

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 April 30, 2010

OR

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

Commission file number 1-14229

QUIKSILVER, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

33-0199426
(I.R.S. Employer
Identification Number)

**15202 Graham Street
Huntington Beach, California
92649**

(Address of principal executive offices)
(Zip Code)

(714) 889-2200
(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 filing requirements for the past 90 days. **Yes** **No**

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes** **No**

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes** **No**

The number of shares outstanding of Registrant's Common Stock,
par value \$0.01 per share, at
June 4, 2010 was 132,596,464

QUIKSILVER, INC.

FORM 10-Q INDEX

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

QUIKSILVER, INC.

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)**

| | Three months ended April 30, | |
|---|-------------------------------------|------------------|
| | 2010 | 2009 |
| <i>In thousands, except per share amounts</i> | | |
| Revenues, net..... | \$ 468,289 | \$ 494,173 |
| Cost of goods sold | <u>219,002</u> | <u>261,055</u> |
| Gross profit | 249,287 | 233,118 |
| Selling, general and administrative expense | <u>213,416</u> | <u>202,589</u> |
| Operating income..... | 35,871 | 30,529 |
| Interest expense..... | 21,039 | 13,552 |
| Foreign currency (gain) loss | (4,614) | 1,926 |
| Other (income) expense | <u>(5)</u> | <u>172</u> |
| Income before provision for income taxes | 19,451 | 14,879 |
| Provision for income taxes..... | <u>9,419</u> | <u>9,528</u> |
| Income from continuing operations..... | 10,032 | 5,351 |
| Income (loss) from discontinued operations, net of tax | <u>602</u> | <u>(2,132)</u> |
| Net income | 10,634 | 3,219 |
| Less: net income attributable to non-controlling interest | <u>(1,210)</u> | <u>(406)</u> |
| Net income attributable to Quiksilver, Inc. | <u>\$ 9,424</u> | <u>\$ 2,813</u> |
| Income per share from continuing operations attributable to Quiksilver, Inc. .. | <u>\$ 0.07</u> | <u>\$ 0.04</u> |
| Income (loss) per share from discontinued operations attributable to Quiksilver, Inc. | <u>\$ 0.00</u> | <u>\$ (0.02)</u> |
| Net income per share attributable to Quiksilver, Inc. | <u>\$ 0.07</u> | <u>\$ 0.02</u> |
| Income per share from continuing operations attributable to Quiksilver, Inc., assuming dilution..... | <u>\$ 0.06</u> | <u>\$ 0.04</u> |
| Income (loss) per share from discontinued operations attributable to Quiksilver, Inc., assuming dilution | <u>\$ 0.00</u> | <u>\$ (0.02)</u> |
| Net income per share attributable to Quiksilver, Inc., assuming dilution | <u>\$ 0.06</u> | <u>\$ 0.02</u> |
| Weighted average common shares outstanding | <u>128,090</u> | <u>127,324</u> |
| Weighted average common shares outstanding, assuming dilution | <u>145,376</u> | <u>128,091</u> |
| Amounts attributable to Quiksilver, Inc.: | | |
| Income from continuing operations..... | \$ 8,822 | \$ 4,945 |
| Income (loss) from discontinued operations..... | <u>602</u> | <u>(2,132)</u> |
| Net income | <u>\$ 9,424</u> | <u>\$ 2,813</u> |

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)**

| | Three months ended April 30, | |
|---|-------------------------------------|------------------|
| | 2010 | 2009 |
| <i>In thousands</i> | | |
| Net income | \$ 10,634 | \$ 3,219 |
| Other comprehensive income: | | |
| Foreign currency translation adjustment..... | 1,054 | 26,845 |
| Net unrealized gain (loss) on derivative instruments, net of tax of \$3,952 (2010) and \$(7,161) (2009)..... | <u>6,984</u> | <u>(10,747)</u> |
| Comprehensive income | 18,672 | 19,317 |
| Comprehensive income attributable to non-controlling interest | <u>(1,210)</u> | <u>(406)</u> |
| Comprehensive income attributable to Quiksilver, Inc. | <u>\$ 17,462</u> | <u>\$ 18,911</u> |

See notes to condensed consolidated financial statements.

QUIKSILVER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

| | <u>Six months ended April 30,</u> | |
|--|-----------------------------------|---------------------|
| | <u>2010</u> | <u>2009</u> |
| <i>In thousands, except per share amounts</i> | | |
| Revenues, net | \$ 901,026 | \$ 937,451 |
| Cost of goods sold | 429,590 | 497,170 |
| Gross profit | <u>471,436</u> | <u>440,281</u> |
| Selling, general and administrative expense | 416,576 | 409,407 |
| Operating income | <u>54,860</u> | <u>30,874</u> |
| Interest expense | 42,912 | 27,706 |
| Foreign currency (gain) loss | (6,593) | 3,356 |
| Other expense (income) | — | (402) |
| Income before provision for income taxes | <u>18,541</u> | <u>214</u> |
| Provision for income taxes | 13,093 | 60,109 |
| Income (loss) from continuing operations | 5,448 | (59,895) |
| Income (loss) from discontinued operations, net of tax | 678 | (130,696) |
| Net income (loss) | 6,126 | (190,591) |
| Less: net income attributable to non-controlling interest | (2,056) | (1,022) |
| Net income (loss) attributable to Quiksilver, Inc. | <u>\$ 4,070</u> | <u>\$ (191,613)</u> |
| Income (loss) per share from continuing operations attributable to Quiksilver, Inc. | <u>\$ 0.03</u> | <u>\$ (0.48)</u> |
| Income (loss) per share from discontinued operations attributable to Quiksilver, Inc. | <u>\$ 0.01</u> | <u>\$ (1.03)</u> |
| Net income (loss) per share attributable to Quiksilver, Inc. | <u>\$ 0.03</u> | <u>\$ (1.51)</u> |
| Income (loss) per share from continuing operations attributable to Quiksilver, Inc., assuming dilution | <u>\$ 0.02</u> | <u>\$ (0.48)</u> |
| Income (loss) per share from discontinued operations attributable to Quiksilver, Inc., assuming dilution | <u>\$ 0.00</u> | <u>\$ (1.03)</u> |
| Net income (loss) per share attributable to Quiksilver, Inc., assuming dilution | <u>\$ 0.03</u> | <u>\$ (1.51)</u> |
| Weighted average common shares outstanding | <u>127,875</u> | <u>127,157</u> |
| Weighted average common shares outstanding, assuming dilution | <u>139,622</u> | <u>127,157</u> |
| Amounts attributable to Quiksilver, Inc.: | | |
| Income (loss) from continuing operations | \$ 3,392 | \$ (60,917) |
| Income (loss) from discontinued operations | 678 | (130,696) |
| Net income (loss) | <u>\$ 4,070</u> | <u>\$ (191,613)</u> |

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

| | <u>Six months ended April 30,</u> | |
|---|-----------------------------------|---------------------|
| | <u>2010</u> | <u>2009</u> |
| <i>In thousands</i> | | |
| Net income (loss) | \$ 6,126 | \$ (190,591) |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustment | (22,273) | 32,564 |
| Reclassification adjustment for foreign currency translation included in prior period loss from discontinued operations | — | (47,850) |
| Net unrealized gain (loss) on derivative instruments, net of tax of \$11,976 (2010) and \$(7,329) (2009) | <u>24,339</u> | <u>(11,639)</u> |
| Comprehensive income (loss) | 8,192 | (217,516) |
| Comprehensive income attributable to non-controlling interest | (2,056) | (1,022) |
| Comprehensive income (loss) attributable to Quiksilver, Inc. | <u>\$ 6,136</u> | <u>\$ (218,538)</u> |

See notes to condensed consolidated financial statements.

QUIKSILVER, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

| <i>In thousands, except share amounts</i> | April 30, 2010 | October 31, 2009 |
|--|---------------------------|-----------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 145,329 | \$ 99,516 |
| Restricted cash | — | 52,706 |
| Trade accounts receivable, less allowances of \$52,177 (2010) and \$47,211 (2009) | 333,267 | 430,884 |
| Other receivables | 30,253 | 25,615 |
| Inventories | 226,419 | 267,730 |
| Deferred income taxes short-term | 45,569 | 76,638 |
| Prepaid expenses and other current assets | 41,912 | 37,333 |
| Current assets held for sale | 178 | 1,777 |
| Total current assets | <u>822,927</u> | <u>992,199</u> |
| Fixed assets, less accumulated depreciation and amortization of \$249,591 (2010) and \$248,557 (2009) | 220,586 | 239,333 |
| Intangible assets, net | 141,397 | 142,954 |
| Goodwill | 322,096 | 333,758 |
| Other assets | 71,334 | 75,353 |
| Deferred income taxes long-term | 54,259 | 69,011 |
| Total assets | <u>\$ 1,632,599</u> | <u>\$ 1,852,608</u> |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Lines of credit | \$ 14,886 | \$ 32,592 |
| Accounts payable | 137,354 | 162,373 |
| Accrued liabilities | 84,456 | 116,274 |
| Current portion of long-term debt | 45,198 | 95,231 |
| Income taxes payable | 5,739 | 23,574 |
| Liabilities related to assets held for sale | 260 | 458 |
| Total current liabilities | <u>287,893</u> | <u>430,502</u> |
| Long-term debt, net of current portion | 817,896 | 911,430 |
| Other long-term liabilities | 41,563 | 46,643 |
| Total liabilities | <u>1,147,352</u> | <u>1,388,575</u> |
| Equity: | | |
| Preferred stock, \$.01 par value, authorized shares - 5,000,000; issued and outstanding shares - none | — | — |
| Common stock, \$.01 par value, authorized shares - 285,000,000; issued shares - 135,473,998 (2010) and 131,484,363 (2009) | 1,355 | 1,315 |
| Additional paid-in capital | 381,267 | 368,285 |
| Treasury stock, 2,885,200 shares | (6,778) | (6,778) |
| Retained earnings (accumulated deficit) | 2,447 | (1,623) |
| Accumulated other comprehensive income | 97,462 | 95,396 |
| Total Quiksilver, Inc. stockholders' equity | <u>475,753</u> | <u>456,595</u> |
| Non-controlling interest | 9,494 | 7,438 |
| Total equity | <u>485,247</u> | <u>464,033</u> |
| Total liabilities and equity | <u>\$ 1,632,599</u> | <u>\$ 1,852,608</u> |

See notes to condensed consolidated financial statements.

QUIKSILVER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| <i>In thousands</i> | <u>Six months ended April 30,</u> | |
|--|-----------------------------------|------------------|
| | <u>2010</u> | <u>2009</u> |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 6,126 | \$ (190,591) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| (Income) loss from discontinued operations | (678) | 130,696 |
| Depreciation and amortization | 27,023 | 26,738 |
| Stock-based compensation and tax benefit on option exercises | 10,135 | 4,372 |
| Provision for doubtful accounts | 10,144 | 8,965 |
| (Gain) loss on disposal of fixed assets | (728) | 2,721 |
| Foreign currency gain | (2,758) | (144) |
| Non-cash interest expense | 12,930 | — |
| Equity in earnings | 183 | 455 |
| Deferred income taxes | 16,709 | 44,848 |
| Changes in operating assets and liabilities, net of the effect from business acquisitions: | | |
| Trade accounts receivable | 73,053 | 55,579 |
| Other receivables | 4,942 | 20,171 |
| Inventories | 29,466 | 9,259 |
| Prepaid expenses and other current assets | (10,430) | (7,696) |
| Other assets | 4,004 | (2,641) |
| Accounts payable | (18,177) | (63,580) |
| Accrued liabilities and other long-term liabilities | (14,422) | (24,688) |
| Income taxes payable | (16,297) | 21,170 |
| Cash provided by operating activities of continuing operations | 131,225 | 35,634 |
| Cash provided by operating activities of discontinued operations | 3,287 | 8,801 |
| Net cash provided by operating activities | <u>134,512</u> | <u>44,435</u> |
| Cash flows from investing activities: | | |
| Capital expenditures | (18,839) | (21,510) |
| Changes in restricted cash | <u>52,706</u> | <u>—</u> |
| Cash provided by (used in) investing activities of continuing operations | 33,867 | (21,510) |
| Cash provided by investing activities of discontinued operations | <u>—</u> | <u>21,848</u> |
| Net cash provided by investing activities | 33,867 | 338 |
| Cash flows from financing activities: | | |
| Borrowings on lines of credit | — | 8,613 |
| Payments on lines of credit | (16,707) | (21,941) |
| Payments of debt issuance costs | (1,823) | — |
| Borrowings on long-term debt | 32,410 | 144,546 |
| Payments on long-term debt | (136,972) | (142,202) |
| Stock option exercises, employee stock purchases and tax benefit on option exercises | <u>2,888</u> | <u>495</u> |
| Cash used in financing activities of continuing operations | (120,204) | (10,489) |
| Cash used in financing activities of discontinued operations | <u>—</u> | <u>(11,136)</u> |
| Net cash used in financing activities | (120,204) | (21,625) |
| Effect of exchange rate changes on cash | <u>(2,362)</u> | <u>(2,138)</u> |
| Net increase in cash and cash equivalents | 45,813 | 21,010 |
| Cash and cash equivalents, beginning of period | 99,516 | 53,042 |
| Cash and cash equivalents, end of period | <u>\$ 145,329</u> | <u>\$ 74,052</u> |
| Supplementary cash flow information: | | |
| Cash paid (received) during the period for: | | |
| Interest | <u>\$ 28,961</u> | <u>\$ 26,144</u> |
| Income taxes | <u>\$ 8,628</u> | <u>\$ (177)</u> |

See notes to condensed consolidated financial statements.

QUIKSILVER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. *Basis of Presentation*

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles for complete financial statement presentation.

Quiksilver, Inc. (the "Company"), in its opinion, has included all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the results of operations for the three and six months ended April 30, 2010 and 2009. The condensed consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements and notes for the year ended October 31, 2009 included in the Company's Annual Report on Form 10-K. Interim results are not necessarily indicative of results for the full year due to seasonal and other factors.

In November 2008, the Company sold its Rossignol business, including the related brands of *Rossignol*, *Dynastar*, *Look* and *Lange*, and in December 2007, the Company sold its golf equipment business. As a result, the Company has classified its Rossignol wintersports and golf equipment businesses as discontinued operations for all periods presented.

The Company is highly leveraged; however, management believes that its cash flows from operations, together with its existing credit facilities and term loans will be adequate to fund the Company's capital requirements for at least the next twelve months. The Company also believes that its short-term uncommitted lines of credit in Asia/Pacific will continue to be made available. If these lines of credit are not made available, the Company could be adversely affected.

2. *New Accounting Pronouncements*

In June 2009, the Financial Accounting Standards Board ("FASB") issued the Accounting Standards Codification ("ASC") Subtopic 105 "Generally Accepted Accounting Principles," which establishes the Accounting Standards Codification as the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The subsequent issuances of new standards will be in the form of Accounting Standards Updates that will be included in the codification. This guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company updated its historical U.S. GAAP references to comply with the codification effective at the beginning of its fiscal quarter ending October 31, 2009. The adoption of this guidance did not have a material effect on the Company's consolidated financial position, results of operations or cash flows, since the codification is not intended to change U.S. GAAP.

In December 2007, the FASB issued authoritative guidance included in ASC Subtopic 805 "Business Combinations," which requires the Company to record fair value estimates of contingent consideration and certain other potential liabilities during the original purchase price allocation, expense acquisition costs as incurred and does not permit certain restructuring activities to be recorded as a component of purchase accounting. In April 2009, the FASB issued additional guidance that requires assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value, only if fair value can be reasonably estimated and eliminates the requirement to disclose an estimate of the range of outcomes of recognized contingencies at the acquisition date. This guidance is effective for financial statements issued for fiscal years beginning on or after December 15, 2008. The Company adopted this guidance at the beginning of its fiscal year ending October 31, 2010 for all

QUIKSILVER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

prospective business acquisitions. The adoption of this guidance did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued authoritative guidance included in ASC Subtopic 810 "Consolidation," which requires non-controlling interests in subsidiaries to be included in the equity section of the balance sheet. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company adopted this guidance at the beginning of its fiscal year ending October 31, 2010. In the year of adoption, presentation and disclosure requirements apply retrospectively to all periods presented. These presentation and disclosure requirements resulted in the reclassification of minority interest liability to stockholders' equity on the accompanying consolidated balance sheets and the movement of minority interest expense to a separate line after net income (loss) on the accompanying consolidated statements of operations. Other than these presentation and disclosure changes, the adoption of this guidance did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

In March 2008, the FASB issued authoritative guidance included in ASC Subtopic 815 "Derivatives and Hedging," which requires enhanced disclosures to enable investors to better understand how and why derivatives are used and their effects on an entity's financial position, financial performance and cash flows. This guidance is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company adopted this guidance at the beginning of its fiscal quarter ended April 30, 2009. The adoption of this guidance did not have a material effect on the Company's consolidated financial position, results of operations or cash flows. See note 8 for certain required disclosures related to this guidance.

In April 2009, the FASB issued authoritative guidance included in ASC Subtopic 825 "Financial Instruments," which enhances consistency in financial reporting by increasing the frequency of fair value disclosures. This guidance is effective for interim periods ending after June 15, 2009 and the Company adopted this guidance during the three months ended July 31, 2009. The adoption of this guidance did not have a material effect on the Company's consolidated financial position, results of operations or cash flows. See note 8 for certain required disclosures related to this guidance.

3. *Earnings per Share and Stock-Based Compensation*

The Company reports basic and diluted earnings per share ("EPS"). Basic EPS is based on the weighted average number of shares outstanding during the period, while diluted EPS additionally includes the dilutive effect of the Company's outstanding stock options, warrants and shares of restricted stock computed using the treasury stock method. For the three months ended April 30, 2010 and 2009, the weighted average common shares outstanding, assuming dilution, includes 3,828,000 and 767,000, respectively, of dilutive stock options and shares of restricted stock, and 13,458,000 and zero, respectively, of dilutive warrant shares. For the six months ended April 30, 2010, the weighted average common shares outstanding, assuming dilution, includes 2,147,000 dilutive stock options and shares of restricted stock, as well as 9,600,000 dilutive warrant shares. For the six months ended April 30, 2009, the weighted average common shares outstanding, assuming dilution, does not include 713,000 dilutive stock options and shares of restricted stock as the effect is anti-dilutive. For the three months ended April 30, 2010 and 2009, additional option shares outstanding of 13,377,000 and 15,743,000, respectively, and additional warrant shares outstanding of 12,196,000 and zero, respectively, were excluded from the calculation of diluted EPS, as their effect would have been anti-dilutive. For the six months ended April 30, 2010 and 2009, additional option shares outstanding of 14,426,000 and 15,743,000, respectively, and additional warrant shares outstanding of 16,054,000 and zero, respectively, were excluded from the calculation of diluted EPS, as their effect would have been anti-dilutive.

QUIKSILVER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The Company accounts for stock-based compensation under the fair value recognition provisions of ASC 718 "Stock Compensation." The Company uses the Black-Scholes option-pricing model to value compensation expense. Forfeitures are estimated at the date of grant based on historical rates and reduce the compensation expense recognized. The expected term of options granted is derived from historical data on employee exercises. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the date of grant. Expected volatility is based on the historical volatility of the Company's stock. For the six months ended April 30, 2010 and 2009, options were valued assuming a risk-free interest rate of 2.7% and 2.0%, respectively, volatility of 73.8% and 62.8%, respectively, zero dividend yield, and an expected life of 6.4 and 5.9 years, respectively. The weighted average fair value of options granted was \$1.82 and \$0.97 for the six months ended April 30, 2010 and 2009, respectively. The Company records stock compensation expense using the graded vested method over the vesting period, which is generally three years. As of April 30, 2010, the Company had approximately \$5.4 million of unrecognized compensation expense expected to be recognized over a weighted average period of approximately 2.2 years. Stock-based compensation expense was included as selling, general and administrative expense for the period.

Changes in shares under option for the six months ended April 30, 2010 are as follows:

| <i>Dollar amounts in thousands, except per share amounts</i> | <u>Shares</u> | <u>Weighted Average Price</u> | <u>Weighted Average Life</u> | <u>Aggregate Intrinsic Value</u> |
|--|--------------------|---------------------------------------|--------------------------------------|--|
| Outstanding, October 31, 2009..... | 15,909,101 | \$ 7.32 | | |
| Granted | 2,272,500 | 2.68 | | |
| Exercised | (612,068) | 3.97 | | \$ 568 |
| Canceled | <u>(2,596,075)</u> | 8.72 | | |
| Outstanding, April 30, 2010 | <u>14,973,458</u> | \$ 6.51 | 6.3 | \$ 22,165 |
| Options exercisable, April 30, 2010 | <u>8,471,309</u> | \$ 9.35 | 4.2 | \$ 3,310 |

Changes in non-vested shares under option for the six months ended April 30, 2010 are as follows:

| | <u>Shares</u> | <u>Weighted- Average Grant Date Fair Value</u> |
|-----------------------------------|------------------|--|
| Non-vested, October 31, 2009..... | 5,698,070 | \$ 1.90 |
| Granted | 2,272,500 | 1.82 |
| Vested | (1,188,250) | 3.63 |
| Canceled | <u>(280,171)</u> | 3.16 |
| Non-vested, April 30, 2010 | <u>6,502,149</u> | \$ 1.51 |

In March 2006, the Company's shareholders approved the 2006 Restricted Stock Plan and in March 2007, the Company's shareholders approved an amendment to the 2000 Stock Incentive Plan whereby restricted stock and restricted stock units can be issued from such plan. Stock issued under these plans generally vests from three to five years. In March 2010, the Company's shareholders approved a grant of 3 million shares of restricted stock to a Company sponsored athlete, Kelly Slater. In accordance with the terms of the related restricted stock agreement, 1,200,000 shares vested during the six months ended April 30, 2010, with the remaining 1,800,000 shares to vest in three equal, annual installments beginning in April 2011.

QUIKSILVER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Changes in restricted stock for the six months ended April 30, 2010 are as follows:

| | <u>Shares</u> |
|------------------------------------|------------------|
| Outstanding, October 31, 2009..... | 1,022,003 |
| Granted | 3,110,000 |
| Vested | (1,226,666) |
| Forfeited | <u>(10,000)</u> |
| Outstanding, April 30, 2010 | <u>2,895,337</u> |

Compensation expense for restricted stock is determined based on the fair value at the date of grant, adjusted for forfeitures. Forfeitures are estimated at the date of grant based on historical rates and reduce the compensation expense recognized. As of April 30, 2010, there had been no acceleration of the amortization period. As of April 30, 2010, the Company had approximately \$6.6 million of unrecognized compensation expense expected to be recognized over a weighted average period of approximately 1.5 years.

4. *Inventories*

Inventories consist of the following:

| | <u>April 30, 2010</u> | <u>October 31, 2009</u> |
|-----------------------|---------------------------|-----------------------------|
| <i>In thousands</i> | | |
| Raw materials | \$ 6,890 | \$ 6,904 |
| Work in-process | 3,687 | 5,230 |
| Finished goods | <u>215,842</u> | <u>255,596</u> |
| | <u>\$ 226,419</u> | <u>\$ 267,730</u> |

5. *Intangible Assets and Goodwill*

A summary of intangible assets is as follows:

| | <u>April 30, 2010</u> | | | <u>October 31, 2009</u> | | |
|---------------------------------|-------------------------|---------------------------|-------------------------------|-------------------------|---------------------------|-------------------------------|
| <i>In thousands</i> | <u>Gross Amount</u> | <u>Amorti- zation</u> | <u>Net Book Value</u> | <u>Gross Amount</u> | <u>Amorti- zation</u> | <u>Net Book Value</u> |
| Amortizable trademarks..... | \$ 18,862 | \$ (7,247) | \$ 11,615 | \$ 19,472 | \$ (6,745) | \$ 12,727 |
| Amortizable licenses..... | 12,457 | (9,239) | 3,218 | 12,237 | (8,464) | 3,773 |
| Other amortizable intangibles.. | 8,333 | (5,019) | 3,314 | 8,318 | (4,695) | 3,623 |
| Non-amortizable trademarks ... | <u>123,250</u> | <u>—</u> | <u>123,250</u> | <u>122,831</u> | <u>—</u> | <u>122,831</u> |
| | <u>\$ 162,902</u> | <u>\$(21,505)</u> | <u>\$ 141,397</u> | <u>\$ 162,858</u> | <u>\$(19,904)</u> | <u>\$ 142,954</u> |

Certain trademarks and licenses will continue to be amortized by the Company using estimated useful lives of 10 to 25 years with no residual values. Intangible amortization expense for the six months ended April 30, 2010 and 2009 was \$1.4 million and \$1.6 million, respectively. Annual amortization expense is estimated to be approximately \$2.9 million in the fiscal years ending October 31, 2010 through 2013, and approximately \$1.8 million in the fiscal years ending October 31, 2014 and 2015.

QUIKSILVER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

| <i>In thousands</i> | April 30, 2010 | October 31, 2009 |
|---------------------|---------------------------|-----------------------------|
| Americas | \$ 75,163 | \$ 77,891 |
| Europe | 174,773 | 184,802 |
| Asia/Pacific | <u>72,160</u> | <u>71,065</u> |
| | <u>\$ 322,096</u> | <u>\$ 333,758</u> |

Goodwill decreased approximately \$11.7 million during the six months ended April 30, 2010, primarily as a result of the effect of changes in foreign currency exchange rates.

6. *Accumulated Other Comprehensive Income*

The components of accumulated other comprehensive income include net income, changes in fair value of derivative instruments qualifying as cash flow hedges and foreign currency translation adjustments. The components of accumulated other comprehensive income, net of tax, are as follows:

| <i>In thousands</i> | April 30, 2010 | October 31, 2009 |
|---|---------------------------|-----------------------------|
| Foreign currency translation adjustment | \$ 89,678 | \$ 111,951 |
| Gain (loss) on cash flow hedges | <u>7,784</u> | <u>(16,555)</u> |
| | <u>\$ 97,462</u> | <u>\$ 95,396</u> |

7. *Segment Information*

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the Company's management in deciding how to allocate resources and in assessing performance. The Company operates in the outdoor market of the sporting goods industry in which the Company designs, markets and distributes clothing, footwear, accessories and related products. The Company currently operates in three segments, the Americas, Europe and Asia/Pacific. The Americas segment includes revenues from the U.S., Canada and Latin America. The European segment includes revenues from Europe, the Middle East and Africa. The Asia/Pacific segment includes revenues primarily from Australia, Japan, New Zealand and Indonesia. Costs that support all three segments, including trademark protection, trademark maintenance and licensing functions, are part of corporate operations. Corporate operations also includes sourcing income and gross profit earned from the Company's licensees. The Company's largest customer accounted for approximately 4% of the Company's net revenues from continuing operations for the six months ended April 30, 2010 and 2009.

QUIKSILVER, INC.

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

| <i>In thousands</i> | Three Months Ended April 30, | |
|----------------------------|-------------------------------------|--------------------------|
| | <u>2010</u> | <u>2009</u> |
| Revenues, net: | | |
| Americas | \$ 199,733 | \$ 229,990 |
| Europe | 208,708 | 210,498 |
| Asia/Pacific..... | 58,645 | 52,299 |
| Corporate operations | <u>1,203</u> | <u>1,386</u> |
| | <u>\$ 468,289</u> | <u>\$ 494,173</u> |
| Gross profit: | | |
| Americas | \$ 92,997 | \$ 84,895 |
| Europe | 125,108 | 119,447 |
| Asia/Pacific..... | 31,400 | 28,838 |
| Corporate operations | <u>(218)</u> | <u>(62)</u> |
| | <u>\$ 249,287</u> | <u>\$ 233,118</u> |
| SG&A expense: | | |
| Americas | \$ 81,191 | \$ 89,021 |
| Europe | 85,960 | 79,060 |
| Asia/Pacific..... | 32,259 | 26,317 |
| Corporate operations | <u>14,006</u> | <u>8,191</u> |
| | <u>\$ 213,416</u> | <u>\$ 202,589</u> |
| Operating income (loss): | | |
| Americas | \$ 11,806 | \$ (4,126) |
| Europe | 39,148 | 40,387 |
| Asia/Pacific..... | (859) | 2,521 |
| Corporate operations | <u>(14,224)</u> | <u>(8,253)</u> |
| | <u>\$ 35,871</u> | <u>\$ 30,529</u> |

QUIKSILVER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

| <i>In thousands</i> | Six Months Ended April 30, | |
|----------------------------|-----------------------------------|---------------------------|
| | <u>2010</u> | <u>2009</u> |
| Revenues, net: | | |
| Americas | \$ 386,694 | \$ 433,403 |
| Europe | 386,585 | 392,196 |
| Asia/Pacific | 125,697 | 109,889 |
| Corporate operations | <u>2,050</u> | <u>1,963</u> |
| | <u>\$ 901,026</u> | <u>\$ 937,451</u> |
| Gross profit: | | |
| Americas | \$ 174,012 | \$ 160,561 |
| Europe | 229,361 | 220,213 |
| Asia/Pacific | 68,443 | 59,539 |
| Corporate operations | <u>(380)</u> | <u>(32)</u> |
| | <u>\$ 471,436</u> | <u>\$ 440,281</u> |
| SG&A expense: | | |
| Americas | \$ 157,552 | \$ 181,027 |
| Europe | 171,764 | 157,825 |
| Asia/Pacific | 63,636 | 53,233 |
| Corporate operations | <u>23,624</u> | <u>17,322</u> |
| | <u>\$ 416,576</u> | <u>\$ 409,407</u> |
| Operating income (loss): | | |
| Americas | \$ 16,460 | \$ (20,466) |
| Europe | 57,597 | 62,388 |
| Asia/Pacific | 4,807 | 6,306 |
| Corporate operations | <u>(24,004)</u> | <u>(17,354)</u> |
| | <u>\$ 54,860</u> | <u>\$ 30,874</u> |
| | <u>April 30,</u> | <u>October 31,</u> |
| | <u>2010</u> | <u>2009</u> |
| Identifiable assets: | | |
| Americas | \$ 531,957 | \$ 538,533 |
| Europe | 782,618 | 923,494 |
| Asia/Pacific | 259,659 | 296,806 |
| Corporate operations | <u>58,365</u> | <u>93,775</u> |
| | <u>\$ 1,632,599</u> | <u>\$ 1,852,608</u> |

8. *Derivative Financial Instruments*

The Company is exposed to gains and losses resulting from fluctuations in foreign currency exchange rates relating to certain sales, royalty income and product purchases of its international subsidiaries that are denominated in currencies other than their functional currencies. The Company is also exposed to foreign currency gains and losses resulting from domestic transactions that are not denominated in U.S. dollars, and to fluctuations in interest rates related to its variable rate debt. Furthermore, the Company is exposed to gains and losses resulting from the effect that fluctuations in foreign currency exchange rates have on the reported results in the Company's consolidated financial statements due to the translation of the operating results and financial position of the Company's international subsidiaries. As part of its overall strategy to manage the level of exposure to the risk of fluctuations in foreign currency exchange rates, the Company uses various foreign currency exchange contracts and intercompany loans. In addition, interest rate caps are used to manage the Company's exposure to the risk of fluctuations in interest rates.

The Company accounts for all of its cash flow hedges under ASC 815, "Derivatives and Hedging," which requires companies to recognize all derivative instruments as either assets or

QUIKSILVER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

liabilities at fair value in the consolidated balance sheet. In accordance with ASC 815, the Company designates forward contracts as cash flow hedges of forecasted purchases of commodities.

Effective February 1, 2009, the Company adopted additional guidance, which provides an enhanced disclosure framework for derivative instruments. ASC 815 requires that the fair values of derivative instruments and their gains and losses be disclosed in a manner that provides adequate information about the impact these instruments can have on a company's financial position, results of operations and cash flows.

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income ("OCI") and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. As of April 30, 2010, the Company was hedging forecasted transactions expected to occur through October 2011. Assuming April 30, 2010 exchange rates remain constant, \$7.8 million of gains, net of tax, related to hedges of these transactions are expected to be reclassified into earnings over the next 18 months.

For the six months ended April 30, 2010 and 2009, the effective portions of gains on derivative instruments in the consolidated statements of operations were as follows:

| <i>In thousands</i> | <u>Six Months Ended April 30,</u> | | | <u>Location</u> |
|---|-----------------------------------|-------------|---------------|----------------------------|
| | <u>2010</u> | <u>2009</u> | <u>Amount</u> | |
| Gain (loss) recognized in OCI on derivatives | \$ 27,731 | \$ (5,693) | | Other comprehensive income |
| Gain (loss) reclassified from accumulated OCI into income | \$ 6,906 | \$ (13,160) | | Cost of goods sold |
| Gain reclassified from accumulated OCI into income | \$ 342 | \$ 40 | | Foreign currency gain |
| Gain recognized in income on derivatives | \$ 816 | \$ 613 | | Foreign currency gain |

On the date the Company enters into a derivative contract, management designates the derivative as a hedge of the identified exposure. The Company formally documents all relationships between hedging instruments and hedged items, as well as the risk-management objective and strategy for entering into various hedge transactions. In this documentation, the Company identifies the asset, liability, firm commitment, or forecasted transaction that has been designated as a hedged item and indicates how the hedging instrument is expected to hedge the risks related to the hedged item. The Company formally measures effectiveness of its hedging relationships both at the hedge inception and on an ongoing basis in accordance with its risk management policy. The Company would discontinue hedge accounting prospectively (i) if management determines that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item, (ii) when the derivative expires or is sold, terminated, or exercised, (iii) if it becomes probable that the forecasted transaction being hedged by the derivative will not occur, (iv) because a hedged firm commitment no longer meets the definition of a firm commitment, or (v) if management determines that designation of the derivative as a hedge instrument is no longer appropriate.

The Company enters into forward exchange and other derivative contracts with major banks and is exposed to losses in the event of nonperformance by these banks. The Company anticipates, however, that these banks will be able to fully satisfy their obligations under the contracts. Accordingly, the Company does not obtain collateral or other security to support the contracts.

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As of April 30, 2010, the Company had the following outstanding derivative contracts that were entered into to hedge forecasted purchases and to hedge interest rate fluctuations:

| <i>In thousands</i> | <u>Commodity</u> | <u>Notional Amount</u> | <u>Maturity</u> | <u>Fair Value</u> |
|-----------------------------|---------------------|------------------------|---------------------|-------------------|
| United States dollars | Inventory | \$ 290,759 | May 2010 – Oct 2011 | \$ 13,204 |
| Swiss francs..... | Accounts receivable | 9,368 | May 2010 – Oct 2010 | (136) |
| British pounds..... | Accounts receivable | 16,017 | May 2010 – Jul 2010 | 69 |
| Interest rate caps..... | | <u>160,312</u> | Jul 2013 | <u>(1,165)</u> |
| | | <u>\$ 476,456</u> | | <u>\$ 11,972</u> |

ASC 820, "Fair Value Measurements and Disclosures," defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. Based on the underlying inputs, each fair value measurement in its entirety is reported in one of the three levels. These levels are:

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 assets and liabilities include debt and equity securities traded in an active exchange market, as well as U.S. Treasury securities.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Valuation is determined using model-based techniques with significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of third party pricing services, option pricing models, discounted cash flow models and similar techniques.

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The operating results of discontinued operations, which include both the Rossignol wintersports equipment and apparel businesses, included in the accompanying consolidated statements of operations were as follows:

| <i>In thousands</i> | <u>Six Months Ended April 30,</u> | |
|---|--|---------------------|
| | <u>2010</u> | <u>2009</u> |
| Revenues, net..... | \$ 452 | \$ 16,320 |
| Income (loss) before income taxes..... | 141 | (219,080) |
| Benefit for income taxes | <u>(537)</u> | <u>(88,384)</u> |
| Income (loss) from discontinued operations..... | <u>\$ 678</u> | <u>\$ (130,696)</u> |

The loss from discontinued operations for the six months ended April 30, 2009 includes the loss on sale of Rossignol of approximately \$124.4 million, net of expected tax benefits.

The remaining assets and liabilities of the Company's discontinued businesses primarily relate to its discontinued Rossignol apparel business. These assets and liabilities are classified as held for sale on the accompanying consolidated balance sheets.

11. *Income Taxes*

On November 6, 2009, the Worker, Homeownership, and Business Assistance Act of 2009 (the "Act") was enacted into legislation. The Act allows corporate taxpayers with net operating losses ("NOLs") for fiscal years ending after 2007 and beginning before 2010 to elect to carry back such NOLs up to five years. This election may be made for only one fiscal year. The Company plans to implement the elective carryback provision with respect to its fiscal year ending October 31, 2010 and has recorded a benefit in its statement of operations for the three and six months ended April 30, 2010 of \$1.6 million and \$3.6 million, respectively.

On April 30, 2010, the Company's liability for uncertain tax positions was approximately \$145.1 million resulting from unrecognized tax benefits, excluding interest and penalties. During the six months ended April 30, 2010, the Company increased its liability for uncertain tax positions, exclusive of interest and penalties, by \$103.0 million. The Company increased its liability by \$104.3 million for positions taken in the current period and by \$6.9 million for positions taken in prior periods. The Company also reduced its liability by \$8.2 million primarily due to a lapse in a statute of limitations. The nature of the net increase relates primarily to intercompany restructuring transactions between foreign affiliates.

During the six months ended April 30, 2010, the Company recorded a liability of \$103.0 million that, if resolved unfavorably, would result in the reduction of tax attributes rather than a cash obligation. On its accompanying consolidated balance sheet, the Company has presented the liability and the corresponding tax attributes on a net basis.

If the Company's positions are favorably sustained by the relevant taxing authority, approximately \$134.2 million (excluding interest and penalties) of uncertain tax position liabilities would favorably impact the Company's effective tax rate in future periods.

The Company includes interest and penalties related to unrecognized tax benefits in its provision for income taxes in the accompanying consolidated statements of operations. During the six months ended April 30, 2010, the Company recorded an expense of approximately \$3.5 million relating to interest and penalties, and as of April 30, 2010, the Company had a liability for interest and penalties of \$16.2 million.

During the next 12 months, it is reasonably possible that the Company's liability for uncertain tax positions may change by a significant amount as a result of the resolution or payment of

QUIKSILVER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

uncertain tax positions related to intercompany transactions between foreign affiliates and certain foreign withholding tax exposures. Conclusion of these matters could result in settlement for different amounts than the Company has accrued as uncertain tax benefits. If a position for which the Company concluded was more likely than not is subsequently not upheld, then the Company would need to accrue and ultimately pay an additional amount. Conversely, the Company could settle positions with the tax authorities for amounts lower than have been accrued or extinguish a position through payment. The Company believes the outcomes which are reasonably possible within the next 12 months range from an increase of the liability for unrecognized tax benefits of up to \$7.0 million to a reduction of the liability for unrecognized tax benefits of up to \$120.0 million, excluding penalties and interest.

The Company has completed a federal tax audit in the United States for its fiscal years ended 2004 and 2005 and remains subject to examination for years thereafter. The Company's significant foreign tax jurisdictions, including France, Australia and Canada, are subject to normal and regular examination for various tax years generally beginning in fiscal year 2000. The Company is currently under examination in Australia, France and Canada for fiscal years ended through 2008.

12. *Restructuring Charges*

In connection with its cost reduction efforts, the Company formulated the Fiscal 2009 Cost Reduction Plan (the "Plan"). The Plan covers the global operations of the Company, but is primarily concentrated in the United States. During the six months ended April 30, 2010, the Company recorded \$6.0 million in severance charges in selling, general and administrative expense, which includes \$3.3 million in the Americas segment, \$0.7 million in the European segment and \$2.0 million in corporate operations. The Company continues to evaluate its cost structure and may incur future charges under the Plan.

Activity and liability balances recorded as part of the Plan are as follows:

| <i>In thousands</i> | <u>Workforce</u> | <u>Facility & Other</u> | <u>Total</u> |
|------------------------------------|------------------|---------------------------------|------------------|
| Balance November 1, 2008 | \$ — | \$ — | \$ — |
| Charged to expense | 19,769 | 4,590 | 24,359 |
| Cash payments | (9,768) | (639) | (10,407) |
| Adjustments to accrual | (178) | — | (178) |
| Foreign currency translation | <u>135</u> | <u>—</u> | <u>135</u> |
| Balance, October 31, 2009 | 9,958 | 3,951 | 13,909 |
| Charged to expense | 6,020 | 359 | 6,379 |
| Cash payments | (7,518) | (1,183) | (8,701) |
| Adjustments to accrual | (425) | — | (425) |
| Foreign currency translation | <u>(43)</u> | <u>—</u> | <u>(43)</u> |
| Balance, April 30, 2010 | <u>\$ 7,992</u> | <u>\$ 3,127</u> | <u>\$ 11,119</u> |

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13. Debt

A summary of lines of credit and long-term debt is as follows:

| <i>In thousands</i> | April 30, 2010 | October 31, 2009 |
|--|---------------------------|-----------------------------|
| European short-term credit arrangements | \$ — | \$ 14 |
| Asia/Pacific short-term lines of credit | 14,886 | 32,578 |
| Americas credit facility | — | — |
| Americas long-term debt | 114,614 | 109,329 |
| European long-term debt | 298,670 | 389,029 |
| European credit facility | 30,138 | 38,243 |
| Senior notes | 400,000 | 400,000 |
| Deferred purchase price obligation | — | 49,144 |
| Capital lease obligations and other borrowings | <u>19,672</u> | <u>20,916</u> |
| | <u>\$ 877,980</u> | <u>\$ 1,039,253</u> |

The Company's current credit facilities allow for total maximum cash borrowings and letters of credit of \$303.5 million. The Company's total maximum borrowings and actual availability fluctuate depending on the extent of assets comprising the Company's borrowing base under certain credit facilities. The Company had \$45.0 million of borrowings drawn on these credit facilities as of April 30, 2010, and letters of credit issued at that time totaled \$61.1 million. The amount of availability for borrowings under these facilities as of April 30, 2010 was \$154.8 million, of which \$146.3 million was committed. Of this \$146.3 million in committed capacity, \$112.2 million can also be used for letters of credit. In addition to the \$154.8 million of availability for borrowings, the Company also had \$42.6 million in additional capacity for letters of credit in Europe and Asia/Pacific as of April 30, 2010. Many of the Company's debt agreements contain customary default provisions and restrictive covenants. The Company is currently in compliance with such covenants.

The estimated fair value of the Company's lines of credit and long-term debt are as follows:

| <i>In thousands</i> | April 30, 2010 | |
|-----------------------|----------------------------|-------------------|
| | Carrying Amount | Fair Value |
| Lines of credit | \$ 14,886 | \$ 14,886 |
| Long-term debt | <u>863,094</u> | <u>848,991</u> |
| | <u>\$ 877,980</u> | <u>\$ 863,877</u> |

The fair value of the Company's long-term debt is calculated based on the market price of the Company's publicly traded senior notes and the carrying values of the majority of the Company's other debt obligations.

The carrying value of the Company's trade accounts receivable and accounts payable approximates fair value due to their short-term nature.

QUIKSILVER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

14. *Condensed Consolidating Financial Information*

The Company has \$400 million in publicly registered senior notes. Obligations under the Company's senior notes are fully and unconditionally guaranteed by certain of its domestic subsidiaries. The Company is required to present condensed consolidating financial information for Quiksilver, Inc. and its domestic subsidiaries within the notes to the consolidated financial statements in accordance with the criteria established for parent companies in the SEC's Regulation S-X, Rule 3-10(f). The following condensed consolidating financial information presents the results of operations, financial position and cash flows of Quiksilver Inc., its guarantor subsidiaries, its non-guarantor subsidiaries and the eliminations necessary to arrive at the information for the Company on a consolidated basis as of April 30, 2010 and October 31, 2009 and for the three and six month periods ended April 30, 2010 and 2009. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions. The Company has applied the estimated consolidated annual effective income tax rate to both the guarantor and non-guarantor subsidiaries, adjusting for any discrete items, for interim reporting purposes. In the Company's consolidated financial statements for the fiscal year ending October 31, 2010, management will apply the actual income tax rates to both the guarantor and non-guarantor subsidiaries. These interim tax rates may differ from the actual annual effective income tax rates for both the guarantor and non-guarantor subsidiaries.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS Three Months Ended April 30, 2010

| <i>In thousands</i> | Quiksilver, Inc. | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|--|-----------------------------|-----------------------------------|--|---------------------|---------------------|
| Revenues, net..... | \$ — | \$ 162,140 | \$ 315,725 | \$ (9,576) | \$ 468,289 |
| Cost of goods sold | <u>—</u> | <u>87,270</u> | <u>134,243</u> | <u>(2,511)</u> | <u>219,002</u> |
| Gross profit | — | 74,870 | 181,482 | (7,065) | 249,287 |
| Selling, general and administrative expense | <u>14,118</u> | <u>69,651</u> | <u>136,630</u> | <u>(6,983)</u> | <u>213,416</u> |
| Operating (loss) income | (14,118) | 5,219 | 44,852 | (82) | 35,871 |
| Interest expense | 7,146 | 7,035 | 6,858 | — | 21,039 |
| Foreign currency gain | (132) | (138) | (4,344) | — | (4,614) |
| Equity in earnings and other income | <u>(29,094)</u> | <u>(5)</u> | <u>—</u> | <u>29,094</u> | <u>(5)</u> |
| Income (loss) before (benefit) provision for income taxes | 7,962 | (1,673) | 42,338 | (29,176) | 19,451 |
| (Benefit) provision for income taxes.... | <u>(1,462)</u> | <u>—</u> | <u>10,881</u> | <u>—</u> | <u>9,419</u> |
| Income (loss) from continuing operations | 9,424 | (1,673) | 31,457 | (29,176) | 10,032 |
| Income from discontinued operations | <u>—</u> | <u>—</u> | <u>602</u> | <u>—</u> | <u>602</u> |
| Net income (loss) | 9,424 | (1,673) | 32,059 | (29,176) | 10,634 |
| Less: net income attributable to non-controlling interest..... | <u>—</u> | <u>(1,210)</u> | <u>—</u> | <u>—</u> | <u>(1,210)</u> |
| Net income (loss) attributable to Quiksilver, Inc. | <u>\$ 9,424</u> | <u>\$ (2,883)</u> | <u>\$ 32,059</u> | <u>\$ (29,176)</u> | <u>\$ 9,424</u> |

QUIKSILVER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS Three Months Ended April 30, 2009

| <i>In thousands</i> | Quiksilver, Inc. | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---------------------|---------------------------|-----------------------------------|--------------------|-----------------|
| Revenues, net..... | \$ 72 | \$ 204,931 | \$ 298,073 | \$ (8,903) | \$ 494,173 |
| Cost of goods sold | <u>—</u> | <u>128,829</u> | <u>134,987</u> | <u>(2,761)</u> | <u>261,055</u> |
| Gross profit | 72 | 76,102 | 163,086 | (6,142) | 233,118 |
| Selling, general and administrative expense | <u>4,034</u> | <u>87,310</u> | <u>118,268</u> | <u>(7,023)</u> | <u>202,589</u> |
| Operating (loss) income..... | (3,962) | (11,208) | 44,818 | 881 | 30,529 |
| Interest expense | 10,293 | 421 | 2,838 | — | 13,552 |
| Foreign currency loss..... | 136 | 71 | 1,719 | — | 1,926 |
| Equity in earnings and other expense | <u>(19,518)</u> | <u>2</u> | <u>170</u> | <u>19,518</u> | <u>172</u> |
| Income (loss) before provision for income taxes..... | 5,127 | (11,702) | 40,091 | (18,637) | 14,879 |
| Provision for income taxes | <u>—</u> | <u>14</u> | <u>9,514</u> | <u>—</u> | <u>9,528</u> |
| Income (loss) from continuing operations | 5,127 | (11,716) | 30,577 | (18,637) | 5,351 |
| (Loss) income from discontinued operations | <u>(2,314)</u> | <u>(65)</u> | <u>247</u> | <u>—</u> | <u>(2,132)</u> |
| Net income (loss)..... | 2,813 | (11,781) | 30,824 | (18,637) | 3,219 |
| Less: net income attributable to non-controlling interest..... | <u>—</u> | <u>(351)</u> | <u>(55)</u> | <u>—</u> | <u>(406)</u> |
| Net income (loss) attributable to Quiksilver, Inc. | <u>\$ 2,813</u> | <u>\$ (12,132)</u> | <u>\$ 30,769</u> | <u>\$ (18,637)</u> | <u>\$ 2,813</u> |

QUIKSILVER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS Six Months Ended April 30, 2010

| <i>In thousands</i> | Quiksilver, Inc. | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|--|-----------------------------|-----------------------------------|--|---------------------|---------------------|
| Revenues, net..... | \$ 94 | \$ 311,933 | \$ 607,692 | \$ (18,693) | \$ 901,026 |
| Cost of goods sold | <u>—</u> | <u>174,917</u> | <u>260,641</u> | <u>(5,968)</u> | <u>429,590</u> |
| Gross profit | 94 | 137,016 | 347,051 | (12,725) | 471,436 |
| Selling, general and administrative expense | <u>22,300</u> | <u>135,769</u> | <u>271,214</u> | <u>(12,707)</u> | <u>416,576</u> |
| Operating (loss) income | (22,206) | 1,247 | 75,837 | (18) | 54,860 |
| Interest expense | 14,327 | 14,163 | 14,422 | — | 42,912 |
| Foreign currency gain | (329) | (152) | (6,112) | — | (6,593) |
| Equity in earnings and other income..... | <u>(36,704)</u> | <u>—</u> | <u>—</u> | <u>36,704</u> | <u>—</u> |
| Income (loss) before (benefit) provision for income taxes | 500 | (12,764) | 67,527 | (36,722) | 18,541 |
| (Benefit) provision for income taxes..... | <u>(3,570)</u> | <u>(1,593)</u> | <u>18,256</u> | <u>—</u> | <u>13,093</u> |
| Income (loss) from continuing operations | 4,070 | (11,171) | 49,271 | (36,722) | 5,448 |
| Income from discontinued operations | <u>—</u> | <u>—</u> | <u>678</u> | <u>—</u> | <u>678</u> |
| Net income (loss)..... | 4,070 | (11,171) | 49,949 | (36,722) | 6,126 |
| Less: net income attributable to non- controlling interest..... | <u>—</u> | <u>(2,056)</u> | <u>—</u> | <u>—</u> | <u>(2,056)</u> |
| Net income (loss) attributable to Quiksilver, Inc. | <u>\$ 4,070</u> | <u>\$ (13,227)</u> | <u>\$ 49,949</u> | <u>\$ (36,722)</u> | <u>\$ 4,070</u> |

QUIKSILVER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS Six Months Ended April 30, 2009

| <i>In thousands</i> | Quiksilver, Inc. | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------------|---------------------------|-----------------------------------|-------------------|---------------------|
| Revenues, net..... | \$ 149 | \$ 386,141 | \$ 569,618 | \$ (18,457) | \$ 937,451 |
| Cost of goods sold | <u>—</u> | <u>243,325</u> | <u>260,611</u> | <u>(6,766)</u> | <u>497,170</u> |
| Gross profit | 149 | 142,816 | 309,007 | (11,691) | 440,281 |
| Selling, general and administrative expense | <u>15,987</u> | <u>171,175</u> | <u>234,663</u> | <u>(12,418)</u> | <u>409,407</u> |
| Operating (loss) income..... | (15,838) | (28,359) | 74,344 | 727 | 30,874 |
| Interest expense | 20,918 | 955 | 5,833 | — | 27,706 |
| Foreign currency loss..... | 1 | 50 | 3,305 | — | 3,356 |
| Equity in earnings and other income | <u>175,250</u> | <u>(398)</u> | <u>(4)</u> | <u>(175,250)</u> | <u>(402)</u> |
| (Loss) income before (benefit) provision for income taxes | (212,007) | (28,966) | 65,210 | 175,977 | 214 |
| (Benefit) provision for income taxes..... | <u>(2,823)</u> | <u>46,039</u> | <u>16,893</u> | <u>—</u> | <u>60,109</u> |
| (Loss) income from continuing operations | (209,184) | (75,005) | 48,317 | 175,977 | (59,895) |
| Income (loss) from discontinued operations | <u>17,571</u> | <u>(2,787)</u> | <u>(145,990)</u> | <u>510</u> | <u>(130,696)</u> |
| Net loss | (191,613) | (77,792) | (97,673) | 176,487 | (190,591) |
| Less: net income attributable to non-controlling interest..... | <u>—</u> | <u>(1,018)</u> | <u>(4)</u> | <u>—</u> | <u>(1,022)</u> |
| Net loss attributable to Quiksilver, Inc. | <u>\$ (191,613)</u> | <u>\$ (78,810)</u> | <u>\$ (97,677)</u> | <u>\$ 176,487</u> | <u>\$ (191,613)</u> |

QUIKSILVER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET

At April 30, 2010

| <i>In thousands</i> | Quiksilver, Inc. | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---------------------|---------------------------|-----------------------------------|---------------------|---------------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 1,327 | \$ 61,409 | \$ 82,593 | \$ — | \$ 145,329 |
| Restricted cash | — | — | — | — | — |
| Trade accounts receivable, net | — | 103,958 | 229,309 | — | 333,267 |
| Other receivables | 220 | 4,738 | 25,295 | — | 30,253 |
| Inventories..... | — | 81,847 | 145,467 | (895) | 226,419 |
| Deferred income taxes | — | 8,898 | 36,671 | — | 45,569 |
| Prepaid expenses and other current assets..... | 13,350 | 11,856 | 16,706 | — | 41,912 |
| Current assets held for sale | — | — | 178 | — | 178 |
| Total current assets | <u>14,897</u> | <u>272,706</u> | <u>536,219</u> | <u>(895)</u> | <u>822,927</u> |
| Fixed assets, net..... | 3,628 | 66,949 | 150,009 | — | 220,586 |
| Intangible assets, net..... | 2,933 | 49,925 | 88,539 | — | 141,397 |
| Goodwill | — | 114,863 | 207,233 | — | 322,096 |
| Investment in subsidiaries..... | 926,928 | — | — | (926,928) | — |
| Other assets | 6,914 | 16,080 | 48,340 | — | 71,334 |
| Deferred income taxes long-term..... | — | (27,709) | 81,968 | — | 54,259 |
| Total assets..... | <u>\$ 955,300</u> | <u>\$ 492,814</u> | <u>\$ 1,112,308</u> | <u>\$ (927,823)</u> | <u>\$ 1,632,599</u> |
| LIABILITIES AND EQUITY | | | | | |
| Current liabilities: | | | | | |
| Lines of credit..... | \$ — | \$ — | \$ 14,886 | \$ — | \$ 14,886 |
| Accounts payable | 1,120 | 55,535 | 80,699 | — | 137,354 |
| Accrued liabilities | 7,807 | 22,358 | 54,291 | — | 84,456 |
| Current portion of long-term debt | — | 502 | 44,696 | — | 45,198 |
| Income taxes payable | — | (5,413) | 11,152 | — | 5,739 |
| Intercompany balances | 70,620 | (99,939) | 29,319 | — | — |
| Current liabilities of assets held for sale..... | — | 15 | 245 | — | 260 |
| Total current liabilities | <u>79,547</u> | <u>(26,942)</u> | <u>235,288</u> | <u>—</u> | <u>287,893</u> |
| Long-term debt, net of current portion | 400,000 | 116,114 | 301,782 | — | 817,896 |
| Other long-term liabilities | — | 37,492 | 4,071 | — | 41,563 |
| Total liabilities | <u>479,547</u> | <u>126,664</u> | <u>541,141</u> | <u>—</u> | <u>1,147,352</u> |
| Stockholders'/invested equity..... | 475,753 | 357,147 | 570,676 | (927,823) | 475,753 |
| Non-controlling interest | — | 9,003 | 491 | — | 9,494 |
| Total liabilities and equity | <u>\$ 955,300</u> | <u>\$ 492,814</u> | <u>\$ 1,112,308</u> | <u>\$ (927,823)</u> | <u>\$ 1,632,599</u> |

QUIKSILVER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET

At October 31, 2009

| <i>In thousands</i> | Quiksilver, Inc. | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------------|---------------------------|-----------------------------------|---------------------|---------------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 321 | \$ 1,135 | \$ 98,060 | \$ — | \$ 99,516 |
| Restricted cash | — | — | 52,706 | — | 52,706 |
| Trade accounts receivable, net | — | 150,540 | 280,344 | — | 430,884 |
| Other receivables | 854 | 4,869 | 19,892 | — | 25,615 |
| Inventories..... | — | 86,501 | 182,006 | (777) | 267,730 |
| Deferred income taxes | — | 8,658 | 67,980 | — | 76,638 |
| Prepaid expenses and other current assets..... | 12,981 | 11,039 | 13,313 | — | 37,333 |
| Current assets held for sale | — | — | 1,777 | — | 1,777 |
| Total current assets | <u>14,156</u> | <u>262,742</u> | <u>716,078</u> | <u>(777)</u> | <u>992,199</u> |
| Fixed assets, net..... | 4,323 | 71,265 | 163,745 | — | 239,333 |
| Intangible assets, net | 2,886 | 50,426 | 89,642 | — | 142,954 |
| Goodwill | — | 118,111 | 215,647 | — | 333,758 |
| Investment in subsidiaries..... | 952,358 | — | — | (952,358) | — |
| Other assets | 7,522 | 18,947 | 48,884 | — | 75,353 |
| Deferred income taxes long-term..... | — | (28,017) | 97,028 | — | 69,011 |
| Total assets..... | <u>\$ 981,245</u> | <u>\$ 493,474</u> | <u>\$ 1,331,024</u> | <u>\$ (953,135)</u> | <u>\$ 1,852,608</u> |
| LIABILITIES AND EQUITY | | | | | |
| Current liabilities: | | | | | |
| Lines of credit..... | \$ — | \$ — | \$ 32,592 | \$ — | \$ 32,592 |
| Accounts payable..... | 1,594 | 60,003 | 100,776 | — | 162,373 |
| Accrued liabilities | 7,357 | 27,084 | 81,833 | — | 116,274 |
| Current portion of long-term debt | — | 1,140 | 94,091 | — | 95,231 |
| Income taxes payable | — | 9,174 | 14,400 | — | 23,574 |
| Intercompany balances | 115,699 | (129,624) | 13,925 | — | — |
| Current liabilities related to assets held for sale | — | 15 | 443 | — | 458 |
| Total current liabilities | <u>124,650</u> | <u>(32,208)</u> | <u>338,060</u> | <u>—</u> | <u>430,502</u> |
| Long-term debt, net of current portion..... | 400,000 | 110,829 | 400,601 | — | 911,430 |
| Other long-term liabilities | — | 36,984 | 9,659 | — | 46,643 |
| Total liabilities | <u>524,650</u> | <u>115,605</u> | <u>748,320</u> | <u>—</u> | <u>1,388,575</u> |
| Stockholders'/invested equity..... | 456,595 | 370,922 | 582,213 | (953,135) | 456,595 |
| Non-controlling interest | — | 6,947 | 491 | — | 7,438 |
| Total liabilities and equity | <u>\$ 981,245</u> | <u>\$ 493,474</u> | <u>\$ 1,331,024</u> | <u>\$ (953,135)</u> | <u>\$ 1,852,608</u> |

QUIKSILVER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS Six Months Ended April 30, 2010

| <i>In thousands</i> | Quiksilver, Inc. | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------------|---------------------------|-----------------------------------|--------------|-------------------|
| Cash flows from operating activities: | | | | | |
| Net income (loss)..... | \$ 4,070 | \$ (11,171) | \$ 49,949 | \$ (36,722) | \$ 6,126 |
| Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities: | | | | | |
| Income from discontinued operations | — | — | (678) | — | (678) |
| Depreciation and amortization | 768 | 11,094 | 15,161 | — | 27,023 |
| Stock-based compensation..... | 10,135 | — | — | — | 10,135 |
| Provision for doubtful accounts | — | 3,934 | 6,210 | — | 10,144 |
| Equity in earnings | (36,704) | — | 183 | 36,704 | 183 |
| Non-cash interest expense | 635 | 7,603 | 4,692 | — | 12,930 |
| Deferred income taxes | — | (548) | 17,257 | — | 16,709 |
| Other adjustments to reconcile net income (loss) | (296) | (1,184) | (2,006) | — | (3,486) |
| Changes in operating assets and liabilities: | | | | | |
| Trade accounts receivable | — | 42,647 | 30,406 | — | 73,053 |
| Inventories..... | — | 4,648 | 24,800 | 18 | 29,466 |
| Other operating assets and liabilities..... | 121 | (21,941) | (28,560) | — | (50,380) |
| Cash (used in) provided by operating activities of continuing operations..... | (21,271) | 35,082 | 117,414 | — | 131,225 |
| Cash provided by operating activities of discontinued operations..... | — | — | 3,287 | — | 3,287 |
| Net cash (used in) provided by operating activities... | (21,271) | 35,082 | 120,701 | — | 134,512 |
| Cash flows from investing activities: | | | | | |
| Capital expenditures | (154) | (664) | (18,021) | — | (18,839) |
| Changes in restricted cash..... | — | — | 52,706 | — | 52,706 |
| Cash (used in) provided by investing activities of continuing operations..... | (154) | (664) | 34,685 | — | 33,867 |
| Cash used in investing activities of discontinued operations | — | — | — | — | — |
| Net cash (used in) provided by investing activities ... | (154) | (664) | 34,685 | — | 33,867 |
| Cash flows from financing activities: | | | | | |
| Borrowings on lines of credit | — | — | — | — | — |
| Payments on lines of credit | — | — | (16,707) | — | (16,707) |
| Payments of debt issuance costs..... | — | — | (1,823) | — | (1,823) |
| Borrowings on long-term debt | — | 22,735 | 9,675 | — | 32,410 |
| Payments on long-term debt | — | (23,395) | (113,577) | — | (136,972) |
| Stock option exercises, employee stock purchases and tax benefit on option exercises | 2,888 | — | — | — | 2,888 |
| Intercompany | 19,543 | 26,516 | (46,059) | — | — |
| Cash provided by (used in) financing activities of continuing operations..... | 22,431 | 25,856 | (168,491) | — | (120,204) |
| Cash used in financing activities of discontinued operations | — | — | — | — | — |
| Net cash provided by (used in) financing activities ... | 22,431 | 25,856 | (168,491) | — | (120,204) |
| Effect of exchange rate changes on cash | — | — | (2,362) | — | (2,362) |
| Net increase (decrease) in cash and cash equivalents | 1,006 | 60,274 | (15,467) | — | 45,813 |
| Cash and cash equivalents, beginning of period | 321 | 1,135 | 98,060 | — | 99,516 |
| Cash and cash equivalents, end of period | <u>\$ 1,327</u> | <u>\$ 61,409</u> | <u>\$ 82,593</u> | <u>\$ —</u> | <u>\$ 145,329</u> |

QUIKSILVER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS Six Months Ended April 30, 2009

| <i>In thousands</i> | Quiksilver, Inc. | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---------------------|---------------------------|-----------------------------------|--------------|--------------|
| Cash flows from operating activities: | | | | | |
| Net loss..... | \$ (191,613) | \$ (77,792) | \$ (97,673) | \$ 176,487 | \$ (190,591) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | | | | |
| (Income) loss from discontinued operations | (17,571) | 2,787 | 145,990 | (510) | 130,696 |
| Depreciation and amortization | 751 | 12,571 | 13,416 | — | 26,738 |
| Stock-based compensation..... | 4,372 | — | — | — | 4,372 |
| Provision for doubtful accounts..... | — | 6,154 | 2,811 | — | 8,965 |
| Equity in earnings | 175,250 | — | 455 | (175,250) | 455 |
| Deferred income taxes..... | — | 47,752 | (2,904) | — | 44,848 |
| Other adjustments to reconcile net loss..... | — | 741 | 1,836 | — | 2,577 |
| Changes in operating assets and liabilities: | | | | | |
| Trade accounts receivables..... | — | 48,306 | 7,273 | — | 55,579 |
| Inventories | — | 76 | 10,419 | (1,236) | 9,259 |
| Other operating assets and liabilities | (11,476) | (5,599) | (40,189) | — | (57,264) |
| Cash (used in) provided by operating activities of continuing operations..... | (40,287) | 34,996 | 41,434 | (509) | 35,634 |
| Cash (used in) provided by operating activities of discontinued operations | (19,736) | 42,770 | (14,742) | 509 | 8,801 |
| Net cash (used in) provided by operating activities..... | (60,023) | 77,766 | 26,692 | — | 44,435 |
| Cash flows from investing activities: | | | | | |
| Capital expenditures | (3,622) | (4,304) | (13,584) | — | (21,510) |
| Cash used in investing activities of continuing operations | (3,622) | (4,304) | (13,584) | — | (21,510) |
| Cash provided by investing activities of discontinued operations..... | — | — | 21,848 | — | 21,848 |
| Net cash (used in) provided by investing activities..... | (3,622) | (4,304) | 8,264 | — | 338 |
| Cash flows from financing activities: | | | | | |
| Borrowings on lines of credit..... | — | — | 8,613 | — | 8,613 |
| Payments on lines of credit..... | — | — | (21,941) | — | (21,941) |
| Borrowings on long-term debt | — | 115,412 | 29,134 | — | 144,546 |
| Payments on long-term debt..... | — | (109,591) | (32,611) | — | (142,202) |
| Stock option exercises, employee stock purchases and tax benefit on option exercises | 495 | — | — | — | 495 |
| Intercompany | 63,148 | (71,695) | 8,547 | — | — |
| Cash provided by (used in) financing activities of continuing operations..... | 63,643 | (65,874) | (8,258) | — | (10,489) |
| Cash used in financing activities of discontinued operations..... | — | — | (11,136) | — | (11,136) |
| Net cash provided by (used in) financing activities..... | 63,643 | (65,874) | (19,394) | — | (21,625) |
| Effect of exchange rate changes on cash..... | — | — | (2,138) | — | (2,138) |
| Net (decrease) increase in cash and cash equivalents.... | (2) | 7,588 | 13,424 | — | 21,010 |
| Cash and cash equivalents, beginning of period | 18 | 2,666 | 50,358 | — | 53,042 |
| Cash and cash equivalents, end of period | \$ 16 | \$ 10,254 | \$ 63,782 | \$ — | \$ 74,052 |

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

Unless the context indicates otherwise, when we refer to “Quiksilver”, “we”, “us”, “our”, or the “Company” in this Form 10-Q, we are referring to Quiksilver, Inc. and its subsidiaries on a consolidated basis. You should read the following discussion and analysis in conjunction with our unaudited condensed consolidated financial statements and related notes thereto contained elsewhere in this report. The information contained in this quarterly report on Form 10-Q is not a complete description of our business or the risks associated with an investment in our securities. We urge you to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended October 31, 2009 and subsequent reports on Form 10-Q and Form 8-K, which discuss our business in greater detail. The section entitled “Risk Factors” set forth in Item 1A of our Annual Report on Form 10-K, and similar disclosures in our other 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.

Over the past 40 years, Quiksilver has been established as a global company representing the casual, youth lifestyle associated with boardriding sports. We began operations in 1976 as a California company making boardshorts for surfers in the United States under a license agreement with the *Quiksilver* brand founders in Australia. Our product offering expanded in the 1980s as we grew our distribution channels. After going public in 1986 and purchasing the rights to the *Quiksilver* brand in the United States from our Australian licensor, we further expanded our product offerings and began to diversify. In 1991, we acquired the European licensee of *Quiksilver* and introduced *Roxy*, our surf brand for teenage girls. We also expanded demographically in the 1990s by adding products for boys, girls, toddlers and men, and we introduced our proprietary retail store concept which displays the heritage and products of *Quiksilver* and *Roxy*. In 2000, we acquired the international *Quiksilver* and *Roxy* trademarks, and in 2002, we acquired our licensees in Australia and Japan. In 2004, we acquired DC Shoes, Inc. to expand our presence in action sports-inspired footwear. In 2005, we acquired Skis Rossignol SA, a wintersports and golf equipment company. Our golf equipment operations were subsequently sold in December 2007 and our Rossignol wintersports business was sold in November 2008. Our Rossignol wintersports business, including both equipment and related apparel, is classified as discontinued operations and the assets and related liabilities of our remaining Rossignol apparel business are classified as held for sale in our consolidated financial statements. As a result of this disposition, the following information has been adjusted to exclude our Rossignol businesses.

We operate in the outdoor market of the sporting goods industry in which we design, produce and distribute branded apparel, footwear, accessories and related products. Our products are sold throughout the world, primarily in surf shops, skate shops, snow shops and specialty stores. We currently operate in three segments: the Americas, Europe and Asia/Pacific. Our former wintersports equipment segment has been classified as discontinued operations. The Americas segment includes revenues from the U.S., Canada and Latin America. Our European segment includes revenues from Europe, the Middle East and Africa. Our Asia/Pacific segment includes revenues primarily from Australia, Japan, New Zealand and Indonesia. Royalties earned from various licensees in other international territories are categorized in corporate operations along with revenues from sourcing services for our licensees.

We operate in markets that are highly competitive, and our ability to evaluate and respond to changing consumer demands and tastes is critical to our success. If we are unable to remain competitive and maintain our consumer loyalty, our business will be negatively affected. We believe that our historical success is due to the development of an experienced team of designers, artists, sponsored athletes, technicians, researchers, merchandisers, pattern makers and contractors. Our team and the heritage and current strength of our brands has helped us remain competitive in our markets. Our success in the future will depend, in part, on our ability to continue to design products that are desirable in the marketplace and competitive in the areas of quality, brand image, technical specifications, distribution methods, price, customer service and intellectual property protection.

Results of Operations

The table below shows certain components in our statements of operations and other data as a percentage of revenues:

| <i>Statements of Operations data</i> | Three Months Ended April 30, | | Six Months Ended April 30, | |
|--|---|--------------------|---------------------------------------|--------------------|
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| Revenues, net | 100.0% | 100.0% | 100.0% | 100.0% |
| Gross profit | 53.2 | 47.2 | 52.3 | 47.0 |
| Selling, general and administrative expense..... | 45.6 | 41.0 | 46.2 | 43.7 |
| Operating income | 7.7 | 6.2 | 6.1 | 3.3 |
| Interest expense | 4.5 | 2.7 | 4.8 | 3.0 |
| Foreign currency and other (income) expense .. | <u>(1.0)</u> | <u>0.4</u> | <u>(0.7)</u> | <u>0.3</u> |
| Income before provision for income taxes | 4.2 | 3.0 | 2.1 | 0.0 |
| <i>Other data</i> | | | | |
| Adjusted EBITDA ⁽¹⁾ | <u>13.0%</u> | <u>8.7%</u> | <u>10.7%</u> | <u>6.2%</u> |

⁽¹⁾ Adjusted EBITDA is defined as income (loss) from continuing operations attributable to Quiksilver, Inc. before (i) interest expense, (ii) income tax expense, (iii) depreciation and amortization, (iv) non-cash stock-based compensation expense and (v) asset impairments. Adjusted EBITDA is not defined under generally accepted accounting principles (“GAAP”), and it may not be comparable to similarly titled measures reported by other companies. We use Adjusted EBITDA, along with other GAAP measures, as a measure of profitability because Adjusted EBITDA helps us to compare our performance on a consistent basis by removing from our operating results the impact of our capital structure, the effect of operating in different tax jurisdictions, the impact of our asset base, which can differ depending on the book value of assets, the accounting methods used to compute depreciation and amortization, the existence or timing of asset impairments and the effect of non-cash stock-based compensation expense. We believe EBITDA is useful to investors as it is a widely used measure of performance and the adjustments we make to EBITDA provide further clarity on our profitability. We remove the effect of non-cash stock-based compensation from our earnings which can vary based on share price, share price volatility and expected life of the equity instruments we grant. In addition, this stock-based compensation expense does not result in cash payments by us. We remove the effect of asset impairments from Adjusted EBITDA for the same reason that we remove depreciation and amortization as it is part of the impact of our asset base. Adjusted EBITDA has limitations as a profitability measure in that it does not include the interest expense on our debts, our provisions for income taxes, the effect of our expenditures for capital assets and certain intangible assets, the effect of non-cash stock-based compensation expense and the effect of asset impairments. The following is a reconciliation of income (loss) from continuing operations attributable to Quiksilver, Inc. to Adjusted EBITDA:

| <i>In thousands</i> | Three Months Ended April 30, | | Six Months Ended April 30, | |
|---|---|--------------------|---------------------------------------|--------------------|
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| Income (loss) from continuing operations attributable to Quiksilver, Inc. | \$ 8,822 | \$ 4,945 | \$ 3,392 | \$ (60,917) |
| Provision for income taxes..... | 9,419 | 9,528 | 13,093 | 60,109 |
| Interest expense | 21,039 | 13,552 | 42,912 | 27,706 |
| Depreciation and amortization | 13,453 | 13,435 | 27,023 | 26,738 |
| Non-cash stock-based compensation expense | <u>8,003</u> | <u>1,665</u> | <u>10,135</u> | <u>4,372</u> |
| Adjusted EBITDA..... | <u>\$ 60,736</u> | <u>\$ 43,125</u> | <u>\$ 96,555</u> | <u>\$ 58,008</u> |

Three Months Ended April 30, 2010 Compared to Three Months Ended April 30, 2009

Our total net revenues for the three months ended April 30, 2010 decreased 5% to \$468.3 million from \$494.2 million in the comparable period of the prior year. In constant currency, net revenues decreased 10% compared to the prior year. Our net revenues in each of the Americas, Europe and Asia/Pacific segments include apparel, footwear, accessories and related product lines for our *Quiksilver*, *Roxy*, *DC* and other brands, which primarily include *Hawk*, *Lib Technologies* and *Gnu*.

In order to better understand growth rates in our foreign operating segments, we make reference to constant currency. Constant currency improves visibility into actual growth rates as it adjusts for the effect of changing foreign currency exchange rates from period to period. Constant currency is calculated by taking the ending foreign currency exchange rate (for balance sheet items) or the average foreign currency exchange rate (for income statement items) used in translation for the current period and applying that same rate to the prior period. Our European segment is translated into constant currency using euros and our Asia/Pacific segment is translated into constant currency using Australian dollars as these are the primary functional currencies of each reporting segment. As such, this methodology does not account for movements in individual currencies within an operating segment (for example, non-euro currencies within our European segment). A constant currency translation methodology that accounts for movements in each individual currency could yield a different result compared to using only euros and Australian dollars. The following table presents revenues by segment in both historical currency and constant currency for the three months ended April 30, 2010 and 2009:

| <i>In thousands</i> | <u>Americas</u> | <u>Europe</u> | <u>Asia/Pacific</u> | <u>Corporate</u> | <u>Total</u> |
|---|-----------------|---------------|---------------------|------------------|--------------|
| Historical currency (as reported) | | | | | |
| April 30, 2009 | \$229,990 | \$210,498 | \$52,299 | \$1,386 | \$494,173 |
| April 30, 2010 | 199,733 | 208,708 | 58,645 | 1,203 | 468,289 |
| Percentage (decrease) increase | (13%) | (1%) | 12% | | (5%) |
| Constant currency (current year exchange rates) | | | | | |
| April 30, 2009 | 229,990 | 219,321 | 70,305 | 1,386 | 521,002 |
| April 30, 2010 | 199,733 | 208,708 | 58,645 | 1,203 | 468,289 |
| Percentage decrease | (13%) | (5%) | (17%) | | (10%) |

Revenues in the Americas decreased 13% to \$199.7 million for the three months ended April 30, 2010 from \$230.0 million in the comparable period of the prior year, while European revenues decreased 1% to \$208.7 million from \$210.5 million and Asia/Pacific revenues increased 12% to \$58.6 million from \$52.3 million for those same periods. The decrease in Americas' net revenues was primarily attributable to generally weak economic conditions affecting both our retail and wholesale channels, with particular softness in the junior's market. The decrease in the Americas came primarily from *Roxy* brand revenues and, to a lesser extent, *DC* brand revenues. The decrease in *Roxy* brand revenues came primarily from our apparel product line and, to a lesser extent, our footwear and accessories product lines. The decrease in *DC* brand revenues, which came primarily from our footwear and accessories product lines, was partially offset by growth in our apparel product line. *Quiksilver* brand revenues remained essentially flat, with growth in our accessories and footwear product lines offset by a decline in our apparel product line. Europe's net revenues decreased 5% in constant currency. The currency adjusted revenue decrease in Europe was primarily the result of a decline in our *Quiksilver* and *Roxy* brand revenues, partially offset by modest growth in *DC* brand revenues. The decrease in *Quiksilver* brand revenues was generally from our apparel product line and, to a lesser extent, our accessories product line, partially offset by modest growth in our footwear product line. *Roxy* brand revenues were particularly impacted by softness in the global junior's market. The decrease in *Roxy* brand revenues was primarily from our apparel product line and, to a lesser extent, our footwear product line. These decreases were partially offset by modest growth in our accessories product line. *DC* experienced modest growth in apparel and footwear sales during the period. Asia/Pacific's net revenues decreased 17% in constant currency. The currency adjusted decrease in Asia/Pacific came primarily from the *Roxy* brand and, to a lesser extent, from the *Quiksilver* and *DC* brands across all major product categories. Our Asia/Pacific segment was

the most impacted by weak economic conditions during the quarter as retail was challenging in both of our primary markets of Australia and Japan.

Our consolidated gross profit margin for the three months ended April 30, 2010 increased to 53.2% from 47.2% in the comparable period of the prior year. The gross profit in the Americas segment increased to 46.6% from 36.9%, our European segment gross profit margin increased to 59.9% from 56.7%, and our Asia/Pacific segment gross profit margin decreased to 53.5% from 55.1% for those same periods. The increase in the Americas segment gross profit margin was primarily the result of less discounting in our wholesale business and, to a lesser extent, in our company-owned retail stores, less clearance business and improved sourcing. Our European segment gross profit margin increased primarily as a result of improved sourcing and, to a lesser extent, improved margins on clearance business. In our Asia/Pacific segment, the gross profit margin decrease was primarily due to less full price retail sales compared to the prior year.

Our selling, general and administrative expense ("SG&A") for the three months ended April 30, 2010 increased 5% to \$213.4 million from \$202.6 million in the comparable period of the prior year. In the Americas segment, SG&A expenses decreased 9% to \$81.2 million from \$89.0 million in the comparable period of the prior year, while our European segment SG&A increased 9% to \$86.0 million from \$79.1 million, and our Asia/Pacific segment SG&A increased 23% to \$32.3 million from \$26.3 million for those same periods. As a percentage of revenues, our consolidated SG&A increased to 45.6% for the three months ended April 30, 2010 from 41.0% for the three months ended April 30, 2009. The consolidated SG&A increase includes a non-cash charge of \$6.5 million during the three months ended April 30, 2010 for stock compensation expense related to stock granted to Kelly Slater as compared to zero during the three months ended April 30, 2009. In the Americas, SG&A as a percentage of revenues increased to 40.6% compared to 38.7% in the comparable period of the prior year. In Europe, SG&A as a percentage of revenues increased to 41.2% from 37.6% and in Asia/Pacific, SG&A as a percentage of revenues increased to 55.0% from 50.3% for those same periods. The increase in SG&A as a percentage of revenues in our Americas segment was primarily due to lower revenues in the current year, partially offset by lower overall expenses due to cost-cutting. The increase in SG&A as a percentage of revenues in our European segment was primarily caused by lower revenues and the costs of operating additional retail stores. Europe's SG&A increased 4% in constant currency. In our Asia/Pacific segment, the increase in SG&A as a percentage of revenues was primarily the result of lower revenues. Asia/Pacific's SG&A decreased 9% in constant currency.

Interest expense for the three months ended April 30, 2010 increased to \$21.0 million from \$13.6 million in the comparable period of the prior year primarily as a result of higher interest rates associated with our new debt structure, although \$6.4 million of the \$21.0 million was non-cash interest expense.

Our foreign currency gain amounted to \$4.6 million for the three months ended April 30, 2010 compared to a loss of \$1.9 million in the comparable period of the prior year. This gain resulted primarily from the foreign currency exchange effect of certain non-U.S. dollar denominated liabilities and certain U.S. dollar denominated assets of our foreign subsidiaries.

Our income tax expense for the three months ended April 30, 2010 was \$9.4 million compared to \$9.5 million in the comparable period of the prior year.

Our income from continuing operations for the three months ended April 30, 2010 increased to \$8.8 million or \$0.06 per share on a diluted basis, compared to \$4.9 million, or \$0.04 per share on a diluted basis, in the comparable period of the prior year. Adjusted EBITDA increased to \$60.7 million from \$43.1 million for those same periods.

Six Months Ended April 30, 2010 Compared to Six Months Ended April 30, 2009

Our total net revenues for the six months ended April 30, 2010 decreased 4% to \$901.0 million from \$937.5 million in the comparable period of the prior year. Net revenues decreased 10% in constant currency.

The following table presents revenues by segment in both historical currency and constant currency for the six months ended April 30, 2010 and 2009:

| <i>In thousands</i> | <u>Americas</u> | <u>Europe</u> | <u>Asia/Pacific</u> | <u>Corporate</u> | <u>Total</u> |
|---|-----------------|---------------|---------------------|------------------|--------------|
| Historical currency (as reported) | | | | | |
| April 30, 2009 | \$ 433,403 | \$ 392,196 | \$ 109,889 | \$ 1,963 | \$ 937,451 |
| April 30, 2010 | 386,694 | 386,585 | 125,697 | 2,050 | 901,026 |
| Percentage (decrease) increase | (11%) | (1%) | 14% | | (4%) |
| Constant currency (current year exchange rates) | | | | | |
| April 30, 2009 | 433,403 | 420,551 | 148,736 | 1,963 | 1,004,653 |
| April 30, 2010 | 386,694 | 386,585 | 125,697 | 2,050 | 901,026 |
| Percentage decrease | (11%) | (8%) | (15%) | | (10%) |

Revenues in the Americas decreased 11% to \$386.7 million for the six months ended April 30, 2010 from \$433.4 million in the comparable period of the prior year, while European revenues decreased 1% to \$386.6 million from \$392.2 million and Asia/Pacific revenues increased 14% to \$125.7 million from \$109.9 million for those same periods. The decrease in Americas' net revenues was primarily attributable to generally weak economic conditions affecting both our retail and wholesale channels, with particular softness in the junior's market. The decrease in the Americas came primarily from *Roxy* brand revenues and, to a lesser extent, *Quiksilver* brand revenues. These decreases were partially offset by growth in *DC* brand revenues. The decrease in *Roxy* brand revenues came across all product lines. The decrease in *Quiksilver* brand revenues came primarily from the apparel product line and was partially offset by growth in the accessories and footwear product lines. The increase in *DC* brand revenues came primarily from our apparel and, to a lesser extent, our footwear product lines. This growth was partially offset by contraction in the accessories product line. European net revenues decreased 8% in constant currency. The currency adjusted decrease in Europe came primarily from decreases in our *Roxy* and *Quiksilver* brand revenues, partially offset by modest growth in our *DC* brand revenues. The decreases in our *Roxy* and *Quiksilver* brand revenues came primarily from our apparel product lines and, to a lesser extent, our accessories and footwear product lines. The increase in *DC* brand revenues came primarily from growth in our apparel product line. Asia/Pacific's net revenues decreased 15% in constant currency. The currency adjusted decrease in Asia/Pacific revenues came primarily from our *Roxy* and *DC* brands and, to a lesser extent, our *Quiksilver* brand across all major product lines. Our Asia/Pacific segment was particularly impacted by the generally weak economic conditions.

Our consolidated gross profit margin for the six months ended April 30, 2010 increased to 52.3% from 47.0% in the comparable period of the prior year. The gross profit margin in the Americas segment increased to 45.0% from 37.0%, while our European segment gross profit margin increased to 59.3% from 56.1%, and our Asia/Pacific segment gross profit margin increased to 54.5% from 54.2% for those same periods. The increase in the Americas segment gross profit margin was primarily the result of less discounting in our wholesale business and, to a lesser extent, in our company-owned retail stores, less clearance business and improved sourcing. Our European segment gross profit margin increased primarily as a result of improved sourcing and, to a lesser extent, improved margins on clearance business. In our Asia/Pacific segment, the gross profit margin increase was primarily due to improved retail and wholesale margins in Japan, partially offset by a change in mix of products sold through our outlet stores versus full price stores during the six months ended April 30, 2010.

Our SG&A for the six months ended April 30, 2010 increased 2% to \$416.6 million from \$409.4 million in the comparable period of the prior year. SG&A decreased 5% in constant currency. In the Americas segment, these expenses decreased 13% to \$157.6 million from \$181.0 million in the comparable period

of the prior year, while our European segment SG&A increased 9% to \$171.8 million from \$157.8 million, and our Asia/Pacific segment SG&A increased 20% to \$63.6 million from \$53.2 million for those same periods. As a percentage of revenues, SG&A increased to 46.2% for the six months ended April 30, 2010 from 43.7% for the six months ended April 30, 2009. The consolidated SG&A increase includes a non-cash charge of \$7.5 million during the six months ended April 30, 2010 for stock compensation expense related to stock granted to Kelly Slater as compared to zero during the six months ended April 30, 2009. In the Americas, SG&A as a percentage of revenues decreased to 40.7% compared to 41.8% the year before. In Europe, SG&A as a percentage of revenues increased to 44.4% from 40.2%, and in Asia/Pacific, SG&A as a percentage of revenues increased to 50.6% from 48.4% for those same periods. The decrease in SG&A as a percentage of revenue in our Americas segment was primarily a result of our expense cuts, partially offset by lower revenues. The increase in SG&A as a percentage of revenue in our European segment was primarily caused by lower revenues and, to a lesser extent, the cost of operating additional retail stores. In our Asia/Pacific segment, the increase in SG&A as a percentage of revenues was primarily the result of lower revenues.

Interest expense for the six months ended April 30, 2010 increased to \$42.9 million from \$27.7 million in the comparable period of the prior year primarily as a result of higher interest rates associated with our new debt structure, although \$12.9 million of the \$42.9 million was non-cash interest expense.

Our foreign currency gain amounted to \$6.6 million for the six months ended April 30, 2010 compared to a \$3.4 million loss in the comparable period of the prior year. The current year gain resulted primarily from the foreign currency exchange effect of certain non-U.S. dollar denominated liabilities and certain U.S. dollar denominated assets of our foreign subsidiaries.

Our income tax expense for the six months ended April 30, 2010 was \$13.1 million compared to \$60.1 million for the six months ended April 30, 2009. The income tax rate for the comparable period of the prior year was unfavorably impacted by a non-cash valuation allowance recorded against our deferred tax assets in the United States.

Our income from continuing operations for the six months ended April 30, 2010 was \$3.4 million, or \$0.02 per share on a diluted basis, compared to a loss from continuing operations of \$60.9 million, or \$0.48 per share on a diluted basis, in the comparable period of the prior year. Adjusted EBITDA increased to \$96.6 million from \$58.0 million for those same periods.

Financial Position, Capital Resources and Liquidity

We generally finance our working capital needs and capital investments with operating cash flows and bank revolving lines of credit. Multiple banks in the United States, Europe and Australia make these lines of credit available to us. Term loans are also used to supplement these lines of credit and are typically used to finance long-term assets. In fiscal 2005, we issued \$400 million of senior notes to fund a portion of the Rossignol purchase price and to refinance certain existing indebtedness, and in July 2009, we closed a \$153.1 million five year senior secured term loan to provide additional liquidity to our business. The cost of obtaining this additional liquidity was in the form of a higher interest rate on the five year senior secured term loan as compared to the debt that it replaced. This higher interest rate is reflected in our net interest expense of \$42.9 million for the six months ended April 30, 2010, which represents an increase of \$15.2 million in interest expense over the six months ended April 30, 2009. However, \$12.9 million of this additional interest expense was non-cash interest. As of April 30, 2010, we had a total of approximately \$878 million of indebtedness as compared to a total of approximately \$1,039 million of indebtedness at October 31, 2009. Our total indebtedness declined primarily as a result of scheduled repayments made on our European long-term debt, the payment of the deferred purchase price obligation from the Rossignol acquisition and the effect of changes in foreign currency exchange rates.

We are highly leveraged; however, we believe that our cash flows from operations, together with our existing credit facilities and term loans will be adequate to fund our capital requirements for at least the next twelve months. We also believe that our short-term uncommitted lines of credit in Asia/Pacific will

continue to be made available. If these lines of credit are not made available, we could be adversely affected.

Cash Flows

Operating activities from continuing operations provided cash of \$131.2 million in the six months ended April 30, 2010 compared to \$35.6 million in the six months ended April 30, 2009. This \$95.6 million increase in cash provided was due to a decrease in our net loss and other non-cash charges of \$51.0 million, which was primarily the result of having net income in the current year, and reductions in working capital of \$44.6 million.

Capital expenditures from continuing operations totaled \$18.8 million for the six months ended April 30, 2010, compared to \$21.5 million in the comparable period of the prior year. These investments include company-owned stores and ongoing investments in computer, warehouse and manufacturing equipment.

During the six months ended April 30, 2010, net cash used in financing activities from continuing operations totaled \$120.2 million, compared to \$10.5 million in the comparable period of the prior year. Cash used primarily related to the repayment of debt, including the Rossignol deferred purchase price obligation of approximately \$45.6 million, which was paid in April 2010.

The net increase in cash and cash equivalents for the six months ended April 30, 2010 was \$45.8 million compared to a net increase of \$21.0 million in the comparable period of the prior year. Cash and cash equivalents totaled \$145.3 million at April 30, 2010 compared to \$99.5 million at October 31, 2009, while working capital was \$535.0 million at April 30, 2010 compared to \$561.7 million at October 31, 2009.

Trade Accounts Receivable and Inventories

Our trade accounts receivable decreased 23% to \$333.3 million at April 30, 2010 from \$430.9 million at October 31, 2009. Accounts receivable in our Americas segment decreased 26% to \$146.8 million at April 30, 2010 from \$198.5 million at October 31, 2009, European segment accounts receivable decreased 10% to \$153.9 million from \$170.4 million and Asia/Pacific segment accounts receivable decreased 47% to \$32.6 million from \$62.0 million. Compared to April 30, 2009, accounts receivable decreased 25% in the Americas segment, decreased 15% in our European segment and remained constant in our Asia/Pacific segment. In constant currency, consolidated trade accounts receivable decreased 21% compared to April 30, 2009. The decrease in consolidated trade accounts receivable was a result of lower levels of revenues and improved collections. Included in accounts receivable at April 30, 2010 are approximately \$21.8 million of value added tax and goods and services tax related to foreign accounts receivable. Such taxes are not reported as net revenues and as such, must be deducted from accounts receivable to more accurately compute days sales outstanding. Overall average days sales outstanding decreased by approximately 10 days at April 30, 2010 compared to April 30, 2009.

Consolidated inventories decreased 15% to \$226.4 million at April 30, 2010 from \$267.7 million at October 31, 2009. Inventories in the Americas segment decreased 6% to \$102.8 million from \$109.8 million at October 31, 2009, European segment inventories decreased 30% to \$66.6 million from \$95.5 million and Asia/Pacific segment inventories decreased 9% to \$57.0 million from \$62.4 million. Compared to April 30, 2009, inventories decreased 39% in the Americas segment, decreased 23% in our European segment and increased 7% in our Asia/Pacific segment. In constant currency, our consolidated inventories decreased 30% compared to April 30, 2009. The decrease in consolidated inventories was a result of less inventory purchases to support lower levels of revenues. Consolidated average annual inventory turnover was approximately 3.6 at April 30, 2010 compared to approximately 3.3 at April 30, 2009.

Income Taxes

During the six months ended April 30, 2010, our liability for uncertain tax positions, exclusive of interest and penalties, increased by \$103.0 million to approximately \$145.1 million. Our liability increased by \$104.3 million for positions taken in the current period, by \$6.9 million for positions taken in prior periods,

and was partially offset by \$8.2 million primarily due to a lapse in a statute of limitations. The nature of the net increase relates primarily to intercompany restructuring transactions between foreign affiliates.

During the six months ended April 30, 2010, we also recorded a liability of \$103.0 million that, if resolved unfavorably, would result in the reduction of tax attributes rather than a cash obligation. This liability and the corresponding tax attributes are presented on a net basis on our accompanying consolidated balance sheets.

If our positions are favorably sustained by the relevant taxing authority, approximately \$134.2 million, excluding interest and penalties, of uncertain tax position liabilities would favorably impact our effective tax rate in future periods.

Commitments

There have been no material changes outside the ordinary course of business in our contractual obligations since October 31, 2009.

Critical Accounting Policies

Our 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 when the risk of ownership and title passes to our customers. Generally, we extend credit to our customers and do not require collateral. None of our sales agreements with any of our customers provide for any rights of return. However, we do approve returns on a case-by-case basis at our sole discretion to protect our brands and our image. We provide allowances for estimated returns when revenues are recorded, and related losses have historically been within our expectations. If returns are higher than our estimates, our results of operations would be adversely affected.

Accounts Receivable

It is not uncommon for some of our customers to have financial difficulties from time to time. This is normal given the wide variety of our account base, which includes small surf shops, medium-sized retail chains, and some large department store chains. 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 a reserve for estimated credit losses based on our historical experience and any specific customer collection issues that have been identified. Historically, our losses 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 results of operations.

Inventories

We value inventories at the cost to purchase and/or manufacture the product or the current estimated market value of the inventory, whichever is lower. 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:

- weakening economic conditions;
- terrorist acts or threats;
- unanticipated changes in consumer preferences;

- reduced customer confidence; and
- unseasonable weather.

Some of these factors could also interrupt the production and/or 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/or market value could be inaccurate, which could result in an understated or overstated provision required for excess and obsolete inventory.

Long-Lived Assets

We acquire tangible and intangible assets in the normal course of our business. We evaluate the recoverability of the carrying amount of these long-lived assets (including fixed assets, trademarks, licenses and other amortizable intangibles) whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when the carrying value exceeds the undiscounted future cash flows estimated to result from the use and eventual disposition of the asset. Impairments are 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.

Goodwill

We evaluate the recoverability of goodwill at least annually based on a two-step impairment test. The first step compares the fair value of each reporting unit with its carrying amount, including goodwill. We have three reporting units under which we evaluate goodwill for impairment, the Americas, Europe and Asia/Pacific. We estimate the fair value of our reporting units using a combination of a discounted cash flow approach and market approach. Material assumptions in our test for impairment include future cash flows of each reporting unit, discount rates applied to these cash flows and current market estimates of value. The discount rates used approximate our cost of capital. Future cash flows assume future levels of growth in each reporting unit's business. If any of these assumptions significantly change, including a change in expected future growth rates or valuation multiples, we may be required to record future impairments of goodwill. If the carrying amount exceeds fair value under the first step of our goodwill impairment test, then the second step of the impairment test is performed to measure the amount of any impairment loss.

As of October 31, 2009, the fair value of the Americas reporting unit substantially exceeded its carrying value. For our Europe and Asia/Pacific reporting units, the fair value exceeded the carrying value by approximately 7% and 5%, respectively. Goodwill allocated to our Europe and Asia/Pacific reporting units was \$184.8 million and \$71.1 million, respectively, as of October 31, 2009. Based on the uncertainty of future growth rates and other assumptions used to estimate goodwill recoverability in these reporting units, future reductions in our expected cash flows for Europe or Asia/Pacific could cause a material impairment of goodwill.

Stock-Based Compensation Expense

We recognize compensation expense for all stock-based payments net of an estimated forfeiture rate and only recognize compensation cost for those shares expected to vest using the graded vested method over the requisite service period of the award. For option valuation, we determine the fair value using the Black-Scholes option-pricing model which requires the input of certain assumptions, including the expected life of the stock-based payment awards, stock price volatility and interest rates.

Income Taxes

Income tax expense for interim periods is recognized based on the estimated annual effective tax rate applied to pretax income. A deferred income tax asset or liability is established for the expected future consequences of temporary differences in the financial reporting and tax bases of assets and liabilities. 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, which 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.

On November 1, 2007, we adopted the authoritative guidance included in ASC 740, "Income Taxes." This guidance clarifies the accounting for uncertainty in income taxes recognized in the financial statements. ASC 740 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the tax position. We recognize accrued interest and penalties related to unrecognized tax benefits as a component of our provision for income taxes. The application of ASC 740 can create significant variability in our tax rate from period to period upon changes in or adjustments to our uncertain tax positions.

Foreign Currency Translation

A significant portion of our revenues are generated in Europe, where we operate with the euro as our functional currency, and a smaller portion of our revenues are generated in Asia/Pacific, where we operate with the Australian dollar and Japanese yen as our functional currencies. Our European revenues in the United Kingdom are denominated in British pounds, and substantial portions of our European and Asia/Pacific product is sourced in U.S. dollars, both of which result in exposure to gains and losses that could occur from fluctuations in foreign currency exchange rates. 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 into U.S. dollars are included in accumulated other comprehensive income or loss.

As part of our overall strategy to manage our level of exposure to the risk of fluctuations in foreign currency exchange rates, we enter into various foreign currency exchange contracts generally in the form of forward contracts. For all contracts that qualify as cash flow hedges, we record the changes in the fair value of the derivatives in other comprehensive income or loss.

New Accounting Pronouncements

See Note 2 – New Accounting Pronouncements for a discussion of pronouncements that may affect our future financial reporting.

Forward-Looking Statements

All statements included in this report, other than statements or characterizations of historical fact, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Examples of forward-looking statements include, but are not limited to, statements regarding the trends and uncertainties in our financial condition, liquidity and results of operations. These forward-looking statements are based on our current expectations, estimates and projections about our industry, management's beliefs, and certain assumptions made by us and speak only as of the date of this report. Forward-looking statements can often be identified by words such as "anticipates," "expects," "intends," "plans," "predicts," "believes," "seeks," "estimates," "may," "will," "likely," "should," "would," "could," "potential," "continue," "ongoing," and similar expressions, and variations or negatives of these words. In addition, any statements that refer to expectations, projections, guidance, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. These statements are not guarantees of future results and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statement as a result of various factors, including, but not limited to, the following:

- continuing deterioration of global economic conditions and credit and capital markets;

- our ability to remain compliant with our debt covenants;
- our ability to achieve the financial results that we anticipate;
- payments due on contractual commitments and other debt obligations;
- future expenditures for capital projects;
- our ability to continue to maintain our brand image and reputation;
- foreign currency exchange rate fluctuations; and
- changes in political, social and economic conditions and local regulations, particularly in Europe and Asia.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, we cannot assure you that the forward-looking information contained herein will, in fact, transpire.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to a variety of risks, including foreign currency exchange rate fluctuations and changes in interest rates that affect interest expense.

Foreign Currency and Derivatives

We are exposed to financial statement gains and losses as a result of translating the operating results and financial position of our international subsidiaries. We translate the local currency statements of operations of our foreign subsidiaries into U.S. dollars using the average exchange rate during the reporting period. Changes in foreign currency exchange rates affect our reported results and distort comparisons from period to period. By way of example, when the U.S. dollar strengthens compared to the euro, there is a negative effect on our reported results for our European segment because it takes more profits in euros to generate the same amount of profits in stronger U.S. dollars. In addition, the statements of operations of our Asia/Pacific segment are translated from Australian dollars and Japanese yen into U.S. dollars, and there is a negative effect on our reported results for Asia/Pacific when the U.S. dollar is stronger in comparison to the Australian dollar or Japanese yen.

European revenues decreased 5% in euros during the three months ended April 30, 2010 compared to the three months ended April 30, 2009. As measured in U.S. dollars and reported in our consolidated statements of operations, European revenues decreased 1% as a result of a stronger euro versus the U.S. dollar in comparison to the prior year.

Asia/Pacific revenues decreased 17% in Australian dollars during the three months ended April 30, 2010 compared to the three months ended April 30, 2009. As measured in U.S. dollars and reported in our consolidated statements of operations, Asia/Pacific revenues increased 12% as a result of a stronger Australian dollar versus the U.S. dollar in comparison to the prior year.

Our other foreign currency and interest rate risks are discussed in our Annual Report on Form 10-K for the year ended October 31, 2009 in Item 7A.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable

assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We carried out an evaluation under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of April 30, 2010, the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of April 30, 2010.

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended April 30, 2010 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 6. Exhibits

Exhibits

- 2.1 Stock Purchase Agreement between the Roger Cleveland Golf Company, Inc., Rossignol Ski Company, Incorporated, Quiksilver, Inc. and SRI Sports Limited dated October 30, 2007 (incorporated by reference to Exhibit 2.3 of the Company's Annual Report on Form 10-K for the year ended October 31, 2007).
- 2.2 Amendment No. 1 to the Stock Purchase Agreement between the Roger Cleveland Golf Company, Inc., Rossignol Ski Company, Incorporated, Quiksilver, Inc. and SRI Sports Limited dated December 7, 2007 (incorporated by reference to Exhibit 2.4 of the Company's Annual Report on Form 10-K for the year ended October 31, 2007).
- 2.3 Offer Letter dated August 25, 2008, by and among Quiksilver, Inc., Pilot S.A.S., Meribel S.A.S., Quiksilver Americas, Inc. and Chartreuse et Mont Blanc LLC (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on August 27, 2008).
- 2.4 Amended and Restated Offer Letter dated October 31, 2008, by and among Quiksilver, Inc., Pilot S.A.S., Meribel S.A.S., Quiksilver Americas, Inc. and Chartreuse et Mont Blanc LLC (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on October 31, 2008).
- 2.5 Stock Purchase Agreement dated November 12, 2008, by and among Quiksilver, Inc., Pilot S.A.S., Meribel S.A.S., Quiksilver Americas, Inc., Chartreuse et Mont Blanc LLC, Chartreuse et Mont Blanc SAS, Chartreuse et Mont Blanc Global Holdings S.C.A., Macquarie Asset Finance Limited and Mavilia SAS (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed on November 18, 2008).
- 2.6 Amendment No. 1 to Stock Purchase Agreement dated October 29, 2009, by and among Quiksilver, Inc., Pilot S.A.S., Meribel S.A.S., Quiksilver Americas, Inc., Chartreuse et Mont Blanc LLC, Chartreuse et Mont Blanc S.A.S., Chartreuse et Mont Blanc Global Holdings S.C.A., Macquarie Asset Finance Limited and Mavilia S.A.S. (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed on October 30, 2009).
- 3.1 Restated Certificate of Incorporation of Quiksilver, Inc., as amended (incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-K for the year ended October 31, 2004).
- 3.2 Certificate of Amendment of Restated Certificate of Incorporation of Quiksilver, Inc. (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended April 30, 2005).
- 3.3 Certificate of Designation of the Series A Convertible Preferred Stock of Quiksilver, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on August 4, 2009).
- 3.4 Certificate of Amendment of Restated Certificate of Incorporation of Quiksilver, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on April 1, 2010).
- 3.5 Amended and Restated Bylaws of Quiksilver, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on December 7, 2007).

- 4.1 Indenture for the 6 7/8% Senior Notes due 2015 dated July 22, 2005, among Quiksilver, Inc., the subsidiary guarantors set forth therein and Wilmington Trust Company, as trustee, including the form of Global Note attached thereto (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed July 25, 2005).
- 10.1 English translation of Subscription Agreement for the 3.231% EUR 50,000,000 notes due July 2010 dated July 11, 2005 among Skis Rossignol S.A. and certain subsidiaries and Societe Generale Bank & Trust.
- 10.2 Credit Agreement by and among Quiksilver, Inc., Quiksilver Americas, Inc., as borrower, Rhône Group L.L.C., as administrative agent, and Romolo Holdings C.V., Triton SPV L.P., Triton Onshore SPV L.P., Triton Offshore SPV L.P. and Triton Coinvestment SPV L.P., as the lenders party thereto, dated July 31, 2009.
- 10.3 Credit Agreement by and among Quiksilver, Inc., Mountain & Wave S.a.r.l., as borrower, Rhône Group L.L.C., as administrative agent, and Romolo Holdings C.V., Triton SPV L.P., Triton Onshore SPV L.P., Triton Offshore SPV L.P. and Triton Coinvestment SPV L.P., as the lenders party thereto, dated July 31, 2009.
- 10.4 Warrant and Registration Rights Agreement by and among Quiksilver, Inc., Rhône Capital III L.P. and Romolo Holdings C.V., Triton SPV L.P., Triton Onshore SPV L.P., Triton Offshore SPV L.P. and Triton Coinvestment SPV L.P., as the initial warrant holders, dated July 31, 2009.
- 10.5 Credit Agreement by and among Quiksilver Americas, Inc., Bank of America, N.A., Banc of America Securities LLC, General Electric Capital Corporation and GE Capital Markets, Inc. dated July 31, 2009. Portions of this exhibit have been omitted pursuant to a request for confidential treatment filed with the Securities and Exchange Commission. The omissions have been indicated by asterisks ("*****"), and the omitted text has been filed separately with the Securities and Exchange Commission.
- 10.6 Facilities Agreement by and among Pilot S.A.S. and Na Pali S.A.S. as borrowers, Quiksilver, Inc., as guarantor, BNP Paribas, Crédit Lyonnais and Société Générale Corporate & Investment Banking as mandated lead arrangers, BNP Paribas as agent, Société Générale as security agent, Caisse Régionale de Crédit Agricole Mutuel Pyrénées-Gascogne as issuing bank, and BNP Paribas, Crédit Lyonnais, Société Générale, Natixis, Caisse Régionale de Crédit Agricole Mutuel Pyrénées-Gascogne, Banque Populaire du Sud Ouest, CIC — Société Bordelaise, and HSBC France as original lenders dated July 31, 2009 ("French Facility").
- 10.7 Quiksilver, Inc. Written Description of Nonemployee Director Compensation. (1)
- 10.8 Quiksilver, Inc. 2000 Stock Incentive Plan, as amended and restated, together with Form Stock Option and Restricted Stock Agreements (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on April 1, 2010). (1)
- 31.1 Rule 13a-14(a)/15d-14(a) Certifications – Principal Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certifications – Principal Financial Officer
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 – Chief Executive Officer
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 – Chief Financial Officer

(1) Management contract or compensatory plan.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

QUIKSILVER, INC., a Delaware corporation

June 9, 2010

/s/ Brad L. Holman

Brad L. Holman
Senior Vice President and Corporate Controller
(Principal Accounting Officer and Authorized Signatory)

§ 302 CERTIFICATION

I, Robert B. McKnight, certify that:

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

Date: June 9, 2010

/s/ Robert B. McKnight, Jr.
Robert B. McKnight, Jr.
Chief Executive Officer (Principal Executive Officer)

§ 302 CERTIFICATION

I, Joseph Scirocco, certify that:

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

Date: June 9, 2010

/s/ Joseph Scirocco
Joseph Scirocco
Chief Financial & Operating Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Quiksilver, Inc. (the "Company") on Form 10-Q for the period ending April 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert B. McKnight, Jr., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Robert B. McKnight, Jr.
Robert B. McKnight, Jr.
Chief Executive Officer
June 9, 2010

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Quiksilver, Inc. (the "Company") on Form 10-Q for the period ending April 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph Scirocco, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Joseph Scirocco
Joseph Scirocco
Chief Financial & Operating Officer
June 9, 2010