

Volcom Inc
Form 10-Q
May 10, 2007

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

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2007

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: 000-51382

Volcom, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

33-0466919
(I.R.S. Employer
Identification No.)

Volcom, Inc.
1740 Monrovia Avenue
Costa Mesa, CA 92627
(Address of principal executive offices, including zip code)
(949) 646-2175
(Registrant's telephone number, including area code)

Indicate by 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 requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

(Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of May 1, 2007, there were 24,325,170 shares of the registrant's common stock, par value \$0.001, outstanding.

VOLCOM, INC.
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VOLCOM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(in thousands, except share data)

	March 31, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 88,968	\$ 85,414
Accounts receivable net of allowances of \$1,946 (2007) and \$1,323 (2006)	33,366	34,175
Inventories	11,160	13,185
Prepaid expenses and other current assets	2,376	1,383
Deferred income taxes	2,416	2,353
 Total current assets	 138,286	 136,510
 Property and equipment net	 17,618	 11,527
Investments in unconsolidated investees	298	298
Deferred income taxes	667	660
Intangible assets net	375	386
Goodwill	158	158
Other assets	275	209
 Total assets	 \$ 157,677	 \$ 149,748
 Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 6,008	\$ 8,764
Accrued expenses and other current liabilities	7,675	6,175
Income taxes payable	3,243	424
Current portion of capital lease obligations	79	78
 Total current liabilities	 17,005	 15,441
 Long-term capital lease obligations	 85	 106
Other long-term liabilities	203	204
Income taxes payable noncurrent	126	
Commitments and contingencies (Note 9)		
Stockholders equity:		
Common stock, \$.001 par value 60,000,000 shares authorized; 24,319,920 (2007) and 24,295,420 (2006) shares issued and outstanding	24	24
Additional paid-in capital	87,624	86,773
Retained earnings	52,373	47,019
Accumulated other comprehensive income	237	181
 Total stockholders equity	 140,258	 133,997

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Total liabilities and stockholders equity	\$	157,677	\$	149,748
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See accompanying notes to condensed consolidated financial statements

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VOLCOM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except share and per share data)

	Three Months Ended	
	March 31,	
	2007	2006
Revenues:		
Product revenues	\$ 49,425	\$ 40,513
Licensing revenues	1,393	1,083
Total revenues	50,818	41,596
Cost of goods sold	24,411	20,074
Gross profit	26,407	21,522
Selling, general and administrative expenses	18,345	14,836
Operating income	8,062	6,686
Other income:		
Interest income, net	1,081	737
Foreign currency gain	39	3
Total other income	1,120	740
Income before provision for income taxes	9,182	7,426
Provision for income taxes	3,700	3,000
Net income	\$ 5,482	\$ 4,426
Net income per share:		
Basic	\$ 0.23	\$ 0.18
Diluted	\$ 0.22	\$ 0.18
Weighted average shares outstanding:		
Basic	24,273,178	24,200,256
Diluted	24,374,647	24,312,946

See accompanying notes to condensed consolidated financial statements

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VOLCOM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Three Months Ended	
	March 31,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 5,482	\$ 4,426
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	533	310
Provision for doubtful accounts	146	42
Excess tax benefits related to exercise of stock options	(173)	(113)
Loss on disposal of property and equipment	15	8
Stock-based compensation	210	207
Deferred income taxes	(63)	
Changes in operating assets and liabilities:		
Accounts receivable	684	(1,493)
Inventories	2,032	3,161
Prepaid expenses and other current assets	(986)	520
Income taxes receivable/payable	2,993	2,913
Other assets	(66)	(10)
Accounts payable	(2,760)	(1,304)
Accrued expenses and other current liabilities	1,272	1,536
Other long-term liabilities	(4)	
Net cash provided by operating activities	9,315	10,203
Cash flows from investing activities:		
Purchase of property and equipment	(6,458)	(963)
Proceeds from sale of property and equipment	15	
Net cash used in investing activities	(6,443)	(963)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(20)	(17)
Proceeds from exercise of stock options	465	374
Excess tax benefits related to exercise of stock options	173	113
Net cash provided by financing activities	618	470
Effect of exchange rate changes on cash	64	8
Net increase in cash and cash equivalents	3,554	9,718
Cash and cash equivalents Beginning of period	85,414	71,712

Cash and cash equivalents	End of period	\$ 88,968	\$ 81,430
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Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest		\$ 7	\$ 4
Income taxes		\$ 770	\$ 29

Supplemental disclosures of noncash investing and financing activities:

For the three months ended March 31, 2007 and 2006, the Company accrued for \$103,000 and \$172,000 of property and equipment purchases, respectively.

See accompanying notes to condensed consolidated financial statements

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VOLCOM, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements.

In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the consolidated balance sheet as of March 31, 2007, the consolidated statement of operations for the three months ended March 31, 2007 and 2006, and the consolidated statement of cash flows for the three months ended March 31, 2007 and 2006. The results of operations for the three months ended March 31, 2007 are not necessarily indicative of the results to be expected for the year ending December 31, 2007. The condensed consolidated financial statements and notes thereto should be read in conjunction with the Company's consolidated annual financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Note 2 Stock-Based Compensation

The Company accounts for stock-based compensation under the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)). SFAS No. 123(R) requires that the Company account for all stock-based compensation using a fair-value method and recognize the fair value of each award as an expense over the service period. The Company elected to adopt SFAS No. 123(R) using the modified prospective method . Under that method, compensation expense includes the amortization of the fair value of any unvested awards outstanding at January 1, 2006 and any new awards granted subsequent to January 1, 2006. The Company also elected to use the simplified alternative method available under FASB Staff Position No. SFAS 123R-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards* (FSP No. 123R-3) for calculating historical excess tax benefits (the APIC pool) under SFAS No. 123(R) for stock-based compensation awards.

The Company is using the Black-Scholes option-pricing model to value compensation expense. Forfeitures are estimated at the date of grant based on historical employee turnover rates and reduce the compensation expense recognized. As the Company is a relatively new public entity with limited historical data, certain assumptions used in the Black-Scholes option pricing model are based on historical data of comparable public companies or historical industry data. The expected option term is estimated based upon historical data on employee exercises and management's expectation of exercise behavior. The expected volatility of the Company's stock price is based upon the historical volatility of similar entities whose share prices are publicly available. The risk-free interest rate is based upon the current yield on U.S. Treasury securities having a term similar to the expected option term. Dividend yield is estimated at zero because the Company does not anticipate paying dividends in the foreseeable future. The fair value of employee stock-based awards are amortized using the straight-line method over the vesting period.

During the three months ended March 31, 2007 and 2006, the Company recognized approximately \$210,000, or \$125,000 net of tax, and \$207,000, or \$123,000 net of tax, respectively, in stock-based compensation expense which includes the impact of all stock-based awards and is included in selling, general and administrative expenses.

SFAS No. 123(R) requires the cash flows resulting from the tax benefits from tax deductions in excess of deferred tax assets recorded for stock compensation costs to be classified as financing cash flows. For the three months ended March 31, 2007 and 2006, excess tax benefits of \$173,000 and \$113,000, respectively, were generated from option exercises and increased cash provided by financing activities.

Stock Compensation Plans In June 2005, the Company's Board of Directors and stockholders approved the 2005 Incentive Award Plan (the Incentive Plan). A total of 2,300,000 shares of common stock were initially authorized and reserved for issuance under the Incentive Plan for incentives such as stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance shares and deferred stock awards. The actual number of awards reserved for issuance under the Incentive Plan automatically increase on

the first trading day in January of each calendar year by an amount equal to 2% of the total number of shares of common stock outstanding on the last trading day in December of the preceding calendar year, but in no event will any such annual increase exceed 750,000 shares. As of March 31, 2007, there were 2,648,665 shares available for issuance

Table of Contents**VOLCOM, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

pursuant to new stock option grants or other equity awards. Under the Incentive Plan, stock options have been granted at an exercise price equal to the fair market value of the Company's stock at the time of grant. The vesting period for stock options is determined by the Board of Directors or the Compensation Committee of the Board of Directors, as applicable, and the stock options generally expire ten years from the date of grant or 90 days after employment or services are terminated.

Stock Option Awards In June 2005, the Company's Board of Directors approved the grant of 586,526 options to purchase the Company's common stock. The Company granted these options under the Incentive Plan at the effective date of the Company's initial public offering at an exercise price of \$19.00, which was equal to the initial public offering price. The stock options have vesting terms whereby 10,526 options vested immediately, 210,000 options vested on December 15, 2005 and the remaining 366,000 options vest 20% per annum over 5 years. The fair value of these awards was calculated through the use of the Black-Scholes option-pricing model assuming an exercise price equal to the fair market value of the Company's stock and the following additional significant weighted average assumptions: expected life of 4.2 years; volatility of 47.5%; risk-free interest rate of 3.73%; and no dividends during the expected term.

A summary of the Company's stock option activity under the Incentive Plan for the three months ended March 31, 2007 is as follows:

	Number of Options	Weighted- Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at January 1, 2007	487,700	\$ 19.00	
Granted			
Exercised	(24,500)	\$ 19.00	
Canceled or forfeited			
Outstanding at March 31, 2007	463,200	\$ 19.00	8.3 years
Exercisable at March 31, 2007	190,400	\$ 19.00	8.3 years

As of March 31, 2007, there was unrecognized compensation expense of \$2.0 million related to unvested stock options, which the Company expects to recognize over a weighted-average period of 3.3 years. The aggregate intrinsic value of options exercised during the three months ended March 31, 2007 and 2006 was \$447,000 and \$277,000, respectively. The aggregate intrinsic value of options outstanding and options exercisable as of March 31, 2007 was \$7.1 million and \$2.9 million, respectively. Cash received from the exercise of stock options totaled \$465,000 and \$374,000 for the three months ended March 31, 2007 and 2006, respectively. The Company issues new shares upon the exercise of options or granting of restricted stock.

Additional information regarding stock options outstanding is as follows:

	Number of Options	Weighted- Average Grant-Date Fair Value
Unvested at January 1, 2007	272,800	\$ 9.14
Granted		
Vested		
Canceled or forfeited		

Unvested at March 31, 2007 272,800 \$ 9.14

Additional information regarding stock options outstanding as of March 31, 2007 is as follows:

	Options Outstanding			Options Exercisable	
	Number of	Weighted-Average Remaining Life	Weighted-Average Exercise Price	Number of	Weighted-Average Exercise Price
Range of exercise price	Options	(yrs)	Price	Options	Price
\$19.00	463,200	8.3	\$19.00	190,400	\$19.00

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Table of Contents**VOLCOM, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

As of March 31, 2007 the total number of outstanding options vested or expected to vest (based on anticipated forfeitures) was 446,832, which had a weighted-average exercise price of \$19.00. The average remaining life of these options was 8.3 years and the aggregate intrinsic value was \$6.9 million at March 31, 2007.

Restricted Stock Awards The Company's Incentive Plan provides for awards of restricted shares of common stock. Restricted stock awards have time-based vesting and are subject to forfeiture if employment terminates prior to the end of the service period. Restricted stock awards are valued at the grant date based upon the market price of the Company's common stock and the fair value of each award is charged to expense over the service period.

In 2005, the Company granted a total of 20,000 shares of restricted stock to employees. The restricted stock awards have a purchase price of \$.001 per share and vest 20% per year over a five-year period. The total fair value of the restricted stock awards is \$660,000, of which \$33,000 was amortized to expense during each of the three month periods ended March 31, 2007 and 2006.

In 2006, the Company granted a total of 15,000 shares of restricted stock to employees. The restricted stock awards have a purchase price of \$.001 per share and vest 20% per year over a five-year period. The total value of the restricted stock awards is \$405,000, of which \$20,000 and \$4,000 was amortized to expense during the three months ended March 31, 2007 and 2006, respectively.

Restricted stock activity for the three months ended March 31, 2007 is as follows:

	Shares of Restricted Stock	Weighted- Average Grant-Date Fair Value
Outstanding restricted stock at January 1, 2007	31,000	\$ 30.09
Granted		
Vested	(1,500)	\$ 34.65
Canceled or forfeited		
Outstanding restricted stock at March 31, 2007	29,500	\$ 29.86

As of March 31, 2007, there was unrecognized compensation expense of \$770,000 related to all unvested restricted stock awards, which the Company expects to recognize on a straight-line basis over a weighted average period of approximately 3.7 years.

Nonemployee Share-Based Compensation In January 2004, the Company entered into a contractual agreement with a service provider in exchange for services to be rendered over a five-year period. As part of this agreement, the Company granted the service provider rights to receive a 25% ownership interest in the Volcom related entity that would own and operate a new retail store for the Company in Hawaii, if and when one is opened. As no plans existed to open a store in Hawaii and the award of the ownership interest was not probable, the Company had not recorded any compensation expense related to this right until December 2006. In December 2006, as the Company began working to open a retail store in Hawaii, it became probable that this ownership award would occur. As such, the Company recorded a liability and compensation expense of \$159,000 related to the fair value of this 25% ownership interest. In February 2007, this contractual agreement was amended whereby the grant to receive a 25% ownership interest in a Volcom related entity that would own and operate a new retail store in Hawaii was replaced in its entirety in exchange for a royalty on net sales of a specific retail store located in Waikiki, Hawaii. The Company will reduce the liability recorded as future royalties are earned. To the extent that future royalties under the new agreement exceed the amount of the liability recorded to date, the Company will record royalty expense on the new agreement in the period that it is incurred.

Note 3 New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB), issued Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 is effective for fiscal years

Table of Contents**VOLCOM, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

beginning after December 15, 2006. As a result of the implementation of FIN No. 48, the Company recognized a \$128,000 increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. See Note 11 to the Condensed Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not expect the adoption of SFAS No. 157 to have a material effect on its consolidated financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS No. 115*. SFAS No. 159 provides reporting entities an option to measure certain financial assets and liabilities and other eligible items at fair value on an instrument-by-instrument basis. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS No. 159 to have a material effect on its consolidated financial position or results of operations.

Note 4 Inventories

Inventories are as follows:

	March 31, 2007	December 31, 2006
	(In thousands)	
Finished goods	\$ 10,798	\$ 12,959
Work-in-process	187	41
Raw materials	175	185
	\$ 11,160	\$ 13,185

Note 5 Property and Equipment

Property and equipment are as follows:

	March 31, 2007	December 31, 2006
	(In thousands)	
Furniture and fixtures	\$ 2,205	\$ 1,869
Office equipment	1,357	1,180
Computer equipment	2,621	2,173
Leasehold improvements	1,287	1,241
Building	7,559	254
Land	4,723	1,750
Construction in progress	1,031	5,709
	20,783	14,176
Less accumulated depreciation	(3,165)	(2,649)
Property and equipment net	\$ 17,618	\$ 11,527

On May 5, 2006, the Company entered into a contract for the construction of its European headquarters in Anglet, France. The contract calls for the construction of an approximate 3,150 square meter (or approximately 34,000 square foot) facility for approximately 4.6 million Euros (approximately \$6.1 million

based on a 1 Euro to \$1.3334 U.S. dollar exchange rate as of March 31, 2007). Construction on the facility was completed in February 2007. As of March 31, 2007, there were no remaining costs to be paid under the contract.

The Company has applied for and received approval to obtain local government grants totaling approximately 800,000 Euros (approximately \$1.1 million based on a 1 Euro to \$1.3334 U.S. dollar exchange rate as of March 31, 2007). Such grants will be paid to the Company at various times during and after the European headquarters construction period and generally require the Company to maintain and operate the European headquarters for five years. To the extent that the Company does not maintain and operate the European headquarters for a five year period, certain amounts of the grants will have to be repaid to the local government at that time. As of March 31,

Table of Contents**VOLCOM, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

2007, the Company has received approximately 322,000 Euros (approximately \$429,000 based on a 1 Euro to \$1.3334 U.S. dollar exchange rate as of March 31, 2007) with respect to such grants. The Company has recorded \$223,000 of the cash received for these grants against property and equipment, as these grants support the construction of the European headquarters and will offset depreciation expense over the estimated useful life of the European headquarters, and \$206,000 as an other long-term liability, as this grant relates to the Company's employment requirements over the next five years, and will be amortized against operating expenses on a straight-line basis over the five-year period of the employment requirements.

On February 7, 2007, the Company purchased real property on the North Shore of Oahu (the Pipe House) for \$4.2 million in cash. The Pipe House will generally be used as a residence for the Company's surf team riders and for other Company marketing activities.

Note 6 Investments in Unconsolidated Investees

Since 1998, the Company has held an ownership interest in the common stock of Volcom Australia, a licensee of the Company's products located in Australia. In March 2004, the Company purchased an additional 4.8% ownership interest in Volcom Australia for \$261,000, which brought the Company's total ownership interest to 13.5%. The investment is accounted for under the cost method, as the Company does not have the ability to exercise significant influence over the financial and operating policies of the investee. At March 31, 2007 and December 31, 2006, the Company's investment in Volcom Australia was \$298,000.

Note 7 Intangible Assets

Intangible assets are as follows:

	As of March 31, 2007		As of December 31, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Customer relationships	\$ 310	\$ 44	\$ 310	\$ 36
Backlog	160	160	160	160
Non-compete agreements	40	6	40	5
Reacquired license rights	84	9	84	7
	\$ 594	\$ 219	\$ 594	\$ 208

Intangible assets other than goodwill will continue to be amortized by the Company using estimated useful lives of 6 months to 10 years with no residual values. Intangible amortization expense for the three months ended March 31, 2007 and 2006 was approximately \$11,000 and \$89,000, respectively. Annual amortization expense is estimated to be approximately \$46,000 in the fiscal years ending December 31, 2007 through 2011.

Note 8 Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities are as follows:

	March 31, 2007	December 31, 2006
	(In thousands)	
Payroll and related accruals	\$ 4,143	\$ 3,785
Other	3,532	2,390
	\$ 7,675	\$ 6,175

Table of Contents**VOLCOM, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****Note 9 Commitments and Contingencies**

Litigation The Company is involved from time to time in litigation incidental to its business. In the opinion of management, the resolution of any such matter currently pending will not have a material adverse effect on the Company's consolidated financial position or results of operations.

Indemnities and Guarantees During its normal course of business, the Company has made certain indemnities and guarantees under which it may be required to make payments in relation to certain transactions. These include (i) intellectual property indemnities to the Company's customers and licensees in connection with the use, sale and license of Company products, (ii) indemnities to various lessors in connection with facility leases for certain claims arising from such facility or lease, (iii) indemnities to vendors and service providers pertaining to claims based on the negligence or willful misconduct of the Company and (iv) indemnities involving the accuracy of representations and warranties in certain contracts. The duration of these indemnities, commitments and guarantees varies, and in certain cases, may be indefinite. The majority of these indemnities, commitments and guarantees do not provide for any limitation on the maximum potential future payments the Company could be obligated to make. The Company has not been required to record nor has it recorded any liability for these indemnities, commitments and guarantees in the accompanying consolidated balance sheets.

Note 10 Earnings Per Share

The Company calculates net income per share in accordance with SFAS No. 128, *Earnings Per Share*, as amended by SFAS No. 123(R). Under SFAS No. 128, basic net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted net income per common share reflects the effects of potentially dilutive securities, which consists solely of restricted stock and stock options using the treasury stock method. A reconciliation of the numerator and denominator used in the calculation of basic and diluted net income per share is as follows:

	Three Months Ended March 31,	
	2007	2006
	(In thousands, except share data)	
Numerator Net income	\$ 5,482	\$ 4,426
Denominator:		
Weighted average common stock outstanding for basic earnings per share	24,273,178	24,200,256
Effect of dilutive securities:		
Stock options and restricted stock	101,469	112,690
Adjusted weighted average common stock and assumed conversions for diluted earnings per share	24,374,647	24,312,946

Note 11 Income Taxes

The Company adopted the provisions of FIN No. 48 on January 1, 2007. Upon the adoption of FIN No. 48, the Company recognized a \$128,000 increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings.

At March 31, 2007, the Company has \$129,000 of total unrecognized tax benefits, all of which, if recognized, would favorably affect the effective income tax rate in any future periods. It is reasonably possible that a change in the unrecognized tax benefits could occur within the next 12 months. However, the Company anticipates that any change would not be significant and would not have a material impact on the consolidated statement of operations or consolidated balance sheet.

The Company and its subsidiaries file tax returns in the U.S. Federal jurisdiction and in many state and foreign jurisdictions. The Company is no longer subject to U.S. Federal income tax examinations for years before 2003 and is no longer subject to state and local or foreign income tax examinations by tax authorities

for years before 2002. The Company is currently not undergoing an audit in any jurisdiction.

Table of Contents**VOLCOM, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

The Company recognizes interest and/or penalties related to unrecognized tax benefits in income tax expense. As of the date of adoption, the Company recorded \$2,000 of interest and penalties, which is included in the \$128,000 liability for unrecognized tax benefits noted above. During the three months ended March 31, 2007, the Company recognized approximately \$1,000 of interest and penalties associated with uncertain tax positions.

At March 31, 2007, the Company had \$3,000 accrued for interest and penalties. To the extent interest and penalties are not assessed with respect to uncertain tax positions, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision.

Note 12 Segment Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company operates exclusively in the consumer products industry in which the Company designs, produces and distributes clothing, accessories and related products. The Company's license agreement with Volcom Europe, the licensee of the Company's products in France, expired on December 31, 2006. In anticipation of the expiration of this license agreement, the Company has recently established subsidiaries in France and Switzerland in order to take direct control of its European operations. Based on the nature of the financial information that is received by the chief operating decision maker, the Company now operates in two operating and reportable segments, the United States and Europe. The United States segment primarily includes revenues generated from customers in the United States, Canada, Asia Pacific and South America that are served by the Company's United States operations, while the European segment primarily includes revenues generated from customers in Europe that are served by the Company's European operations. All intercompany revenues and expenses are eliminated in consolidation and are not reviewed when evaluating segment performance. Each segment's performance is evaluated based on revenues, gross profit and operating income. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Information related to the Company's operating segments is as follows:

	Three Months Ended March 31,	
	2007	2006
	(In thousands)	
Total revenues:		
United States	\$ 49,214	\$ 40,645
Europe	1,604	951
Consolidated	\$ 50,818	\$ 41,596
Gross profit:		
United States	\$ 25,678	\$ 21,198
Europe	729	324
Consolidated	\$ 26,407	\$ 21,522
Operating income (loss):		
United States	\$ 9,839	\$ 6,761
Europe	(1,777)	(75)
Consolidated	\$ 8,062	\$ 6,686

Identifiable assets:		
United States	\$ 145,154	\$ 117,861
Europe	12,523	1,359
Consolidated	\$ 157,677	\$ 119,220

Table of Contents**VOLCOM, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

Although the Company operates within two reportable segments, it has several different product categories within each segment, for which the revenues attributable to each product category are as follows:

	Three Months Ended March 31,	
	2007	2006
	(In thousands)	
Mens	\$ 24,672	\$ 24,771
Girls	17,078	13,057
Snow		
Boys	3,334	2,275
Footwear	2,114	
Girls swim	1,720	
Other	507	410
Subtotal product categories	49,425	40,513
Licensing revenues	1,393	1,083
Total revenues	\$ 50,818	\$ 41,596

Other includes revenues primarily related to Volcom Entertainment, films and related accessories.

The table below summarizes product revenues by geographic regions attributed by customer location:

	Three Months Ended March 31,	
	2007	2006
	(In thousands)	
United States	\$ 35,638	\$ 30,507
Canada	8,109	5,950
Asia Pacific	1,546	1,413
Europe	1,604	951
Other	2,528	1,692
	\$ 49,425	\$ 40,513

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements due to known and unknown risks, uncertainties and other factors. The section entitled "Risk Factors" set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2006, and similar discussions in our other Securities and Exchange Commission, or SEC, filings, discuss some of the important risk factors that may affect our business, results of operations and financial condition. You should carefully consider those risks, in addition to the information in this report and in our other filings with the SEC, before deciding to purchase, hold or sell our securities. We do not have any intention or obligation to update forward-looking statements included in this Quarterly Report on Form 10-Q after the date of this Quarterly Report on Form 10-Q, except as required by law. In addition, the following discussion should be read in conjunction with the information presented in our audited consolidated financial statements and related notes contained in our Annual Report on Form 10-K for our fiscal year ended December 31, 2006.

Overview

We are an innovative designer, marketer and distributor of premium quality young mens and young womens clothing, accessories and related products under the Volcom brand name. We seek to offer products that appeal to participants in skateboarding, snowboarding and surfing, and those who affiliate themselves with the broader action sports youth lifestyle. Our clothing, which includes t-shirts, fleece, bottoms, tops, jackets, boardshorts, denim and outerwear, combines fashion, functionality and athletic performance. Our designs are infused with an artistic and creative element that we believe differentiates our products from those of many of our competitors. We develop and introduce products that we believe set the industry standard for style and quality in each of our product categories.

We have recently launched new product extensions to complement our current product offerings. These new product extensions include a complete line of sandals and slip-on footwear, branded Creedlers; a complete collection of kids clothing for young boys ages 4 to 7; and a girls swimwear line. The Creedlers and kids line began shipping in December 2006, and the girls swimwear line began shipping in February 2007.

Volcom branded products are currently sold throughout the United States and in over 40 countries internationally by either us or international licensees. We serve the United States, Canada, Latin America, Asia Pacific and Puerto Rico through our in-house sales personnel, independent sales representatives and distributors. In these areas, Volcom branded products are sold to retailers that we believe merchandise our products in an environment that supports and reinforces our brand image and provide a superior in-store experience. As of March 31, 2007, our customer base of retailers included approximately 1,350 accounts that operated approximately 3,900 store locations (of which approximately 1,150 accounts that operated approximately 2,950 stores are located in the United States) and 12 distributors in countries not serviced by our licensees. Our retail customers are primarily specialty boardsports retailers and several retail chains. Except for sales made in Canada and Europe, all of our sales are denominated in U.S. dollars.

In Europe (through the distribution of the Spring 2007 line), Australia, Indonesia, South Africa and Brazil, we have entered into licensing agreements with entities that we believe have local market insight and strong relationships with retailers in their respective territories. Products sold by our licensees can be found in over 1,000 store locations in Europe, approximately 600 store locations in Australia, over 460 store locations in Brazil, approximately 100 store locations in South Africa and approximately 90 store locations in Indonesia. We receive royalties on the sales of Volcom branded products sold by our licensees. Our license agreements specify design and quality standards for the Volcom branded products distributed by our licensees. Our licensees are not controlled and operated by us, and the amount of our licensing revenues could decrease in the future. As these license agreements expire, we may assume direct responsibility for serving these licensed territories. We have established our own operations in Europe in the anticipation of the expiration of our licensing agreement with our European licensee, which expired on December 31, 2006. Pursuant to an agreement between us and Volcom Europe (our ex-European licensee), Volcom Europe will produce and distribute the Spring 2007 Volcom line in Europe and pay us our same royalty rate as required under the license agreement. We expect to experience a decrease in our licensing revenues after Volcom Europe distributes the Spring 2007 line in Europe and an increase in our selling, general and

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administrative expense while we build the necessary infrastructure and hire employees to establish our own operations in Europe. However, we anticipate our product revenues will begin to increase in Europe in the second half of 2007 once we begin to recognize revenue from the direct sale of our products in this territory.

As part of our strategy to take direct control of our European operations, we have recently completed the construction of our European headquarters in Anglet, France, delivered samples to the sales team for use in their meetings with customer accounts and we are continually building the necessary infrastructure to support these European operations. Our current European team consists of 48 employees made up of design, production, sales, information technology, and management positions. In February 2007, we completed the construction of our European headquarters in Anglet, France. The construction contract called for the construction of an approximate 3,150 square meter (or approximately 34,000 square foot) office and distribution facility for 4.6 million Euros (approximately \$6.1 million based on a 1 Euro to \$1.3334 U.S. dollar exchange rate as of March 31, 2007). We have applied for and received approval to obtain local government grants totaling approximately 800,000 Euros (approximately \$1.1 million based on a 1 Euro to \$1.3334 U.S. dollar exchange rate as of March 31, 2007). Such grants will be paid to us at various times during and after our European headquarters construction period and generally require us to maintain and operate our European headquarters for five years. As of March 31, 2007, we have received approximately 322,000 Euros (approximately \$429,000 based on a 1 Euro to \$1.3334 U.S. dollar exchange rate as of March 31, 2007) with respect to such grants. We also acquired Welcom Distribution SARL, or Welcom, the distributor of Volcom branded products in Switzerland, during October 2005.

Our revenues increased from \$57.1 million in 2002 to \$205.3 million in 2006. Our revenues were \$50.8 million for the three months ended March 31, 2007, an increase of \$9.2 million, or 22.2%, compared to \$41.6 million for the three months ended March 31, 2006. Based upon our experience and consumer reaction to our products and brand image, we believe that the increase in our revenues during these periods resulted primarily from increased brand recognition and growing acceptance of our products at existing retail accounts. We believe that our marketing programs, product designs and product quality, and our relationships with our retailers contributed to this increased demand and market penetration. In addition, the increase in our revenues can be attributed to sales of our recently introduced Creedlers and girls swim product. Further, several of our largest retailers have opened additional stores and those store openings likely have contributed to an increase in our product revenues; however, period-over-period increases in our product revenues as judged solely by additional store openings by our largest retailers may not be a useful or accurate measure of revenue increases because our products may not be carried in every new store. Growth of our revenues will depend in part on the demand for our products by consumers, our ability to effectively distribute our products and our ability to design products consistent with the changing fashion interests of boardsports participants and those who affiliate themselves with the broader action sports youth lifestyle.

Sales to Pacific Sunwear increased 9%, or \$0.9 million, for the three months ended March 31, 2007 compared to the three months ended March 31, 2006. However, we may see sales to Pacific Sunwear decline, and we currently expect a mid-single digit decrease in sales to Pacific Sunwear for 2007 compared to 2006. It is unclear where our sales to Pacific Sunwear will trend in the longer term. Pacific Sunwear remains an important customer for us and we are working both internally and with Pacific Sunwear to maximize our business with them. We believe our brand continues to be an important part of the Pacific Sunwear business. We also recognize that any customer concentration creates risks and we are, therefore, assessing strategies to lessen our concentration with Pacific Sunwear.

Our gross margins are affected by our ability to accurately forecast demand and avoid excess inventory by matching purchases of finished goods to pre-season orders, which decreases our percentage of sales at discount or close-out prices. Gross margins are also impacted by our ability to control our sourcing costs and, to a lesser extent, by changes in our product mix. Our gross margins have also historically been seasonal, with the first quarter having the highest margin. If we misjudge forecasting inventory levels or our sourcing costs increase and we are unable to raise our prices, our gross margins may decline.

We currently source the substantial majority of our products from third-party manufacturers located primarily in China, Macau, India and Mexico. As a result, we may be adversely affected by the disruption of trade with these countries, the imposition of new regulations related to imports, duties, taxes and other charges on imports, and significant decreases in the value of the U.S. dollar against foreign currencies. We seek to mitigate the possible disruption in product flow by diversifying our manufacturing across numerous

manufacturers and by using

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manufacturers in countries that we believe to be politically stable. We do not enter into long-term contracts with our third-party manufacturers. Rather, we typically enter into contracts with each manufacturer to produce one or more product lines for a particular selling season. This strategy has enabled us to maintain flexibility in our sourcing.

Our products manufactured abroad are subject to U.S. customs laws, which impose tariffs as well as import quota restrictions for textiles and apparel. Quota represents the right, pursuant to bilateral or other international trade arrangements, to export amounts of certain categories of merchandise into a country or territory pursuant to a visa or license. Pursuant to the Agreement on Textiles and Clothing, quota on textile and apparel products was eliminated for World Trade Organization, or WTO, member countries, including the United States, Canada and European countries, on January 1, 2005. During 2005, the United States and China agreed to a new quota arrangement, which will impose quotas on certain textile products that will impact our business through 2008. While we do not believe the limitations on imports from China will have a material effect on our operations, we intend to closely monitor our sourcing in China to avoid disruptions.

Over the past five years, our selling, general and administrative expenses have increased on an absolute dollar basis as we have increased our spending on marketing, advertising and promotions, strengthened our management team and hired additional personnel. As a percentage of revenues, however, our selling, general and administrative expenses have decreased from 31.7% in 2002 to 28.5% in 2006. This was largely because some of our expenses were fixed and did not increase at the same rate as that of our revenues. However, selling, general and administrative expenses as a percentage of revenues have increased from 35.6% for the three months ended March 31, 2006 to 36.1% for the three months ended March 31, 2007. This increase was primarily due to the hiring of additional personnel as we develop our infrastructure domestically and abroad and costs related to the transition of our European operations from a licensee model to direct control without obtaining any revenue to offset or leverage the additional expenses.

Critical Accounting Policies

Our condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. To prepare these financial statements, we must make estimates and assumptions that affect the reported amounts of assets and liabilities. These estimates also affect our reported revenues and expenses. Judgments must also be made about the disclosure of contingent liabilities. Actual results could be significantly different from these estimates. We believe that the following discussion addresses the accounting policies that are necessary to understand and evaluate our reported financial results.

Revenue Recognition

Revenues are recognized upon shipment, at which time transfer of title occurs and risk of ownership passes to the customer. Generally, we extend credit to our customers and do not require collateral. Our payment terms are typically net-30 with terms up to net-120 for snow category products. None of our sales agreements with any of our customers provides for any rights of return. However, we do approve returns on a case-by-case basis at our sole discretion to protect our brand and our image. Allowances for estimated returns are provided when product revenues are recorded based on historical experience and are reported as reductions in product revenues. Allowances for doubtful accounts are reported as a component of selling, general and administrative expenses when they arise.

Licensing revenues are recorded when earned based on a stated percentage of the licensees' sales of Volcom branded products.

Accounts Receivable

Throughout the year, we perform credit evaluations of our customers, and we adjust credit limits based on payment history and the customer's current creditworthiness. We continuously monitor our collections and maintain an allowance for doubtful accounts based on our historical experience and any specific customer collection issues that have been identified. Historically, our losses associated with uncollectible accounts have been consistent with our estimates, but there can be no assurance that we will continue to experience the same credit loss rates that we have experienced in the past. Unforeseen, material financial difficulties of our customers could have an adverse impact on our profits.

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Inventories

We value inventories at the lower of the cost or the current estimated market value of the inventory. We regularly review our inventory quantities on hand and adjust inventory values for excess and obsolete inventory based primarily on estimated forecasts of product demand and market value. Demand for our products could fluctuate significantly. The demand for our products could be negatively affected by many factors, including the following:

changes in consumer preferences;

unseasonable weather; and

weakened economic conditions.

Some events, including terrorist acts or threats and trade restrictions and safeguards, could also interrupt the production and importation of our products or otherwise increase the cost of our products. As a result, our operations and financial performance could be negatively affected. Additionally, our estimates of product demand and market value could be inaccurate, which could result in excess and obsolete inventory.

Goodwill and Intangible Assets

We account for goodwill and intangible assets in accordance with SFAS No. 142, *Goodwill and Intangible Assets*. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are not amortized but are tested for impairment annually and also in the event of an impairment indicator. As required by SFAS No. 142, we evaluate the recoverability of goodwill based on a two-step impairment test. The first step compares the fair value of each reporting unit with its carrying amount, including goodwill. If the carrying amount exceeds the fair value, then the second step of the impairment test is performed to measure the amount of any impairment loss. Fair value is determined based on estimated future cash flows, discounted at a rate that approximates our cost of capital. Such estimates are subject to change and we may be required to recognize an impairment loss in the future. Any impairment losses will be reflected in operating income.

Long-Lived Assets

We acquire assets in the normal course of our business. We evaluate the recoverability of the carrying amount of these long-lived assets (including fixed assets) whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss would be recognized when the carrying value exceeds the undiscounted future cash flows estimated to result from the use and eventual disposition of the asset. Impairments, if any, would be recognized in operating earnings. We continually use judgment when applying these impairment rules to determine the timing of the impairment tests, the undiscounted cash flows used to assess impairments, and the fair value of a potentially impaired asset. The reasonableness of our judgment could significantly affect the carrying value of our long-lived assets.

Investments in Unconsolidated Investees

We account for our investments in unconsolidated investees using the cost method if we do not have the ability to exercise significant influence over the operating and financial policies of the investee. We assess such investments for impairment when there are events or changes in circumstances that may have a significant adverse effect on the fair value of the investment. If, and when, an event or change in circumstances that may have a significant adverse effect on the fair value of the investment is identified, we estimate the fair value of the investment and, if the reduction in value is determined to be other than temporary, we record an impairment loss on the investment.

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We account for our investments in unconsolidated investees using the equity method of accounting if we have the ability to exercise significant influence over the operating and financial policies of the investee. We evaluate such investments for impairment if an event or change in circumstances occurs that may have a significant adverse effect on the fair value of the investment. If, and when, an event is identified, we estimate the fair value of the investment and, if the reduction in value is determined to be other than temporary, we record an impairment loss on the investment.

Athlete Sponsorships

We establish relationships with professional athletes in order to promote our products and brand. We have entered into endorsement agreements with professional skateboarding, snowboarding and surfing athletes. Many of these contracts provide incentives for magazine exposure and competitive victories while wearing or using our products. It is not possible to determine the precise amounts we will be required to pay under these agreements, as they are subject to many variables. The actual amounts paid under these agreements may be higher or lower than expected due to the variable nature of these obligations. We expense these amounts as they are incurred.

Income Taxes

We adopted the provisions of Financial Accounting Standards Board Interpretation No. 48 (FIN No. 48), *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Under FIN No. 48, we must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. As a result of the implementation of FIN No. 48, we recognized a \$0.1 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. See Note 11 to the Condensed Consolidated Financial Statements for further discussion.

We record a provision and liability for Federal and state income taxes using an annual effective tax rate. Deferred income taxes are recorded at our effective tax rate. Management's judgment is required in assessing the realizability of our deferred tax assets. We consider future taxable income and ongoing prudent and feasible tax planning strategies in assessing the value of our deferred tax assets. If we determine that it is more likely than not that these assets will not be realized, we would reduce the value of these assets to their expected realizable value, thereby decreasing net income. Evaluating the value of these assets is necessarily based on our judgment. If we subsequently determined that the deferred tax assets that had been written down would, in our judgment, be realized in the future, the value of the deferred tax assets would be increased, thereby increasing net income in the period when that determination was made.

Stock-Based Compensation

Since January 1, 2006, we have accounted for stock-based compensation in accordance with SFAS No. 123 (revised 2004), *Share-Based Payment*. SFAS No. 123(R) requires that we account for all stock-based compensation transactions using a fair-value method and recognize the fair value of each award as an expense over the service period. The fair value of restricted stock awards is based upon the market price of our common stock at the grant date. We estimate the fair value of stock option awards, as of the grant date, using the Black-Scholes option-pricing model. The use of the Black-Scholes model requires that we make a number of estimates, including the expected option term, the expected volatility in the price of our common stock, the risk-free rate of interest and the dividend yield on our common stock. If our expected option term and stock-price volatility assumptions were different, the resulting determination of the fair value of stock option awards could be materially different. In addition, judgment is also required in estimating the number of share-based awards that we expect will ultimately vest upon the fulfillment of service conditions (such as time-based vesting). If the actual number of awards that ultimately vest differs significantly from these estimates, stock-based compensation expense and our results of operations could be materially impacted.

Table of Contents**Foreign Currency Translation**

Substantially all of our sales have been made in U.S. dollars except for sales made in Canada, which are made in Canadian dollars. As a result, we are exposed to transaction gains and losses that result from movements in foreign currency exchange rates. As our Canadian sales, accounts receivable, accounts payable and cash balances have historically been a small portion of our revenues, assets and liabilities, we do not generally hedge our exposure to foreign currency rate fluctuations, and therefore we are exposed to foreign currency risk. Changes in our assets and liabilities that are denominated in Canadian dollars are translated into U.S. dollars at the rate of exchange on the balance sheet date, and are reflected in our statement of operations.

We own subsidiaries in Switzerland and France, which operate with the Swiss Franc and Euro as their functional currency, respectively. Our assets and liabilities that are denominated in foreign currencies are translated at the rate of exchange on the balance sheet date. Revenues and expenses are translated using the average exchange rate for the period. Gains and losses from translation of foreign subsidiary financial statements are included in accumulated other comprehensive income or loss.

General

Our revenues consist of both our product revenues and our licensing revenues. Our product revenues are derived primarily from the sale of young mens and young womens clothing, accessories and related products under the Volcom brand name. We offer apparel and accessory products in six main categories: mens, girls, boys, footwear, girls swim and snow. Product revenues also include revenues from music and film sales. Amounts billed to customers for shipping and handling are included in product revenues. Licensing revenues consist of royalties on product sales by our international licensees in Europe, Australia, Indonesia, South Africa and Brazil.

Our cost of goods sold consists primarily of product costs, retail packaging, freight costs associated with shipping goods to customers, quality control and inventory shrinkage. There are no cost of goods sold associated with our licensing revenues.

Our selling, general and administrative expenses consist primarily of wages and related payroll and employee benefit costs, handling costs, sales and marketing expenses, advertising costs, legal and accounting professional fees, insurance, utilities and other facility related costs, such as rent and depreciation.

Results of Operations

The following table sets forth selected items in our consolidated statements of operations for the periods presented, expressed as a percentage of revenues:

	Three Months Ended March 31,	
	2007	2006
Revenues	100.0%	100.0%
Cost of goods sold	48.0	48.3
Gross profit	52.0	51.7
Selling, general and administrative expenses	36.1	35.6
Operating income	15.9	16.1
Other income (expense)	2.2	1.8
Income before provision for income taxes	18.1	17.9
Provision for income taxes	7.3	7.3
Net income	10.8	10.6

Table of Contents**Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006*****Revenues***

Revenues were \$50.8 million for the three months ended March 31, 2007, an increase of \$9.2 million, or 22.2%, compared to \$41.6 million for the three months ended March 31, 2006. Revenues from our top five customers were \$18.9 million for the three months ended March 31, 2007, an increase of \$2.4 million, or 14.8%, compared to \$16.5 million for the three months ended March 31, 2006, with Pacific Sunwear accounting for \$0.9 million of the \$2.4 million increase. We believe our revenue growth was driven primarily by the increasing popularity of our brand across our target market and increasing acceptance of our products at retail as a result of marketing and advertising programs that effectively promoted our brand, a compelling product offering, high quality standards and strong relationships with our retailers. In addition, the increase in our revenues can be attributed to sales of our recently introduced Creedlers and girls swim product. Further, several of our largest retailers have opened additional stores over the last year and those store openings likely have contributed to an increase in our product revenues; however, period-over-period increases in our product revenues as judged solely by additional store openings by our largest retailers may not be a useful or accurate measure of revenue increases because our products may not be carried in every new store.

Product revenues were \$49.4 million for the three months ended March 31, 2007, an increase of \$8.9 million, or 22.0%, compared to \$40.5 million for the three months ended March 31, 2006. Of the \$8.9 million increase in product revenues, increases in girls products and boys products accounted for \$5.1 million of that increase. Revenues from girls products increased \$4.0 million, or 30.8%, to \$17.1 million for the three months ended March 31, 2007 compared to \$13.1 million for the three months ended March 31, 2006 and revenues from boys products, which includes our new line of kids clothing for young boys ages 4 to 7, increased \$1.1 million, or 46.5% to \$3.3 million for the three months ended March 31, 2007 compared to \$2.2 million for the three months ended March 31, 2006. Revenues from our recently introduced Creedler footwear line and girls swim line were \$2.1 million and \$1.7 million, respectively, for the three months ended March 31, 2007 compared to zero and zero, respectively, for the three months ended March 31, 2006. Revenues from mens products decreased \$0.1 million, or 0.4%, to \$24.7 million for the three months ended March 31, 2007 compared to \$24.8 million for the three months ended March 31, 2006. This decrease is solely due a decrease in sales of mens products to Pacific Sunwear.

Licensing revenues increased 28.6% to \$1.4 million for the three months ended March 31, 2007 from \$1.1 million for the three months ended March 31, 2006. The increase in licensing revenues was a result of increased sales by our international licensees, particularly those in Europe and Australia.

Product revenues in the United States were \$35.6 million, or 72.1% of our product revenues for the three months ended March 31, 2007, compared to \$30.5 million, or 75.3% of our product revenues for the three months ended March 31, 2006. Product revenues in the rest of the world consist primarily of product revenues from sales in Canada and Japan and do not include sales by our international licensees. Such product revenues in the rest of the world were \$13.8 million, or 27.9% of our product revenues, for the three months ended March 31, 2007 compared to \$10.0 million, or 24.7% of our product revenues, for the three months ended March 31, 2006.

Gross Profit

Gross profit increased \$4.9 million, or 22.7%, to \$26.4 million for the three months ended March 31, 2007 compared to \$21.5 million for the three months ended March 31, 2006. Gross profit as a percentage of revenues, or gross margin, increased 0.3% to 52.0% for the three months ended March 31, 2007 compared to 51.7% for the three months ended March 31, 2006. Gross margin related specifically to product revenues increased 0.1% to 50.6% for the three months ended March 31, 2007 compared to 50.5% for the three months ended March 31, 2006. The gross margin remained relatively consistent as there were no unexpected changes to the quota system agreed to in November 2005 by the United States of America and China, where many of our products are manufactured.

Table of Contents***Selling, General and Administrative Expenses***

Selling, general and administrative expenses increased \$3.5 million, or 23.6%, to \$18.3 million for the three months ended March 31, 2007 compared to \$14.8 million for the three months ended March 31, 2006. The increase in absolute dollars was due primarily to increased expenses of \$2.0 million related to the transition of our European operations from a licensee model to direct control, increased payroll and payroll-related expenses of \$1.1 million due to expenditures on infrastructure and personnel, increased sales commission expenses of \$0.3 million resulting from our increased product revenues, increased depreciation and amortization expense of \$0.2 million, and an increase of \$0.8 million in various other expense categories. The above increases are offset by decreased advertising costs of \$0.9 million. As a percentage of revenues, selling, general and administrative expenses increased to 36.1% for the three months ended March 31, 2007 from 35.6% for the three months ended March 31, 2006, which is due primarily to the factors mentioned above.

Operating Income

As a result of the factors above, operating income for the three months ended March 31, 2007 increased \$1.4 million to \$8.1 million compared to \$6.7 million for the three months ended March 31, 2006. Operating income as a percentage of revenue decreased to 15.9% for the three months ended March 31, 2007 from 16.1% for the three months ended March 31, 2006.

Other Income

Other income primarily includes net interest income and foreign currency gains and losses. Interest income for the three months ended March 31, 2007 and 2006 was \$1.1 million and \$0.7 million, respectively. This increase in interest income was due to higher interest returns on invested cash. Foreign currency gain increased to \$39,000 for the three months ended March 31, 2007 compared to \$3,000 for the three months ended March 31, 2006 due primarily to fluctuations in the Canadian exchange rate.

Provision for Income Taxes

We adopted the provisions of FIN No. 48 on January 1, 2007. As a result of the implementation of FIN No. 48, we recognized a \$0.1 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. See Note 11 to the Condensed Consolidated Financial Statements for further discussion.

We have computed our provision for income taxes for the three months ended March 31, 2007 using an estimated effective annual tax rate of 40.3%. The provision for income taxes increased \$0.7 million to \$3.7 million for the three months ended March 31, 2007 compared to \$3.0 million for the three months ended March 31, 2006.

Net Income

As a result of the factors above, net income increased \$1.1 million, or 23.8%, to \$5.5 million for the three months ended March 31, 2007 from \$4.4 million for the three months ended March 31, 2006.

Liquidity and Capital Resources

Our primary cash needs are working capital and capital expenditures. These sources of liquidity may be impacted by fluctuations in demand for our products, ongoing investments in our infrastructure and expenditures on marketing and advertising.

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The following table sets forth, for the periods indicated, our beginning balance of cash and cash equivalents, net cash flows from operating, investing and financing activities and our ending balance of cash and cash equivalents:

	Three Months Ended March 31,	
	2007	2006
	(In thousands)	
Cash and cash equivalents at beginning of period	\$ 85,414	\$ 71,712
Cash flow from operating activities	9,315	10,203
Cash flow from investing activities	(6,443)	(963)
Cash flow from financing activities	618	470
Effect of exchange rate on cash	64	8
Cash and cash equivalents at end of period	\$ 88,968	\$ 81,430

Cash from operating activities consists primarily of net income adjusted for certain non-cash items including depreciation, deferred income taxes, provision for doubtful accounts, excess tax benefits related to the exercise of stock options, loss on disposal of property and equipment, stock-based compensation and the effect of changes in working capital and other activities. For the three months ended March 31, 2007 and 2006, cash from operating activities was \$9.3 million and \$10.2 million, respectively. The \$0.9 million decrease in cash from operating activities between the periods was attributable to the following:

(In thousands)	Attributable to
\$ (1,724)	Decrease in cash flows from accounts payable, accrued expenses and other long-term liabilities due to timing of payments and increased payroll accruals and other liabilities.
(1,506)	Decrease in cash flows due to an increase in prepaid expenses and other assets.
(1,129)	Decrease in cash flows due to a slower rate of decrease in our inventory levels between periods.
2,177	Increase in cash flows from accounts receivable due to the timing of sales and collections.
1,056	Increase in net income.
330	Increase in non-cash depreciation, provision for doubtful accounts and stock-based compensation.
(92)	Net decrease in cash flows from all other operating activities.
\$ (888)	Total

Cash used in investing activities was \$6.4 million and \$1.0 million for the three months ended March 31, 2007 and 2006, respectively. The increase in cash used in investing activities was primarily due to payments for the construction of our European headquarters in Anglet, France, the purchase of real property on the North Shore of Oahu (the Pipe House) for \$4.2 million and the ongoing purchase of investments in computer equipment, warehouse equipment, marketing initiatives and in-store buildouts at customer retail locations.

Cash provided by financing activities was \$0.6 million and \$0.5 million for the three months ended March 31, 2007 and 2006, respectively, and is primarily due to the proceeds and excess tax benefits related to the exercise of stock options.

We currently have no material cash commitments, except our normal recurring trade payables, expense accruals, operating leases, capital leases, and athlete endorsement agreements. We believe that our cash and cash equivalents, cash received from our initial public offering, cash flow from operating activities and available borrowings under our credit facility will be sufficient to meet our capital requirements for at least the next twelve months.

Credit Facilities

In July 2006, we entered into a \$20.0 million unsecured credit agreement with Bank of the West (which includes a line of credit, foreign exchange facility and letter of credit sub-facilities). The credit agreement, which expires on August 31, 2008, may be used to fund our working capital requirements. Borrowings under this agreement bear interest, at our option, either at the bank's prime rate (8.25% at March 31, 2007) or LIBOR plus 1.50%. Under this credit facility, we had \$1.2 million outstanding in letters of credit at March 31, 2007. At March 31, 2007 there were no outstanding borrowings under this credit facility, and \$18.8 million was available under the credit facility. The

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credit agreement requires compliance with conditions precedent that must be satisfied prior to any borrowing, as well as ongoing compliance with specified affirmative and negative covenants, including covenants related to our financial condition, including requirements that we maintain a minimum net profit after tax and a minimum effective tangible net worth. At March 31, 2007, we were in compliance with all restrictive covenants.

Contractual Obligations and Commitments

We did not have any off-balance sheet arrangements or outstanding balances on our credit facility as of March 31, 2007. The following table summarizes, as of March 31, 2007, the total amount of future payments due in various future periods:

	Total	Payments Due by Period (in thousands)					
		Apr. 1 - Dec. 31, 2007	2008	2009	2010	2011	Thereafter
Operating lease obligations	\$ 12,289	\$ 1,488	\$ 2,666	\$ 2,262	\$ 1,968	\$ 1,777	\$ 2,128
Capital lease obligations	175	65	76	34			
Professional athlete sponsorships	5,295	3,072	1,839	384			
Contractual letters of credit	1,150	1,150					
Total	\$ 18,909	\$ 5,775	\$ 4,581	\$ 2,680	\$ 1,968	\$ 1,777	\$ 2,128

We lease certain land and buildings under non-cancelable operating leases. The leases expire at various dates through 2009, excluding extensions at our option, and contain provisions for rental adjustments, including in certain cases, adjustments based on increases in the Consumer Price Index. The leases generally contain renewal provisions for varying periods of time.

We lease computer and office equipment pursuant to capital lease obligations. These leases bear interest at rates ranging from 3.4% to 13.7% per year and expire at various dates through October 2009.

We establish relationships with professional athletes in order to promote our products and brand. We have entered into endorsement agreements with professional skateboarding, snowboarding and surfing athletes. Many of these contracts provide incentives for magazine exposure and competitive victories while wearing or using our products. It is not possible to determine the precise amounts that we will be required to pay under these agreements as they are subject to many variables. The amounts listed above are the approximate amounts of the minimum obligations required to be paid under these contracts. The additional estimated maximum amount that could be paid under our existing contracts, assuming that all bonuses, victories and similar incentives are achieved during a five year period ending March 31, 2012, is approximately \$1.9 million. The actual amounts paid under these agreements may be higher or lower than the amounts discussed above as a result of the variable nature of these obligations.

Our contractual letters of credit have maturity dates of less than one year. We use these letters of credit to purchase finished goods.

Seasonality

Historically, we have experienced greater revenues in the second half of the year than those in the first half due to a concentration of shopping around the fall and holiday seasons and pricing differences between our products sold during the first and second half of the year, as products we sell in the fall and holiday seasons generally have higher prices per unit than products we sell in the spring and summer seasons. We typically sell more of our summer products (boardshorts and t-shirts) in the first half of the year and a majority of our winter products (pants, long sleeve shirts, sweaters, fleece, jackets and outerwear) in the second half of the year. We anticipate that this seasonal impact on our revenues is likely to continue. During the two-year period ended December 31, 2006, approximately 58% of our revenues, 57% of our gross profit and 63% of our operating income were generated in the second half of the year, with the third quarter generally generating most of our operating income due to fall, holiday and snow shipments. Accordingly, our results of operations for the first and second quarters of any year are not indicative of the results we expect for the full year.

As a result of the effects of seasonality, particularly in preparation for the fall and holiday shopping seasons, our inventory levels and other working capital requirements generally begin to increase during the second quarter and into the third quarter of each year. Based on our current cash position we do not anticipate borrowing under our credit facility in the near term.

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Inflation

We do not believe inflation has had a material impact on our results of operations in the past. There can be no assurance that our business will not be affected by inflation in the future.

Vulnerability Due to Concentrations

As of March 31, 2007, our customer base of retailers located in the United States, Canada and South America included approximately 1,350 accounts that operate approximately 3,900 store locations and 12 distributors in international territories not serviced by one of our licensees. One customer, Pacific Sunwear, accounted for approximately 26% of our product revenues in 2006 and approximately 21% of our product revenues for the three months ended March 31, 2007. No other customer accounted for more than 10% of our product revenues in 2007 or 2006.

Sales to Pacific Sunwear increased 9.3%, or \$0.9 million, for the three months ended March 31, 2007 compared to the three months ended March 31, 2006. However, we may see sales to Pacific Sunwear decline, and we currently expect a mid-single digit decrease in sales to Pacific Sunwear for 2007 compared to 2006. It is unclear where our sales to Pacific Sunwear will trend in the longer term. Pacific Sunwear remains an important customer for us and we are working both internally and with Pacific Sunwear to maximize our business with them. We believe our brand continues to be an important part of the Pacific Sunwear business. We also recognize that any customer concentration creates risks and we are, therefore, assessing strategies to lessen our concentration with Pacific Sunwear.

We do not own or operate any manufacturing facilities and source our products from independently-owned manufacturers. During 2006, we contracted for the manufacture of our products with approximately 30 foreign manufacturers and five domestic screen printers. Purchases from Ningbo Jehson Textiles and Dragon Crowd totaled approximately 12% and 15%, respectively, of our product costs in 2006, and approximately 20% and 15%, respectively, of our product costs for the three months ended March 31, 2007.

Recent Accounting Pronouncements

In June 2006, the FASB issued FIN No. 48. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. As a result of the implementation of FIN No. 48, we recognized a \$0.1 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. See Note 11 to the Condensed Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We do not expect the adoption of SFAS No. 157 to have a material effect on our consolidated financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS No. 115*. SFAS No. 159 provides reporting entities an option to measure certain financial assets and liabilities and other eligible items at fair value on an instrument-by-instrument basis. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We do not expect the adoption of SFAS No. 159 to have a material effect on our consolidated financial position or results of operations.

Table of Contents**Item 3. Quantitative and Qualitative Disclosures about Market Risk.*****Foreign Currency Risk***

Substantially all of our sales have been made in U.S. dollars except for sales made in Canada, which are made in Canadian dollars. For the three months ended March 31, 2007 and March 31, 2006, we derived 16.4% and 14.7%, respectively, of our product revenues from sales in Canada. As a result, we are exposed to fluctuations in the value of Canadian dollar denominated receivables and payables, foreign currency investments, primarily consisting of Canadian dollar deposits, and cash flows related to repatriation of those investments. A weakening of the Canadian dollar relative to the U.S. dollar could negatively impact the profitability of our products sold in Canada and the value of our Canadian receivables, as well as the value of repatriated funds we may bring back to the United States from Canada. Account balances denominated in Canadian dollars are marked-to-market every period using current exchange rates and the resulting changes in the account balance are included in our income statement as other (expense) income. We do not believe that a 10% movement in all applicable foreign currency exchange rates would have a material effect on our financial position.

As our Canadian accounts receivable, accounts payable and cash balances represent a small portion of our total assets and liabilities, we do not generally hedge our exposure to foreign currency rate fluctuations. We may enter into future transactions in order to hedge our exposure to foreign currencies.

A small portion of our sales have been made by our subsidiaries located in Switzerland and France, where we operate with the Swiss Franc and Euro, respectively, as our functional currency. Our assets and liabilities that are denominated in foreign currencies are translated at the rate of exchange on the balance sheet date. Revenues and expenses are translated using the average exchange rate for the period. Gains and losses from translation of foreign subsidiary financial statements are included in accumulated other comprehensive income or loss.

We generally purchase finished goods from our manufacturers in U.S. dollars. However, we source substantially all of these finished goods abroad and their cost may be affected by changes in the value of the relevant currencies. Price increases caused by currency exchange rate fluctuations could increase our costs. If we are unable to increase our prices to a level sufficient to cover the increased costs, it could adversely affect our margins and we may become less price competitive with companies who manufacture their products in the United States.

Interest Rate Risk

We maintain a \$20.0 million unsecured credit agreement (which includes a line of credit, foreign exchange facility and letter of credit sub-facilities) with no balance outstanding at March 31, 2007. The credit agreement, which expires on August 31, 2008, may be used to fund our working capital requirements. Borrowings under this agreement bear interest, at our option, either at the bank's prime rate (8.25% at March 31, 2007) or LIBOR plus 1.50%. Based on the average interest rate on our credit facility during 2006, and to the extent that borrowings were outstanding, we do not believe that a 10% change in interest rates would have a material effect on our results of operations or financial condition.

Item 4. Controls and Procedures.**Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Our management, including our Chief Executive Officer and our Chief Financial Officer, does not expect that our disclosure controls or procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of

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controls can provide absolute assurance that all control issues and instances of fraud, if any, within Volcom have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2007, the end of the quarterly period covered by this report. The evaluation of our disclosure controls and procedures included a review of the disclosure controls and procedures objectives, design, implementation and the effect of the controls and procedures on the information generated for use in this report. In the course of our evaluation, we sought to identify data errors, control problems or acts of fraud and to confirm the appropriate corrective actions, including process improvements, were being undertaken.

Based on the foregoing, our Chief Executive Officer and our Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective and were operating at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

**PART II.
OTHER INFORMATION**

Item 1. Legal Proceedings.

We are subject to various claims, complaints and legal actions in the normal course of business from time to time. We do not believe we have any currently pending litigation of which the outcome will have a material adverse effect on our operations or financial position.

Item 1A. Risk Factors.

Certain statements contained in or incorporated by reference into this Quarterly Report on Form 10-Q, or which are otherwise made by us or on our behalf, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements that are predictive in nature, which depend upon or refer to future events or conditions, which include words such as believes, plans, anticipates, estimates, expects or similar expressions. In addition, any statements concerning future financial performance, ongoing business strategies or prospects, and possible future actions are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties, and assumptions about our company, economic and market factors and the industry in which we do business, among other things. These statements are not guaranties of future performance and we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. Actual events and results may differ materially from those expressed or forecasted in forward-looking statements due to a number of factors. Factors that could cause our actual performance and future events and actions to differ materially from such forward-looking statements, include, but are not limited to those discussed in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2006. The following are the material changes and updates from the risk factors previously disclosed in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2006.

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If we are unable to successfully implement our new distribution center and warehouse management system, our financial condition could be materially affected.

In January 2006, we announced the lease of an approximate 164,000 square foot distribution center located in Irvine, California. We are also currently implementing a more automated warehouse management system in the new distribution center than what exists in our current distribution center. The move from our current distribution center located at our headquarters to our new off-site distribution center and the implementation of the new warehouse management system could affect our ability to make on-time deliveries of the correct product to retailers during the fourth quarter of 2007 and the first quarter of 2008. If we are unable to deliver the correct products on-time to our retailers, our financial results could be materially affected.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

We did not sell any unregistered equity securities or purchase any of our securities during the period ended March 31, 2007.

We affected the initial public offering of our common stock pursuant to a Registration Statement on Form S-1 (File No. 333-124498) that was declared effective by the Securities and Exchange Commission on June 29, 2005. To date, we have used \$20.0 million of the net proceeds from the offering to distribute our estimated undistributed S corporation earnings to our S corporation stockholders, \$1.5 million to acquire all of the outstanding common stock of Welcom Distribution S.A.R.L., the sole distributor of Volcom branded products in Switzerland, and \$5.1 million for developing our infrastructure in Europe. We intend to use the remaining net proceeds for the continual development of our infrastructure in Europe, facility upgrades, marketing and advertising, enhancing and deploying our in-store marketing displays for our retailers, and working capital and other general corporate purposes. In addition, we may use a portion of the remaining proceeds to acquire products or businesses that are complementary to our own.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Submission of Matters to a Vote of Security Holders.

None

Item 5. Other Information.

None

Item 6. Exhibits.

- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURE

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.

Volcom, Inc.

Date: May 9, 2007

/s/ Douglas P. Collier
Douglas P. Collier
Chief Financial Officer, Secretary and
Treasurer (Principal Financial Officer
and Authorized Signatory)

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INDEX TO EXHIBITS

Exhibit No.	Description
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002