

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 January 31, 2007

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

**Large Accelerated Filer**

**Accelerated Filer**

**Non-Accelerated Filer**

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

The number of shares outstanding of Registrant's Common Stock,  
par value \$0.01 per share, at  
March 5, 2007 was  
124,333,679

# QUIKSILVER, INC.

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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**QUIKSILVER, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)**

<i>In thousands, except share amounts</i>	<b>January 31, <u>2007</u></b>	<b>October 31, <u>2006</u></b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 45,996	\$ 36,834
Trade accounts receivable, less allowances of \$30,727 (2007) and \$32,840 (2006) .....	612,865	721,562
Other receivables .....	36,195	35,324
Income taxes receivable .....	14,501	—
Inventories .....	485,287	425,864
Deferred income taxes .....	85,101	84,672
Prepaid expenses and other current assets .....	<u>41,494</u>	<u>28,926</u>
Total current assets .....	1,321,439	1,333,182
Fixed assets, less accumulated depreciation and amortization of \$185,652 (2007) and \$176,647 (2006) .....	296,394	282,334
Intangible assets, net .....	251,503	248,206
Goodwill .....	517,722	515,710
Other assets .....	44,574	45,954
Assets held for sale .....	<u>18,506</u>	<u>21,842</u>
Total assets .....	<u>\$ 2,450,138</u>	<u>\$ 2,447,228</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Lines of credit .....	\$ 303,059	\$ 315,891
Accounts payable .....	253,502	220,177
Accrued liabilities .....	177,712	201,087
Current portion of long-term debt .....	25,111	24,621
Income taxes payable .....	—	2,810
Total current liabilities .....	<u>759,384</u>	<u>764,586</u>
Long-term debt, net of current portion .....	679,633	689,690
Deferred income taxes and other long-term liabilities .....	<u>99,150</u>	<u>100,632</u>
Total liabilities .....	<u>1,538,167</u>	<u>1,554,908</u>
Minority interest .....	10,464	11,193
Stockholders' equity:		
Preferred stock, \$.01 par value, authorized shares - 5,000,000; issued and outstanding shares - none .....	—	—
Common stock, \$.01 par value, authorized shares - 185,000,000; issued shares – 127,182,659 (2007) and 126,401,836 (2006) .....	1,272	1,264
Additional paid-in capital .....	284,970	274,488
Treasury stock, 2,885,200 shares .....	(6,778)	(6,778)
Retained earnings .....	561,534	559,059
Accumulated other comprehensive income .....	<u>60,509</u>	<u>53,094</u>
Total stockholders' equity .....	<u>901,507</u>	<u>881,127</u>
Total liabilities and stockholders' equity .....	<u>\$ 2,450,138</u>	<u>\$ 2,447,228</u>

See notes to condensed consolidated financial statements.

**QUIKSILVER, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

<i>In thousands, except per share amounts</i>	<b>Three months ended January 31,</b>	
	<b><u>2007</u></b>	<b><u>2006</u></b>
Revenues, net .....	\$ 552,524	\$ 541,142
Cost of goods sold.....	<u>294,173</u>	<u>292,581</u>
Gross profit .....	258,351	248,561
Selling, general and administrative expense.....	<u>239,219</u>	<u>211,305</u>
Operating income.....	19,132	37,256
Interest expense .....	15,554	12,591
Foreign currency loss (gain) .....	1,943	(497)
Minority interest and other income .....	<u>(1,691)</u>	<u>(1,226)</u>
Income before provision for income taxes .....	3,326	26,388
Provision for income taxes .....	<u>851</u>	<u>7,785</u>
Net income .....	<u>\$ 2,475</u>	<u>\$ 18,603</u>
Net income per share .....	<u>\$ 0.02</u>	<u>\$ 0.15</u>
Net income per share, assuming dilution .....	<u>\$ 0.02</u>	<u>\$ 0.15</u>
Weighted average common shares outstanding.....	<u>123,049</u>	<u>121,434</u>
Weighted average common shares outstanding, assuming dilution.....	<u>129,234</u>	<u>127,240</u>

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

<i>In thousands</i>	<b>Three months ended January 31,</b>	
	<b><u>2007</u></b>	<b><u>2006</u></b>
Net income .....	\$ 2,475	\$ 18,603
Other comprehensive income (loss):		
Foreign currency translation adjustment .....	8,531	71
Net unrealized loss on derivative instruments, net of tax of (\$539) (2007), (\$360) (2006).....	<u>(1,116)</u>	<u>(686)</u>
Comprehensive income.....	<u>\$ 9,890</u>	<u>\$ 17,988</u>

See notes to condensed consolidated financial statements.

# QUIKSILVER, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

<i>In thousands</i>	<b>Three months ended January 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities:</b>		
Net income.....	\$ 2,475	\$ 18,603
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	16,511	15,503
Stock-based compensation.....	4,838	5,760
Provision for doubtful accounts.....	265	1,134
(Gain) loss on disposal of fixed assets.....	(209)	100
Foreign currency loss.....	36	—
Minority interest and equity in earnings.....	(1,533)	(1,226)
Changes in operating assets and liabilities, net of the effects from business acquisitions:		
Trade accounts receivable.....	117,444	60,583
Other receivables.....	(511)	9,323
Inventories.....	(55,037)	(20,330)
Prepaid expenses and other current assets.....	(12,388)	(6,831)
Other assets.....	2,013	(3,184)
Accounts payable.....	31,122	9,574
Accrued liabilities and other long-term liabilities.....	(30,364)	(13,407)
Income taxes payable.....	(10,337)	(3,142)
Net cash provided by operating activities.....	64,325	72,460
<b>Cash flows from investing activities:</b>		
Proceeds from the sale of properties and equipment.....	7,908	—
Capital expenditures.....	(28,270)	(13,038)
Business acquisitions, net of cash acquired.....	(2,524)	(13,133)
Net cash used in investing activities.....	(22,886)	(26,171)
<b>Cash flows from financing activities:</b>		
Borrowings on lines of credit.....	18,972	119,953
Payments on lines of credit.....	(41,205)	(96,746)
Borrowings on long-term debt.....	32,088	49,302
Payments on long-term debt.....	(45,645)	(87,281)
Stock option exercises, employee stock purchases and tax benefit on option exercises.....	4,708	2,156
Net cash used in financing activities.....	(31,082)	(12,616)
Effect of exchange rate changes on cash.....	(1,195)	94
Net increase in cash and cash equivalents.....	9,162	33,767
Cash and cash equivalents, beginning of period.....	36,834	75,598
Cash and cash equivalents, end of period.....	\$ 45,996	\$ 109,365
<b>Supplementary cash flow information:</b>		
Cash paid during the period for:		
Interest.....	\$ 10,226	\$ 4,352
Income taxes.....	\$ 16,007	\$ 14,079

See notes to condensed consolidated financial statements.

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 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 recurring accruals, necessary for a fair presentation of the results of operations for the three months ended January 31, 2007 and 2006. 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, 2006 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.

### 2. *New Accounting Pronouncements*

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," which replaces APB Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS No. 154 applies to all voluntary changes in accounting principles and requires retrospective application (a term defined by the statement) to prior periods' financial statements, unless it is impracticable to determine the effect of a change. It also applies to changes required by an accounting pronouncement that does not include specific transition provisions. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company adopted this standard during the three months ended January 31, 2007. The adoption of this standard did not have a material impact on the Company's financial condition, results of operations or cash flows.

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" ("FIN 48"). This interpretation clarifies the application of SFAS No. 109, "Accounting for Income Taxes," by defining criteria that an individual tax position must meet for any part of the benefit of that position to be recognized in the Company's financial statements and also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company expects to adopt FIN 48 on November 1, 2007. The Company is currently assessing the impact the adoption of FIN 48 will have on its financial position and results of operations.

In September 2006, the Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides interpretive guidance on the SEC's views regarding the process of quantifying materiality of financial statement misstatements. The Company adopted this standard during the three months ended January 31, 2007. The adoption of this accounting pronouncement did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company expects to adopt this standard at the beginning of the Company's fiscal year ending October 31, 2009. The adoption of this accounting pronouncement is not expected to have a material effect on the Company's consolidated financial position, results of operations or cash flows.

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 3. Stock Based Compensation

The Company accounts for stock-based compensation under the fair value recognition provisions of SFAS No. 123(R) "Share-Based Payment". 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 three months ended January 31, 2007 and 2006 options were valued assuming a risk-free interest rate of 4.8% and 4.5%, respectively, volatility of 43.2% and 44.9%, respectively, zero dividend yield, and an expected life of 5.6 and 5.2 years, respectively. The weighted average fair value of options granted was \$7.35 and \$6.32 for the three months ended January 31, 2007 and 2006, respectively. The Company records stock compensation expense using the graded vested method over the vesting period, which is generally three years. As of January 31, 2007, the Company had approximately \$27.8 million of unrecognized compensation expense expected to be recognized over a weighted average period of approximately 2.2 years. Compensation expense was included as selling, general and administrative expense for the period. The impact on cost of goods sold was not significant.

Changes in shares under option for the three months ended January 31, 2007 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, 2006.....	18,135,699	\$ 8.61		
Granted .....	1,065,000	15.55		
Exercised .....	(780,823)	6.03		\$ 7,311
Canceled.....	<u>(99,602)</u>	13.84		
Outstanding, January 31, 2007.....	<u>18,320,274</u>	\$ 9.09	6.29	\$ 96,069
Options exercisable, January 31, 2007 ....	<u>13,054,840</u>	\$ 7.28	5.40	\$ 90,852

Changes in non-vested shares under option for the three months ended January 31, 2007 are as follows:

	<u>Shares</u>	<u>Weighted- Average Grant Date Fair Value</u>
Non-vested, October 31, 2006.....	6,958,526	\$ 6.29
Granted .....	1,065,000	7.35
Vested .....	(2,753,425)	5.87
Canceled .....	<u>(4,667)</u>	5.17
Non-vested, January 31, 2007.....	<u>5,265,434</u>	\$ 6.69

In March 2006, the Company's shareholders approved the 2006 Restricted Stock Plan (the "Restricted Stock Plan"). A total of 1.0 million shares were reserved for issuance under the Restricted Stock Plan. Stock under this plan generally vests over five years and may have certain performance based acceleration features which allow for earlier vesting in the future. Compensation expense is determined using the intrinsic value method and forfeitures are estimated at the date of grant based on historical rates and reduce the compensation expense recognized. The Company monitors the probability of meeting the restricted stock performance criteria and will adjust the amortization period as appropriate. As of January 31, 2007, there had been no acceleration of the amortization period. During the fiscal year ended October 31, 2006,

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

a total of 800,000 shares were issued under the Restricted Stock Plan, there were no forfeitures and the Company recognized approximately \$0.2 million in related compensation expense. No shares were granted or forfeited under the plan during the three months ended January 31, 2007 and the Company recognized approximately \$0.5 million in related compensation expense. As of January 31, 2007, the Company had approximately \$8.6 million of unrecognized compensation expense expected to be recognized over a weighted average period of approximately 2.5 years.

#### 4. *Inventories*

Inventories consist of the following:

<i>In thousands</i>	<b>January 31, 2007</b>	<b>October 31, 2006</b>
Raw materials.....	\$ 75,707	\$ 40,951
Work in-process .....	12,869	12,991
Finished goods .....	<u>396,711</u>	<u>371,922</u>
	<u>\$ 485,287</u>	<u>\$ 425,864</u>

#### 5. *Intangible Assets and Goodwill*

A summary of intangible assets is as follows:

<i>In thousands</i>	<b>January 31, 2007</b>			<b>October 31, 2006</b>		
	<b>Gross Amount</b>	<b>Amorti- zation</b>	<b>Net Book Value</b>	<b>Gross Amount</b>	<b>Amorti- zation</b>	<b>Net Book Value</b>
Amortizable trademarks .....	\$ 8,214	\$ (2,857)	\$ 5,357	\$ 7,965	\$ (2,659)	\$ 5,306
Amortizable licenses .....	10,378	(4,324)	6,054	10,332	(4,047)	6,285
Other amortizable intangibles ....	27,375	(6,363)	21,012	27,379	(5,484)	21,895
Non-amortizable trademarks.....	<u>219,080</u>	<u>—</u>	<u>219,080</u>	<u>214,720</u>	<u>—</u>	<u>214,720</u>
	<u>\$265,047</u>	<u>\$(13,544)</u>	<u>\$ 251,503</u>	<u>\$ 260,396</u>	<u>\$(12,190)</u>	<u>\$ 248,206</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 three months ended January 31, 2007 and 2006 was \$1.5 million and \$1.4 million, respectively. Annual amortization expense is estimated to be approximately \$5.1 million in the fiscal year ending October 31, 2007, approximately \$3.9 million in the fiscal years ending October 31, 2008 through 2010 and approximately \$3.7 million in the fiscal year ending October 31, 2011. Goodwill related to the Company's operating segments is as follows:

<i>In thousands</i>	<b>January 31, 2007</b>	<b>October 31, 2006</b>
Americas.....	\$ 129,563	\$ 132,674
Europe .....	259,980	255,558
Asia/Pacific .....	<u>128,179</u>	<u>127,478</u>
	<u>\$ 517,722</u>	<u>\$ 515,710</u>

Goodwill increased \$2.0 million during the three months ended January 31, 2007, primarily as a result of the effect of foreign currency exchange rates.

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 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, the fair value of interest rate swaps and foreign currency translation adjustments. The components of accumulated other comprehensive income, net of tax, are as follows:

<i>In thousands</i>	<b>January 31, <u>2007</u></b>	<b>October 31, <u>2006</u></b>
Foreign currency translation adjustment.....	\$ 63,572	\$ 55,041
Loss on cash flow hedges and interest rate swaps .....	<u>(3,063)</u>	<u>(1,947)</u>
	<b><u>\$ 60,509</u></b>	<b><u>\$ 53,094</u></b>

### 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, produces and distributes clothing, winter sports and golf equipment, footwear, accessories and related products. The Company operates in three segments, the Americas, Europe and Asia/Pacific. 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.

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

<i>In thousands</i>	<b><u>Three months ended January 31,</u></b>	
	<b><u>2007</u></b>	<b><u>2006</u></b>
Revenues, net:		
Americas.....	\$ 240,558	\$ 220,718
Europe .....	253,997	261,152
Asia/Pacific.....	57,195	58,342
Corporate operations.....	<u>774</u>	<u>930</u>
	<b><u>\$ 552,524</u></b>	<b><u>\$ 541,142</u></b>
Gross profit:		
Americas.....	\$ 96,749	\$ 87,782
Europe .....	135,324	134,708
Asia/Pacific.....	25,767	25,812
Corporate operations.....	<u>511</u>	<u>259</u>
	<b><u>\$ 258,351</u></b>	<b><u>\$ 248,561</u></b>
Operating income:		
Americas.....	\$ (1,961)	\$ 3,963
Europe .....	33,733	43,253
Asia/Pacific.....	(622)	2,968
Corporate operations.....	<u>(12,018)</u>	<u>(12,928)</u>
	<b><u>\$ 19,132</u></b>	<b><u>\$ 37,256</u></b>
Identifiable assets:		
Americas.....	\$ 844,663	\$ 732,802
Europe .....	1,208,953	1,056,223
Asia/Pacific.....	329,877	303,862
Corporate operations.....	<u>66,645</u>	<u>57,361</u>
	<b><u>\$2,450,138</u></b>	<b><u>\$2,150,248</u></b>

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 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 swaps are used to manage the Company's exposure to the risk of fluctuations in interest rates.

Derivatives that do not qualify for hedge accounting but are used by management to mitigate exposure to currency risks are marked to fair value with corresponding gains or losses recorded in earnings. A gain of \$0.5 million was recognized related to these types of contracts during the three months ended January 31, 2007. For all qualifying cash flow hedges, the changes in the fair value of the derivatives are recorded in other comprehensive income. As of January 31, 2007, the Company was hedging forecasted transactions expected to occur through December 2008. Assuming exchange rates at January 31, 2007 remain constant, \$3.1 million of gains, net of tax, related to hedges of these transactions are expected to be reclassified into earnings over the next 23 months.

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. During the three months ended January 31, 2007, the Company reclassified into earnings a net loss of \$0.7 million resulting from the expiration, sale, termination, or exercise of derivative contracts.

The Company enters into forward exchange and other derivative contracts with major banks and is exposed to credit 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.

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A summary of derivative contracts at January 31, 2007 is as follows:

<i>In thousands</i>	<u>Notional Amount</u>	<u>Maturity</u>	<u>Fair Value</u>
U.S. dollars.....	\$ 413,389	Feb 2007 – Dec 2008	\$ (5,829)
British pound .....	50,049	Feb 2007 – Oct 2007	532
Canadian dollar .....	3,129	Feb 2007 – May 2007	246
Interest rate swap .....	<u>27,864</u>	April 2007 – Sept 2009	<u>20</u>
	<u>\$ 494,431</u>		<u>\$ (5,031)</u>

### 9. *Business Acquisitions*

Effective July 31, 2005, the Company acquired Skis Rossignol SA (“Rossignol”), a wintersports and golf equipment manufacturer. Rossignol offers a full range of wintersports equipment under the *Rossignol*, *Dynastar*, *Lange*, *Look* and *Kerma* brands, and also sells golf products under the *Cleveland Golf* and *Never Compromise* brands. The Company has included the operations of Rossignol in its results since August 1, 2005. The purchase price, excluding transaction costs, included cash of approximately \$208.3 million, approximately 2.2 million restricted shares of the Company’s common stock, valued at \$28.9 million, a deferred purchase price obligation of approximately \$32.5 million, a liability of approximately \$16.9 million for the mandatory purchase of approximately 0.7 million outstanding public shares of Rossignol representing less than 5% of the share capital of Rossignol, and a liability of approximately \$2.0 million for the estimated fair value of 0.1 million fully vested Rossignol stock options. Transaction costs totaled approximately \$16.0 million. The valuation of the common stock issued in connection with the acquisition was based on its quoted market price for the five days before and after the announcement date, discounted to reflect the estimated effect of its trading restrictions. The deferred purchase price obligation is expected to be paid in 2010 and will accrue interest equal to the 3-month euro interbank offered rate (“Euribor”) plus 2.35% (currently 6.13%). The mandatory purchase of the remaining Rossignol shares was required under French law as the Company had obtained over 95% of the outstanding shares of Rossignol through a combination of share purchases, including a public tender offer. The purchase of these shares was completed in the quarter ended October 31, 2005 and the Company now owns 100% of the shares in Rossignol. Upon the future exercise of the Rossignol stock options, the Company will purchase the newly issued shares from the Rossignol stock option holders, retaining 100% ownership in Rossignol. These Rossignol stock options are treated as variable for accounting purposes and subsequent changes in the value of these stock options are recorded as compensation expense in the Company’s consolidated statement of income. The Company acquired a majority interest in Cleveland Golf when it acquired Rossignol, but certain former owners of Cleveland Golf retained a minority interest of 36.37%. The Company and the minority owners have entered into a put/call arrangement whereby the minority owners of Cleveland Golf can require the Company to buy all of their interest in Cleveland Golf after October 2009 and the Company can buy their interest at its option after April 2012, each at a purchase price generally determined by reference to a multiple of Cleveland Golf’s annual profits and the Company’s price-earnings ratio. As a result of the minority interest and put/call arrangement, the Company accounted for Cleveland Golf as a step acquisition. In a step acquisition, where less than 100% of an entity is acquired, only a portion of the fair value adjustments are recorded in the acquiring company’s balance sheet equal to the percentage ownership in the acquired company. Based on this step acquisition accounting, the Company has recorded 63.63% of the fair value adjustments for Cleveland Golf in its balance sheet. Goodwill arises from synergies the Company believes can be achieved by integrating Rossignol’s brands, products and operations with the Company’s, and is not expected to be deductible for income tax purposes. Amortizing intangibles consist of customer relationships, patents and athlete contracts with estimated useful lives of twenty, seven and two years, respectively. The acquired trademarks are non-amortizing as they have been determined to have indefinite lives.

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the fair values of the assets acquired and the liabilities assumed at the date of the Rossignol acquisition in accordance with the purchase method of accounting:

<i>In thousands</i>	<b>July 31, 2005</b>
Cash acquired .....	\$ 64,396
Accounts receivable .....	96,763
Inventory .....	232,525
Other current assets .....	21,548
Fixed assets .....	109,438
Deferred income taxes .....	3,572
Other assets .....	3,296
Amortizing intangible assets .....	20,400
Trademarks .....	94,700
Goodwill .....	<u>292,168</u>
Total assets acquired .....	938,806
Other liabilities .....	218,300
Long term debt and lines of credit .....	365,126
Deferred income taxes .....	40,657
Minority interest .....	<u>10,109</u>
Net assets acquired .....	<u>\$ 304,614</u>

In connection with the acquisition of Rossignol, the Company has formulated the Rossignol Integration Plan ("the Plan"). As of January 31, 2007, the Company had recognized approximately \$65.3 million of liabilities related to the Plan. See Note 11 for further description of the Plan.

Effective August 1, 2005, the Company acquired 11 retail stores in Australia from Surfction Pty Ltd, Manly Boardriders Pty Ltd. and Sydney Boardriders Pty Ltd. ("Surfction"). The operations of Surfction have been included in the Company's results since August 1, 2005. The initial purchase price, excluding transaction costs, included cash of approximately \$21.4 million. Transaction costs totaled approximately \$1.1 million. The sellers are entitled to additional payments ranging from zero to approximately \$17.1 million if certain sales and margin targets are achieved through September 30, 2008. The amount of goodwill initially recorded for the transaction would increase if such contingent payments are made. Goodwill arises from synergies the Company believes can be achieved through Surfction's retail expertise and store presence in key locations in Australia, and is not expected to be deductible for income tax purposes. Amortizing intangibles consist of non-compete agreements with estimated useful lives of five years.

The following table summarizes the fair values of the assets acquired and the liabilities assumed at the date of the Surfction acquisition in accordance with the purchase method of accounting:

<i>In thousands</i>	<b>August 1, 2005</b>
Inventory and other current assets .....	\$ 3,239
Fixed assets .....	4,839
Amortizing intangible assets .....	450
Goodwill .....	<u>21,393</u>
Total assets acquired .....	29,921
Other liabilities .....	<u>7,419</u>
Net assets acquired .....	<u>\$ 22,502</u>

The Company paid cash of approximately \$2.2 million during the three months ended January 31, 2007 which related primarily to acquisitions of certain distributors and retail store locations.

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 10. *Litigation, Indemnities and Guarantees*

The Company has been named in a class action lawsuit that alleges willful violation of the federal Fair and Accurate Credit Transaction Act based upon certain of the Company's retail stores' alleged electronic printing of receipts on which appeared more than the last five digits of customers' credit or debit card number and/or the expiration date of such customers' credit or debit card. The Company is currently unable to assess the extent of damages, if any, that could be awarded to the plaintiff class if it were to prevail. The Company intends to vigorously defend itself against the claims asserted. No provision has been made in the Company's financial statements for the three months ended January 31, 2007.

The Company is also involved from time to time in legal claims involving trademark and intellectual property, licensing, employee relations and other matters incidental to its business. The Company believes the resolution of any such matter currently pending will not have a material adverse effect on its financial condition or results of operations.

During its normal course of business, the Company has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. These include (i) intellectual property indemnities to the Company's customers and licensees in connection with the use, sale and/or license of Company products, (ii) indemnities to various lessors in connection with facility leases for certain claims arising from such facility or lease, (iii) indemnities to vendors and service providers pertaining to claims based on the negligence or willful misconduct of the Company, and (iv) indemnities involving the accuracy of representations and warranties in certain contracts. The duration of these indemnities, commitments and guarantees varies, and in certain cases, may be indefinite. The majority of these indemnities, commitments and guarantees do not provide for any limitation of the maximum potential for future payments the Company could be obligated to make. The Company has not recorded any liability for these indemnities, commitments and guarantees in the accompanying consolidated balance sheets.

### 11. *Rossignol Integration Plan and Pre-acquisition Restructuring Plan*

In connection with the acquisition of Rossignol, the Company has formulated the Rossignol Integration Plan (the "Plan"). The Plan covers the global operations of Rossignol and the Company's existing businesses, and it includes the evaluation of facility relocations, nonstrategic business activities, redundant functions and other related items. As of January 31, 2007 the Company had recognized approximately \$65.3 million of liabilities related to the Plan, including employee relocation and severance costs, moving costs, and other costs related primarily to the consolidation of Rossignol's administrative headquarters in Europe, the consolidation of Rossignol's European distribution, the consolidation and realignment of certain European manufacturing facilities, and the relocation of the Company's wintersports equipment sales and distribution operations in the United States. These liabilities were included in the allocation of the purchase price for Rossignol in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and EITF Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination". As of January 31, 2007, the Company also recognized approximately \$1.4 million in inventory impairments relating to the realignment of its European manufacturing facilities. Costs that are not associated with the acquired company but relate to activities or employees of the Company's existing operations are not significant and are charged to earnings. Certain land and facilities owned by the acquired company are expected to be sold during the next 12 months in connection with the Plan, while others are anticipated to be refinanced through sale-leaseback arrangements. Assets currently held for sale, primarily in France, totaled approximately \$18.5 million at January 31, 2007. If the Company has overestimated these integration costs, the excess will reduce goodwill in future periods. If the Company has underestimated these integration costs, additional liabilities recognized will be recorded in earnings.

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

<i>In thousands</i>	<u>Workforce</u>	<u>Facility and Other</u>	<u>Total</u>
Recorded in purchase price allocation .....	\$ 3,673	\$ 1,574	\$ 5,247
Adjustment to purchase price allocation.....	17,463	752	18,215
Cash payments.....	(17)	(44)	(61)
Foreign currency translation.....	(83)	(6)	(89)
Balance, October 31, 2005.....	21,036	2,276	23,312
Adjustment to purchase price allocation.....	36,733	5,130	41,863
Cash payments.....	(14,974)	(2,555)	(17,529)
Foreign currency translation.....	2,689	90	2,779
Balance, October 31, 2006.....	45,484	4,941	50,425
Cash payments.....	(4,950)	(486)	(5,436)
Foreign currency translation.....	871	327	1,198
Balance, January 31, 2007.....	<u>\$ 41,405</u>	<u>\$ 4,782</u>	<u>\$ 46,187</u>

Prior to the acquisition of Rossignol, a restructuring plan was announced related to Rossignol's French manufacturing facilities ("Pre-acquisition Restructuring Plan"). The costs associated with the Pre-acquisition Restructuring Plan consist of termination benefits achieved through voluntary early retirement and voluntary termination of certain employees.

Activity and liability balances recorded as part of the Pre-acquisition Restructuring Plan are as follows:

<i>In thousands</i>	<u>Workforce</u>
Balance, October 31, 2006.....	\$ 1,587
Cash payments.....	(225)
Foreign currency translation.....	30
Balance, January 31, 2007.....	<u>\$ 1,392</u>

### 12. 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 January 31, 2007 and October 31, 2006 and for the three months ended January 31, 2007 and 2006. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions. Due to the seasonality of the Company's quarterly operations, management has applied the estimated consolidated annual effective income tax rate to both the guarantor and non-guarantor subsidiaries for interim reporting purposes. In the Company's consolidated financial statements for the fiscal year ending October 31, 2007, management will apply the actual income tax rate 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.

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### CONDENSED CONSOLIDATING BALANCE SHEET

At January 31, 2007

<i>In thousands</i>	Quiksilver, Inc.	Wholly-owned Guarantor Subsidiaries	Cleveland Golf	Non- Guarantor Subsidiaries	Elimination	Consolidated
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents .....	\$ (312)	\$ 1,799	\$ 489	\$ 44,020	\$ —	\$ 45,996
Trade accounts receivable, net...	—	178,808	37,237	396,820	—	612,865
Other receivables .....	1,028	11,918	603	22,646	—	36,195
Income taxes receivable .....	—	(4,884)	2,027	17,358	—	14,501
Inventories .....	—	160,497	33,205	291,585	—	485,287
Deferred income taxes .....	—	15,952	2,349	66,800	—	85,101
Prepaid expenses and other current assets .....	1,780	11,247	1,577	26,890	—	41,494
Total current assets .....	2,496	375,337	77,487	866,119	—	1,321,439
Fixed assets, net .....	6,668	84,276	3,616	201,834	—	296,394
Intangible assets, net .....	2,482	82,150	3,055	163,816	—	251,503
Goodwill .....	—	161,260	2,472	353,990	—	517,722
Investment in subsidiaries .....	561,992	—	—	—	(561,992)	—
Other assets .....	10,849	16,400	307	17,018	—	44,574
Assets held for sale .....	—	—	—	18,506	—	18,506
Total assets .....	<u>\$ 584,487</u>	<u>\$ 719,423</u>	<u>\$ 86,937</u>	<u>\$ 1,621,283</u>	<u>\$ (561,992)</u>	<u>\$ 2,450,138</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Current liabilities:						
Lines of credit .....	\$ —	\$ 57	\$ 4,000	\$ 299,002	\$ —	\$ 303,059
Accounts payable .....	2,384	88,802	12,161	150,155	—	253,502
Accrued liabilities .....	17,176	38,332	5,258	116,946	—	177,712
Current portion of long-term debt .....	—	4,998	—	20,113	—	25,111
Intercompany balances .....	74,813	21,391	38,239	(134,443)	—	—
Total current liabilities .....	94,373	153,580	59,658	451,773	—	759,384
Long-term debt, net of current portion .....	434,329	123,100	—	122,204	—	679,633
Deferred income taxes and other long-term liabilities .....	—	26,332	(353)	73,171	—	99,150
Total liabilities .....	528,702	303,012	59,305	647,148	—	1,538,167
Minority interest	—	10,464	—	—	—	10,464
Stockholders'/invested equity .....	55,785	405,947	27,632	974,135	(561,992)	901,507
Total liabilities and stockholders' equity .....	<u>\$ 584,487</u>	<u>\$ 719,423</u>	<u>\$ 86,937</u>	<u>\$ 1,621,283</u>	<u>\$ (561,992)</u>	<u>\$ 2,450,138</u>

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### CONDENSED CONSOLIDATING BALANCE SHEET

At October 31, 2006

<i>In thousands</i>	Quiksilver, Inc.	Wholly-owned Guarantor Subsidiaries	Cleveland Golf	Non- Guarantor Subsidiaries	Elimination	Consolidated
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents .....	\$ 8	\$ 1,537	\$ 1,855	\$ 33,434	\$ —	\$ 36,834
Trade accounts receivable, net..	—	205,853	36,987	478,722	—	721,562
Other receivables .....	1,190	12,593	708	20,833	—	35,324
Inventories .....	—	144,740	27,122	255,636	(1,634)	425,864
Deferred income taxes .....	—	14,459	2,349	67,864	—	84,672
Prepaid expenses and other current assets .....	<u>1,703</u>	<u>9,968</u>	<u>1,953</u>	<u>15,302</u>	<u>—</u>	<u>28,926</u>
Total current assets .....	2,901	389,150	70,974	871,791	(1,634)	1,333,182
Fixed assets, net .....	6,343	83,495	3,801	188,695	—	282,334
Intangible assets, net .....	2,452	79,197	3,150	163,407	—	248,206
Goodwill .....	—	163,910	2,472	349,328	—	515,710
Investment in subsidiaries .....	561,992	—	—	—	(561,992)	—
Other assets .....	10,909	4,730	274	30,041	—	45,954
Assets held for sale .....	—	3,500	—	18,342	—	21,842
Total assets .....	<u>\$ 584,597</u>	<u>\$ 723,982</u>	<u>\$ 80,671</u>	<u>\$ 1,621,604</u>	<u>\$ (563,626)</u>	<u>\$ 2,447,228</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Current liabilities:						
Lines of credit .....	\$ —	\$ 209	\$ —	\$ 315,682	\$ —	\$ 315,891
Accounts payable .....	2,303	89,181	3,525	125,168	—	220,177
Accrued liabilities .....	13,535	43,691	6,085	137,805	(29)	201,087
Current portion of long-term debt .....	—	4,305	—	20,316	—	24,621
Income taxes payable .....	—	14,277	1,343	(12,810)	—	2,810
Intercompany balances .....	<u>72,386</u>	<u>17,351</u>	<u>37,766</u>	<u>(127,503)</u>	<u>—</u>	<u>—</u>
Total current liabilities ..	88,224	169,014	48,719	458,658	(29)	764,586
Long-term debt, net of current portion .....	433,701	122,150	—	133,839	—	689,690
Deferred income taxes and other long-term liabilities .....	<u>—</u>	<u>25,773</u>	<u>(353)</u>	<u>75,212</u>	<u>—</u>	<u>100,632</u>
Total liabilities .....	521,925	316,937	48,366	667,709	(29)	1,554,908
Minority interest	—	11,193	—	—	—	11,193
Stockholders'/invested equity .....	<u>62,672</u>	<u>395,852</u>	<u>32,305</u>	<u>953,895</u>	<u>(563,597)</u>	<u>881,127</u>
Total liabilities and stockholders' equity ...	<u>\$ 584,597</u>	<u>\$ 723,982</u>	<u>\$ 80,671</u>	<u>\$ 1,621,604</u>	<u>\$ (563,626)</u>	<u>\$ 2,447,228</u>

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### CONDENSED CONSOLIDATING STATEMENT OF INCOME

Three Months Ended January 31, 2007

<i>In thousands</i>	Quiksilver, Inc.	Wholly-owned Guarantor Subsidiaries	Cleveland Golf	Non- Guarantor Subsidiaries	Consolidated
Revenues, net .....	\$ —	\$ 193,191	\$ 20,809	\$ 338,524	\$ 552,524
Cost of goods sold .....	—	115,017	13,885	165,271	294,173
Gross profit .....	—	78,174	6,924	173,253	258,351
Selling, general and administrative expense .....	11,051	77,856	13,819	136,493	239,219
Operating (loss) income.....	(11,051)	318	(6,895)	36,760	19,132
Interest expense .....	10,420	1,669	748	2,717	15,554
Foreign currency loss (gain) .....	684	(297)	—	1,556	1,943
Minority interest and other (income) expense .....	(1,724)	—	—	33	(1,691)
(Loss) income before provision for income taxes.....	(20,431)	(1,054)	(7,643)	32,454	3,326
(Benefit) provision for income taxes.....	(5,230)	(270)	(1,957)	8,308	851
Net (loss) income.....	<u>\$ (15,201)</u>	<u>\$ (784)</u>	<u>\$ (5,686)</u>	<u>\$ 24,146</u>	<u>\$ 2,475</u>

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### CONDENSED CONSOLIDATING STATEMENT OF INCOME

Three Months Ended January 31, 2006

<i>In thousands</i>	Quiksilver, Inc.	Wholly-owned Guarantor Subsidiaries	Cleveland Golf	Non- Guarantor Subsidiaries	Elimination	Consolidated
Revenues, net .....	\$ 13	\$ 189,490	\$ 23,512	\$ 337,610	\$ (9,483)	\$ 541,142
Cost of goods sold .....	—	115,346	13,710	171,289	(7,764)	292,581
Gross profit .....	13	74,144	9,802	166,321	(1,719)	248,561
Selling, general and administrative expense .....	11,990	66,727	14,533	119,698	(1,643)	211,305
Operating (loss) income.....	(11,977)	7,417	(4,731)	46,623	(76)	37,256
Interest expense .....	9,135	1,115	708	1,633	—	12,591
Foreign currency loss (gain) .....	89	96	—	(682)	—	(497)
Minority interest and other income .....	(1,226)	—	—	—	—	(1,226)
(Loss) income before provision for income taxes.....	(19,975)	6,206	(5,439)	45,672	(76)	26,388
(Benefit) provision for income taxes.....	(5,893)	1,831	(2,068)	13,915	—	7,785
Net (loss) income.....	<u>\$ (14,082)</u>	<u>\$ 4,375</u>	<u>\$ (3,371)</u>	<u>\$ 31,757</u>	<u>\$ (76)</u>	<u>\$ 18,603</u>

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATING STATEMENT OF CASH FLOW

Three Months Ended January 31, 2007

<i>In thousands</i>	Quiksilver, Inc.	Guarantor Subsidiaries	Cleveland Golf	Non- Guarantor Subsidiaries	Consolidated
<b>Cash flows from operating activities:</b>					
Net (loss) income .....	\$ (15,201)	\$ (784)	\$ (5,686)	\$ 24,146	\$ 2,475
Adjustments to reconcile net (loss) income to net cash provided by operating activities:					
Depreciation and amortization .....	54	4,887	488	11,082	16,511
Stock-based compensation.....	4,838	—	—	—	4,838
Provision for doubtful accounts.....	—	823	716	(1,274)	265
Gain on sale of fixed assets.....	—	—	—	(209)	(209)
Foreign currency loss.....	10	—	—	26	36
Minority interest and equity in earnings.....	—	(1,861)	—	328	(1,533)
Changes in operating assets and liabilities:					
Trade accounts receivable .....	—	29,768	(966)	88,642	117,444
Other receivables .....	162	885	106	(1,664)	(511)
Inventories.....	—	(16,693)	(6,083)	(32,261)	(55,037)
Prepaid expenses and other current assets.....	(77)	(1,294)	375	(11,392)	(12,388)
Other assets.....	60	231	(33)	1,755	2,013
Accounts payable.....	81	(36)	8,636	22,441	31,122
Accrued liabilities .....	3,799	(3,129)	(827)	(30,207)	(30,364)
Income taxes payable .....	—	(4,230)	(3,370)	(2,737)	(10,337)
Net cash (used in) provided by operating activities .....	(6,274)	8,567	(6,644)	68,676	64,325
<b>Cash flows from investing activities:</b>					
Proceeds from the sale of properties and equipment.....	—	4,463	—	3,445	7,908
Capital expenditures .....	(409)	(10,367)	(208)	(17,286)	(28,270)
Business acquisitions, net of cash acquired.....	(264)	—	—	(2,260)	(2,524)
Net cash used in investing activities ...	(673)	(5,904)	(208)	(16,101)	(22,886)
<b>Cash flows from financing activities:</b>					
Borrowings on lines of credit.....	—	—	4,000	14,972	18,972
Payments on lines of credit.....	—	(153)	—	(41,052)	(41,205)
Borrowings on long-term debt.....	—	30,750	—	1,338	32,088
Payments on long-term debt.....	—	(29,107)	—	(16,538)	(45,645)
Stock option exercises, employee stock purchase and tax benefit on option exercises.....	4,708	—	—	—	4,708
Intercompany .....	1,919	(3,503)	1,486	98	—
Net cash provided by (used in) financing activities .....	6,627	(2,013)	5,486	(41,182)	(31,082)
Effect of exchange rate changes on cash.....	—	(388)	—	(807)	(1,195)
Net (decrease) increase in cash and cash equivalents .....	(320)	262	(1,366)	10,586	9,162
Cash and cash equivalents, beginning of period ....	8	1,537	1,855	33,434	36,834
Cash and cash equivalents, end of period.....	<u>\$ (312)</u>	<u>\$ 1,799</u>	<u>\$ 489</u>	<u>\$ 44,020</u>	<u>\$ 45,996</u>

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATING STATEMENT OF CASH FLOW

Three Months Ended January 31, 2006

<i>In thousands</i>	Quiksilver, Inc.	Guarantor Subsidiaries	Cleveland Golf	Non- Guarantor Subsidiaries	Consolidated
<b>Cash flows from operating activities:</b>					
Net (loss) income .....	\$ (14,082)	\$ 4,375	\$ (3,371)	\$ 31,681	\$ 18,603
Adjustments to reconcile net (loss) income to net cash provided by operating activities:					
Depreciation and amortization .....	120	4,633	526	10,224	15,503
Stock-based compensation.....	5,760	—	—	—	5,760
Provision for doubtful accounts.....	—	(679)	181	1,632	1,134
Loss on sale of fixed assets.....	—	4	—	96	100
Minority interest and equity in earnings.....	(1,226)	—	—	—	(1,226)
Changes in operating assets and liabilities:					
Trade accounts receivable .....	—	30,839	(1,070)	30,814	60,583
Other receivables .....	201	3,495	—	5,627	9,323
Inventories.....	—	(574)	(8,628)	(11,128)	(20,330)
Prepaid expenses and other current assets.....	85	(2,450)	815	(5,281)	(6,831)
Other assets.....	(253)	(192)	—	(2,739)	(3,184)
Accounts payable.....	(115)	(25,776)	1,135	34,330	9,574
Accrued liabilities .....	923	(1,627)	(1,310)	(11,393)	(13,407)
Income taxes payable .....	—	(922)	(2,096)	(124)	(3,142)
Net cash (used in) provided by operating activities .....	(8,587)	11,126	(13,818)	83,739	72,460
<b>Cash flows from investing activities:</b>					
Capital expenditures .....	(1,011)	(4,163)	(711)	(7,153)	(13,038)
Business acquisitions, net of cash acquired.....	(1,972)	—	—	(11,161)	(13,133)
Net cash used in investing activities ...	(2,983)	(4,163)	(711)	(18,314)	(26,171)
<b>Cash flows from financing activities:</b>					
Borrowings on lines of credit .....	—	5,154	4,000	110,799	119,953
Payments on lines of credit.....	—	(6,062)	(1,000)	(89,684)	(96,746)
Borrowings on long-term debt .....	(1,267)	22,600	—	27,969	49,302
Payments on long-term debt.....	—	(309)	(4,327)	(82,645)	(87,281)
Stock option exercises, employee stock purchase and tax benefit on option exercises.....	2,156	—	—	—	2,156
Intercompany .....	9,843	(37,081)	16,368	10,870	—
Net cash provided by (used in) financing activities .....	10,732	(15,698)	15,041	(22,691)	(12,616)
Effect of exchange rate changes on cash.....	87	(711)	—	718	94
Net (decrease) increase in cash and cash equivalents.....	(751)	(9,446)	512	43,452	33,767
Cash and cash equivalents, beginning of period ....	1,177	20,816	986	52,619	75,598
Cash and cash equivalents, end of period.....	<u>\$ 426</u>	<u>\$ 11,370</u>	<u>\$ 1,498</u>	<u>\$ 96,071</u>	<u>\$ 109,365</u>

# ROGER CLEVELAND GOLF COMPANY, INC.

## CONDENSED BALANCE SHEETS

<i>In thousands (except share amounts)</i>	<b>January 31, <u>2007</u></b>	<b>October 31, <u>2006</u></b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 489	\$ 1,855
Accounts receivable, less allowance for bad debts of \$937 (2007) and \$1,000 (2006) .....	37,237	36,987
Income tax receivable.....	2,027	—
Inventories .....	33,205	27,122
Deferred income taxes .....	2,349	2,349
Prepaid expenses and other current assets.....	2,180	2,661
Due from affiliates.....	<u>6,174</u>	<u>8,591</u>
Total current assets .....	83,661	79,565
Equipment and leasehold improvements, less accumulated depreciation and amortization of \$6,375 (2007) and \$6,036 (2006).....	3,616	3,801
Other intangible assets, net .....	3,055	3,150
Goodwill .....	2,472	2,472
Deferred income taxes .....	353	353
Other assets.....	<u>307</u>	<u>274</u>
Total assets.....	<u>\$ 93,464</u>	<u>\$ 89,615</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Line of credit .....	\$ 4,000	\$ —
Accounts payable .....	12,161	3,525
Accrued payroll and benefits .....	2,305	2,677
Other accrued expenses .....	2,953	3,408
Due to affiliates.....	1,413	1,357
Income taxes payable.....	<u>—</u>	<u>1,343</u>
Total current liabilities .....	22,832	12,310
Long-term debt:		
Due to affiliates .....	<u>43,000</u>	<u>45,000</u>
Total liabilities.....	65,832	57,310
Stockholders' equity:		
Common stock no par value – 500,000 shares authorized; 290,224 shares issued and outstanding .....	22,000	22,000
Retained earnings .....	<u>5,632</u>	<u>10,305</u>
Total stockholders' equity .....	<u>27,632</u>	<u>32,305</u>
Total liabilities and stockholders' equity.....	<u>\$ 93,464</u>	<u>\$ 89,615</u>

See notes to condensed financial statements.

**ROGER CLEVELAND GOLF COMPANY, INC.**  
**CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

<i>In thousands</i>	<u>Three months ended January 31,</u>	
	<u>2007</u>	<u>2006</u>
Revenues, net .....	\$ 20,809	\$ 23,512
Cost of goods sold .....	<u>13,885</u>	<u>13,710</u>
Gross profit .....	6,924	9,802
Selling, general, and administrative expense .....	<u>13,819</u>	<u>14,522</u>
Operating loss .....	(6,895)	(4,720)
Interest expense .....	748	708
Other expense .....	<u>—</u>	<u>11</u>
Loss before benefit from income taxes .....	(7,643)	(5,439)
Benefit from income taxes .....	<u>(2,970)</u>	<u>(2,068)</u>
Net loss and comprehensive loss .....	<u>\$ (4,673)</u>	<u>\$ (3,371)</u>

See notes to condensed financial statements.

# ROGER CLEVELAND GOLF COMPANY, INC.

## CONDENSED STATEMENTS OF CASH FLOWS

**Three Months Ended January 31,**

**2007**

**2006**

*In thousands*

Cash flows from operating activities:

Net loss .....	\$ (4,673)	\$ (3,371)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization .....	488	526
Changes in assets and liabilities:		
Accounts receivable, net .....	(250)	(889)
Inventories .....	(6,083)	(8,628)
Prepaid expenses and other current assets .....	481	815
Other assets .....	(33)	—
Accounts payable .....	8,636	1,135
Due from affiliates and due to affiliates .....	2,473	368
Accrued expenses .....	(827)	(1,310)
Income taxes payable .....	<u>(3,370)</u>	<u>(2,096)</u>
Net cash used in operating activities .....	<u>(3,158)</u>	<u>(13,450)</u>

Cash flows from investing activities:

Purchase of equipment and leasehold improvements .....	<u>(208)</u>	<u>(711)</u>
Net cash used in investing activities .....	<u>(208)</u>	<u>(711)</u>

Cash flows from financing activities:

Proceeds from line of credit .....	4,000	4,000
Payments on line of credit .....	—	(1,000)
Proceeds from affiliate loans .....	8,000	16,000
Payments of affiliate loans .....	(10,000)	—
Payments of long-term debt .....	<u>—</u>	<u>(4,327)</u>
Net cash provided by financing activities .....	<u>2,000</u>	<u>14,673</u>

Net (decrease) increase in cash .....	(1,366)	512
Cash, beginning of period .....	<u>1,855</u>	<u>986</u>
Cash, end of period .....	<u>\$ 489</u>	<u>\$ 1,498</u>

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest .....	<u>\$ 824</u>	<u>\$ 206</u>
Taxes .....	<u>\$ 400</u>	<u>\$ —</u>

See notes to condensed financial statements.

# ROGER CLEVELAND GOLF COMPANY, INC.

## NOTES TO CONDENSED FINANCIAL STATEMENTS

### 1. *Basis of Presentation*

The accompanying unaudited condensed 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.

Roger Cleveland Golf Company, Inc. (the "Company") manufactures, markets, and distributes golf clubs and related accessories. The Company is owned 64% by certain subsidiaries of Quiksilver, Inc. (the "Parent") and 36% by a group of individuals. The Parent acquired its majority interest in the Company on July 31, 2005, and as a result, the financial statements do not include financial statements for any periods prior to July 31, 2005. The Parent's new basis is not reflected in the accompanying financial statements as these financial statements have been prepared on the carryover basis of accounting.

The Parent has \$400 million in publicly registered senior notes. In July 2006, the Company became a guarantor subsidiary of these senior notes, fully and unconditionally guaranteeing the senior note indebtedness of the Parent. Accordingly, the accompanying financial statements are being included in the Parent's Form 10-Q in accordance with the SEC's Regulation S-X, Rule 3-10.

### 2. *New Accounting Pronouncements*

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," which replaces APB Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS No. 154 applies to all voluntary changes in accounting principles and requires retrospective application (a term defined by the statement) to prior periods' financial statements, unless it is impracticable to determine the effect of a change. It also applies to changes required by an accounting pronouncement that does not include specific transition provisions. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company adopted this standard during the three months ended January 31, 2007. The adoption of this standard did not have a material impact on the Company's financial condition, results of operations or cash flows.

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" ("FIN 48"). This interpretation clarifies the application of SFAS No. 109, "Accounting for Income Taxes," by defining criteria that an individual tax position must meet for any part of the benefit of that position to be recognized in the Company's financial statements and also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company expects to adopt FIN 48 on November 1, 2007. The Company is currently assessing the impact the adoption of FIN 48 will have on its financial position and results of operations.

In September 2006, the Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides interpretive guidance on the SEC's views regarding the process of quantifying materiality of financial statement misstatements. The Company adopted this standard during the three months ended January 31, 2007. The adoption of this accounting pronouncement did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

# ROGER CLEVELAND GOLF COMPANY, INC.

## NOTES TO CONDENSED FINANCIAL STATEMENTS

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company expects to adopt this standard at the beginning of the Company's fiscal year ending October 31, 2009. The adoption of this accounting pronouncement is not expected to have a material effect on the Company's consolidated financial position, results of operations or cash flows.

### 3. *Intangible Assets*

The Company's amortizing intangible assets consist of the following:

<i>In thousands</i>	<u>January 31, 2007</u>			<u>October 31, 2006</u>		
	<u>Gross Amount</u>	<u>Amortization</u>	<u>Net</u>	<u>Gross Amount</u>	<u>Amortization</u>	<u>Net</u>
Tradenames and trademarks...	\$ 3,100	\$ (740)	\$ 2,360	\$ 3,100	\$ (689)	\$ 2,411
Patents .....	1,694	(1,448)	246	1,643	(1,371)	272
Customer relationships .....	700	(251)	449	700	(233)	467
	<u>\$ 5,494</u>	<u>\$ (2,439)</u>	<u>\$ 3,055</u>	<u>\$ 5,443</u>	<u>\$ (2,293)</u>	<u>\$ 3,150</u>

Amortization expense of intangible assets for the three-months ended January 31, 2007 and 2006 was approximately \$0.1 million and \$0.2 million, respectively. Annual amortization expense for fiscal year ending October 31, 2007 is estimated to be \$0.6 million. Annual amortization expense for fiscal years ending October 31, 2008 through 2011 is estimated to be \$0.3 million.

### 4. *Inventories*

Inventories consist of the following:

<i>In thousands</i>	<u>January 31, 2007</u>	<u>October 31, 2006</u>
Raw materials.....	\$ 15,813	\$ 12,287
Work in process.....	306	41
Finished goods.....	<u>17,086</u>	<u>14,794</u>
	<u>\$ 33,205</u>	<u>\$ 27,122</u>

### 5. *Related Party Transactions*

Amounts due to affiliates consist of the following:

<i>In thousands</i>	<u>January 31, 2007</u>	<u>October 31, 2006</u>
Affiliated debt due to Quiksilver Americas, Inc.....	\$ 43,000	\$ 45,000
Amounts due to Parent and other Parent subsidiaries .....	1,413	1,357
Amounts due from Parent and other Parent subsidiaries .....	<u>(6,174)</u>	<u>(8,591)</u>
	<u>\$ 38,239</u>	<u>\$ 37,766</u>

Interest expense on borrowings from Quiksilver Americas, Inc. was approximately \$0.7 million and \$0.6 million for the three months ended January 31, 2007 and 2006, respectively. The weighted average interest rate on these borrowings was 6.75% at January 31, 2007. This interest rate corresponds to the rate at which Quiksilver Americas, Inc. borrowed these funds, on the Company's behalf, under the shared credit facility. Sales to Quiksilver, Inc. subsidiaries amounted to \$4.0 million and \$3.4 million for the three months ended January 31, 2007 and 2006, respectively.

# ROGER CLEVELAND GOLF COMPANY, INC.

## NOTES TO CONDENSED FINANCIAL STATEMENTS

### 6. *Indemnities, Commitments, and Guarantees*

During its normal course of business, the Company has made certain indemnities, commitments, and guarantees under which it may be required to make payments in relation to certain transactions. These include (i) intellectual property indemnities to the Company's customers and licensees in connection with the use, sales, and/or license of Company products; (ii) indemnities to vendors and service providers pertaining to claims based on the negligence or willful misconduct of the Company; (iii) indemnities involving the accuracy of representations and warranties in certain contracts; (iv) indemnities to directors and officers of the Company to the maximum extent permitted under the laws of the State of California; and (v) certain real estate leases under which the Company may be required to indemnify property owners for environmental and other liabilities, and other claims arising from the Company's use of the applicable premises. In addition, the Company has made a contractual commitment to an employee providing for severance payments upon the occurrence of certain prescribed events. The duration of these indemnities, commitments, and guarantees varies and, in certain cases, may be indefinite. The majority of these indemnities, commitments, and guarantees do not provide for any limitation of the maximum potential for future payments the Company could be obligated to make. Historically, the Company has not been obligated to make significant payments for these obligations, and no liabilities have been recorded for these indemnities, commitments, and guarantees in the accompanying balance sheets.

## PART I - FINANCIAL INFORMATION

### 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, 2006 and subsequent reports on 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 discussions 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.

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, *Boardriders Clubs*, which display 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 May 2004, we acquired DC Shoes, Inc. to expand our presence in action sports-inspired footwear. Brand building has been a key to our growth, and we have always maintained our roots in the boardriding lifestyle. In July 2005, we acquired Skis Rossignol, S.A., a wintersports and golf equipment manufacturer. Rossignol offers a full range of wintersports equipment under the *Rossignol*, *Dynastar*, *Lange*, *Look* and *Kerma* brands, and also sells golf products under the *Cleveland Golf* and *Never Compromise* brands. The acquisition was effective July 31, 2005, and we have included the operations of Rossignol in our results since August 1, 2005. Today our products are sold throughout the world, primarily in surf shops, snow shops, skate shops and specialty stores.

Since we acquired Rossignol, our business has become more seasonal. Our revenues and operating profits are generally higher in August through December, which affect our consolidated quarterly results.

Over the past 36 years, Quiksilver has been established as a leading global brand representing the casual, youth lifestyle associated with boardriding sports. With our acquisition of Rossignol, we added a collection of leading ski equipment brands to our company that we believe will be the foundation for a full range of technical ski apparel, sportswear and accessories. Also, as part of our acquisition of Rossignol, we acquired a majority interest in Roger Cleveland Golf Company, Inc., a leading producer of wedges and golf clubs in the United States.

We operate in the outdoor market of the sporting goods industry in which we design, produce and distribute branded apparel, wintersports and golf equipment, footwear, accessories and related products. We operate in three segments, the Americas, Europe and Asia/Pacific. The Americas segment includes revenues primarily from the U.S. and Canada. The European segment includes revenues primarily from Western Europe. The Asia/Pacific segment includes revenues primarily from Australia, Japan, New Zealand and Indonesia.

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,

engineers, 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 on our ability to continue to design products that are acceptable to 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 the components in our statements of income and other data as a percentage of revenues:

<i>Statement of Income data</i>	<b><u>Three Months Ended January 31,</u></b>	
	<b><u>2007</u></b>	<b><u>2006</u></b>
Revenues, net .....	100.0%	100.0%
Gross profit .....	46.8	45.9
Selling, general and administrative expense .....	<u>43.3</u>	<u>39.0</u>
Operating income .....	3.5	6.9
Interest expense .....	2.8	2.3
Foreign currency, minority interest and other expense (income) .....	<u>0.1</u>	<u>(0.3)</u>
Income before provision for income taxes .....	<u>0.6%</u>	<u>4.9%</u>
<i>Other data</i>		
EBITDA <sup>(1)</sup> .....	<u>7.3%</u>	<u>11.1%</u>

<sup>(1)</sup> EBITDA is defined as net income before (i) interest expense, (ii) income tax expense, (iii) depreciation and amortization, and (iv) non-cash stock based compensation expense. 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 EBITDA, along with other GAAP measures, as a measure of profitability because 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 and the accounting methods used to compute depreciation and amortization, and the effect of non-cash stock based compensation expense. We believe it is useful to investors for the same reasons. 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 and the effect of non-cash compensation expense. Following is a reconciliation of net income to EBITDA:

	<b><u>Three Months Ended January 31,</u></b>	
	<b><u>2007</u></b>	<b><u>2006</u></b>
Net income .....	\$ 2,475	\$ 18,603
Provision for income taxes .....	851	7,785
Interest expense .....	15,554	12,591
Depreciation and amortization .....	16,511	15,503
Non-cash stock compensation expense .....	<u>4,838</u>	<u>5,760</u>
EBITDA .....	<u>\$ 40,229</u>	<u>\$ 60,242</u>

### *Three Months Ended January 31, 2007 Compared to Three Months Ended January 31, 2006*

Our total net revenues for the three months ended January 31, 2007 increased 2% to \$552.5 million from \$541.1 million in the comparable period of the prior year. Revenues in the Americas increased 9% to \$240.6 million for the three months ended January 31, 2007 from \$220.7 million in the comparable period of the prior year, and European revenues decreased 3% to \$254.0 million from \$261.2 million for those same periods. As measured in euros, Quiksilver Europe's primary functional currency, revenues in the current year's quarter decreased 11% compared to the same period in the prior year. Asia/Pacific revenues decreased 2% to \$57.2 million for the three months ended January 31, 2007 from \$58.3 million for the three months ended January 31, 2006. As measured in Australian dollars, Quiksilver Asia/Pacific's primary functional currency, revenues decreased 9% for the three months ended January 31, 2007 compared to the three months ended January 31, 2006.

Our net revenues can be categorized into two general classifications: apparel brands and equipment brands. Our apparel brand revenue classification includes *Quiksilver*, *Roxy*, *DC* and our other apparel brands of *Hawk*, *Gotcha*, *Raisins*, *Leilani* and *Radio Fiji*. *Quiksilver* includes the categories of *Quiksilver Young Men's*, *Boys*, *Toddlers*, *Infants* and *Quiksilverredition*. *Roxy* includes the categories of *Roxy*, *Roxy Girl*, *Teenie Wahine*, *Toddlers* and *Infants*. *DC* includes *DC* and *DC Womens*. Our equipment brand revenue classification includes our *Rossignol* and other wintersports brands, comprising *Rossignol*, *Dynastar*, *Look*, *Lange*, *Kerma*, *Lib Technologies*, *Gnu* and *Bent Metal*, along with our golf brands of *Cleveland Golf*, *Never Compromise* and *Fidra*.

Our apparel brand revenues for the three months ended January 31, 2007 increased 17% to \$409.9 million from \$349.2 million for the three months ended January 31, 2006. This increase resulted from strength in our *Quiksilver*, *Roxy* and *DC* brands. Other apparel brand revenues were flat compared to the first quarter of fiscal 2006. *Quiksilver* brand revenue growth came primarily in the *Quiksilver Young Men's* category and, to a lesser extent, the *Boys* category. *Roxy's* growth came primarily from its sportswear product line and, to a lesser extent, from its accessories and footwear product lines. *DC's* growth was primarily in its footwear product line. Our equipment brand revenues decreased 26% during the three months ended January 31, 2007 to \$141.9 million from \$191.0 million for the three months ended January 31, 2006. The substantial majority of this decrease came from *Rossignol* and our other wintersports brands. We shipped earlier during the current winter season compared to the year before, which resulted in higher revenues in the fourth quarter of our last full fiscal year ended October 31, 2006 compared to the comparable period of the prior year and lower revenues in the three months ended January 31, 2007 compared to the comparable period of the prior year. Our wintersports brand revenues also decreased compared to the previous year as market demand was significantly lower this winter due to the lack of snowfall in many parts of Europe and the United States. As a result, we are experiencing lower than normal in-season demand for wintersports equipment, which is expected to reduce profit on sales of these products during the spring and summer seasons. In addition, preorders for the upcoming 2007/2008 winter season are expected to be lower than normal.

Our net revenues by classification and segment were as follows:

	Three Months Ended January 31,					
	2007			2006		
	Apparel Brands	Equip-ment Brands	Total	Apparel Brands	Equip-ment Brands	Total
<i>In thousands</i>						
Americas .....	\$ 197,037	\$ 43,521	\$ 240,558	\$ 168,670	\$ 52,048	\$ 220,718
Europe .....	161,450	92,547	253,997	134,631	126,521	261,152
Asia/Pacific .....	51,383	5,812	57,195	45,918	12,424	58,342
Corporate operations .....	—	—	774	—	—	930
	<u>\$409,870</u>	<u>\$ 141,880</u>	<u>\$ 552,524</u>	<u>\$349,219</u>	<u>\$ 190,993</u>	<u>\$ 541,142</u>

In the Americas, our apparel brand revenues for the three months ended January 31, 2007 increased 17%, while our equipment brand revenues decreased 16% compared to the three months ended January 31, 2006. In Europe, our apparel brand revenues for the three months ended January 31, 2007 increased 20%, while our equipment brand revenues decreased 27% compared to the three months ended January 31, 2006. In Asia/Pacific, our apparel brand revenues for the three months ended January 31, 2007 increased 12%, while our equipment brand revenues decreased 53% compared to the three months ended January 31, 2006.

Our consolidated gross profit margin for the three months ended January 31, 2007 increased to 46.8% from 45.9% in the comparable period of the prior year. The Americas' gross profit margin increased to 40.2% from 39.8%, while the European gross profit margin increased to 53.3% from 51.6%, and the Asia/Pacific gross profit margin increased to 45.1% from 44.2% for those same periods. The increase in the Americas' gross profit margin was due primarily to higher gross margins generated by our apparel brand revenues, which was largely offset by a decline in the gross margins generated by our equipment brands. Our European gross profit margin increased primarily from improved manufacturing efficiencies

in our wintersports equipment. In Asia/Pacific, the gross profit margin increase was primarily due to the decline in revenues from our equipment brands. This effect more than offset the decline in our apparel brands gross margins.

Our selling, general and administrative expense ("SG&A") for the three months ended January 31, 2007 increased 13% to \$239.2 million from \$211.3 million in the comparable period of the prior year. Americas' SG&A increased 18% to \$98.7 million from \$83.8 million in the comparable period of the prior year, while European SG&A increased 11% to \$101.6 million from \$91.5 million, and Asia/Pacific SG&A increased 16% to \$26.4 million from \$22.8 million for those same periods. As a percentage of revenues, SG&A increased to 43.3% for the three months ended January 31, 2007 from 39.0% for the three months ended January 31, 2006. The ratio of SG&A compared to net revenues increased across all three of our operating segments as our *Rossignol* and other wintersports equipment brand revenues decreased, while SG&A expenses in our wintersports equipment brands remained consistent with the comparable period of the prior year.

Interest expense for the three months ended January 31, 2007 increased to \$15.6 million from \$12.6 million in the comparable period of the prior year. This increase was primarily due to higher borrowing levels on our lines of credit to finance increased working capital needs and, to a lesser extent, higher interest rates on our variable-rate debt in Europe and the United States.

Our foreign currency loss amounted to \$1.9 million for the three months ended January 31, 2007 compared to a gain of \$0.5 million in the comparable period of the prior year. This loss resulted primarily from the foreign currency contracts we used to hedge the risk of translating the results of our international subsidiaries into U.S. dollars.

The effective income tax rate for the three months ended January 31, 2007, which is based on current estimates of the annual effective income tax rate, decreased to 25.6% from 29.5% in the comparable period of the prior year. This improvement resulted primarily from a higher net benefit from foreign tax credits.

Net income for the three months ended January 31, 2007 amounted to \$2.5 million or \$0.02 per share on a diluted basis compared to \$18.6 million or \$0.15 per share on a diluted basis in the comparable period of the prior year. Basic net income per share also decreased to \$0.02 per share for the three months ended January 31, 2007 from \$0.15 per share in the comparable period of the prior year. EBITDA decreased 33% to \$40.2 million from \$60.2 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 purchase price of our *Rossignol* acquisition and to refinance certain existing indebtedness.

#### *Cash Flows*

We generated \$64.3 million of cash from operating activities in the three months ended January 31, 2007 compared to \$72.5 million in the three months ended January 31, 2006. This \$8.2 million decrease in cash provided was primarily due to changes in accounts receivable and inventories net of changes in accounts payable. During the three months ended January 31, 2007, the decrease in trade accounts receivable generated cash of \$117.4 million compared to \$60.6 million in the comparable period of the prior year, an increase in cash provided of \$56.8 million. The increase in inventories net of the increase in accounts payable used cash of \$23.9 million in the three months ended January 31, 2007 compared to \$10.8 million used in the comparable period of the prior year, a net decrease in cash provided of \$13.1 million. The remaining change results from the decrease in cash provided by net income adjusted for non-cash expenses of \$17.5 million and other working capital changes of \$34.4 million.

Capital expenditures totaled \$28.3 million for the three months ended January 31, 2007, compared to \$13.0 million in the comparable period of the prior year. These investments include company-owned stores and ongoing investments in computer, warehouse and manufacturing equipment. We used \$2.5 million in cash for acquisitions which relates primarily to acquisitions of certain distributors and retail store locations.

During the three months ended January 31, 2007, net cash used in financing activities totaled \$31.1 million, compared to cash used of \$12.6 million in the comparable period of the prior year. Borrowings increased as we generated less cash from our operating activities.

The net increase in cash and cash equivalents for the three months ended January 31, 2007 was \$9.2 million compared to \$33.8 million in the comparable period of the prior year. Cash and cash equivalents totaled \$46.0 million at January 31, 2007 compared to \$36.8 million at October 31, 2006, while working capital was \$562.1 million at January 31, 2007 compared to \$568.6 million at October 31, 2006. We believe our current cash balances, cash flows and credit facilities are adequate to cover our seasonal working capital and other operating requirements for the foreseeable future, and that increases in our credit facilities or other financing can be obtained if needed to fund future growth.

#### *Trade Accounts Receivable and Inventories*

Our trade accounts receivable decreased 15% to \$612.9 million at January 31, 2007 from \$721.6 million at October 31, 2006. Accounts receivable in the Americas decreased 15% to \$255.1 million at January 31, 2007 from \$298.5 million at October 31, 2006, while European accounts receivable decreased 11% to \$297.4 million from \$335.5 million, and Asia/Pacific accounts receivable decreased 31% to \$60.4 million from \$87.6 million for those same periods. Compared to January 31, 2006, accounts receivable increased 10% in the Americas, 17% in Europe and 24% in Asia/Pacific. The increase in accounts receivable compared to January 31, 2006 across all three segments primarily relates to higher revenues and the timing of shipments. Included in accounts receivable are approximately \$41.6 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 accurately compute days sales outstanding. Overall average days sales outstanding increased by approximately 10 days at January 31, 2007 compared to January 31, 2006. We had lower average days sales outstanding in our apparel brands but this was more than offset by higher average days sales outstanding in our equipment brands related primarily to the timing of shipments of our wintersports products. The lower level of wintersports equipment revenues during the three months ended January 31, 2007 does not result in a comparable decrease in accounts receivable because the majority of wintersports brands receivables are collected during our second quarter ending April 30.

Consolidated inventories increased 14% to \$485.3 million at January 31, 2007 from \$425.9 million at October 31, 2006. Inventories in the Americas increased 10% to \$213.5 million from \$194.1 million at October 31, 2006, while European inventories increased 21% to \$212.7 million from \$176.3 million, and Asia/Pacific inventories increased 7% to \$59.1 million from \$55.5 million for those same periods. Compared to January 31, 2006, inventories increased 26% in the Americas, 13% in Europe and 23% in Asia/Pacific. Changes in foreign currency exchange rates resulted in an approximately \$15 million increase in inventories compared to January 31, 2006. The remainder of the increase relates primarily to an earlier delivery schedule for spring product, additional company-owned retail stores and higher levels of current season inventories for our wintersports equipment brands. Consolidated average annual inventory turnover was approximately 2.8 at January 31, 2007 compared to approximately 3.4 at January 31, 2006.

### *Commitments*

In connection with the acquisition of Rossignol, we have formulated the Rossignol Integration Plan (the "Plan"). The Plan covers the global operations of Rossignol and our existing businesses, and it includes the evaluation of facility relocations, nonstrategic business activities, redundant functions and other related items. As of October 31, 2006, we had recognized \$65.3 million of liabilities related to the Plan, including employee relocation and severance costs, moving costs, and other costs related primarily to the consolidation of Rossignol's administrative headquarters in Europe, the consolidation of Rossignol's European distribution, the consolidation and realignment of certain European manufacturing facilities, and the relocation of our wintersports equipment sales and distribution operations in the United States. As of January 31, 2007, we have paid approximately \$23.0 million related to these integration activities. If we have overestimated our integration costs, the excess will reduce goodwill in future periods. Conversely, if we have underestimated these costs, additional liabilities recognized will be recorded in earnings. Costs that are not associated with Rossignol but relate to activities or employees of our existing operations are not significant and are charged to earnings. Certain facilities owned by Rossignol are expected to be sold in connection with the Plan, while others are anticipated to be refinanced through sale-leaseback arrangements. Assets currently held for sale, primarily in the United States and France, totaled approximately \$18.5 million at January 31, 2007.

### **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 earnings 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 profits.

### *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 in the retail market; 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 would be recognized when the carrying value exceeds the undiscounted future cash flows estimated to result from the use and eventual disposition of the asset. Impairments, if any, would be recognized in operating earnings. We continually use judgment when applying these impairment rules to determine the timing of the impairment tests, the undiscounted cash flows used to assess impairments, and the fair value of a potentially impaired asset. The reasonableness of our judgment could significantly affect the carrying value of our long-lived assets.

### *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. If the carrying amount exceeds fair value, then the second step of the impairment test is performed to measure the amount of any impairment loss. Fair value is computed based on estimated future cash flows discounted at a rate that approximates our cost of capital. Such estimates are subject to change, and we may be required to recognize impairment losses in the future.

### *Stock-Based Compensation Expense*

We account for stock-based compensation expense using the fair value recognition provisions of SFAS 123(R), "Share-Based Payment". Under the fair value recognition provisions of SFAS 123(R), we recognize stock-based compensation 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.

Determining the appropriate fair value model and calculating the fair value of stock-based payment awards require the input of highly subjective assumptions, including the expected life of the stock-based payment awards and stock price volatility. We use the Black-Scholes option-pricing model to value compensation expense. The assumptions used in calculating the fair value of stock-based payment awards represent management's best estimates, but the estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. See Note 3 to the Consolidated Condensed Financial Statements for a further discussion on stock-based compensation.

### *Income Taxes*

Current income tax expense is the amount of income taxes expected to be payable for the current year. 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.

### *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 some 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 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 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 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. We also use other derivatives that do not qualify for hedge accounting to mitigate our exposure to currency risks. These derivatives are marked to fair value with corresponding gains or losses recorded in earnings.

### **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 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," "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:

- our ability to achieve the financial results that we anticipate, or have experienced in the past;
- our ability to fully realize the benefits we anticipate from our acquisition of Rossignol;
- the impact of our substantial leverage on our ability to generate cash flows or obtain financing to fund our anticipated growth strategies and the cost of such financing;
- our plans to expand internationally;
- our intention to introduce new products and enter into new joint ventures;
- our plans to open new retail stores;
- payments due on contractual commitments;
- future expenditures for capital projects;
- our ability to continue to maintain our brand image and reputation;
- our ability to remain compliant with our debt covenants;
- integration of acquired businesses and future acquisitions;
- general economic and business conditions;
- foreign exchange rate fluctuations; and
- changes in political, social and economic conditions and local regulations, particularly in Europe and Asia.

Given these uncertainties, investors are cautioned not to place too much weight on such statements. We are not obligated to update these forward-looking statements.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

#### **Foreign Currency**

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 income of our foreign subsidiaries into U.S. dollars using the average exchange rate during the reporting period. Changes in foreign exchange rates affect our reported profits 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 Quiksilver Europe because it takes more profits in euros to generate the same amount of profits in stronger U.S. dollars. In addition, the statements of income of Quiksilver Asia/Pacific are translated from Australian dollars and Japanese yen into U.S. dollars, and there is a negative effect on our reported results for Quiksilver Asia/Pacific when the U.S. dollar is stronger in comparison to Australian dollar or Japanese yen.

European revenues decreased 11% in euros during the three months ended January 31, 2007 compared to the three months ended January 31, 2006. As measured in U.S. dollars and reported in our consolidated statements of income, European revenues decreased 3% as a result of a weaker U.S. dollar versus the euro in comparison to the prior year.

Asia/Pacific revenues decreased 9% in Australian dollars during the three months ended January 31, 2007 compared to the three months ended January 31, 2006. As measured in U.S. dollars and reported in our consolidated statements of income, Asia/Pacific revenues decreased 2% as a result of a weaker U.S. dollar versus the Australian 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, 2006 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 January 31, 2007, 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 January 31, 2007.

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 January 31, 2007 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

On February 27, 2007, a purported class action captioned Burnis L. Simon, Jr. v. Quiksilver, Inc. (sic), Case No. CV07-01326, was filed against us in the United States District Court for the Central District of California. We have not been served with the complaint. The complaint alleges willful violation of the federal Fair and Accurate Credit Transaction Act (“FACTA”) based upon certain of our retail stores’ alleged electronic printing of receipts on which appeared more than the last five digits of customers’ credit or debit card number and/or the expiration of such customers’ credit or debit card. The complaint seeks statutory damages of not less than \$100 and not more than \$1,000 for each violation, as well as unspecified punitive damages, attorneys’ fees and a permanent injunction from further engaging in violations of FACTA. The complaint does not allege that any class member has suffered actual damages. Similar complaints have recently been filed against a number of other retailers. We intend to vigorously defend against the claims asserted. However, the results of any litigation are inherently uncertain and we cannot assure that we will be able to successfully defend against such claims. We are currently unable to assess the extent of damages and/or other relief, if any, that could be awarded to the plaintiff class if it were to prevail.

### Item 6. Exhibits

#### (a) Exhibits

- 2.1 English Translation of the Acquisition Agreement, dated April 12, 2005, between the Company and Mr. Laurent Boix-Vives, Ms. Jeannine Boix-Vives, Ms. Christine Simon, Ms. Sylvie Bernard and SDI Société de Services et Développement (incorporated by reference to Exhibit 10.1 of the Company’s Current Report on Form 8-K filed on April 18, 2005).
- 2.2 Stock Purchase Agreement between the Company and the Sellers of DC Shoes, Inc. dated March 8, 2004 (incorporated by reference to Exhibit 2.1 of the Company’s Current Report on Form 8-K filed on May 18, 2004).
- 2.3 First Amendment to the Stock Purchase Agreement between the Company and the Sellers of DC Shoes, Inc. dated May 3, 2004 (incorporated by reference to Exhibit 2.2 of the Company’s Current Report on Form 8-K filed on May 18, 2004).
- 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 Amended and Restated Bylaws of Quiksilver, Inc. (incorporated by reference to Exhibit 3.2 of the Company’s Annual Report on Form 10-K for the year ended October 31, 2003).
- 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 Employment Agreement between David Morgan and Quiksilver, Inc. dated December 22, 2006 (incorporated by reference to Exhibit 10.13 of the Company’s Annual Report on Form 10-K filed on January 12, 2007).(1)

- 10.2 Amendment to Employment Agreement between Robert B. McKnight, Jr. and Quiksilver, Inc. dated December 21, 2006 (incorporated by reference to Exhibit 10.15 of the Company's Annual Report on Form 10-K filed on January 12, 2007).(1)
- 10.3 Amendment to Employment Agreement between Bernard Mariette and Quiksilver, Inc. dated December 21, 2006 (incorporated by reference to Exhibit 10.17 of the Company's Annual Report on Form 10-K filed on January 12, 2007).(1)
- 10.4 Amendment to Employment Agreement between Charles S. Exon and Quiksilver, Inc. dated December 21, 2006 (incorporated by reference to Exhibit 10.19 of the Company's Annual Report on Form 10-K filed on January 12, 2007).(1)
- 10.5 Amendment to Employment Agreement between Steven L. Brink and Quiksilver, Inc. dated December 21, 2006 (incorporated by reference to Exhibit 10.21 of the Company's Annual Report on Form 10-K filed on January 12, 2007).(1)
- 10.6 Quiksilver, Inc. Written Description of Nonemployee Director Compensation (incorporated by reference to Exhibit 10.22 of the Company's Annual Report on Form 10-K filed on January 12, 2007).(1)
- 10.7 Award grant under Quiksilver, Inc. Long-Term Incentive Plan dated December 20, 2006 (incorporated by reference to Exhibit 10.25 of the Company's Annual Report on Form 10-K filed on January 12, 2007).(1)
- 10.8 Amendments to executive officer base salaries effective as of November 1, 2006 (incorporated by reference to Exhibit 10.30 of the Company's Annual Report on Form 10-K filed on January 12, 2007).(1)
- 10.9 Fourth Amendment to Amended and Restated Credit Agreement dated December 22, 2006 (incorporated by reference to Exhibit 10.31 of the Company's Annual Report on Form 10-K filed on January 12, 2007).
- 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 2003 – 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 2003 – 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

March 12, 2007

/s/ Steven L. Brink

Steven L. Brink  
Chief Financial Officer and Treasurer  
(Principal Accounting Officer)