What we know at this point is that our market development initiatives — new, customer-friendly store designs; new marketing and service programs including insurance, boat financing and our new credit card; and The West Advantage Program, a customer loyalty program — work. By expanding the range of products and services we offer our customers we are building on our greatest strength — our brand.

But even the most innovative product and service offerings can be no better than the people who bring them to customers. It is the ability and commitment of our management team and associates upon which our success and our brand rest. I want to thank our associates, board of directors and management team for their ongoing support.

Sincerely,

John H. Edmondson
President and Chief Executive Officer

Management Roundtable

HOW IS WEST MARINE ADJUSTING TO THE ECONOMIC SLOWDOWN?

John Edmondson: First of all, we are seeing process improvements from many of the business systems and practices we've instituted over the past two years. This has allowed us to reduce our overhead as we move forward.

John Edmondson,
President and
Chief Executive Officer

Also, West Marine is an aftermarket company. Because boaters generally maintain their boats, even if they postpone buying new ones, we have historically been insulated from the worst effects of down economic fluctuations.

We are shifting to a lower gear as it relates to our growth strategy. For example, instead of adding 14 new stores in 2001, we now plan to open seven. We are also postponing a few store remodeling projects.

Having said that, I want to add that the economic decline has to be seen in perspective. We are by far the strongest, largest company in our industry. An economic slowdown could benefit West Marine in the long run if it leads to the demise of some of our weaker competitors. Furthermore, what we believe to be a growing inventory of used boats being offered for sale could result in increased demand for a number of West Marine products and services as those boats change hands.

WHAT IS THE STATUS OF THE NEW "MARKETING AND SERVICES" INITIATIVES YOU'VE LAUNCHED RECENTLY, AND WHAT NEW STEPS DO YOU HAVE PLANNED FOR 2001?

John Edmondson: Our new marketing and service programs are designed to create unquestionable customer loyalty. The West Advantage Program is designed to reinforce customer loyalty by offering our customers more of the products and services they need, with added convenience, and rewarding them for increased business by earning dollars off future purchases. Through The West Advantage Program, the Company also learns more about our customer's shopping needs. From that knowledge we can better provide our customers with boating solutions that meet the ongoing needs of every boat owner. West Advantage members receive:

- The ability to earn reward certificates good for dollars off on future purchases.
- TheftGuard protection which provides a $1,000 reward for information leading to the conviction of anyone who steals or damages a member's boat.
- Hundreds of dollars in marine-related discounts.

West Marine also offers several other important services to meet the ongoing needs of every boater. Additional services include:

- An innovative insurance program that gives customers choices of competitive quotes from several different A-rated insurance companies with a single phone call. We want to provide a cost effective, high quality, hassle-free means for customers to insure their boats, no matter what kind of boat or where it is kept.
- A West Marine private label credit card that offers deferred billing on major purchases, providing an affordable way for customers to outfit their boats or make large purchases. Early results are highly encouraging.
- A boat financing program provided by Deutsche Financial Services Corporation and its subsidiary Ganis Credit Corporation offers West Marine customers the ability to purchase a boat and start the life of boat ownership. Customers also have the ability to finance their West Marine accessory outfitting through their loan.

- A boat towing service (working with Vessel Assist Association of America) with more than 300 towers nationwide and very competitive rates. We are changing the marketplace to provide the customer with the closest tower.
- Our Electronics, Outboard Motor and Inflatable Boat Repair Centers and Rigging Shops offer additional services to meet the ongoing needs of every boater and create unquestionable customer loyalty.

When you put these programs together, they offer customers boating solutions through the convenience of a one-stop source for their boating needs, with a very high level of knowledgeable personal service.

- The Mariner's Protection Plan, West Marine's extended warranty program, offers customers peace of mind and a way to protect their investment.
- This spring, we will be rolling out a new fishing initiative.
- We will also begin a pilot program involving setting up "lifestyle" departments in some stores, offering an extended range of apparel and other products.
- We will be launching "Super-Stores" in Fort Lauderdale and Marina Del Rey — freestanding destination stores several times larger than our traditional locations.
- We will continue to experiment with smaller stores for inland markets.
- We will continue our study of international markets to determine how we might best develop this area as a new source of business.

Russell Solt,
Executive Vice President and Chief Financial Officer

WHY HAVE YOU BEEN PAYING DOWN YOUR DEBT, WHEN YOU COULD HAVE USED THE MONEY TO GROW FASTER BY OPENING MORE STORES?

Russell Solt: Our financial philosophy is conservative and prudent. This has given us a strong balance sheet and the financial ability to grow the Company in a manageable, relatively risk-free way. We believe our financial strength is a key to having made West Marine the industry leader. We would rather grow successfully than take what we consider to be inappropriate risks just for the sake of having more stores. This is particularly relevant in economic downturns.

WILL INDUSTRY CONSOLIDATION CREATE OPPORTUNITIES FOR YOU TO ACQUIRE ANY OF YOUR COMPETITORS?

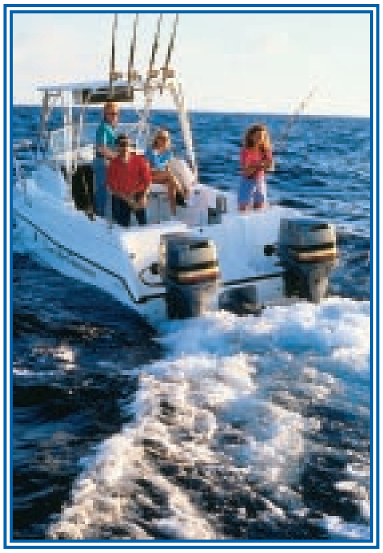
John Edmondson: Probably not. It would most likely be the marginal, less profitable competitors who might fall by the wayside, and we wouldn't have any interest in acquiring unprofitable operations.

Rich Everett,
Chief Operating Officer

YOUR MARKET SEEMS TO BE DIVIDED BETWEEN POWERBOATS AND SAILBOATS. WHAT IS YOUR RELATIVE POSITION IN THESE MARKETS, AND HOW DOES THIS AFFECT YOUR BUSINESS STRATEGIES?

Rich Everett: Within the powerboat segment, we do well with mid and larger sized boats, 20 feet and above, which is our target market. In the sailboat segment, we do well across all sizes of boats. West Marine has the largest competitive share of each of these markets — we estimate 15 percent of our targeted powerboat market and some 40 percent of the sail market. In dollars, powerboating sales represent roughly two thirds of West Marine's revenues despite the fact that our market share is much lower than in sail.

We see market fragmentation as an opportunity for growth. Including West Marine there are three chains (with West Marine being more than twice the size of its nearest competitor), and a few thousand independent operators. West Marine has the largest share and the most recognized brand identity. While the sailing market continues to be our bread and butter and will continue to get a good deal of our attention, it is smaller. We believe powerboating offers a great opportunity for us to increase our market share, and a number of the aggressive initiatives we have launched are designed to do just that. For example, our research shows that approximately half of all powerboaters use their boats primarily for fishing, so we are expanding the range of fishing equipment and related services we offer.



Whether power or sail, West Marine's market share goes up as the length of the boats owned increases. Frankly, we aren't particularly focused on competing with the Wal-Marts of the world to sell a gas can to someone who owns a 12 foot skiff. The West Advantage Program concentrates on developing repeat business and customer loyalty among people with ongoing commitments to maintaining, protecting and improving their boats. It's more cost effective and profitable to grow a business by giving your customers superior service and a wide selection of great products at convenient locations. We want to be our customer's first choice, time after time.

WHAT IS THE EXPLANATION OF THE ACCOUNTING CHARGE YOU TOOK AT THE END OF 2000?

Russell Solt: The amounts involved were accumulated a little bit at a time over an extended period. For the most part, they consisted of refunds we didn't receive from vendors for returned merchandise. When we updated our accounting systems as a part of the process of reshaping West Marine for the future, we identified this problem and saw that its cumulative effect was significant enough to warrant reporting.

You should not lose sight of the fact that without the accounting charge, our earnings for the year would have been consistent with 1999.

HOW CAN A COMPANY WHOSE REPUTATION IS BASED ON HANDS-ON CUSTOMER SERVICE COMPETE WITH THE EFFICIENCY OF THE INTERNET?

Rich Everett: West Marine launched its improved web site in mid-1999, and based on results to date it has been both successful and profitable! Although it represents a very small portion of our total business, which we currently group together with our Catalog operations, the growth is encouraging. The West Marine web site is an important part of our strategy to create a seamless shopping experience regardless of the channel chosen by the customer.

The answer to the question, though, is that we are combining the best features of our Internet site, catalog and stores to service our customers. They get to choose what works best for them. For example, our customers can exchange their Internet purchases at our stores — a convenience many online retailers don't offer. We offer almost 50,000 products on our web site — more than any store or catalog in the marine industry. Our web site is packed with West Advisor product advice to help customers choose the appropriate product for their needs. It's another way to show customers that we are committed to providing them with choices for how and where they want to do business with us.

YOU ARE IN A HIGHLY SEASONAL BUSINESS; SALES ARE OFF IN THE WINTER AND STRONG IN THE SUMMER. DOESN'T THIS MAKE IT DIFFICULT TO MANAGE YOUR INVENTORIES EFFECTIVELY?

John Edmondson: Yes it does. We've studied this area thoroughly, though, and by introducing tighter inventory controls and merchandise replenishment systems, we anticipate cost savings in 2001.

Some retailers offer deep discounts to move inventories off-season, with a corresponding weakening of profit margins. West Marine has not had to do this. In fact, our margins are improving and we expect to end the year in 2001 with lower total inventory than 2000, while opening seven new stores.

Selected Financial Data

(in thousands, except per share and operating data)

	2000	1999	1998	1997	1996
Consolidated Income Statement Data:					
Net sales [1]	**$508,364**	$491,905	$ 454,115	$ 420,511	$327,777
Income from operations	**18,266**	20,395	8,665	29,116	21,156
Income before income taxes	**12,304** [2]	14,765	2,594 [3]	25,487	19,490 [4]
Net income	**7,391** [2]	8,711	1,098 [3]	15,173	11,566 [4]
Net income per common and common equivalent share:					
Basic	**$ 0.43** [2]	$ 0.51	$ 0.06 [3]	$ 0.91	$ 0.73 [4]
Diluted	**$ 0.42** [2]	$ 0.50	$ 0.06 [3]	$ 0.86	$ 0.68 [4]
Consolidated Balance Sheet Data:					
Working capital	**$129,255**	$ 130,539	$ 143,974	$ 149,242	$ 92,948
Total assets	**307,782**	286,860	279,545	275,888	211,514
Long-term debt, net of current portion	**66,500**	71,843	94,367	92,960	37,997
Operating Data:					
Stores open at year-end	**233**	227	212	184	151
Comparable stores net sales increase	**2.3%**	1.8%	1.2%	5.0%	5.4%

(1) Shipping and handling charges billed to customers were reclassified from Cost of Goods Sold to Net Sales in order to comply with the recently issued Financial Accounting Standards Board EITF 00-10: Accounting for Shipping and Handling Charges.

(2) 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.

(3) Includes a $3.3 million pre-tax charge for expenses related to the distribution center move in 1998. The impact of this charge represents $0.08 per basic and diluted share.

(4) Includes a $3.0 million pre-tax charge for expenses related to the integration of E&B Marine, Inc. in 1996. The impact of this charge represents $0.11 and $0.10 per basic and diluted share, respectively.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Company Overview

West Marine distributes its merchandise through three divisions, Stores (retail and wholesale), Catalog (retail and Internet), and Port Supply (wholesale). West Marine operated 233 stores in 38 states and in Puerto Rico as of December 30, 2000, compared to 227 stores in 38 states as of January 1, 2000. All references to 2000, 1999, and 1998 refer to the Company's fiscal years ended on December 30, 2000, January 1, 2000, and January 2, 1999, respectively. 2000, 1999 and 1998 were 52-week years.

Results of Operations

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

	2000	1999	1998
Net sales	**100.0%**	100.0%	100.0%
Cost of goods sold including buying and occupancy	**73.0%**	73.5%	75.0%
Gross profit	**27.0%**	26.5%	25.0%
Selling, general and administrative expenses	**23.4%**	22.4%	22.4%
Expenses related to distribution center move	**—**	—	0.7%
Income from operations	**3.6%**	4.1%	1.9%
Interest expense	**1.2%**	1.1%	1.3%
Income before income taxes	**2.4%**	3.0%	0.6%
Provision for income taxes	**0.9%**	1.2%	0.4%
Net income	**1.5%**	1.8%	0.2%

2000 Compared to 1999

West Marine's fiscal 2000 results reflect the initial success of some of the market development initiatives started two years ago. In 2000, West Marine achieved record net sales of $508.4 million, an increase of $16.5 million, or 3.3%, over net sales of $491.9 million in 1999. Net income of $7.4 million, or $0.42 per diluted share, in 2000 compares to net income of $8.7 million, or $0.50 per diluted share, in 1999. Results of operations for 2000 include a $2.4 million pre-tax charge ($1.5 million after-tax, or $0.08 per share) related to the writeoff of vendor receivables that were deemed uncollectible.

Net sales attributable to the Company's Stores division increased $22.3 million, or 5.6%, to $417.8 million in 2000, due to the launching of market development initiatives, including The West Advantage Program, a customer loyalty program and a private-label credit card, and the addition of nine new stores, which contributed $8.8 million to net sales growth. Three stores were closed in 2000. Comparable store net sales increased $8.6 million, or 2.3%, in 2000. Port Supply net sales decreased $0.4 million, or 0.9%, in 2000 primarily as a result of increased sales to Port Supply customers through retail stores. Catalog net sales decreased $5.2 million, or 11.7%, to $39.2 million, primarily due to a decrease in the number of catalogs circulated, the increase in the number of store locations and the erosion of sales in some international markets as a result of unfavorable changes in the exchange rate.

During the fourth quarter of 2000, West Marine reclassified shipping and handling charges billed to customers of $5.0 million, $5.4 million and $4.8 million in 2000, 1999 and 1998, respectively, from Cost of Goods Sold to Net Sales in order to comply with the recently issued Financial Accounting Standards Board EITF 00-10: Accounting for Shipping and Handling Charges.

Gross profit increased 5.3% in 2000 compared to 1999. Gross profit as a percentage of net sales increased to 27.0% in 2000 from 26.5% in 1999, primarily reflecting reduced shrinkage and lower shipping costs, as well as a shift to a more profitable product mix, offset by the $2.4 million writeoff of vendor receivables.

Selling, general and administrative expenses increased $9.0 million, or 8.2%, in 2000, primarily due to increases in direct expenses related to the growth in Stores, costs related to launching market development initiatives and consulting costs related to process improvements. Selling, general and administrative expenses as a percentage of net sales increased to 23.4% in 2000 from 22.4% in 1999.

Income from operations decreased $2.1 million, or 10.4%, from 1999 to 2000, including the $2.4 million charge for the writeoff of vendor receivables. As a percentage of net sales, income from operations decreased to 3.6% in 2000, from 4.1% in 1999.

Interest expense increased $332,000, or 5.9%, in 2000 compared to 1999, primarily as a result of higher interest rates.

1999 Compared to 1998

In 1999, net sales were $491.9 million, an increase of $37.8 million, or 8.3%, over net sales of $454.1 million in 1998. Net income of $8.7 million, or $0.50 per diluted share, in 1999 compared to net income of $1.1 million, or $0.06 per diluted share, in 1998. Results of operations for 1998 included $3.3 million of expenses incurred by the Company for the relocation and consolidation of West Marine's two East Coast distribution facilities into a single facility located in Rock Hill, South Carolina.

Net sales attributable to the Company's Stores division increased $25.7 million, or 7.0%, to $395.5 million in 1999, primarily due to the addition of 17 new stores, which contributed $10.7 million to net sales growth. Comparable store net sales increased $6.9 million, or 1.8%, in 1999. Port Supply net sales increased $8.6 million, or 23.1%, in 1999 primarily as a result of the Company's continued territory expansion, new sales marketing programs, and significant improvements in the Company's distribution center fill rates and merchandise shipment rates. Catalog net sales increased $2.7 million, or 6.5%, to $44.4 million.

Gross profit increased 14.9% in 1999 compared to 1998. Gross profit as a percentage of net sales increased to 26.5% in 1999 from 25.0% in 1998, primarily reflecting reduced distribution and shipping costs, as well as a shift to a more profitable product mix.

Selling, general and administrative expenses increased $8.5 million, or 8.4%, in 1999, primarily due to increases in direct expenses related to the growth in Stores, consulting costs related to process improvements, and higher marketing costs. Selling, general and administrative expenses as a percentage of net sales were unchanged from 1998, excluding the impact of expenses related to the distribution center move.

Income from operations increased $11.7 million, or 135.4%, from 1998 to 1999. As a percentage of net sales, income from operations increased to 4.1% in 1999, from 1.9% in 1998.

Interest expense declined $441,000, or 7.3%, in 1999 compared to 1998, primarily as a result of a lower average borrowings partially offset by a rise in interest rates.

Liquidity and Capital Resources

During 2000, the Company's primary sources of liquidity were cash flows from operations and bank borrowings. Net cash provided by operations during 2000 was $26.3 million, consisting primarily of earnings after tax of $22.6 million excluding depreciation and amortization and a $17.5 million increase in accounts payable and accrued expenses, offset by a $14.7 million increase in inventory. The inventory increase reflects the Company's commitment to increasing fill rates, which enhance sales, as well as advanced stocking of merchandise at Stores in preparation for the peak boating season. Net cash used in financing activity was $6.1 million, consisting of $8.8 million repayment of the Company's long-term debt and capital leases offset by $1.6 million borrowed on a line of credit and $0.9 million received from the exercise of stock options and the net sales of common stock pursuant to the associate stock purchase plan.

West Marine's primary cash requirements are related to capital expenditures for new stores and remodeling existing stores, including leasehold improvement costs and fixtures, and information system enhancements, and for merchandise inventory for stores. In 2000, the Company spent $20.8 million on capital expenditures. The Company expects to spend between $18.0 to $20.0 million on capital expenditures during 2001. The Company intends to pay for its expansion through cash generated from operations and bank borrowings.

At the end of 2000, the Company had outstanding a $32.0 million senior guarantee note which matures on December 23, 2004, and requires annual principal payments of $8.0 million. The note bears interest at 7.6%. The note is unsecured, and contains certain restrictive covenants including fixed charge coverage and debt to capitalization ratios and minimum net worth requirements.

The Company has an $80.0 million credit line which expires on January 2, 2003. Depending on the Company's election at the time of borrowing, the line bears interest at either the bank's reference rate or LIBOR plus a factor ranging from 1.0% to 2.25%. At the end of 2000, borrowings from the credit line were $41.1 million, bearing interest at rates ranging from 8.1% to 9.5%. At the end of 1999, borrowings from the credit line were $39.5 million bearing interest at rates ranging from 7.8% to 9.0%.

In addition, the Company has available a $2.0 million revolving line of credit with a bank, expiring January 2, 2003. The line bears interest at the bank's reference rate (9.50% at the end of 2000) and has a ten-day paydown requirement. At the end of 2000 and 1999, no amounts were outstanding under the revolving line of credit.

Both of the aforementioned credit lines are unsecured and contain various covenants which require maintaining certain financial ratios, including debt to earnings and current ratios. The covenants include minimum levels of net worth and limitations on 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.

At the end of 2000, the Company had $490,000 of outstanding stand-by letters of credit, compared to $364,000 at year-end 1999. At the end of 2000 and 1999, the Company had $484,000 and $520,000, respectively, of outstanding commercial letters of credit.

During 2000 and 1999, the weighted average interest rate on all outstanding borrowings was 7.9% and 6.9% respectively.

The Company believes existing credit facilities and cash flows from operations will be sufficient to satisfy liquidity needs through 2002.

Seasonality

Historically, the Company's business has been highly seasonal. The Company's expansion into new markets has made it even more susceptible to seasonality, as an increasing percentage of Stores' sales occur in the second and third quarters of each year. In 2000, 63.8% of the Company's net sales and all of its net income occurred during the second and third quarters, principally during the period from April through July, which represents the peak boating months in most of the Company's markets. Management expects net sales to become more susceptible to seasonality and weather as the Company continues to expand its operations.

Business Trends

West Marine's growth in net sales has been principally fueled by geographic expansion through the opening of new stores and, to a lesser extent, by comparable stores net sales increases. Although the Company believes that the Catalog and Port Supply divisions will continue to grow, future Company net sales and profit growth, if any, will be increasingly dependent on the opening and profitability of new stores.The Company's Catalog division continues to face market share erosion in markets where stores have been opened by either the Company or its competitors. Management expects this trend to continue.

The Company experienced a sales slowdown at the end of 2000 which continued into early 2001, which could adversely affect future product pricing and gross profit.

Market Risk

The Company does not undertake any specific actions to cover its exposure to interest rate risk and is not a party to any interest rate risk management transactions. The Company does not purchase or hold any derivative financial instruments.

An 82 basis point change in interest rate (10% of the Company's weighted average interest rate) affecting the Company's floating financial instruments would have an effect of approximately $339,000 on the Company's pretax income and cash flows over the next year, and would have an immaterial effect on the fair value of the Company's fixed rate financial instruments (see "Notes to Consolidated Financial Statements - Lines of Credit and Long-Term Debt").

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

The statements in this filing 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. Set forth below are certain important factors that could cause the Company's 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 change in consumer confidence and spending habits. Recent slowing of the domestic economy may adversely affect sales volumes, as well as the Company's ability to maintain current gross profit levels.

The Company's operations could be adversely affected if unseasonably cold weather, prolonged winter conditions or extraordinary amounts of rainfall were to occur during the peak boating season in the second and third quarters.

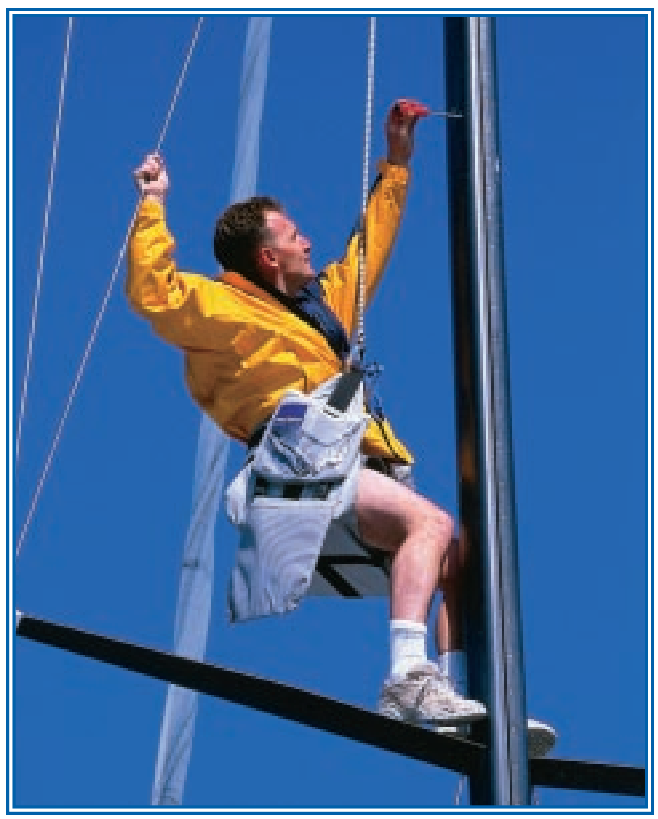
The Company's Catalog division has faced market share erosion in areas where stores have been opened by either the Company or its competitors. Management expects this trend to continue.

The Company's growth has been fueled principally by the Company's stores operations. The Company's continued growth depends to a significant degree on its ability to continue to expand its operations through the opening of new stores and to operate these stores profitably, as well as increasing net sales at its existing stores. The Company's planned expansion is subject to a number of factors, including the adequacy of the Company's capital resources and the Company's ability to locate suitable store sites and negotiate acceptable lease terms, to hire, train and integrate employees and to adapt its distribution and other operations systems.

In addition, acquisitions involve a number of risks, including the diversion of management's attention to the assimilation of the operations and personnel of the acquired business, potential adverse short-term effects on the Company's operating results, and amortization of acquired intangible assets.

The markets for recreational water sports and boating supplies are highly competitive. Competitive pressures resulting from competitors' pricing policies have adversely affected the Company's gross profit and such pressures are expected to continue.

Additional factors which may affect the Company's financial results include inventory management issues, the impact of e-commerce, fluctuations in consumer spending on recreational boating supplies, environmental regulations, demand for and acceptance of the Company's products and other risk factors disclosed from time to time in the Company's SEC filings.



Consolidated Balance Sheets

(in thousands, except share data)

	Year-End 2000	Year-End 1999
ASSETS		
Current assets:		
Cash	**$ 2,654**	$ 3,231
Accounts receivable, net	**4,964**	5,101
Merchandise inventories, net	**180,563**	165,838
Prepaid expenses and other current assets	**9,879**	9,029
Total current assets	**198,060**	183,199
Property and equipment, net	**73,481**	66,036
Intangibles and other assets, net	**36,241**	37,625
Total Assets	**$ 307,782**	$ 286,860
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 42,341**	$ 29,622
Accrued expenses	**15,641**	11,016
Deferred current liabilities	**2,094**	3,333
Current portion of long-term debt	**8,729**	8,689
Total current liabilities	**68,805**	52,660
Long-term debt	**66,500**	71,843
Deferred items and other non-current obligations	**4,217**	2,460
Total liabilities	**139,522**	126,963
Stockholders' equity:		
Preferred stock, $.001 par value: 1,000,000 shares authorized; no shares outstanding	**—**	—
Common stock, $.001 par value: 50,000,000 shares authorized; issued and outstanding: 17,321,521 at December 30, 2000 and 17,190,274 at January 1, 2000	**17**	17
Additional paid-in capital	**107,987**	107,015
Retained earnings	**60,256**	52,865
Total stockholders' equity	**168,260**	159,897
Total Liabilities and Stockholders' Equity	**$ 307,782**	$ 286,860

See notes to consolidated financial statements.

Consolidated Statements of Income

(in thousands, except per share and Store data)

	2000	1999	1998
Net sales	**$ 508,364**	$ 491,905	$ 454,115
Cost of goods sold, including buying and occupancy	**371,241**	361,629	340,775
Gross profit	**137,123**	130,276	113,340
Selling, general and administrative expense	**118,857**	109,881	101,391
Expenses related to distribution center move	**—**	—	3,284
Income from operations	**18,266**	20,395	8,665
Interest expense, net	**5,962**	5,630	6,071
Income before taxes	**12,304**	14,765	2,594
Provision for income taxes	**4,913**	6,054	1,496
Net income	**$ 7,391**	$ 8,711	$ 1,098
Net income per common and common equivalent share:			
Basic	**$ 0.43**	$ 0.51	$ 0.06
Diluted	**$ 0.42**	$ 0.50	$ 0.06
Weighted average common and common equivalent shares outstanding:			
Basic	**17,250**	17,086	16,893
Diluted	**17,558**	17,557	17,520
Stores open at end of period	**233**	227	212

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(in thousands, except per share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount			
Balance at year-end, 1997	16,786,068	$17	$ 103,245	$ 43,056	$ 146,318
Net income				1,098	1,098
Exercise of stock options	122,821		933		933
Tax benefit from exercise of non-qualified stock options			677		677
Sale of common stock pursuant to associate stock purchase plan	75,639		744		744
Balance at year-end, 1998	16,984,528	17	105,599	44,154	149,770
Net income				8,711	8,711
Exercise of stock options	67,599		276		276
Restricted stock award			138		138
Tax benefit from exercise of non-qualified stock options			113		113
Sale of common stock pursuant to associate stock purchase plan	138,147		889		889
Balance at year-end, 1999	17,190,274	17	107,015	52,865	159,897
Net income				**7,391**	**7,391**
Exercise of stock options	**29,465**		**183**		**183**
Tax benefit from exercise of non-qualified stock options			**112**		**112**
Sale of common stock pursuant to associate stock purchase plan	**101,782**		**677**		**677**
Balance at year-end, 2000	**17,321,521**	**$17**	**$ 107,987**	**$ 60,256**	**$ 168,260**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands)

	2000	1999	1998
OPERATING ACTIVITIES:			
Net income	**$ 7,391**	$ 8,711	$ 1,098
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	**15,193**	14,075	11,926
Provision for deferred income taxes	**593**	3,092	298
Provision for doubtful accounts	**189**	533	586
Loss on asset disposals	**1,208**	—	—
Non-cash compensation expense	**—**	138	—
Changes in assets and liabilities:			
Accounts receivable	**(52)**	(974)	(243)
Merchandise inventories	**(14,725)**	(5,769)	6,221
Prepaid expenses and other current assets	**(850)**	2,545	86
Other assets	**(307)**	141	(10)
Accounts payable	**12,719**	7,051	(2,870)
Accrued expenses	**4,808**	5,393	(231)
Deferred items	**112**	405	166
Net cash provided by operating activities	**26,279**	35,341	17,027
INVESTING ACTIVITY:			
Purchases of property and equipment	**(20,769)**	(18,681)	(17,487)
FINANCING ACTIVITIES:			
Net borrowings (repayments) on line of credit	**1,600**	(13,500)	950
Proceeds from long-term borrowings	**278**	—	—
Repayments on long-term debt and capital leases	**(8,825)**	(2,118)	(2,153)
Sale of common stock pursuant to associate stock purchase plan	**677**	889	744
Exercise of stock options	**183**	276	933
Net cash provided by (used in) financing activities	**(6,087)**	(14,453)	474
Net increase (decrease) in cash	**(577)**	2,207	14
Cash at beginning of period	**3,231**	1,024	1,010
Cash at end of period	**$ 2,654**	$ 3,231	$ 1,024
Other cash flow information:			
Cash paid for interest	**$ 6,028**	$ 5,836	$ 5,903
Cash paid for income taxes	**3,970**	4,302	4,918
Equipment acquired through non-cash capital lease transactions	**2,200**	—	2,545

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1: Summary Of Significant Accounting Policies

BUSINESS — West Marine, Inc. (the "Company"), a Delaware corporation, is a specialty retailer and wholesaler of boating supplies and apparel, which it markets through 233 retail stores in the United States and Puerto Rico, online and mail order catalogs.

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

FISCAL YEAR — The Company's year ends on the Saturday closest to December 31 based on a 52- or 53-week year. The years 2000, 1999, and 1998 ended on December 30, 2000, January 1, 2000, and January 2, 1999, respectively. 2000, 1999 and 1998 were 52-week years.

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.

MERCHANDISE INVENTORIES are stated at the lower of cost (first-in, first-out method) or market. 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 the catalog is mailed, over the expected net sales period, which is generally six months. Deferred catalog costs were $227,000 and $110,000 at year-end 2000 and 1999, respectively. Advertising costs, which are expensed as incurred, were $12.7 million, $14.0 million and $12.6 million in 2000, 1999 and 1998, respectively.

PROPERTY AND EQUIPMENT is stated at cost. Furniture and equipment is depreciated using the straight-line method over the estimated useful lives of the various assets, which range from three to five years. Leasehold improvements are amortized over the lesser of the lease term or the estimated useful lives of the improvements.

CAPITALIZED INTEREST — The Company's policy is to capitalize interest on major capital projects. During 2000, 1999 and 1998, the Company incurred approximately $6.8 million, $6.1 million and $6.7 million, respectively, of interest, of which approximately $833,000, $423,000 and $576,000, respectively, was capitalized.

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."

INTANGIBLES AND OTHER ASSETS — The excess of cost over tangible net assets acquired is amortized over periods ranging from 5 to 40 years. Debt issuance costs are amortized over the terms of the related credit agreements. Amortization expense was $1,155,000, $1,211,000 and $1,290,000 for 2000, 1999 and 1998, respectively. Accumulated amortization at the end of 2000 and 1999 was $6.7 million and $5.2 million, respectively.

IMPAIRMENT OF LONG-LIVED ASSETS — The Company reviews long-lived assets, including intangible assets, for impairment 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.

DEFERRED RENT — Certain of the Company's operating leases contain predetermined fixed increases of the minimum rental rate during the lease term. For these leases, the Company recognizes the related rental expense on a straight-line basis over the life of the lease and records the difference between the amount charged to rent expense and the rent paid as deferred rent.

INCOME TAXES — Income taxes are accounted for using the asset and liability method. 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.

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

STOCK-BASED COMPENSATION — The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". Accordingly, no compensation cost has been recognized for its fixed cost stock option plans or its associate stock purchase plan. In 1999, the Company recognized $138,000 of compensation expense related to a restricted stock award.

REVENUE RECOGNITION — Sales, net of estimated returns, are recorded when merchandise is shipped from a warehouse directly to customers, or when purchased by customers at retail locations.

COMPREHENSIVE INCOME — Comprehensive income equals net income for all periods presented.

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 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):

	2000		1999		1998	
	Shares	**Per Share Amount**	Shares	Per Share Amount	Shares	Per Share Amount
Basic	**17,250**	**$0.43**	17,086	$0.51	16,893	$0.06
Effect of dilutive stock options	**308**	**(0.01)**	471	(0.01)	627	0.00
Diluted	**17,558**	**$0.42**	17,557	$0.50	17,520	$0.06

Excluded from the above computations of diluted net income per share were options to purchase 3,174,000, 2,703,000 and 1,895,000 shares of common stock for 2000, 1999 and 1998, respectively, as these shares were anti-dilutive.

DERIVATIVE INSTRUMENTS — Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Company adopted SFAS 133 effective December 31, 2000. The adoption of SFAS 133, as amended, did not have a material impact on the financial position, results of operations or cash flows of the Company.

RECLASSIFICATIONS — Certain 1999 and 1998 amounts have been reclassified to conform with the 2000 presentation. Shipping and handling charges billed to customers of $5.0 million, $5.4 million and $4.8 million in 2000, 1999 and 1998, respectively, were reclassified from Cost of Goods Sold to Net Sales in order to comply with the recently issued Financial Accounting Standards Board EITF 00-10: Accounting for Shipping and Handling Charges.

Note 2: Property and Equipment

Property and equipment consisted of the following at year-end 2000 and 1999 (in thousands):

	Year-End 2000	Year-End 1999
Furniture and equipment	**$ 36,574**	$ 37,540
Computer equipment	**57,289**	44,388
Leasehold improvements	**33,172**	29,857
Land and building	**1,081**	806
Total, at cost	**128,116**	112,591
Accumulated depreciation and amortization	**(54,635)**	(46,555)
Total property and equipment, net	**$ 73,481**	$ 66,036

Note 3: Lines of Credit and Long-Term Debt

At the end of 2000, the Company had outstanding a $32.0 million senior note which matures on December 23, 2004 and requires annual principal payments of $8.0 million. The note bears interest at 7.6%. The note is unsecured, and contains certain restrictive covenants including fixed charge coverage and debt to capitalization ratios, and minimum net worth requirements.

The Company has an $80.0 million credit line which expires on January 2, 2003. Depending on the Company's election at the time of borrowing, the line bears interest at either the bank's reference rate or LIBOR plus a factor ranging from 1.0% to 2.25%. At the end of 2000, borrowings from the credit line were $41.1 million bearing interest at rates ranging from 8.1% to 9.5%.

In addition, the Company has available a $2.0 million revolving line of credit with a bank, expiring January 2, 2003. The line bears interest at the bank's reference rate (9.50% at the end of 2000) and has a ten-day paydown requirement. At the end of 2000 and 1999, no amounts were outstanding under the revolving line of credit.

Both of the aforementioned credit lines are unsecured and contain various covenants which require maintaining certain financial ratios, including debt to earnings and current ratios. The covenants include minimum levels of net worth and limitations on 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.

At the end of 2000, the Company had $490,000 of outstanding stand-by letters of credit and $484,000 of outstanding commercial letters of credit.

During 2000 and 1999, the weighted average interest rate on all outstanding borrowings was 7.9% and 6.9%, respectively.

Note 3: Lines of Credit and Long-Term Debt (cont.)

At year-end 2000 and 1999, long-term debt consisted of the following (in thousands):

	Year-End 2000	Year-End 1999
Lines of credit	**$ 41,100**	$ 39,500
Note payable	**32,000**	40,000
Capital lease obligations (interest at 3.6% to 8.7%)	**2,129**	1,032
	75,229	80,532
Less current portion of long-term debt	**(8,729)**	(8,689)
	$ 66,500	$ 71,843

At year-end 2000, future minimum principal payments on long-term debt were as follows (in thousands):

2001	$ 8,729
2002	8,774
2003	49,726
2004	8,000
	$ 75,229

Note 4: Related Party Transactions

The Company purchases merchandise from a supplier in which the Company's Principal Stockholder owns stock and is 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. The Company's cost of sales during 2000, 1999, and 1998 included $6.8 million, $7.2 million and $6.4 million, respectively, related to purchases from such related party. Accounts payable to the supplier at year-end 2000 and 1999 were $113,000 and $215,000, respectively.

The Company leases its corporate headquarters and two retail stores from three partnerships in which the Company's Principal Stockholder is the general partner (see Note 5). In addition, one retail store is leased directly from the Principal Stockholder.

Note 5: Commitments and Contingencies

The Company leases certain equipment, retail stores, its distribution centers and its corporate headquarters. The Company also sublets space at various locations with both month-to-month and noncancelable 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 and sublease income under Noncancelable leases in effect at year-end 2000 were as follows (in thousands):

	Capital Leases	Operating Leases	Sublease Income	Net Lease Commitments
2001	$ 845	$ 23,175	$ 35	$ 23,985
2002	843	21,755	15	22,583
2003	644	20,451	16	21,079
2004		17,769	5	17,764
2005		14,345		14,345
Thereafter		16,631		16,631
Total minimum lease commitment	2,332	$114,126	$ 71	$116,387
Less amount representing interest	(203)			
Present value of obligations under capital leases	2,129			
Less current portion	(729)			
Long-term obligations under capital leases	$1,400			

The cost and related accumulated amortization of assets under capital leases aggregated $3.8 million and $1.1 million, respectively, at year-end 2000, and $5.5 million and $2.1 million, respectively, at year-end 1999.

A summary of rent expense by component for 2000, 1999 and 1998 follows (in thousands):

	2000	1999	1998
Minimum rent	**$ 21,309**	$ 20,027	$ 19,219
Percent rent	**231**	176	178
Sublease income	**(147)**	(161)	(159)
Rents paid to related parties	**1,323**	1,253	1,161
	$ 22,716	$ 21,295	$ 20,399

The Company is party to various legal proceedings arising from normal business activities. Management believes that the resolution of these matters will not have a material effect on the Company's financial statements taken as a whole.

Note 6: Stock Option Plans

Fixed Stock Option Plans

The Company's 1990 Stock Option Plan ("the 1990 Plan") provides for options to be granted to employees and directors for the purchase of an aggregate of 2.1 million shares of common stock at prices not less than 100% of the fair market value at the date of grant. Options under this plan are generally exercisable equally over five years from the date of the grant, unless otherwise provided.

The Company's 1993 Omnibus Equity Incentive Plan as amended (the "1993 Plan") provides for options to be granted for the purchase of an aggregate of 5.2 million shares of common stock at prices not less than 85% of fair market value at the date of the grant. Options under this plan are generally exercisable equally over five years from the date of the grant, unless otherwise provided.

The Company's Non-employee Director Stock Option Plan ("the Director Plan") has reserved 200,000 shares of common stock for issuance to non-employee directors of the Company. Options are granted at 100% of fair market value at the date of the grant, and are generally exercisable six months after the grant date. Options under this plan are generally exercisable over ten years from the date of the grant, or within one year after a termination of services as a director occurs.

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 the Company's common stock on the grant date or purchase date. In 2000, 1999 and 1998, respectively, 101,782, 138,121 and 75,639 shares were issued under the plan. At the end of 2000, 360,257 shares were reserved for future issuances under the stock plan.

	Number of Shares	Weighted Average Exercise Price
Outstanding at year-end 1997 (1,384,874 exercisable at a weighted average price of $9.89)	2,753,381	$ 13.72
Granted (weighted average fair value at grant date: $9.16)	1,452,906	13.71
Exercised	(122,821)	7.49
Canceled	(563,357)	18.68
Outstanding at year-end 1998 (1,563,633 exercisable at a weighted average price of $10.90)	3,520,109	13.14
Granted (weighted average fair value at grant date: $6.03)	739,236	8.87
Exercised	(67,599)	4.14
Canceled	(113,344)	16.93
Outstanding at year-end 1999 (2,184,843 exercisable at a weighted average price of $11.74)	4,078,402	12.24
Granted (weighted average fair value at grant date: $5.90)	**933,405**	**8.44**
Exercised	**(29,465)**	**6.09**
Canceled	**(536,721)**	**13.43**
Outstanding at year-end 2000 (2,545,137 exercisable at a weighted average price of $11.86)	**4,445,621**	**$ 11.34**

Additional information regarding options outstanding at year-end 2000 is as follows:

Outstanding Options				Exercisable Options	
Range of Exercise Prices	Shares Outstanding	Weighted Avg. Remaining Contractual Life (Years)	Weighted Avg. Exercise Price	Shares	Weighted Avg. Exercise Price
$ 0.43 – $ 7.81	1,263,628	5.66	$ 5.77	748,352	$ 4.42
$ 8.06 – $ 12.50	2,206,201	6.87	$ 9.87	1,123,604	$ 10.92
$ 14.75 – $ 34.50	975,792	6.19	$ 21.87	673,181	$ 21.67
$ 0.43 – $ 34.50	4,445,621	6.38	$ 11.34	2,545,137	$ 11.86

At year-end 2000, 989,094 shares were available for future grants under the 1993 Plan, and 45,708 shares were available under the Director Plan. The Company does not intend to grant any additional options under the 1990 Plan.

Note 6: Stock Option Plans (cont.)

Statement of Financial Accounting Standards No. 123, "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. 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. The Company's calculations were made using the Black-Scholes option pricing model with the following weighted average assumptions: four to eight year expected life from date of grant; stock volatility of 76%, 56% and 63%, respectively, in 2000, 1999, and 1998; risk-free interest rates of 6.19% to 6.37% in 2000, 4.96% to 5.59% in 1999, and 5.03% to 5.27% in 1998; and no dividends during the expected term. The Company's calculations are based on a single option valuation approach and forfeitures are recognized as they occur. If the computed fair values of the 2000, 1999 and 1998 awards had been amortized to expense over the vesting period of the awards, pro forma net income would have been $5.7 million in 2000 ($0.33 per basic and diluted share), $7.2 million in 1999 ($0.42 per basic share and $0.41 per diluted share) and $0.1 million in 1998 ($0.01 per basic and diluted share). However, the impact of outstanding non-vested stock options granted prior to 1995 has been excluded from the proforma calculations; accordingly, the proforma adjustments may not be indicative of future period proforma adjustments.

Note 7: Income Taxes

The components of the provision for income taxes for 2000, 1999, and 1998 are as follows (in thousands):

	2000	1999	1998
Currently payable:			
Federal	**$3,689**	$ 2,646	$ 998
State	**631**	316	200
Total current	**4,320**	2,962	1,198
Deferred:			
Federal	**861**	2,791	633
State	**(268)**	301	(335)
Total deferred	**593**	3,092	298
Total current and deferred	**$4,913**	$ 6,054	$ 1,496

Note 7: Income Taxes (cont.)

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

	2000	1999	1998
Statutory federal tax rate	**35.0 %**	35.0 %	35.0 %
Non-deductible permanent items	**3.4**	3.1	18.1
State income taxes, net of federal tax benefit	**1.9**	2.7	(3.4)
Settlement of prior year's taxes	**—**	—	7.1
Other	**(0.3)**	0.2	0.9
Effective tax rate	**40.0 %**	41.0 %	57.7 %

Deferred tax assets (liabilities) consisted of the following (in thousands):

	2000	1999
Current:		
Reserves	**$ 1,162**	$ 604
Net operating loss carryforwards	**138**	139
Paid time off	**554**	649
State tax benefit	**(226)**	(137)
Deferred catalog costs	**(710)**	(823)
Capitalized inventory costs	**(3,122)**	(3,020)
Cash discounts	**(913)**	(921)
Other	**167**	176
Total current	**(2,950)**	(3,333)
Noncurrent:		
Deferred rent	**809**	671
Depreciation	**(3,602)**	(2,155)
Reserves	**195**	195
Net operating loss carryforward	**1,283**	1,402
State tax credits	**1,186**	—
Other	**90**	72
Total noncurrent	**(39)**	185
Valuation allowance	**(751)**	—
Total	**$ (3,740)**	$ (3,148)

Net deferred current tax liabilities at year-end 2000 and 1999 are included in Deferred Current Liabilities. Net non-current tax liabilities at year-end 2000 are included in Deferred Items and Other Non-Current Obligations. Net non-current tax assets at year-end 1999 are included in Intangibles and Other Assets.

At year-end 2000 for federal tax purposes, the Company has net operating loss carryforwards of approximately $725,000, which expire in 2002 and 2003. At year-end 2000 for state tax purposes, the Company has net loss carryforwards of approximately $17.5 million, which expire in the years 2002 through 2019. In addition, the Company has enterprise zone credits of $370,000 which may be used for an indefinite period of time, and South Carolina tax credits of $816,000 which expire in the years 2010 through 2015. These carryforwards are available to offset future taxable income and have been reduced by $751,000 for amounts not expected to be fully utilized.

Note 8: 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. The Company's contributions to the plan for 2000, 1999 and 1998 were $400,000, $391,000 and $366,000, respectively.

The Company has a suspended defined benefit plan ("the Defined Benefit Plan"), under which the minimum benefit contribution is calculated by the plan actuaries. The Defined Benefit Plan provides an existing participant with the excess, if any, of amounts required under the Company's pension formula over the value of the retiree's account balance as of the date the Defined Benefit Plan was suspended (January 28, 1994). A discount rate of 5.75% and 6.75% and a rate of return on assets of 8% were used by the actuary in determining the Defined Benefit Plan status at year-end 2000 and 1999, respectively. The Defined Benefit Plan invests primarily in publicly traded stocks and bonds.

The actuarial present value of the benefit obligations for 2000 and 1999 was (in thousands):

	2000	1999
Changes in Benefit Obligation		
Benefit obligation at beginning of year	**$ 3,223**	$ 3,892
Interest cost	**217**	211
Actuarial loss (gain)	**644**	(824)
Benefits paid	**(308)**	(56)
Benefit obligation at end of year	**$ 3,776**	$ 3,223
Change in Plan Assets		
Fair value of plan assets at beginning of year	**$ 3,797**	$ 3,138
Actual return on plan assets	**101**	715
Employer contribution	**—**	—
Benefits paid	**(308)**	(56)
Fair value of plan assets at end of year	**$ 3,590**	$ 3,797
Funded status	**$ (186)**	$ 574
Unrecognized net actuarial gain	**(441)**	**(1,352)**
Accrued pension liability	**$ (627)**	$ (778)
Components of Net Periodic Pension Cost		
Interest cost	**$ 217**	$ 211
Expected return on plan assets	**(301)**	(248)
Recognized net actuarial gain	**(67)**	—
Net periodic benefit	**$ (151)**	$ (37)

Note 9: Segment Information

The Company has three divisions (Stores, Catalog, and Wholesale ("Port Supply")) which all sell after-market recreational boating supplies directly to customers. The customer base overlaps between its Stores and Port Supply divisions, and between Stores and Catalog divisions. All processes for the three divisions within the supply chain are commingled, including purchases from merchandise vendors, distribution center activity, and customer delivery.

The Stores division qualifies as a reportable segment under SFAS 131 as it is the only division that represents 10% or more of the combined revenue of all operating segments when viewed on an annual basis. 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):

	2000	1999	1998
Net sales:			
Stores	**$417,806**	$ 395,519	$ 369,781
Other	**90,558**	96,386	84,334
Consolidated net sales	**$508,364**	$491,905	$ 454,115
Contribution:			
Stores	**$ 57,905**	$ 50,184	$ 45,754
Other	**11,950**	13,951	9,943
Consolidated contribution	**$ 69,855**	$ 64,135	$ 55,697
Reconciliation of consolidated contribution to net income:			
Consolidated contribution	**$ 69,855**	$ 64,135	$ 55,697
Less:			
Cost of goods sold not included in consolidated contribution	**(27,834)**	(26,609)	(28,431)
General and administrative expenses	**(23,755)**	(17,131)	(15,317)
Expenses related to distribution center move	**—**	—	(3,284)
Interest expense	**(5,962)**	(5,630)	(6,071)
Income tax expense	**(4,913)**	(6,054)	(1,496)
Net income	**$ 7,391**	$ 8,711	$ 1,098

Quarterly Financial Data

(Unaudited, in thousands, except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2000				
Net sales [2]	**$ 96,275**	**$ 185,062**	**$ 139,065**	**$ 87,962**
Gross profit	**23,223**	**57,041**	**38,268**	**18,591** [1]
Income (loss) from operations	**(2,723)**	**20,824**	**8,270**	**(8,105)** [1]
Net income (loss)	**(2,620)**	**11,354**	**4,192**	**(5,535)** [1]
Net income (loss) per share:				
Basic	**$ (0.15)**	**$ 0.66**	**$ 0.24**	**$ (0.32)** [1]
Diluted	**$ (0.15)**	**$ 0.65**	**$ 0.24**	**$ (0.32)** [1]
Stock trade price:				
High	**$ $10\frac{1}{2}$**	**$ $9\frac{15}{16}$**	**$ $9\frac{1}{2}$**	**$ $8\frac{1}{2}$**
Low	**$ $8\frac{3}{8}$**	**$ $6\frac{1}{2}$**	**$ $6\frac{9}{16}$**	**$ $3\frac{1}{2}$**
Fiscal 1999				
Net sales [2]	$ 94,551	$ 178,960	$ 130,259	$ 88,135
Gross profit	22,128	53,041	35,511	19,596
Income (loss) from operations	(2,997)	19,354	6,347	(2,309)
Net income (loss)	(2,778)	10,505	3,085	(2,101)
Net income (loss) per share:				
Basic	$ (0.16)	$ 0.61	$ 0.18	$ (0.12)
Diluted	$ (0.16)	$ 0.60	$ 0.18	$ (0.12)
Stock trade price:				
High	$ $13\frac{1}{16}$	$ $14\frac{15}{16}$	$ $13\frac{7}{8}$	$ 9
Low	$ $8\frac{1}{2}$	$ $8\frac{5}{16}$	$ 8	$ $7\frac{9}{16}$

(1) Results of operations for the fourth quarter of 2000 include a $2.4 million pre-tax charge ($1.5 million after tax, or $0.08 per share), related to the writeoff of vendor receivables deemed uncollectible.

(2) Net sales includes the reclassification of shipping and handling charges billed to customers which were previously reported in Cost of Goods Sold.

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

Independent Auditors' Report

Deloitte & Touche

The Board of Directors and Stockholders
West Marine, Inc.:

We have audited the accompanying consolidated balance sheets of West Marine, Inc. and subsidiaries (the "Company") as of December 30, 2000 and January 1, 2000 and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 30, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 and 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 the Company at December 30, 2000 and January 1, 2000 and the results of its operations and its cash flows for each of the three years in the period ended December 30, 2000 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

San Francisco, California
March 14, 2001

Company Data

Board of Directors

Randolph K. Repass
Chairman of the Board

John Edmondson
President and Chief Executive Officer
of the Company

Richard E Everett
Chief Operating Officer of the Company

James P. Curley
Senior Vice President and Chief Financial Officer,
OpenTable, Inc.

Geoffrey A. Eisenberg
Chief Executive Officer,
Salz Leathers, Inc.

David McComas
President and Chief Operating Officer,
Eye Care Centers of America, Inc.

Walter Scott
Chairman of the Board,
Scott, Woolf and Associates

Henry Wendt
Chairman, Global Health Care Partners,
a unit of DLJ Merchant Banking

William U. Westerfield
Board of Director's Member and Audit Committee Chairman,
Gymboree Corporation and Twinlab Corporation

Executive Officers

John Edmondson
President and Chief Executive Officer

Richard E Everett
Chief Operating Officer

Russell Solt
Executive Vice President and Chief Financial Officer

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Independent Auditors
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San Francisco, California 94105

SEC Forms
Copies of the Company's Securities and Exchange Commission annual reports on Form 10-K and quarterly reports on Form 10-Qs (exclusive of exhibits) are available without charge upon written request to:
Investor Relations
West Marine, Inc.
500 Westridge Drive
Watsonville, California 95076
(831) 761-4110

Annual Reports are also available on-line at *westmarine.com*.

The Company does not distribute quarterly reports to its stockholders.

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