

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, 2008

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

**Large accelerated filer**

**Accelerated filer**

**Non-accelerated filer**

**Smaller reporting company**

(Do not check if a smaller reporting company)

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

The number of shares outstanding of Registrant's Common Stock,  
par value \$0.01 per share, at  
March 7, 2008 was  
126,013,934

# QUIKSILVER, INC.

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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**QUIKSILVER, INC.**

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

	<b>Three months ended January 31,</b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>
<i>In thousands, except per share amounts</i>		
Revenues, net .....	\$ 605,296	\$ 528,677
Cost of goods sold.....	<u>329,646</u>	<u>279,748</u>
Gross profit .....	275,650	248,929
Selling, general and administrative expense.....	<u>279,937</u>	<u>221,612</u>
Operating (loss) income.....	(4,287)	27,317
Interest expense .....	14,640	14,756
Foreign currency (gain) loss .....	(735)	1,897
Other expense .....	<u>74</u>	<u>33</u>
(Loss) income before (benefit) provision for income taxes .....	(18,266)	10,631
(Benefit) provision for income taxes .....	<u>(3,608)</u>	<u>3,822</u>
(Loss) income from continuing operations .....	(14,658)	6,809
Loss from discontinued operations .....	<u>(7,282)</u>	<u>(4,334)</u>
Net (loss) income.....	<u>\$ (21,940)</u>	<u>\$ 2,475</u>
(Loss) income per share from continuing operations.....	<u>\$ (0.12)</u>	<u>\$ 0.06</u>
Loss per share from discontinued operations .....	<u>\$ (0.06)</u>	<u>\$ (0.04)</u>
Net (loss) income per share .....	<u>\$ (0.18)</u>	<u>\$ 0.02</u>
(Loss) income per share from continuing operations, assuming dilution...	<u>\$ (0.12)</u>	<u>\$ 0.05</u>
Loss per share from discontinued operations, assuming dilution .....	<u>\$ (0.06)</u>	<u>\$ (0.04)</u>
Net (loss) income per share, assuming dilution .....	<u>\$ (0.18)</u>	<u>\$ 0.02</u>
Weighted average common shares outstanding.....	<u>124,508</u>	<u>123,049</u>
Weighted average common shares outstanding, assuming dilution.....	<u>124,508</u>	<u>129,234</u>

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

	<b>Three months ended January 31,</b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>
<i>In thousands</i>		
Net (loss) income.....	\$ (21,940)	\$ 2,475
Other comprehensive income (loss):		
Foreign currency translation adjustment .....	510	8,531
Net unrealized income (loss) on derivative instruments, net of tax of (\$2,074) (2008) and \$539 (2007) .....	<u>4,464</u>	<u>(1,116)</u>
Comprehensive (loss) income.....	<u>\$ (16,966)</u>	<u>\$ 9,890</u>

See notes to condensed consolidated financial statements.

# QUIKSILVER, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

<i>In thousands, except share amounts</i>	<b>January 31, 2008</b>	<b>October 31, 2007</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 75,181	\$ 74,348
Trade accounts receivable, less allowances of \$38,816 (2008) and \$37,037 (2007) .....	638,707	760,430
Other receivables .....	59,534	70,101
Income taxes receivable .....	3,853	—
Inventories .....	490,235	447,282
Deferred income taxes .....	66,221	62,197
Prepaid expenses and other current assets .....	40,938	25,219
Current assets held for sale .....	<u>1,946</u>	<u>73,685</u>
Total current assets .....	1,376,615	1,513,262
Fixed assets, less accumulated depreciation and amortization of \$214,721 (2008) and \$196,184 (2007) .....	365,317	347,322
Intangible assets, net .....	227,300	225,642
Goodwill .....	416,375	417,283
Other assets .....	47,230	46,263
Non-current assets held for sale .....	<u>15,792</u>	<u>91,756</u>
Total assets .....	<u>\$ 2,448,629</u>	<u>\$ 2,641,528</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Lines of credit .....	\$ 271,549	\$ 313,996
Accounts payable .....	297,646	286,807
Accrued liabilities .....	194,719	227,840
Current portion of long-term debt .....	35,255	34,306
Income taxes payable .....	—	7,187
Liabilities related to assets held for sale .....	<u>110</u>	<u>11,269</u>
Total current liabilities .....	799,279	881,405
Long-term debt, net of current portion .....	725,098	772,128
Deferred income taxes and other long-term liabilities .....	69,329	48,466
Non-current liabilities related to assets held for sale .....	<u>—</u>	<u>52,916</u>
Total liabilities .....	<u>1,593,706</u>	<u>1,754,915</u>
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 - 129,144,134 (2008) and 128,340,538 (2007) .....	1,291	1,283
Additional paid-in capital .....	312,575	306,051
Treasury stock, 2,885,200 shares .....	(6,778)	(6,778)
Retained earnings .....	394,744	437,940
Accumulated other comprehensive income .....	<u>153,091</u>	<u>148,117</u>
Total stockholders' equity .....	<u>854,923</u>	<u>886,613</u>
Total liabilities and stockholders' equity .....	<u>\$ 2,448,629</u>	<u>\$ 2,641,528</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>2008</b>	<b>2007</b>
<b>Cash flows from operating activities:</b>		
Net (loss) income .....	\$ (21,940)	\$ 2,475
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Loss from discontinued operations .....	7,282	4,334
Depreciation and amortization .....	19,015	15,772
Stock-based compensation .....	2,461	4,777
Provision for doubtful accounts .....	1,976	(445)
Gain on disposal of fixed assets .....	(148)	(209)
Foreign currency loss .....	120	36
Minority interest and equity in earnings .....	556	191
Changes in operating assets and liabilities, net of the effects from business acquisitions:		
Trade accounts receivable .....	127,920	118,012
Other receivables .....	11,653	(840)
Inventories .....	(36,922)	(48,801)
Prepaid expenses and other current assets .....	(14,447)	(12,506)
Other assets .....	(957)	2,077
Accounts payable .....	6,869	22,566
Accrued liabilities and other long-term liabilities .....	(25,018)	(27,914)
Income taxes payable .....	(18,728)	(6,951)
Cash provided by operating activities of continuing operations .....	59,692	72,574
Cash used in operating activities of discontinued operations .....	(999)	(8,249)
Net cash provided by operating activities .....	<u>58,693</u>	<u>64,325</u>
<b>Cash flows from investing activities:</b>		
Proceeds from the sale of properties and equipment .....	280	7,908
Capital expenditures .....	(35,410)	(27,967)
Business acquisitions, net of cash acquired .....	(1,038)	(2,524)
Cash used in investing activities of continuing operations .....	(36,168)	(22,583)
Cash provided by (used in) investing activities of discontinued operations .....	115,449	(303)
Net cash provided by (used in) investing activities .....	<u>79,281</u>	<u>(22,886)</u>
<b>Cash flows from financing activities:</b>		
Borrowings on lines of credit .....	14,551	14,972
Payments on lines of credit .....	(65,349)	(41,205)
Borrowings on long-term debt .....	87,523	24,088
Payments on long-term debt .....	(141,287)	(35,645)
Stock option exercises, employee stock purchases and tax benefit on option exercises .....	2,772	4,708
Cash used in financing activities of continuing operations .....	(101,790)	(33,082)
Cash (used in) provided by financing activities of discontinued operations .....	(35,000)	2,000
Net cash used in financing activities .....	<u>(136,790)</u>	<u>(31,082)</u>
Effect of exchange rate changes on cash .....	(351)	(1,195)
Net increase in cash and cash equivalents .....	833	9,162
Cash and cash equivalents, beginning of period .....	74,348	36,834
Cash and cash equivalents, end of period .....	<u>\$ 75,181</u>	<u>\$ 45,996</u>
<b>Supplementary cash flow information:</b>		
Cash paid during the period for:		
Interest .....	\$ 12,356	\$ 9,401
Income taxes .....	<u>\$ 14,062</u>	<u>\$ 15,607</u>

See notes to condensed consolidated financial statements.

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### 1. *Basis of Presentation*

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

Quiksilver, Inc. (the "Company"), in its opinion, has included all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the results of operations for the three months ended January 31, 2008 and 2007. 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, 2007 included in the Company's Annual Report on Form 10-K. Interim results are not necessarily indicative of results for the full year due to seasonal and other factors.

In October 2007, the Company entered into an agreement to sell its golf equipment business. This transaction was completed in December 2007. As a result of this disposition, all financial information has been adjusted to exclude the Company's golf equipment operations. The golf equipment business has also been classified as discontinued operations for all periods presented.

For the three months ended January 31, 2008, the potential dilutive effect of common stock equivalents was not included in the weighted average shares for the computation of diluted earnings per share, as the effect was antidilutive.

### 2. *New Accounting Pronouncements*

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 Statement of Financial Accounting Standards ("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. The Company adopted FIN 48 on November 1, 2007. See Note 14 for a description of the impact of this standard on the Company's 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.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," ("SFAS No. 159"), which permits companies to choose to measure certain financial instruments and other items at fair value that are not currently required to be measured at fair value. 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 Company has not determined the effect that the adoption of SFAS No. 159 will have on its consolidated financial statements.

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations," ("SFAS No. 141(R)"), which requires the Company to record fair value estimates of contingent consideration and certain other potential liabilities during the original purchase price allocation, expense acquisition costs as incurred and does not permit certain restructuring activities previously allowed under Emerging Issues Task Force Issue No. 95-3 to be recorded as a component of purchase accounting. This statement is effective for financial statements issued for fiscal years beginning on or after December 15, 2008. The Company will adopt this standard at the beginning of the Company's fiscal year ending October 31, 2010 for all prospective business acquisitions. The Company has not determined the effect that the adoption of SFAS No. 141(R) will have on its consolidated financial statements but the impact will be limited to any future acquisitions beginning in fiscal 2010 except for certain tax treatment of existing acquisitions.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51," ("SFAS No. 160"), which requires noncontrolling interests in subsidiaries to be included in the equity section of the balance sheet. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company will adopt this standard at the beginning of the Company's fiscal year ending October 31, 2010. The Company has not determined the effect that the adoption of SFAS No. 160 will have on its 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, 2008 and 2007 options were valued assuming a risk-free interest rate of 3.0% and 4.8%, respectively, volatility of 40.7% and 43.2%, respectively, zero dividend yield, and an expected life of 5.7 and 5.6 years, respectively. The weighted average fair value of options granted was \$3.84 and \$7.35 for the three months ended January 31, 2008 and 2007, 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, 2008, the Company had approximately \$12.0 million of unrecognized compensation expense expected to be recognized over a weighted average period of approximately 2.6 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, 2008 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, 2007 .....	17,311,049	\$ 9.30		
Granted .....	1,200,000	9.00		
Exercised .....	(387,704)	2.48		\$ 2,494
Canceled .....	<u>(13,500)</u>	14.42		
Outstanding, January 31, 2008.....	<u>18,109,845</u>	\$ 9.43	5.8	\$ 36,142
Options exercisable, January 31, 2008 ....	<u>14,167,048</u>	\$ 8.52	5.1	\$ 35,506

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Changes in non-vested shares under option for the three months ended January 31, 2008 are as follows:

	<u>Shares</u>	<u>Weighted-Average Grant Date Fair Value</u>
Non-vested, October 31, 2007 .....	4,915,536	\$ 6.71
Granted .....	1,200,000	3.84
Vested .....	(2,169,405)	6.47
Canceled .....	<u>(3,334)</u>	6.96
Non-vested, January 31, 2008 .....	<u>3,942,797</u>	\$ 5.97

In March 2006, the Company's shareholders approved the 2006 Restricted Stock Plan and in March 2007, the Company's shareholders approved an amendment to the 2000 Stock Incentive Plan whereby restricted stock and restricted stock units can be issued from such plan. Stock issued under these plans generally vests from three to five years and may have certain performance based acceleration features which allow for earlier vesting.

Changes in restricted stock for the three months ended January 31, 2008 are as follows:

	<u>Shares</u>
Outstanding, October 31, 2007 .....	842,000
Granted .....	300,000
Vested .....	—
Forfeited .....	—
Outstanding, January 31, 2008 .....	<u>1,142,000</u>

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, 2008, there had been no acceleration of the amortization period. As of January 31, 2008, the Company had approximately \$9.7 million of unrecognized compensation expense expected to be recognized over a weighted average period of approximately 1.7 years.

#### 4. *Inventories*

Inventories consist of the following:

	<u>January 31, 2008</u>	<u>October 31, 2007</u>
<i>In thousands</i>		
Raw materials .....	\$ 32,049	\$ 29,725
Work in-process .....	13,446	12,223
Finished goods .....	<u>444,740</u>	<u>405,334</u>
	<u>\$ 490,235</u>	<u>\$ 447,282</u>

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### 5. *Intangible Assets and Goodwill*

A summary of intangible assets is as follows:

<i>In thousands</i>	<u>January 31, 2008</u>			<u>October 31, 2007</u>		
	<u>Gross Amount</u>	<u>Amortization</u>	<u>Net Book Value</u>	<u>Gross Amount</u>	<u>Amortization</u>	<u>Net Book Value</u>
Amortizable trademarks .....	\$ 19,517	\$ (7,150)	\$ 12,367	\$ 16,082	\$ (4,329)	\$ 11,753
Amortizable licenses .....	11,940	(6,169)	5,771	12,354	(6,074)	6,280
Other amortizable intangibles ....	13,877	(6,634)	7,243	13,906	(6,282)	7,624
Non-amortizable trademarks.....	<u>201,919</u>	<u>—</u>	<u>201,919</u>	<u>199,985</u>	<u>—</u>	<u>199,985</u>
	<u>\$247,253</u>	<u>\$(19,953)</u>	<u>\$ 227,300</u>	<u>\$ 242,327</u>	<u>\$(16,685)</u>	<u>\$ 225,642</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, 2008 and 2007 was \$1.2 million and \$1.5 million, respectively. Annual amortization expense is estimated to be approximately \$4.0 million in the fiscal year ending October 31, 2008, approximately \$4.1 million in the fiscal year ending October 31, 2009 and approximately \$3.7 million in the fiscal years ending October 31, 2010 through 2012. Goodwill related to the Company's operating segments is as follows:

<i>In thousands</i>	<u>January 31, 2008</u>	<u>October 31, 2007</u>
Americas.....	\$ 73,386	\$ 73,709
Europe .....	187,328	184,292
Asia/Pacific .....	142,557	146,178
Wintersports equipment .....	<u>13,104</u>	<u>13,104</u>
	<u>\$ 416,375</u>	<u>\$ 417,283</u>

Goodwill decreased approximately \$0.9 million during the three months ended January 31, 2008, primarily as a result of the effect of foreign currency exchange rates.

### 6. *Accumulated Other Comprehensive Income*

The components of accumulated other comprehensive income include net income, changes in fair value of derivative instruments qualifying as cash flow hedges, 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>	<u>January 31, 2008</u>	<u>October 31, 2007</u>
Foreign currency translation adjustment.....	\$ 172,433	\$ 171,923
Loss on cash flow hedges and interest rate swaps .....	<u>(19,342)</u>	<u>(23,806)</u>
	<u>\$ 153,091</u>	<u>\$ 148,117</u>

### 7. *Segment Information*

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the Company's management in deciding how to allocate resources and in assessing performance. The Company operates in the outdoor market of the sporting goods industry in which the Company designs, produces and distributes clothing, wintersports equipment, footwear, accessories and related products. Effective November 1, 2007, the Company changed its operating segments to reflect changes in its internal reporting structure. The Company currently operates in four segments, the Americas,

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Europe, Asia/Pacific and Wintersports equipment. The Americas segment includes apparel revenues primarily from the U.S. and Canada. The European segment includes apparel revenues primarily from Western Europe. The Asia/Pacific segment includes apparel revenues primarily from Australia, Japan, New Zealand and Indonesia. The Wintersports equipment segment includes world-wide wintersports equipment revenue, which is primarily from Western Europe and North America. All prior segment information has been adjusted to reflect our current operating segment presentation. Costs that support all four 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>Three months ended January 31,</b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>
Revenues, net:		
Americas.....	\$ 232,936	\$ 197,374
Europe .....	205,273	172,011
Asia/Pacific.....	61,254	51,383
Wintersports equipment.....	104,846	107,135
Corporate operations.....	987	774
	<u>\$ 605,296</u>	<u>\$ 528,677</u>
Gross profit:		
Americas.....	\$ 100,655	\$ 83,868
Europe .....	110,347	91,506
Asia/Pacific.....	31,541	24,024
Wintersports equipment.....	32,771	49,021
Corporate operations.....	336	510
	<u>\$ 275,650</u>	<u>\$ 248,929</u>
Operating (loss) income:		
Americas.....	\$ 6,153	\$ 9,892
Europe .....	18,421	21,426
Asia/Pacific.....	3,454	266
Wintersports equipment.....	(21,376)	7,690
Corporate operations.....	(10,939)	(11,957)
	<u>\$ (4,287)</u>	<u>\$ 27,317</u>
Identifiable assets:		
Americas.....	\$ 628,169	\$ 777,649
Europe .....	768,977	749,210
Asia/Pacific.....	350,271	367,935
Wintersports equipment.....	632,705	690,985
Corporate operations.....	68,507	55,749
	<u>\$2,448,629</u>	<u>\$2,641,528</u>

### 8. *Derivative Financial Instruments*

The Company is exposed to gains and losses resulting from fluctuations in foreign currency exchange rates relating to certain sales, royalty income, and product purchases of its international subsidiaries that are denominated in currencies other than their functional currencies. The Company is also exposed to foreign currency gains and losses resulting from domestic transactions that are not denominated in U.S. dollars, and to fluctuations in interest rates related to its variable rate debt. Furthermore, the Company is exposed to gains and losses resulting from the effect that fluctuations in foreign currency exchange rates have on the reported

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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 loss of \$0.3 million was recognized related to these types of contracts during the three months ended January 31, 2008. 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, 2008, the Company was hedging forecasted transactions expected to occur through December 2009. Assuming exchange rates at January 31, 2008 remain constant, \$19.3 million of losses, 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, 2008, the Company reclassified into earnings a net loss of \$5.9 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.

A summary of derivative contracts at January 31, 2008 is as follows:

<i>In thousands</i>	<b>Notional Amount</b>	<b>Maturity</b>	<b>Fair Value</b>
U.S. dollar .....	\$ 398,649	Feb 2008 – Dec 2009	\$ (30,448)
Canadian dollar .....	16,433	Feb 2008 – Dec 2008	(36)
Japanese Yen .....	13,561	Feb 2008 – Dec 2008	(131)
Romanian New Lei.....	3,273	Feb 2008	328
Swiss Franc .....	1,190	Feb 2008	3
Interest Rate Swap Euro.....	24,390	April 2008 – Sep 2009	13
	<u>\$ 457,496</u>		<u>\$ (30,271)</u>

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### 9. *Business Acquisitions*

In September 2007, the Company acquired the minority interest of Roger Cleveland Golf Company, Inc. ("Cleveland Golf"), the Company's U.S. golf equipment operations. The Company had previously acquired 63.63% of Cleveland Golf as part of the acquisition of Rossignol in July 2005. The purchase price for the remaining minority interest of Cleveland Golf, excluding transaction costs, included a cash payment of \$17.5 million at closing. The Company accounted for this transaction as a step acquisition and recorded 36.37% of fair value adjustments related to the acquisition of the remaining portion of Cleveland Golf. The Company also agreed to terminate all consulting arrangements with the former minority interest holders of Cleveland Golf and recorded an expense of approximately \$3.6 million in contract termination costs. In October 2007, the Company entered into an agreement to sell its golf equipment business (Note 13). In connection with the sale of Cleveland Golf in December, 2007, the Company paid an additional \$8.5 million to the former minority interest holders of Cleveland Golf as required by the terms of the minority interest stock purchase agreement.

The Company paid cash of approximately \$1.0 million during the three months ended January 31, 2008 which related primarily to acquisitions of certain distributors.

### 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, 2008.

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, 2008 the Company had recognized approximately \$62.5 million of liabilities related to the Plan, including

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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 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, 2008, 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. 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. 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 \$15.8 million at January 31, 2008.

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

<i>In thousands</i>	<b>Workforce</b>	<b>Facility and Other</b>	<b>Total</b>
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.....	<u>(83)</u>	<u>(6)</u>	<u>(89)</u>
Balance, October 31, 2005.....	21,036	2,276	23,312
Adjustment to purchase price allocation.....	33,998	5,085	39,083
Cash payments.....	(14,122)	(2,512)	(16,634)
Foreign currency translation.....	<u>2,559</u>	<u>88</u>	<u>2,647</u>
Balance, October 31, 2006.....	43,471	4,937	48,408
Cash payments.....	(25,589)	(4,005)	(29,594)
Foreign currency translation.....	<u>4,213</u>	<u>635</u>	<u>4,848</u>
Balance, October 31, 2007.....	22,095	1,567	23,662
Cash payments.....	(4,557)	(134)	(4,691)
Foreign currency translation.....	<u>528</u>	<u>39</u>	<u>567</u>
Balance, January 31, 2008.....	<u>\$ 18,066</u>	<u>\$ 1,472</u>	<u>\$ 19,538</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>	<b>Workforce</b>
Balance, October 31, 2007.....	\$ 1,182
Cash payments.....	(102)
Foreign currency translation.....	<u>29</u>
Balance, January 31, 2008.....	<u>\$ 1,109</u>

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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, 2008 and October 31, 2007 and for the three months ended January 31, 2008 and 2007. 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, 2008, 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 (Unaudited)

### CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Three Months Ended January 31, 2008

<i>In thousands</i>	Quiksilver, Inc.	Wholly-owned Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues, net .....	\$ (5)	\$ 224,908	\$ 391,449	\$ (11,056)	\$ 605,296
Cost of goods sold .....	<u>—</u>	<u>131,817</u>	<u>202,071</u>	<u>(4,242)</u>	<u>329,646</u>
Gross profit .....	(5)	93,091	189,378	(6,814)	275,650
Selling, general and administrative expense.....	<u>9,035</u>	<u>96,688</u>	<u>180,897</u>	<u>(6,683)</u>	<u>279,937</u>
Operating (loss) income .....	(9,040)	(3,597)	8,481	(131)	(4,287)
Interest expense .....	10,680	567	3,393	—	14,640
Foreign currency loss (gain).....	196	15	(946)	—	(735)
Minority interest and other (income) expense.....	<u>—</u>	<u>(35)</u>	<u>109</u>	<u>—</u>	<u>74</u>
(Loss) income before (benefit) provision for income taxes.....	(19,916)	(4,144)	5,925	(131)	(18,266)
(Benefit) provision for income taxes ....	<u>(3,933)</u>	<u>(818)</u>	<u>1,143</u>	<u>—</u>	<u>(3,608)</u>
(Loss) income from continuing operations .....	(15,983)	(3,326)	4,782	(131)	(14,658)
(Loss) income from discontinued operations .....	<u>(250)</u>	<u>(9,133)</u>	<u>1,961</u>	<u>140</u>	<u>(7,282)</u>
Net (loss) income .....	<u>\$ (16,233)</u>	<u>\$ (12,459)</u>	<u>\$ 6,743</u>	<u>\$ 9</u>	<u>\$ (21,940)</u>

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Three Months Ended January 31, 2007

<i>In thousands</i>	Quiksilver, Inc.	Wholly-owned Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues, net .....	\$ —	\$ 194,082	\$ 344,273	\$ (9,678)	\$ 528,677
Cost of goods sold .....	<u>—</u>	<u>115,902</u>	<u>167,843</u>	<u>(3,997)</u>	<u>279,748</u>
Gross profit .....	—	78,180	176,430	(5,681)	248,929
Selling, general and administrative expense.....	<u>10,990</u>	<u>78,440</u>	<u>138,172</u>	<u>(5,990)</u>	<u>221,612</u>
Operating (loss) income .....	(10,990)	(260)	38,258	309	27,317
Interest expense .....	10,420	1,662	2,674	—	14,756
Foreign currency loss (gain).....	684	(297)	1,510	—	1,897
Minority interest and other expense.....	<u>—</u>	<u>—</u>	<u>33</u>	<u>—</u>	<u>33</u>
(Loss) income before (benefit) provision for income taxes.....	(22,094)	(1,625)	34,041	309	10,631
(Benefit) provision for income taxes ....	<u>(5,205)</u>	<u>718</u>	<u>8,309</u>	<u>—</u>	<u>3,822</u>
(Loss) income from continuing operations .....	(16,889)	(2,343)	25,732	309	6,809
Income (loss) from discontinued operations .....	<u>1,688</u>	<u>(5,392)</u>	<u>(601)</u>	<u>(29)</u>	<u>(4,334)</u>
Net (loss) income .....	<u>\$ (15,201)</u>	<u>\$ (7,735)</u>	<u>\$ 25,131</u>	<u>\$ 280</u>	<u>\$ 2,475</u>

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### CONDENSED CONSOLIDATING BALANCE SHEET

At January 31, 2008

<i>In thousands</i>	Quiksilver, Inc.	Wholly- owned Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents .....	\$ (71)	\$ 2,075	\$ 73,177	\$ —	\$ 75,181
Trade accounts receivable, net .....	—	212,125	426,582	—	638,707
Other receivables .....	1,434	19,119	38,981	—	59,534
Income taxes receivable .....	—	4,853	(1,000)	—	3,853
Inventories .....	—	151,711	340,015	(1,491)	490,235
Deferred income taxes .....	—	21,757	44,464	—	66,221
Prepaid expenses and other current assets .....	2,275	12,011	26,652	—	40,938
Current assets held for sale .....	—	1,946	—	—	1,946
Total current assets .....	<u>3,638</u>	<u>425,597</u>	<u>948,871</u>	<u>(1,491)</u>	<u>1,376,615</u>
Fixed assets, net .....	7,000	104,483	253,834	—	365,317
Intangible assets, net .....	2,677	47,255	177,368	—	227,300
Goodwill .....	—	126,964	289,411	—	416,375
Investment in subsidiaries .....	505,058	—	—	(505,058)	—
Other assets .....	11,032	5,954	30,244	—	47,230
Non-current assets held for sale .....	—	100	15,692	—	15,792
Total assets .....	<u>\$ 529,405</u>	<u>\$ 710,353</u>	<u>\$ 1,715,420</u>	<u>\$ (506,549)</u>	<u>\$ 2,448,629</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current liabilities:					
Lines of credit .....	\$ —	\$ —	\$ 271,549	\$ —	\$ 271,549
Accounts payable .....	1,946	81,086	214,614	—	297,646
Accrued liabilities .....	20,883	36,792	137,044	—	194,719
Current portion of long-term debt .....	—	—	35,255	—	35,255
Intercompany balances .....	150,288	(22,427)	(127,861)	—	—
Current liabilities of assets held for sale .....	—	110	—	—	110
Total current liabilities .....	<u>173,117</u>	<u>95,561</u>	<u>530,601</u>	<u>—</u>	<u>799,279</u>
Long-term debt, .....	400,000	96,500	228,598	—	725,098
Deferred income taxes and other long-term liabilities .....	—	31,768	37,561	—	69,329
Non-current liabilities of assets held for sale .....	—	—	—	—	—
Total liabilities .....	<u>573,117</u>	<u>223,829</u>	<u>796,760</u>	<u>—</u>	<u>1,593,706</u>
Stockholders'/invested equity .....	<u>(43,712)</u>	<u>486,524</u>	<u>918,660</u>	<u>(506,549)</u>	<u>854,923</u>
Total liabilities and stockholders' equity .....	<u>\$ 529,405</u>	<u>\$ 710,353</u>	<u>\$ 1,715,420</u>	<u>\$ (506,549)</u>	<u>\$ 2,448,629</u>

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### CONDENSED CONSOLIDATING BALANCE SHEET

At October 31, 2007

<i>In thousands</i>	Quiksilver, Inc.	Wholly- owned Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents .....	\$ 12	\$ 13,254	\$ 61,082	\$ —	\$ 74,348
Trade accounts receivable, net .....	—	248,392	512,038	—	760,430
Other receivables .....	775	13,574	55,752	—	70,101
Inventories .....	—	152,700	295,878	(1,296)	447,282
Deferred income taxes .....	—	18,143	44,054	—	62,197
Prepaid expenses and other current assets .....	1,596	7,729	15,894	—	25,219
Current assets held for sale .....	—	53,044	21,662	(1,021)	73,685
Total current assets .....	<u>2,383</u>	<u>506,836</u>	<u>1,006,360</u>	<u>(2,317)</u>	<u>1,513,262</u>
Fixed assets, net .....	6,959	100,803	239,560	—	347,322
Intangible assets, net .....	2,626	47,282	175,734	—	225,642
Goodwill .....	—	126,437	290,846	—	417,283
Investment in subsidiaries .....	569,492	—	—	(569,492)	—
Other assets .....	10,120	5,967	30,176	—	46,263
Non-current assets held for sale .....	—	72,679	19,077	—	91,756
Total assets .....	<u>\$ 591,580</u>	<u>\$ 860,004</u>	<u>\$ 1,761,753</u>	<u>\$ (571,809)</u>	<u>\$ 2,641,528</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current liabilities:					
Lines of credit .....	\$ —	\$ —	\$ 313,996	\$ —	\$ 313,996
Accounts payable .....	2,086	111,086	173,635	—	286,807
Accrued liabilities .....	20,287	41,986	165,567	—	227,840
Current portion of long-term debt .....	—	—	34,306	—	34,306
Income taxes payable .....	—	3,331	3,856	—	7,187
Intercompany balances .....	178,353	(6,389)	(171,964)	—	—
Current liabilities of assets held for sale .....	—	7,274	3,995	—	11,269
Total current liabilities .....	<u>200,726</u>	<u>157,288</u>	<u>523,391</u>	<u>—</u>	<u>881,405</u>
Long-term debt .....	400,000	129,700	242,428	—	772,128
Deferred income taxes and other long-term liabilities .....	—	10,548	37,918	—	48,466
Non-current liabilities of assets held for sale .....	—	52,812	104	—	52,916
Total liabilities .....	<u>600,726</u>	<u>350,348</u>	<u>803,841</u>	<u>—</u>	<u>1,754,915</u>
Stockholders'/invested equity .....	<u>(9,146)</u>	<u>509,656</u>	<u>957,912</u>	<u>(571,809)</u>	<u>886,613</u>
Total liabilities and stockholders' equity .....	<u>\$ 591,580</u>	<u>\$ 860,004</u>	<u>\$ 1,761,753</u>	<u>\$ (571,809)</u>	<u>\$ 2,641,528</u>

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Three Months Ended January 31, 2008

<i>In thousands</i>	Quiksilver, Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidated
<b>Cash flows from operating activities:</b>				
Net (loss) income .....	\$ (16,233)	\$ (12,459)	\$ 6,752	\$ (21,940)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:				
Loss (income) from discontinued operations .....	250	9,133	(2,101)	7,282
Depreciation and amortization .....	194	6,451	12,370	19,015
Provision for doubtful accounts .....	—	925	1,051	1,976
Stock-based compensation .....	2,461	—	—	2,461
Other adjustments to reconcile net income .....	178	(184)	540	534
Changes in operating assets and liabilities:				
Trade accounts receivable .....	—	35,341	92,579	127,920
Inventories .....	—	998	(37,920)	(36,922)
Other operating assets and liabilities .....	3,079	(54,096)	10,383	(40,634)
Cash (used in) provided by operating activities of continuing operations .....	(10,071)	(13,891)	83,654	59,692
Cash provided by (used in) operating activities of discontinued operations .....	26	(95)	(930)	(999)
Net cash (used in) provided by operating activities .....	(10,045)	(13,986)	82,724	58,693
<b>Cash flows from investing activities:</b>				
Proceeds from the sale of properties and equipment .....	—	—	280	280
Capital expenditures .....	(285)	(11,678)	(23,447)	(35,410)
Business acquisitions, net of cash acquired .....	—	422	(1,460)	(1,038)
Cash used in investing activities of continuing operations .....	(285)	(11,256)	(24,627)	(36,168)
Cash provided by investing activities of discontinued operations .....	—	95,526	19,923	115,449
Net cash (used in) provided by investing activities .....	(285)	84,270	(4,704)	79,281
<b>Cash flows from financing activities:</b>				
Borrowings on lines of credit .....	—	—	14,551	14,551
Payments on lines of credit .....	—	—	(65,349)	(65,349)
Borrowings on long-term debt .....	—	86,500	1,023	87,523
Payments on long-term debt .....	—	(119,700)	(21,587)	(141,287)
Stock option exercises, employee stock purchases and tax benefit on option exercises .....	2,772	—	—	2,772
Intercompany .....	7,475	(13,263)	5,788	—
Cash provided by (used in) financing activities continuing operations .....	10,247	(46,463)	(65,574)	(101,790)
Cash used in financing activities of discontinued operations .....	—	(35,000)	—	(35,000)
Net cash provided by (used in) financing activities .....	10,247	(81,463)	(65,574)	(136,790)
Effect of exchange rate changes on cash .....	—	—	(351)	(351)
Net (decrease) increase in cash and cash equivalents .....	(83)	(11,179)	12,095	833
Cash and cash equivalents, beginning of period .....	12	13,254	61,082	74,348
Cash and cash equivalents, end of period .....	<u>\$ (71)</u>	<u>\$ 2,075</u>	<u>\$ 73,177</u>	<u>\$ 75,181</u>

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Three Months Ended January 31, 2007

<i>In thousands</i>	Quiksilver, Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidated
<b>Cash flows from operating activities:</b>				
Net (loss) income .....	\$ (15,201)	\$ (7,735)	\$ 25,411	\$ 2,475
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:				
Income (loss) from discontinued operations .....	(1,688)	5,392	630	4,334
Depreciation and amortization .....	54	4,611	11,107	15,772
Provision for doubtful accounts .....	—	813	(1,258)	(445)
Stock-based compensation .....	4,777	—	—	4,777
Other adjustments to reconcile net income .....	10	(137)	145	18
Changes in operating assets and liabilities:				
Trade accounts receivable .....	—	26,311	91,701	118,012
Inventories .....	—	(15,226)	(33,575)	(48,801)
Other operating assets and liabilities .....	4,083	(14,953)	(12,698)	(23,568)
Cash (used in) provided by operating activities of continuing operations .....	(7,965)	(924)	81,463	72,574
Cash provided by (used in) operating activities of discontinued operations .....	1,691	(8,232)	(1,708)	(8,249)
Net cash (used in) provided by operating activities .....	(6,274)	(9,156)	79,755	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)	(9,877)	(17,681)	(27,967)
Business acquisitions, net of cash acquired .....	(264)	—	(2,260)	(2,524)
Cash used in investing activities of continuing operations .....	(673)	(5,414)	(16,496)	(22,583)
Cash used in investing activities of discontinued operations .....	—	(271)	(32)	(303)
Net cash used in investing activities .....	(673)	(5,685)	(16,528)	(22,886)
<b>Cash flows from financing activities:</b>				
Borrowings on lines of credit .....	—	—	14,972	14,972
Payments on lines of credit .....	—	(153)	(41,052)	(41,205)
Borrowings on long-term debt .....	—	22,750	1,338	24,088
Payments on long-term debt .....	—	(19,107)	(16,538)	(35,645)
Stock option exercises, employee stock purchase and tax benefit on option exercises .....	4,708	—	—	4,708
Intercompany .....	1,919	11,986	(13,905)	—
Cash provided by (used in) financing activities continuing operations .....	6,627	15,476	(55,185)	(33,082)
Cash (used in) provided by financing activities of discontinued operations .....	—	(1,351)	3,351	2,000
Net cash provided by (used in) financing activities .....	6,627	14,125	(51,834)	(31,082)
Effect of exchange rate changes on cash .....	—	(388)	(807)	(1,195)
Net (decrease) increase in cash and cash equivalents .....	(320)	(1,104)	10,586	9,162
Cash and cash equivalents, beginning of period .....	8	3,392	33,434	36,834
Cash and cash equivalents, end of period .....	<u>\$ (312)</u>	<u>\$ 2,288</u>	<u>\$ 44,020</u>	<u>\$ 45,996</u>

13. *Discontinued Operations*

In October 2007, the Company entered into an agreement to sell its golf equipment business which includes Roger Cleveland Golf Company, Inc. and certain other related international subsidiaries for approximately \$132.5 million. Majority ownership in this business was originally acquired in fiscal 2005 as part of the Rossignol acquisition. In September 2007, the Company acquired the remaining 36.37% minority interest in Roger Cleveland Golf Company, Inc. (Note 9). The golf equipment business assets are classified as held for sale and the operations of the golf equipment business are classified as discontinued operations for all periods presented. The Company closed this transaction during December 2007. The Company used the net proceeds from this sale to repay indebtedness.

The operating results of discontinued operations included in the accompanying consolidated statements of operations were as follows:

<i>In thousands</i>	<b>Three Months Ended</b>	
	<b>January 31,</b>	
	<b>2008</b>	<b>2007</b>
Revenues, net.....	\$ 7,937	\$ 23,847
Loss before income taxes.....	(5,319)	(7,305)
Provision (benefit) for income taxes.....	1,963	(2,971)
Loss from discontinued operations.....	<u>\$ (7,282)</u>	<u>\$ (4,334)</u>

The remaining assets and liabilities of our discontinued golf equipment business at January 31, 2008 related to our Fidra golf brand business which will cease in fiscal 2008. The components of assets and liabilities of discontinued operations are as follows:

<i>In thousands</i>	<b>January 31,</b>	<b>October 31,</b>
	<b>2008</b>	<b>2007</b>
<b>Current assets:</b>		
Receivables, net.....	\$ 45	\$ 40,309
Inventories.....	462	26,415
Other current assets.....	1,439	6,961
	<u>\$ 1,946</u>	<u>\$ 73,685</u>
<b>Non-current assets:</b>		
Fixed assets, net.....	\$ —	\$ 3,619
Goodwill and intangible assets, net.....	—	72,540
Other assets.....	100	301
	<u>\$ 100</u>	<u>\$ 76,460</u>
<b>Current liabilities:</b>		
Accounts payable.....	\$ 103	\$ 6,614
Other current liabilities.....	7	4,655
	<u>\$ 110</u>	<u>\$ 11,269</u>
<b>Non-current liabilities:</b>		
Long-term debt.....	\$ —	\$ 35,000
Other non-current liabilities.....	—	17,916
	<u>\$ —</u>	<u>\$ 52,916</u>

14. *Income Taxes*

On November 1, 2007, the Company adopted FIN 48. The evaluation of a tax position in accordance with FIN 48 is a two-step process. The Company first is required to determine whether an uncertain tax position may be recognized when it is “more likely than not” that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. A tax position that meets the more-likely-than-not threshold is then measured to determine the amount of benefit to recognize in the financial statements. If a tax position does not meet the more-likely-than-not threshold, no benefit can be recognized.

As a result of the adoption of FIN 48, the Company recognized a \$21.3 million reduction in retained earnings as of November 1, 2007. This adjustment consisted of an increase in the Company’s liability for unrecognized tax benefits of \$30.4 million partially offset by an increase to the Company’s deferred tax assets of \$2.0 million and an increase in the Company’s taxes receivable of \$7.1 million. The total balance of unrecognized tax benefits, including interest and penalties, was \$37.4 million as of November 1, 2007. The total amount of unrecognized tax benefits that, if recognized, would have had an impact on the effective tax rate was \$28.3 million as of November 1, 2007.

The Company includes interest and penalties related to unrecognized tax benefits in its provision for income taxes in the accompanying condensed consolidated statements of operations. Accrued interest and penalties are included in income taxes payable in the condensed consolidated balance sheets. As of November 1, 2007, the Company had accrued \$7.8 million in interest and penalties related to uncertain tax positions.

The Company’s significant jurisdictions, including the United States, France, Australia and Canada, are subject to normal and regular examination for various years beginning in fiscal year 2000. The Company completed a tax audit in the United States for fiscal years ending 2004 and 2005 and is currently under examination in France, Australia and Canada.

The Company has evaluated its tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months. During the next 12 months, it is reasonably possible that the Company’s liability for uncertain tax positions may decrease by a significant amount as a result of the resolution or payment of uncertain tax positions relating to intercompany transactions between foreign affiliates and certain foreign withholding tax exposures. The liability would decrease as a result of filing amended returns and paying the liabilities, resolving the uncertainties in connection with a current tax examination, or the lapse of a statute of limitation for such examination. The range of the decrease in the FIN 48 tax liability which is reasonably possible in the next 12 months is not expected to exceed \$14.5 million.

Conclusion of the above matters could result in settlements for different amounts than the Company has accrued as uncertain tax benefits. If a position for which the Company concluded it was more likely than not that the tax position would be sustained is subsequently not upheld, the Company would need to accrue and ultimately pay an additional amount. Conversely, the Company could settle positions with the tax authorities for amounts lower than those which have been accrued or extinguish a position through payment.

## 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, 2007 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 offerings 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 in the 1990s by adding products for boys, girls, toddlers and men, and we introduced our proprietary retail store concept, *Boardriders Clubs*, which displays the heritage and products of *Quiksilver* and *Roxy*. In 2000, we acquired the international *Quiksilver* and *Roxy* trademarks, and in 2002, we acquired our licensees in Australia and Japan. In May 2004, we acquired DC Shoes, Inc. to expand our presence in action sports-inspired footwear. 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. The acquisition was effective July 31, 2005, and we have included the operations of Rossignol in our results since August 1, 2005. Brand building has been a key to our growth, and we have always maintained our roots in the boardriding lifestyle. Today our products are sold throughout the world, primarily in surf shops, snow shops, skate shops and specialty stores.

Over the past 37 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.

In October 2007, we entered into an agreement to sell our golf equipment business for a transaction value of approximately \$132.5 million. This transaction was completed in December 2007. As a result of this disposition, the following financial information has been adjusted to exclude our golf equipment operations. The golf equipment business has also been classified as a discontinued operation in our consolidated financial statements for all periods presented.

We operate in the outdoor market of the sporting goods industry in which we design, produce and distribute branded apparel, wintersports equipment, footwear, accessories and related products. Effective November 1, 2007, we changed our operating segments to reflect changes in our internal reporting structure. We currently operate in four segments, the Americas, Europe, Asia/Pacific and Wintersports equipment. The Americas segment includes apparel revenues primarily from the U.S. and Canada. The European segment includes apparel revenues primarily from Western Europe. The Asia/Pacific segment includes apparel revenues primarily from Australia, Japan, New Zealand and Indonesia. Our Wintersports equipment segment includes world-wide wintersports equipment revenue, which is primarily from Western Europe and North America. Royalties earned from various licensees in other international territories are categorized in corporate operations along with revenues from sourcing services to our licensees. All prior segment information has been adjusted to reflect our current operating segment presentation.

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 desirable 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 certain 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>2008</u></b>	<b><u>2007</u></b>
Revenues, net.....	100.0%	100.0%
Gross profit.....	45.5	47.1
Selling, general and administrative expense .....	<u>46.2</u>	<u>41.9</u>
Operating (loss) income.....	(0.7)	5.2
Interest expense .....	2.4	2.8
Foreign currency, minority interest and other (income) expense .....	<u>(0.1)</u>	<u>0.4</u>
(Loss) income before (benefit) provision for income taxes.....	<u>(3.0)%</u>	<u>2.0%</u>
<i>Other data</i>		
Adjusted EBITDA <sup>(1)</sup> .....	<u>3.1%</u>	<u>8.7%</u>

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

	<b><u>Three Months Ended January 31,</u></b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>
(Loss) income from continuing operations .....	\$ (14,658)	\$ 6,809
(Benefit) provision for income taxes .....	(3,608)	3,822
Interest expense.....	14,640	14,756
Depreciation and amortization.....	19,015	15,772
Non-cash stock-based compensation expense.....	<u>3,429</u>	<u>4,777</u>
Adjusted EBITDA .....	<u>\$ 18,818</u>	<u>\$ 45,936</u>

*Three Months Ended January 31, 2008 Compared to Three Months Ended January 31, 2007*

Our total net revenues for the three months ended January 31, 2008 increased 14% to \$605.3 million from \$528.7 million in the comparable period of the prior year. The effect of foreign currency exchange rates accounted for approximately \$38.0 million of the increase in total net revenues. Revenues in the Americas increased 18% to \$232.9 million for the three months ended January 31, 2008 from \$197.4 million in the comparable period of the prior year, while European revenues increased 19% to \$205.3 million from \$172.0 million and Asia/Pacific revenues increased 19% to \$61.3 million from \$51.4 million for those same periods. Wintersports equipment revenue decreased 2% to \$104.8 million compared to \$107.1 million the year before.

Our net revenues can be categorized into two general classifications: apparel and wintersports equipment. Our apparel revenue classification includes apparel, footwear and accessories for the *Quiksilver, Roxy, DC, Rossignol, Hawk, Raisins, Leilani* and *Radio Fiji* brands in each of the Americas, Europe and Asia/Pacific segments. Our wintersports equipment revenue classification includes skis, snowboards, boots, bindings and technical accessories revenue for our wintersports brands, comprising of *Rossignol, Dynastar, Look, Lange, Roxy, Kerma, Lib Technologies, Gnu* and *Bent Metal*.

Our apparel net revenues in the Americas, Europe and Asia/Pacific segments, for the three months ended January 31, 2008 increased 19% to \$499.5 million from \$420.8 million for the three months ended January 31, 2007. The effect of foreign currency exchange rates accounted for approximately \$27.8 million of the increase in apparel net revenues. The currency adjusted increase resulted from strength in our *DC* and *Roxy* brands across all three apparel segments. *DC* brand revenue growth came primarily from its footwear product lines and, to a lesser extent, from its apparel and accessories product lines. *Roxy* brand revenue growth came primarily from its sportswear product line and, to a lesser extent, from its accessories and footwear product lines. Our Wintersports equipment segment revenues decreased 2% during the three months ended January 31, 2008 to \$104.8 million from \$107.1 million for the three months ended January 31, 2007. The effect of foreign currency exchange rates offset the decrease in wintersports equipment net revenues by approximately \$10.2 million. The majority of this currency adjusted decrease came from our *Rossignol* and other wintersports equipment brands, partially offset by an increase in our *Roxy* equipment brand revenue. During the quarter ended January 31, 2008 we experienced lower re-orders of our wintersports equipment compared to the same period in the prior year, primarily in Europe, as our customers are working through last season's excess inventory caused by the poor 2006/2007 snow season.

Our net revenues by segment and geography were as follows:

	<b>Three Months Ended January 31,</b>					
	<b>2008</b>			<b>2007</b>		
<i>In thousands</i>	<b>Apparel</b>	<b>Wintersports equipment</b>	<b>Total</b>	<b>Apparel</b>	<b>Wintersports equipment</b>	<b>Total</b>
Americas .....	\$ 232,936	\$ 26,723	\$ 259,659	\$ 197,374	\$ 24,836	\$ 222,210
Europe.....	205,273	74,689	279,962	172,011	78,812	250,823
Asia/Pacific.....	61,254	3,434	64,688	51,383	3,487	54,870
Corporate operations ...	—	—	987	—	—	774
	<u>\$ 499,463</u>	<u>\$ 104,846</u>	<u>\$ 605,296</u>	<u>\$ 420,768</u>	<u>\$ 107,135</u>	<u>\$ 528,677</u>

In the Americas, our apparel revenues for the three months ended January 31, 2008 increased 18%, while our equipment revenues increased 8% compared to the three months ended January 31, 2007. In Europe, our apparel revenues for the three months ended January 31, 2008 increased 19%, while our equipment revenues decreased 5% compared to the three months ended January 31, 2007. In Asia/Pacific, our apparel revenues for the three months ended January 31, 2008 increased 19%, while our wintersports equipment revenues decreased 2% compared to the three months ended January 31, 2007.

Our consolidated gross profit margin for the three months ended January 31, 2008 decreased to 45.5% from 47.1% in the comparable period of the prior year. The gross profit in the Americas segment increased to 43.2% from 42.5%, while our European segment gross profit margin increased to 53.8% from 53.2%, and our Asia/Pacific segment gross profit margin increased to 51.5% from 46.8% for those

same periods. Our Wintersports equipment segment gross profit margin decreased to 31.3% from 43.6%. The increase in the Americas segment's gross profit margin was due primarily to a higher percentage of sales through company owned retail stores where higher gross margins are generated, and lower sourcing costs. Our European segment's gross profit margin increased primarily as a result of the foreign exchange effect of sourcing goods in U.S. dollars and lower sourcing costs. In our Asia/Pacific segment, our gross profit margin increase was primarily due to improved margins in Japan compared to the prior year. Our Wintersports equipment segment's gross profit margin decreased primarily due to higher manufacturing costs.

Our selling, general and administrative expense ("SG&A") for the three months ended January 31, 2008 increased 26% to \$279.9 million from \$221.6 million in the comparable period of the prior year. In the Americas segment, these expenses increased 28% to \$94.5 million from \$74.0 million in the comparable period of the prior year, while our European segment SG&A increased 31% to \$91.9 million from \$70.1 million, and our Asia/Pacific segment SG&A increased 18% to \$28.1 million from \$23.8 million for those same periods. Our Wintersports equipment segment SG&A increased 31% to \$54.1 million from \$41.3 million in the comparable period of the prior year. As a percentage of revenues, SG&A increased to 46.2% for the three months ended January 31, 2008 from 41.9% for the three months ended January 31, 2007. The increase in SG&A costs as a percentage of revenue in our Americas segment was primarily caused by the cost of opening and operating additional retail stores and increased marketing costs. The increase in SG&A costs as a percentage of revenue in our European segment was primarily caused by the cost of opening and operating additional retail stores and increased distribution costs. In our Asia/Pacific segment, the decrease in SG&A costs as a percentage of revenue was primarily caused by decreased marketing costs and higher leverage due to increased sales in Japan. These improvements in Asia/Pacific were partially offset by the cost of opening and operating additional retail stores. The increase in SG&A as a percentage of revenue in our Wintersports equipment segment was primarily due to increased marketing and distribution costs.

Interest expense for the three months ended January 31, 2008 decreased to \$14.6 million from \$14.8 million in the comparable period of the prior year. This decrease was primarily caused by lower average debt levels compared to the prior year. The effect of the lower average debt levels on interest expense was almost completely offset by higher interest rates on our variable rate debt in Europe and the United States.

Our foreign currency gain amounted to \$0.7 million for the three months ended January 31, 2008 compared to a loss of \$1.9 million in the comparable period of the prior year. This gain resulted primarily from the foreign exchange effect of certain non-U.S. dollar denominated liabilities.

Our effective income tax rate for the three months ended January 31, 2008, which is based on current estimates of the annual effective income tax rate, was 19.8% compared to 36.0% in the comparable period of the prior year. This change in our rate is primarily due to the non-deductibility of losses generated in certain of our Wintersports equipment segment's legal entities in the current period.

Income from continuing operations for the three months ended January 31, 2008 decreased to a loss of \$14.7 million or \$0.12 per share on a diluted basis compared to income from continuing operations of \$6.8 million or \$0.05 per share on a diluted basis in the comparable period of the prior year. Adjusted EBITDA decreased to \$18.8 million from \$45.9 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 in senior notes to fund a portion of the Rossignol purchase price and to refinance certain existing indebtedness.

### *Cash Flows*

Operating activities from continuing operations provided cash of \$59.7 million in the three months ended January 31, 2008 compared to \$72.6 million in the three months ended January 31, 2007. This \$12.9 million decrease in cash provided was primarily due to increases in our net loss and other non-cash charges of \$17.7 million, partially offset by improvements in working capital of \$4.8 million.

Capital expenditures from continuing operations totaled \$35.4 million for the three months ended January 31, 2008, compared to \$28.0 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 \$1.0 million in cash for acquisitions. We generated \$115.4 million in cash from investing activities of discontinued operations, which is primarily related to the net proceeds from the sale of our golf equipment business during the three months ended January 31, 2008.

During the three months ended January 31, 2008, net cash used in financing activities from continuing operations totaled \$101.8 million, compared to cash used of \$33.1 million in the comparable period of the prior year. This increase in cash used primarily relates to the repayment of debt with the proceeds from the sale of our golf equipment business. Additionally, we used \$35.0 million in cash from discontinued operations to repay certain debt classified in discontinued operations relating to our golf equipment borrowings.

The net increase in cash and cash equivalents for the three months ended January 31, 2008 was \$0.8 million compared to \$9.2 million in the comparable period of the prior year. Cash and cash equivalents totaled \$75.2 million at January 31, 2008 compared to \$74.3 million at October 31, 2007, while working capital was \$577.3 million at January 31, 2008 compared to \$631.9 million at October 31, 2007. We believe our current cash balances, cash flows and credit facilities are adequate to cover our seasonal working capital and other operating requirements for at least the next twelve months, and that increases in our credit facilities or other financing can be obtained if needed.

### *Trade Accounts Receivable and Inventories*

Our trade accounts receivable decreased 16% to \$638.7 million at January 31, 2008 from \$760.4 million at October 31, 2007. Accounts receivable in our Americas segment decreased 12% to \$193.8 million at January 31, 2008 from \$220.4 million at October 31, 2007, European segment accounts receivable decreased 5% to \$169.2 million from \$178.1 million, Asia/Pacific segment accounts receivable decreased 36% to \$46.1 million from \$71.6 million, and our Wintersports equipment segment accounts receivable decreased 21% to \$229.6 million from \$290.4 million for those same periods. Compared to January 31, 2007, accounts receivable increased 31% in the Americas segment and 35% in our European segment, remained largely unchanged in the Asia/Pacific segment and decreased 7% in our Wintersports equipment segment. Changes in foreign currency exchange rates accounted for approximately \$49.9 million of the increase in accounts receivable compared to January 31, 2007. Adjusted for currency, the remaining increase in accounts receivable compared to January 31, 2007 across all three apparel segments primarily relates to higher revenues and the timing of shipments. Included in accounts receivable at January 31, 2008 are approximately \$43.9 million of value added tax and goods and services tax related to foreign accounts receivable. Such taxes are not reported as net revenues and as such, must be deducted from accounts receivable to more accurately compute days sales outstanding. Overall average days sales outstanding decreased by approximately 1 day at January 31, 2008 compared to January 31, 2007.

Consolidated inventories increased 10% to \$490.2 million at January 31, 2008 from \$447.3 million at October 31, 2007. Inventories in the Americas segment increased 9% to \$150.3 million from \$137.6 million at October 31, 2007, European segment inventories increased 60% to \$157.9 million from \$98.9 million, Asia/Pacific segment inventories increased 5% to \$58.8 million from \$55.8 million, and Wintersports equipment segment inventories decreased 20% for those same periods. Compared to January 31, 2007, inventories decreased 3% in the Americas segment, increased 36% in our European segment, 22% in the Asia/Pacific segment and decreased 1% in our Wintersports equipment segment. Changes in foreign currency exchange rates accounted for approximately \$38.0 million of the increase in inventories compared to January 31, 2007. For our apparel segments, the remainder of the increase relates primarily to an earlier delivery schedule for spring product and additional company-owned retail

stores. Consolidated average annual inventory turnover was approximately 2.9 at January 31, 2008 compared to approximately 2.8 at January 31, 2007.

### *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 January 31, 2008, we have recognized \$62.5 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, 2008, we have paid approximately \$51.0 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 \$15.8 million at January 31, 2008. The sale of these properties is expected to generate approximately \$26.0 million in cash in fiscal 2008 and 2009.

We expect to pay approximately \$26.6 million during the quarter ending April 30, 2008 to the former owners of DC and Surfction related to the achievement of certain sales and earnings targets. This amount is included as a component of accrued liabilities as of January 31, 2008.

During the three months ending July 31, 2008, we expect to pay approximately \$8.0 million to purchase a controlling interest in our Brazilian joint venture, of which 50% will be paid in cash and 50% in shares of our common stock.

There have been no material changes in our contractual obligations since October 31, 2007, other than changes resulting from the adoption of FIN 48, as described in Note 13 to our condensed consolidated financial statements.

### **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. We also maintain credit insurance for a majority of our European wintersports equipment receivables that protects against the risk of customer default. 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 is recognized when the carrying value exceeds the undiscounted future cash flows estimated to result from the use and eventual disposition of the asset. Impairments are recognized in operating earnings. We continually use judgment when applying these impairment rules to determine the timing of the impairment tests, the undiscounted cash flows used to assess impairments, and the fair value of a potentially impaired asset. The reasonableness of our judgment could significantly affect the carrying value of our long-lived assets.

### *Goodwill*

We evaluate the recoverability of goodwill at least annually based on a two-step impairment test. The first step compares the fair value of each reporting unit with its carrying amount including goodwill. 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 condensed consolidated 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.

FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109. FIN 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the tax position. We recognize accrued interest and penalties related to unrecognized tax benefits as a component of our provision for income taxes. The application of FIN 48 can create significant variability in our tax rate from period to period upon changes in or adjustments to our uncertain tax positions.

#### *Foreign Currency Translation*

A significant portion of our revenues are generated in Europe, where we operate with the euro as our functional currency, and a smaller portion of our revenues are generated in Asia/Pacific, where we operate with the Australian dollar and Japanese yen as our functional currencies. Our European revenues in the United Kingdom are denominated in British pounds, and 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;
- 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;
- our ability to realize the expected benefits from certain asset dispositions;
- 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 the Australian dollar or Japanese yen.

European revenues (apparel and wintersports equipment) decreased 1% in euros during the three months ended January 31, 2008 compared to the three months ended January 31, 2007. As measured in U.S. dollars and reported in our consolidated statements of income, European revenues increased 12% as a result of a weaker U.S. dollar versus the euro in comparison to the prior year.

Asia/Pacific (apparel and wintersports equipment) revenues decreased less than 1% in Australian dollars during the three months ended January 31, 2008 compared to the three months ended January 31, 2007. As measured in U.S. dollars and reported in our consolidated statements of income, Asia/Pacific revenues increased 18% 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, 2007 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, 2008, 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, 2008.

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, 2008 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 6. Exhibits

#### Exhibits

- 2.1 Stock Purchase Agreement between the 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).
- 2.2 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).
- 2.3 Stock Purchase Agreement between the Roger Cleveland Golf Company, Inc., Rossignol Ski Company, Incorporated, the Company and SRI Sports Limited dated October 30, 2007 (incorporated by reference to Exhibit 2.3 of the Company's Annual Report on Form 10-K for the year ended October 31, 2007).
- 2.4 Amendment No. 1 to the Stock Purchase Agreement between the Roger Cleveland Golf Company, Inc., Rossignol Ski Company, Incorporated, the Company and SRI Sports Limited dated December 7, 2007 (incorporated by reference to Exhibit 2.4 of the Company's Annual Report on Form 10-K for the year ended October 31, 2007).
- 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 3.1 of the Company's Current Report on Form 8-K filed on December 7, 2007).
- 4.1 Indenture for the 6 7/8% Senior Notes due 2015 dated July 22, 2005, among Quiksilver, Inc., the subsidiary guarantors set forth therein and Wilmington Trust Company, as trustee, including the form of Global Note attached thereto (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed July 25, 2005).
- 10.1 Separation and Transition Agreement between Bernard Mariette and Quiksilver, Inc. dated February 11, 2008 (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on February 13, 2008). (1)
- 10.2 Fifth Amendment to Amended and Restated Credit Agreement dated December 5, 2007 (incorporated by reference to Exhibit 10.9 of the Company's Annual Report on Form 10-K for the year ended October 31, 2007).
- 10.3 Sixth Amendment to Amended and Restated Credit Agreement dated February 14, 2008.
- 10.4 Award grant under Quiksilver, Inc. Long-Term Incentive Plan dated January 29, 2008. (1)
- 10.5 Amendments to executive officer base salaries effective as of November 1, 2007 (incorporated by reference to Exhibit 10.35 of the Company's Annual Report on Form 10-K for the year ended October 31, 2007). (1)
- 10.6 Amendments to executive officer base salaries effective as of February 1, 2008. (1)

- 31.1 Rule 13a-14(a)/15d-14(a) Certifications – Principal Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certifications – Principal Financial Officer
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 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 11, 2008

/s/ Brad L. Holman

Brad L. Holman  
Vice President of Accounting and Financial  
Reporting  
(Principal Accounting Officer and Authorized  
Signatory)

§ 302 CERTIFICATION

I, Robert B. McKnight, certify that:

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

Date: March 11, 2008

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

§ 302 CERTIFICATION

I, Joseph Scirocco, certify that:

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

Date: March 11, 2008

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

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2003**

In connection with the Quarterly Report of Quiksilver, Inc. (the "Company") on Form 10-Q for the period ending January 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert B. McKnight, Jr., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2003, that:

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

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

/s/ Robert B. McKnight, Jr.  
Robert B. McKnight, Jr.  
Chief Executive Officer  
March 11, 2008

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2003**

In connection with the Quarterly Report of Quiksilver, Inc. (the "Company") on Form 10-Q for the period ending January 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph Scirocco, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2003, that:

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

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

/s/ Joseph Scirocco  
Joseph Scirocco  
Chief Financial Officer  
March 11, 2008