

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 July 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

**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  
September 4, 2008 was 127,797,766

# QUIKSILVER, INC.

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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**QUIKSILVER, INC.**

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

<i>In thousands, except per share amounts</i>	<b>Three months ended July 31,</b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>
Revenues, net .....	\$ 564,876	\$ 528,591
Cost of goods sold.....	<u>280,047</u>	<u>276,512</u>
Gross profit .....	284,829	252,079
Selling, general and administrative expense.....	<u>232,094</u>	<u>194,323</u>
Operating income.....	52,735	57,756
Interest expense .....	11,801	11,881
Foreign currency (gain) loss.....	(1,231)	310
Minority interest and other expense .....	<u>415</u>	<u>80</u>
Income before provision for income taxes .....	41,750	45,485
Provision for income taxes .....	<u>8,677</u>	<u>9,783</u>
Income from continuing operations .....	33,073	35,702
Loss from discontinued operations, net of tax.....	<u>(30,219)</u>	<u>(43,569)</u>
Net income (loss).....	<u>\$ 2,854</u>	<u>\$ (7,867)</u>
Income per share from continuing operations.....	<u>\$ 0.26</u>	<u>\$ 0.29</u>
Loss per share from discontinued operations .....	<u>\$ (0.24)</u>	<u>\$ (0.35)</u>
Net income (loss) per share .....	<u>\$ 0.02</u>	<u>\$ (0.06)</u>
Income per share from continuing operations, assuming dilution.....	<u>\$ 0.25</u>	<u>\$ 0.28</u>
Loss per share from discontinued operations, assuming dilution .....	<u>\$ (0.23)</u>	<u>\$ (0.34)</u>
Net income (loss) per share, assuming dilution .....	<u>\$ 0.02</u>	<u>\$ (0.06)</u>
Weighted average common shares outstanding.....	<u>126,220</u>	<u>124,013</u>
Weighted average common shares outstanding, assuming dilution .....	<u>130,021</u>	<u>129,163</u>

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

<i>In thousands</i>	<b>Three months ended July 31,</b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>
Net income (loss).....	\$ 2,854	\$ (7,867)
Other comprehensive income (loss):		
Foreign currency translation adjustment .....	(2,669)	5,541
Net unrealized gain on derivative instruments, net of tax of \$1,640 (2008) and \$1,277 (2007) .....	<u>3,281</u>	<u>2,308</u>
Comprehensive income (loss).....	<u>\$ 3,466</u>	<u>\$ (18)</u>

See notes to condensed consolidated financial statements.

# QUIKSILVER, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

<i>In thousands, except per share amounts</i>	<b><u>Nine months ended July 31,</u></b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>
Revenues, net .....	\$ 1,657,737	\$ 1,459,804
Cost of goods sold.....	<u>829,042</u>	<u>763,263</u>
Gross profit .....	828,695	696,541
Selling, general and administrative expense.....	684,304	565,687
Asset impairment.....	<u>350</u>	<u>—</u>
Operating income.....	144,041	130,854
Interest expense .....	35,845	35,420
Foreign currency (gain) loss.....	(463)	1,732
Minority interest and other expense .....	<u>18</u>	<u>39</u>
Income before provision for income taxes .....	108,641	93,663
Provision for income taxes .....	<u>29,273</u>	<u>20,870</u>
Income from continuing operations .....	79,368	72,793
Loss from discontinued operations, net of tax.....	<u>(304,678)</u>	<u>(82,985)</u>
Net loss.....	<u>\$ (225,310)</u>	<u>\$ (10,192)</u>
Income per share from continuing operations.....	<u>\$ 0.63</u>	<u>\$ 0.59</u>
Loss per share from discontinued operations .....	<u>\$ (2.43)</u>	<u>\$ (0.67)</u>
Net loss per share .....	<u>\$ (1.80)</u>	<u>\$ (0.08)</u>
Income per share from continuing operations, assuming dilution.....	<u>\$ 0.61</u>	<u>\$ 0.56</u>
Loss per share from discontinued operations, assuming dilution .....	<u>\$ (2.35)</u>	<u>\$ (0.64)</u>
Net loss per share, assuming dilution .....	<u>\$ (1.74)</u>	<u>\$ (0.08)</u>
Weighted average common shares outstanding.....	<u>125,511</u>	<u>123,579</u>
Weighted average common shares outstanding, assuming dilution.....	<u>129,765</u>	<u>128,966</u>

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

<i>In thousands</i>	<b><u>Nine months ended July 31,</u></b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>
Net loss.....	\$ (225,310)	\$ (10,192)
Other comprehensive income (loss):		
Foreign currency translation adjustment .....	34,811	62,365
Net unrealized gain (loss) on derivative instruments, net of tax of \$667 (2008) and \$(4,233) (2007) .....	<u>246</u>	<u>(8,983)</u>
Comprehensive (loss) income.....	<u>\$ (190,253)</u>	<u>\$ 43,190</u>

See notes to condensed consolidated financial statements.

# QUIKSILVER, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

<i>In thousands, except share amounts</i>	<b>July 31, 2008</b>	<b>October 31, 2007</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 99,491	\$ 74,348
Trade accounts receivable, less allowances of \$27,458 (2008) and \$21,100 (2007) .....	491,369	478,049
Other receivables .....	18,893	37,328
Inventories .....	358,646	296,167
Deferred income taxes .....	100,777	43,776
Prepaid expenses and other current assets .....	29,221	20,722
Current assets held for sale .....	<u>358,832</u>	<u>562,872</u>
Total current assets .....	1,457,229	1,513,262
Fixed assets, less accumulated depreciation and amortization of \$232,773 (2008) and \$189,292 (2007) .....	258,920	221,367
Intangible assets, net .....	146,862	142,420
Goodwill .....	417,486	398,899
Other assets .....	44,892	42,232
Deferred income taxes long-term .....	14,007	20,536
Non-current assets held for sale .....	—	<u>323,348</u>
Total assets .....	<u>\$ 2,339,396</u>	<u>\$ 2,662,064</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Lines of credit .....	\$ 274,685	\$ 124,634
Accounts payable .....	251,623	192,923
Accrued liabilities .....	129,803	157,084
Current portion of long-term debt .....	35,584	33,903
Income taxes payable .....	13,447	8,850
Current liabilities related to assets held for sale .....	<u>144,882</u>	<u>364,011</u>
Total current liabilities .....	850,024	881,405
Long-term debt, net of current portion .....	744,127	698,909
Other long-term liabilities .....	37,164	11,313
Non-current liabilities related to assets held for sale .....	<u>7,736</u>	<u>183,824</u>
Total liabilities .....	<u>1,639,051</u>	<u>1,775,451</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 - 130,579,766 (2008) and 128,340,538 (2007) .....	1,306	1,283
Additional paid-in capital .....	331,269	306,051
Treasury stock, 2,885,200 shares .....	(6,778)	(6,778)
Retained earnings .....	191,374	437,940
Accumulated other comprehensive income .....	<u>183,174</u>	<u>148,117</u>
Total stockholders' equity .....	<u>700,345</u>	<u>886,613</u>
Total liabilities and stockholders' equity .....	<u>\$ 2,339,396</u>	<u>\$ 2,662,064</u>

See notes to condensed consolidated financial statements.

# QUIKSILVER, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

<i>In thousands</i>	<b>Nine months ended July 31,</b>	
	<b>2008</b>	<b>2007</b>
Cash flows from operating activities:		
Net loss .....	\$ (225,310)	\$ (10,192)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss from discontinued operations.....	304,678	82,985
Depreciation and amortization .....	42,935	34,027
Stock-based compensation and tax benefit on option exercises .....	6,457	10,697
Provision for doubtful accounts.....	8,023	5,555
Loss on disposal of fixed assets .....	251	432
Foreign currency loss .....	738	968
Asset impairments .....	350	—
Minority interest and equity in earnings .....	1,172	98
Changes in operating assets and liabilities, net of the effect from business acquisitions:		
Trade accounts receivable .....	2,499	(37,148)
Other receivables .....	20,289	(9,131)
Inventories .....	(46,326)	(48,401)
Prepaid expenses and other current assets .....	(5,694)	(1,969)
Other assets .....	(861)	(2,230)
Accounts payable .....	41,084	59,060
Accrued liabilities and other long-term liabilities .....	(4,771)	18,292
Income taxes payable .....	4,410	14,961
Cash provided by operating activities of continuing operations .....	149,924	118,004
Cash (used in) provided by operating activities of discontinued operations .....	(20,166)	5,234
Net cash provided by operating activities .....	129,758	123,238
Cash flows from investing activities:		
Proceeds from the sale of properties and equipment.....	2,734	5,754
Capital expenditures .....	(66,318)	(54,003)
Business acquisitions, net of cash acquired.....	(31,127)	(34,242)
Cash used in investing activities of continuing operations .....	(94,711)	(82,491)
Cash provided by (used in) investing activities of discontinued operations.....	107,942	(18,952)
Net cash provided by (used in) investing activities.....	13,231	(101,443)
Cash flows from financing activities:		
Borrowings on lines of credit.....	161,752	40,641
Payments on lines of credit.....	(22,159)	(17,247)
Borrowings on long-term debt.....	217,559	97,925
Payments on long-term debt.....	(189,337)	(86,169)
Stock option exercises, employee stock purchases and tax benefit on option exercises .....	11,331	12,415
Cash provided by financing activities of continuing operations .....	179,146	47,565
Cash used in financing activities of discontinued operations .....	(293,456)	(26,653)
Net cash (used in) provided by financing activities .....	(114,310)	20,912
Effect of exchange rate changes on cash .....	(3,536)	(3,534)
Net increase in cash and cash equivalents .....	25,143	39,173
Cash and cash equivalents, beginning of period .....	74,348	36,834
Cash and cash equivalents, end of period .....	\$ 99,491	\$ 76,007
Supplementary cash flow information:		
Cash paid during the period for:		
Interest.....	\$ 28,936	\$ 26,248
Income taxes .....	\$ 23,867	\$ 4,480

See notes to condensed consolidated financial statements.

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### 1. *Basis of Presentation*

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

Quiksilver, Inc. (the "Company"), in its opinion, has included all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the results of operations for the three and nine months ended July 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 August 2008, the Company received a binding offer for its Rossignol business, including the related brands of Rossignol, Dynastar, Look and Lange, and expects to complete this transaction in the fall of 2008. The Company classified its Rossignol business, including both wintersports equipment and related apparel, as discontinued operations. The Rossignol business assets and related liabilities are classified as held for sale, and the operations are classified as discontinued, for all periods presented.

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 of the golf equipment business, all financial information has been adjusted to exclude these operations and the golf equipment business has been classified as discontinued operations for all periods presented.

### 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 12 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 its 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 its fiscal year ending October 31, 2009. The adoption of this accounting

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

pronouncement is not expected to have a material effect on the Company's consolidated financial position, results of operations or cash flows.

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 its 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 previous 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 its 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.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133" ("SFAS No. 161"). The objective of SFAS No. 161 is to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company plans to adopt this standard at the beginning of its fiscal quarter ending April 30, 2009. The adoption of this accounting pronouncement is not expected to have a material effect on the Company's consolidated financial position, results of operations or cash flows.

### 3. *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 nine months ended July 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 43.1%, 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 \$3.85 and \$7.16 for the nine months ended July 31, 2008 and 2007, respectively. The Company records stock-based compensation expense using the graded vested method over the vesting period, which is generally three years. As of July 31, 2008, the Company had approximately \$7.4 million of unrecognized stock-based compensation expense expected to be recognized over a weighted average period of approximately 1.5 years. Stock-based compensation expense was included as selling, general and administrative expense for the period.

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Changes in shares under option for the nine months ended July 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 .....	1,280,000	9.02		
Exercised .....	(1,703,538)	3.55		\$ 9,675
Canceled .....	<u>(158,504)</u>	13.15		
Outstanding, July 31, 2008 .....	<u>16,729,007</u>	\$ 9.83	5.6	\$ 15,652
Options exercisable, July 31, 2008 .....	<u>13,055,561</u>	\$ 9.05	4.9	\$ 15,652

Changes in non-vested shares under option for the nine months ended July 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 .....	1,280,000	3.85
Vested .....	(2,464,921)	6.42
Canceled .....	<u>(57,169)</u>	6.24
Non-vested, July 31, 2008 .....	<u>3,673,446</u>	\$ 5.92

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 plans. Shares issued under these plans generally vest from three to five years and may have certain performance based acceleration features which allow for earlier vesting.

Changes in restricted stock for the nine months ended July 31, 2008 are as follows:

	<u>Shares</u>
Outstanding, October 31, 2007 .....	842,000
Granted .....	330,000
Vested .....	(9,996)
Forfeited .....	<u>(351,668)</u>
Outstanding, July 31, 2008 .....	<u>810,336</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 July 31, 2008, there had been no acceleration of the amortization period. As of July 31, 2008, the Company had approximately \$8.5 million of unrecognized compensation expense expected to be recognized over a weighted average period of approximately 2.9 years.

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### 4. Inventories

Inventories consist of the following:

<i>In thousands</i>	<b>July 31, 2008</b>	<b>October 31, 2007</b>
Raw materials .....	\$ 9,743	\$ 10,158
Work in-process .....	6,421	5,164
Finished goods .....	<u>342,482</u>	<u>280,845</u>
	<u>\$ 358,646</u>	<u>\$ 296,167</u>

### 5. Intangible Assets and Goodwill

A summary of intangible assets is as follows:

<i>In thousands</i>	<b>July 31, 2008</b>			<b>October 31, 2007</b>		
	<b>Gross Amount</b>	<b>Amorti- zation</b>	<b>Net Book Value</b>	<b>Gross Amount</b>	<b>Amorti- zation</b>	<b>Net Book Value</b>
Amortizable trademarks.....	\$ 19,575	\$ (5,471)	\$ 14,104	\$ 15,220	\$ (4,350)	\$ 10,870
Amortizable licenses.....	12,731	(7,214)	5,517	12,354	(6,074)	6,280
Other amortizable intangibles....	8,352	(3,927)	4,425	6,482	(3,556)	2,926
Non-amortizable trademarks .....	<u>122,816</u>	<u>—</u>	<u>122,816</u>	<u>122,344</u>	<u>—</u>	<u>122,344</u>
	<u>\$ 163,474</u>	<u>\$ (16,612)</u>	<u>\$ 146,862</u>	<u>\$ 156,400</u>	<u>\$ (13,980)</u>	<u>\$ 142,420</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 nine months ended July 31, 2008 and 2007 was \$2.1 million and \$1.9 million, respectively. Annual amortization expense is estimated to be approximately \$2.9 million in the fiscal year ending October 31, 2008, approximately \$3.2 million in the fiscal years ending October 31, 2009 through 2010, and \$3.1 million in the fiscal years ending October 31, 2011 through 2012.

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

<i>In thousands</i>	<b>July 31, 2008</b>	<b>October 31, 2007</b>
Americas .....	\$ 77,957	\$ 73,709
Europe .....	188,408	179,012
Asia/Pacific .....	<u>151,121</u>	<u>146,178</u>
	<u>\$ 417,486</u>	<u>\$ 398,899</u>

Goodwill increased \$18.6 million during the nine months ended July 31, 2008. This increase was primarily related to the effect of changes in foreign currency exchange rates.

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### 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 income taxes, are as follows:

<i>In thousands</i>	<b>July 31, <u>2008</u></b>	<b>October 31, <u>2007</u></b>
Foreign currency translation adjustment .....	\$ 206,734	\$ 171,923
Loss on cash flow hedges and interest rate swaps.....	<u>(23,560)</u>	<u>(23,806)</u>
	<b><u>\$ 183,174</u></b>	<b><u>\$ 148,117</u></b>

### 7. *Segment Information*

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the Company's management in deciding how to allocate resources and in assessing performance. The Company operates in the outdoor market of the sporting goods industry in which the Company designs, markets and distributes clothing, footwear, accessories and related products. The Company currently operates in three segments, the Americas, Europe and Asia/Pacific. The Americas segment includes revenues primarily from the U.S. and Canada. The European segment includes revenues primarily from Western Europe. The Asia/Pacific segment includes revenues primarily from Australia, Japan, New Zealand and Indonesia. All prior segment information has been adjusted to reflect our current operating segment presentation and the removal of the wintersports equipment segment, which is included in discontinued operations. Costs that support all three segments, including trademark protection, trademark maintenance and licensing functions, are part of Corporate operations. Corporate operations also includes sourcing income and gross profit earned from the Company's licensees. The Company's largest customer accounted for approximately 4% of the Company's net revenues from continuing operations for the nine months ended July 31, 2008 and 2007.



# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### 8. *Derivative Financial Instruments*

The Company is exposed to gains and losses resulting from fluctuations in foreign currency exchange rates relating to certain sales, royalty income and product purchases of its international subsidiaries that are denominated in currencies other than their functional currencies. The Company is also exposed to foreign currency gains and losses resulting from domestic transactions that are not denominated in U.S. dollars, and to fluctuations in interest rates related to its variable rate debt. Furthermore, the Company is exposed to gains and losses resulting from the effect that fluctuations in foreign currency exchange rates have on the reported results in the Company's consolidated financial statements due to the translation of the operating results and financial position of the Company's international subsidiaries. As part of its overall strategy to manage the level of exposure to the risk of fluctuations in foreign currency exchange rates, the Company uses various foreign currency exchange contracts and intercompany loans. In addition, interest rate swaps are used periodically on a limited basis 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 \$1.7 million was recognized related to these types of contracts during the nine months ended July 31, 2008, all of which are classified in discontinued operations. For all qualifying cash flow hedges, the changes in the fair value of the derivatives are recorded in other comprehensive income. As of July 31, 2008, the Company was hedging forecasted transactions expected to occur through August 2010. Assuming exchange rates at July 31, 2008 remain constant, \$23.6 million of losses, net of tax, related to hedges of these transactions are expected to be reclassified into earnings over the next 25 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 nine months ended July 31, 2008, the Company reclassified into earnings a net loss of \$16.0 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 exchange rate losses in the event of nonperformance by these banks. The Company anticipates, however, that these banks will be able to fully satisfy their obligations under the contracts. Accordingly, the Company does not obtain collateral or other security to support the contracts.

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

<i>In thousands</i>	<b><u>Notional Amount</u></b>	<b><u>Maturity</u></b>	<b><u>Fair Value</u></b>
United States dollar .....	\$ 366,389	Aug 2008 – Aug 2010	\$ (37,478)
British pound .....	12,871	Aug 2008 – Oct 2008	(47)
Canadian dollar .....	13,803	Sep 2008 – Dec 2008	4
Japanese yen .....	7,535	Sep 2008 – Dec 2008	184
Romanian new lei .....	965	Aug 2008	—
Euro interest rate swap....	<u>16,360</u>	Aug 2008 – Sep 2009	<u>(35)</u>
	<u>\$ 417,923</u>		<u>\$ (37,372)</u>

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

The Company is 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.

### 10. *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 July 31, 2008 and October 31, 2007 and for the nine months ended July 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 Nine Months Ended July 31, 2008

<i>In thousands</i>	Quiksilver, Inc.	Wholly-owned Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues, net.....	\$ (8)	\$ 668,933	\$1,024,234	\$ (35,422)	\$1,657,737
Cost of goods sold .....	—	<u>389,280</u>	<u>451,846</u>	<u>(12,084)</u>	<u>829,042</u>
Gross profit .....	(8)	279,653	572,388	(23,338)	828,695
Selling, general and administrative expense .....	43,410	256,474	410,620	(26,200)	684,304
Asset impairment .....	—	<u>350</u>	—	—	<u>350</u>
Operating (loss) income.....	(43,418)	22,829	161,768	2,862	144,041
Interest expense .....	35,736	2	107	—	35,845
Foreign currency loss (gain).....	554	(170)	(847)	—	(463)
Minority interest and other (income) expense .....	—	<u>(257)</u>	<u>275</u>	—	<u>18</u>
(Loss) income before (benefit) provision for income taxes.....	(79,708)	23,254	162,233	2,862	108,641
(Benefit) provision for income taxes.....	<u>(21,477)</u>	<u>6,266</u>	<u>44,484</u>	—	<u>29,273</u>
(Loss) income from continuing operations .....	(58,231)	16,988	117,749	2,862	79,368
Loss from discontinued operations .....	<u>(819)</u>	<u>(28,507)</u>	<u>(271,333)</u>	<u>(4,019)</u>	<u>(304,678)</u>
Net loss.....	<u>\$ (59,050)</u>	<u>\$ (11,519)</u>	<u>\$ (153,584)</u>	<u>\$ (1,157)</u>	<u>\$ (225,310)</u>

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS Nine Months Ended July 31, 2007

<i>In thousands</i>	Quiksilver, Inc.	Wholly-owned Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues, net.....	\$ 38	\$ 644,340	\$ 846,242	\$ (30,816)	\$1,459,804
Cost of goods sold .....	—	379,508	395,121	(11,366)	763,263
Gross profit .....	38	264,832	451,121	(19,450)	696,541
Selling, general and administrative expense .....	38,224	217,929	328,661	(19,127)	565,687
Operating (loss) income.....	(38,186)	46,903	122,460	(323)	130,854
Interest expense .....	32,062	2,284	1,074	—	35,420
Foreign currency loss.....	1,047	93	592	—	1,732
Minority interest and other (income) expense .....	—	(2)	41	—	39
(Loss) income before (benefit) provision for income taxes.....	(71,295)	44,528	120,753	(323)	93,663
(Benefit) provision for income taxes.....	(15,885)	9,921	26,834	—	20,870
(Loss) income from continuing operations .....	(55,410)	34,607	93,919	(323)	72,793
Loss from discontinued operations .....	(1,873)	(24,827)	(55,802)	(483)	(82,985)
Net (loss) income.....	<u>\$ (57,283)</u>	<u>\$ 9,780</u>	<u>\$ 38,117</u>	<u>\$ (806)</u>	<u>\$ (10,192)</u>

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### CONDENSED CONSOLIDATING BALANCE SHEET

At July 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 .....	\$ (523)	\$ 1,652	\$ 98,362	\$ —	\$ 99,491
Trade accounts receivable, net .....	—	196,837	294,532	—	491,369
Other receivables .....	1,643	17,338	(88)	—	18,893
Inventories .....	—	135,939	224,324	(1,617)	358,646
Deferred income taxes .....	—	35,308	65,469	—	100,777
Prepaid expenses and other current assets .....	2,006	11,480	15,735	—	29,221
Current assets held for sale .....	—	52,666	306,166	—	358,832
Total current assets .....	3,126	451,220	1,004,500	(1,617)	1,457,229
Fixed assets, net .....	5,417	98,492	155,011	—	258,920
Intangible assets, net .....	2,674	51,159	93,029	—	146,862
Goodwill .....	—	121,098	296,388	—	417,486
Other assets .....	10,015	3,771	31,106	—	44,892
Deferred income taxes long-term .....	—	7,774	6,233	—	14,007
Investment in subsidiaries .....	505,058	—	—	(505,058)	—
Total assets .....	<u>\$ 526,290</u>	<u>\$ 733,514</u>	<u>\$ 1,586,267</u>	<u>\$ (506,675)</u>	<u>\$ 2,339,396</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current liabilities:					
Lines of credit .....	\$ —	\$ —	\$ 274,685	\$ —	\$ 274,685
Accounts payable .....	2,400	97,543	151,680	—	251,623
Accrued liabilities .....	26,742	14,747	88,314	—	129,803
Current portion of long-term debt ..	—	1,052	34,532	—	35,584
Income taxes payable .....	—	(11,297)	24,744	—	13,447
Intercompany balances .....	172,938	(22,396)	(150,542)	—	—
Current liabilities of assets held for sale .....	—	24,788	120,094	—	144,882
Total current liabilities .....	202,080	104,437	543,507	—	850,024
Long-term debt, net of current portion .....	400,000	106,769	237,358	—	744,127
Other long-term liabilities .....	—	35,481	1,683	—	37,164
Non-current liabilities of assets held for sale .....	—	—	7,736	—	7,736
Total liabilities .....	602,080	246,687	790,284	—	1,639,051
Stockholders'/invested equity .....	(75,790)	486,827	795,983	(506,675)	700,345
Total liabilities and stockholders' equity .....	<u>\$ 526,290</u>	<u>\$ 733,514</u>	<u>\$ 1,586,267</u>	<u>\$ (506,675)</u>	<u>\$ 2,339,396</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 .....	—	199,606	278,443	—	478,049
Other receivables .....	775	13,035	23,518	—	37,328
Inventories .....	—	129,568	167,895	(1,296)	296,167
Deferred income taxes .....	—	17,192	26,584	—	43,776
Prepaid expenses and other current assets .....	1,596	7,358	11,768	—	20,722
Current assets held for sale .....	—	126,823	437,070	(1,021)	562,872
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	97,856	116,552	—	221,367
Intangible assets, net .....	2,626	47,282	92,512	—	142,420
Goodwill .....	—	116,627	282,272	—	398,899
Other assets .....	10,120	5,941	26,171	—	42,232
Deferred income taxes long-term .....	—	7,352	13,184	—	20,536
Investment in subsidiaries .....	569,492	—	—	(569,492)	—
Non-current assets held for sale .....	—	75,652	247,696	—	323,348
Total assets .....	<u>\$ 591,580</u>	<u>\$ 857,546</u>	<u>\$ 1,784,747</u>	<u>\$ (571,809)</u>	<u>\$ 2,662,064</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current liabilities:					
Lines of credit .....	\$ —	\$ —	\$ 124,634	\$ —	\$ 124,634
Accounts payable .....	2,086	73,773	117,064	—	192,923
Accrued liabilities .....	20,287	38,503	98,294	—	157,084
Current portion of long-term debt ...	—	—	33,903	—	33,903
Income taxes payable .....	—	5,769	3,081	—	8,850
Intercompany balances .....	178,353	(82,412)	(95,941)	—	—
Current liabilities of assets held for sale .....	—	111,845	252,166	—	364,011
Total current liabilities .....	<u>200,726</u>	<u>147,478</u>	<u>533,201</u>	<u>—</u>	<u>881,405</u>
Long-term debt .....	400,000	129,700	169,209	—	698,909
Other long-term liabilities .....	—	10,268	1,045	—	11,313
Non-current liabilities of assets held for sale .....	—	60,444	123,380	—	183,824
Total liabilities .....	<u>600,726</u>	<u>347,890</u>	<u>826,835</u>	<u>—</u>	<u>1,775,451</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>\$ 857,546</u>	<u>\$ 1,784,747</u>	<u>\$ (571,809)</u>	<u>\$ 2,662,064</u>

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS Nine Months Ended July 31, 2008

<i>In thousands</i>	Quiksilver, Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidated
Cash flows from operating activities:				
Net loss.....	\$ (59,050)	\$ (11,519)	\$ (154,741)	\$ (225,310)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:				
Loss from discontinued operations .....	819	28,507	275,352	304,678
Depreciation and amortization .....	1,689	19,123	22,123	42,935
Stock-based compensation.....	6,457	—	—	6,457
Provision for doubtful accounts.....	—	3,243	4,780	8,023
Asset impairments .....	—	350	—	350
Other adjustments to reconcile net loss.....	188	370	1,603	2,161
Changes in operating assets and liabilities:				
Trade accounts receivables.....	—	(473)	2,972	2,499
Inventories.....	—	(6,375)	(39,951)	(46,326)
Other operating assets and liabilities .....	7,959	1,773	44,725	54,457
Cash (used in) provided by operating activities of continuing operations .....	(41,938)	34,999	156,863	149,924
Cash provided by (used in) operating activities of discontinued operations.....	4,395	(16,068)	(8,493)	(20,166)
Net cash (used in) provided by operating activities .....	(37,543)	18,931	148,370	129,758
Cash flows from investing activities:				
Proceeds from the sale of properties and equipment.....	1,930	147	657	2,734
Capital expenditures .....	(824)	(25,166)	(40,328)	(66,318)
Business acquisitions, net of cash acquired.....	—	(24,174)	(6,953)	(31,127)
Cash provided by (used in) investing activities of continuing operations .....	1,106	(49,193)	(46,624)	(94,711)
Cash provided by investing activities of discontinued operations.....	—	94,968	12,974	107,942
Net cash provided by (used in) investing activities .....	1,106	45,775	(33,650)	13,231
Cash flows from financing activities:				
Borrowings on lines of credit.....	—	—	161,752	161,752
Payments on lines of credit.....	—	—	(22,159)	(22,159)
Borrowings on long-term debt.....	—	131,199	86,360	217,559
Payments on long-term debt.....	—	(154,924)	(34,413)	(189,337)
Stock option exercises, employee stock purchases and tax benefit on option exercises .....	11,331	—	—	11,331
Intercompany .....	24,571	(17,583)	(6,988)	—
Cash provided by (used in) financing activities of continuing operations .....	35,902	(41,308)	184,552	179,146
Cash used in financing activities of discontinued operations.....	—	(35,000)	(258,456)	(293,456)
Net cash provided by (used in) financing activities .....	35,902	(76,308)	(73,904)	(114,310)
Effect of exchange rate changes on cash.....	—	—	(3,536)	(3,536)
Net (decrease) increase in cash and cash equivalents.....	(535)	(11,602)	37,280	25,143
Cash and cash equivalents, beginning of period .....	12	13,254	61,082	74,348
Cash and cash equivalents, end of period.....	\$ (523)	\$ 1,652	\$ 98,362	\$ 99,491

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS Nine Months Ended July 31, 2007

<i>In thousands</i>	Quiksilver, Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidated
Cash flows from operating activities:				
Net (loss) income .....	\$ (57,283)	\$ 9,780	\$ 37,311	\$ (10,192)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:				
Loss from discontinued operations .....	1,873	24,827	56,285	82,985
Depreciation and amortization .....	447	14,121	19,459	34,027
Stock-based compensation .....	10,697	—	—	10,697
Provision for doubtful accounts .....	—	2,408	3,147	5,555
Other adjustments to reconcile net (loss) income .....	431	(255)	1,322	1,498
Changes in operating assets and liabilities:				
Trade accounts receivables .....	—	(28,619)	(8,529)	(37,148)
Inventories .....	—	(10,488)	(37,913)	(48,401)
Other operating assets and liabilities .....	10,503	945	67,535	78,983
Cash (used in) provided by operating activities of continuing operations .....	(33,332)	12,719	138,617	118,004
Cash provided by (used in) operating activities of discontinued operations .....	3,604	(8,768)	10,398	5,234
Net cash (used in) provided by operating activities .....	(29,728)	3,951	149,015	123,238
Cash flows from investing activities:				
Proceeds from the sale of properties and equipment .....	—	4,463	1,291	5,754
Capital expenditures .....	(1,058)	(25,740)	(27,205)	(54,003)
Business acquisitions, net of cash acquired .....	(752)	(20,138)	(13,352)	(34,242)
Cash used in investing activities of continuing operations .....	(1,810)	(41,415)	(39,266)	(82,491)
Cash used in investing activities of discontinued operations .....	—	(2,103)	(16,849)	(18,952)
Net cash used in investing activities .....	(1,810)	(43,518)	(56,115)	(101,443)
Cash flows from financing activities:				
Borrowings on lines of credit .....	—	—	40,641	40,641
Payments on lines of credit .....	—	—	(17,247)	(17,247)
Borrowings on long-term debt .....	—	89,500	8,425	97,925
Payments on long-term debt .....	—	(61,005)	(25,164)	(86,169)
Stock option exercises, employee stock purchases and tax benefit on option exercises .....	12,415	—	—	12,415
Intercompany .....	18,081	27,884	(45,965)	—
Cash provided by (used in) financing activities of continuing operations .....	30,496	56,379	(39,310)	47,565
Cash used in financing activities of discontinued operations .....	—	(12,119)	(14,534)	(26,653)
Net cash provided by (used in) financing activities .....	30,496	44,260	(53,844)	20,912
Effect of exchange rate changes on cash .....	—	—	(3,534)	(3,534)
Net (decrease) increase in cash and cash equivalents .....	(1,042)	4,693	35,522	39,173
Cash and cash equivalents, beginning of period .....	8	3,392	33,434	36,834
Cash and cash equivalents, end of period .....	<u>\$ (1,034)</u>	<u>\$ 8,085</u>	<u>\$ 68,956</u>	<u>\$ 76,007</u>

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### 11. *Discontinued Operations*

In August 2008, the Company received a binding offer for its Rossignol business for a purchase price of 100.0 million euros, comprised of 75.0 million euros in cash and a 25.0 million euro seller's note. The purchase price will be adjusted for certain items including a working capital adjustment and an anticipated fair value adjustment to the seller's note. The closing of this transaction is subject to financing and other conditions, and is expected to close in the fall of 2008 after receipt of the required regulatory approvals and the completion of required employee consultation procedures, primarily in France. The business to be sold includes the related brands of Rossignol, Dynastar, Look and Lange. During the three months ended April 30, 2008, the Company had classified its Rossignol business, including both wintersports equipment and related apparel, as discontinued operations. During this same period, the Company reassessed the carrying value of Rossignol under SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The fair value of the Rossignol business was estimated using a combination of current market indications of value, a discounted cash flow and a market-based multiple approach. As a result, the Company recorded an impairment of Rossignol's long-term assets of approximately \$240.2 million, before taxes, during the three months ended April 30, 2008. This impairment included approximately \$129.7 million in fixed assets, \$88.2 million in trademark and other intangible assets, \$18.3 million in goodwill and \$4.0 million in other long-term assets. During the three months ended July 31, 2008, the Company performed the same assessment and recorded additional impairments of approximately \$6.9 million, primarily consisting of fixed assets. Upon closing of the announced transaction, the Company expects to record additional losses as the value of the net assets to be sold is expected to exceed net sales proceeds. The actual losses to be incurred upon closing are currently estimated to be between \$150 million and \$200 million, net of expected tax benefits.

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. The Company acquired the remaining 36.37% minority interest in Roger Cleveland Golf Company, Inc. in September 2007. 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 for both wintersports and golf equipment included in the accompanying consolidated statements of operations are as follows:

<i>In thousands</i>	<b>Three Months Ended</b>	
	<b>July 31,</b>	
	<b>2008</b>	<b>2007</b>
Revenues, net.....	\$ 28,636	\$ 84,165
Loss before income taxes.....	(33,783)	(55,055)
Benefit for income taxes .....	(3,564)	(11,486)
Loss from discontinued operations.....	<u>\$ (30,219)</u>	<u>\$ (43,569)</u>
	<b>Nine Months Ended</b>	
	<b>July 31,</b>	
	<b>2008</b>	<b>2007</b>
Revenues, net.....	\$ 185,797	\$ 309,275
Loss before income taxes.....	(368,667)	(106,931)
Benefit for income taxes .....	(63,989)	(23,946)
Loss from discontinued operations.....	<u>\$ (304,678)</u>	<u>\$ (82,985)</u>

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Asset impairments of \$6.9 million and \$247.1 million are included in loss before income taxes for the three and nine months ended July 31, 2008, respectively. The net tax benefit related to the asset impairment and the Company's classification of Rossignol and Cleveland Golf as discontinued operations is approximately \$2.6 million and \$42.5 million during the three and nine month periods ended July 31, 2008, respectively, and is included as a component of the benefit for income taxes.

The components of assets and liabilities held for sale are as follows:

<i>In thousands</i>	<u>July 31,</u> <u>2008</u>
Current assets:	
Receivables, net .....	\$ 106,125
Inventories .....	207,501
Other current assets .....	<u>45,206</u>
	<u>\$ 358,832</u>
Current liabilities:	
Lines of credit and current debt .....	\$ 18,826
Accounts payable .....	74,612
Other current liabilities .....	<u>51,444</u>
	<u>\$ 144,882</u>
Non-current liabilities:	
Other non-current liabilities .....	<u>\$ 7,736</u>

During the three months ended April 30, 2008 the Company reclassified a 50.0 million euro term loan of Rossignol to short term as it was expected to be out of compliance with certain profitability covenants to be measured on October 31, 2008. During the three months ended July 31, 2008 the Company transferred the ownership of this debt to a non-Rossignol subsidiary of the Company and obtained an amendment to the debt agreement to remove the profitability covenants. This term loan is due in July 2010 and is classified in long-term debt in the Company's balance sheet as of July 31, 2008.

As a result of the transfer of ownership of this debt to a non-Rossignol subsidiary during the three months ended July 31, 2008, the term loan was reclassified to continuing operations, whereas at April 30, 2008 it was classified as discontinued operations. This non-cash activity is presented in the Company's statement of cash flows as a borrowing on long-term debt in cash flows from financing activities of continuing operations, and as cash used in financing activities of discontinued operations.

### 12. *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.

# QUIKSILVER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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 \$20.4 million before interest and penalties 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 \$11.8 million before interest and penalties. During the three months ended July 31, 2008, the Company recorded an \$8.7 million reduction to the FIN 48 liability as a result of the resolution of certain tax contingences during this period.

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.

### 13. *Subsequent events*

In August 2008, the Company received a binding offer for its Rossignol business for a purchase price of 100.0 million euros, comprised of 75.0 million euros in cash and a 25.0 million euro seller's note. The purchase price will be adjusted for certain items including a working capital adjustment and an anticipated fair value adjustment to the seller's note. The closing of this transaction is subject to financing and other conditions, and is expected to close in the fall of 2008 after receipt of required regulatory approvals and the completion of required employee consultation procedures, primarily in France. The business to be sold includes the related brands of Rossignol, Dynastar, Look and Lange.

In August 2008, certain of the Company's European subsidiaries entered into 100.0 million euro secured financing facility which expires in August 2011. Under this facility, the Company may borrow up to 100.0 million euros based upon the amount of accounts receivable that are assigned to the lender to secure the debt. Outstanding borrowings under this facility accrue

# **QUIKSILVER, INC.**

## **NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

interest at a rate of Euribor plus 0.55% plus certain fees which are subject to a minimum of approximately \$0.4 million annually. As of September 9, 2008 the Company has approximately \$57.2 million of borrowings outstanding under this facility.

## 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 10-Q and Form 8-K, which discuss our business in greater detail. The section entitled “Risk Factors” set forth in Item 1A of our Annual Report on Form 10-K, and similar disclosures in our other SEC filings, discuss some of the important risk factors that may affect our business, results of operations and financial condition. You should carefully consider those risks, in addition to the information in this report and in our other filings with the SEC, before deciding to purchase, hold or sell our securities.

We began operations in 1976 as a California company making boardshorts for surfers in the United States under a license agreement with the *Quiksilver* brand founders in Australia. Our product offering expanded in the 1980s as we grew our distribution channels. After going public in 1986 and purchasing the rights to the *Quiksilver* brand in the United States from our Australian licensor, we further expanded our product offerings and began to diversify. In 1991, we acquired the European licensee of *Quiksilver* and introduced *Roxy*, our surf brand for teenage girls. We also expanded demographically in the 1990s by adding products for boys, girls, toddlers and men, and we introduced our proprietary retail store concept, *Boardriders Clubs*, which displays the heritage and products of *Quiksilver* and *Roxy*. In 2000, we acquired the international *Quiksilver* and *Roxy* trademarks, and in 2002, we acquired our licensees in Australia and Japan. In 2004, we acquired DC Shoes, Inc. to expand our presence in action sports-inspired footwear. In July 2005, we acquired Skis Rossignol, S.A., a wintersports and golf equipment manufacturer. Today our products are sold throughout the world, primarily in surf shops, skate shops, snow shops and specialty stores.

Over the past 38 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 and golf 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.

In August 2008, we received a binding offer to acquire our Rossignol business for a purchase price of 100.0 million euros, comprised of 75.0 million euros in cash and a 25.0 million euro seller's note. At closing, the purchase price will be adjusted for certain items including a working capital adjustment and an anticipated fair value adjustment to the seller's note. The closing of this transaction is subject to financing and other conditions, and is expected to close in the fall of 2008 after receipt of required regulatory approvals and the completion of required employee consultation procedures, primarily in France. The business to be sold includes the related brands of *Rossignol*, *Dynastar*, *Look* and *Lange*. The Rossignol business, including both wintersports equipment and related apparel, is classified as discontinued operations. The Rossignol business assets and related liabilities are classified as held for sale, and the operations are classified as discontinued, for all periods presented. Upon closing of the announced transaction, we expect to record additional losses as the value of the net assets to be sold will exceed net sales proceeds. The actual losses to be incurred upon closing are currently estimated to be between \$150 million and \$200 million, net of expected tax benefits.

We operate in the outdoor market of the sporting goods industry in which we design, produce and distribute branded apparel, footwear, accessories and related products. We currently operate in three segments: the Americas, Europe and Asia/Pacific. Our former wintersports equipment segment has been classified as discontinued operations. The Americas segment includes revenues primarily from the U.S. and Canada. The European segment includes revenues primarily from Western Europe. The Asia/Pacific segment includes revenues primarily from Australia, Japan, New Zealand and Indonesia. 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, technicians, researchers, merchandisers, pattern makers and contractors. Our team and the heritage and current strength of our brands has helped us remain competitive in our markets. Our success in the future will depend on our ability to continue to design products that are acceptable to the marketplace and competitive in the areas of quality, brand image, technical specifications, distribution methods, price, customer service and intellectual property protection.

### **Results of Operations**

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

<i>Statements of Operations data</i>	<b>Three Months Ended July 31,</b>		<b>Nine Months Ended July 31,</b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Revenues, net.....	100.0%	100.0%	100.0%	100.0%
Gross profit.....	50.4	47.7	50.0	47.7
Selling, general and administrative expense ....	<u>41.1</u>	<u>36.8</u>	<u>41.3</u>	<u>38.8</u>
Operating income.....	9.3	10.9	8.7	9.0
Interest expense .....	2.1	2.2	2.2	2.4
Foreign currency, minority interest and other (income) expense .....	<u>(0.2)</u>	<u>0.1</u>	<u>(0.1)</u>	<u>0.2</u>
Income before provision for income taxes .....	7.4	8.6	6.6	6.4
 <i>Other data</i>				
Adjusted EBITDA <sup>(1)</sup> .....	<u>12.7%</u>	<u>13.9%</u>	<u>11.9%</u>	<u>12.0%</u>

<sup>(1)</sup> Adjusted EBITDA is defined as 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 stock-based compensation expense and the effect of asset impairments. The following is a reconciliation of income from continuing operations to Adjusted EBITDA:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Income from continuing operations.....	\$ 33,073	\$ 35,702	\$ 79,368	\$ 72,793
Provision for income taxes.....	8,677	9,783	29,273	20,870
Interest expense .....	11,801	11,881	35,845	35,420
Depreciation and amortization .....	14,842	12,240	42,935	34,027
Non-cash stock-based compensation expense .....	3,320	3,895	9,871	12,620
Non-cash asset impairments .....	—	—	350	—
Adjusted EBITDA.....	<u>\$ 71,713</u>	<u>\$ 73,501</u>	<u>\$ 197,642</u>	<u>\$ 175,730</u>

### *Three Months Ended July 31, 2008 Compared to Three Months Ended July 31, 2007*

Our total net revenues for the three months ended July 31, 2008 increased 7% to \$564.9 million from \$528.6 million in the comparable period of the prior year. The effect of foreign currency exchange rates accounted for an increase of approximately \$36.5 million in total net revenues. Our net revenues in each of the Americas, Europe and Asia/Pacific segments include apparel, footwear and accessories product lines for our *Quiksilver*, *Roxy* and *DC* brands, and other brands which include *Hawk*, *Raisins*, *Leilani*, *Radio Fiji*, *Lib Technologies*, *Gnu* and *Bent Metal*. Revenues in the Americas decreased 4% to \$271.9 million for the three months ended July 31, 2008 from \$281.9 million in the comparable period of the prior year, while European revenues increased 25% to \$232.0 million from \$185.6 million and Asia/Pacific revenues decreased slightly to \$59.6 million from \$59.9 million for those same periods. The decrease in the Americas came primarily from *Quiksilver* brand revenues and, to a lesser extent, *Roxy* brand revenues across all product lines. These decreases were partially offset by our *DC* brand revenues which showed strong growth in apparel. The decrease in Americas revenues was also attributed to softer than expected sales in our retail stores and a delay of one to two weeks in shipping some product from our new distribution center in Mira Loma, California. This product was subsequently shipped in August and we do not anticipate future logistical delays in shipping. Approximately \$28.6 million of Europe's revenue increase was attributable to the positive effects of foreign currency exchange rates. The currency adjusted increase in Europe was driven by our *Roxy* and *DC* brands, offset by a slight decrease in our *Quiksilver* brand. *Roxy* brand revenue growth came primarily from apparel and, to a lesser extent, accessories. *DC* brand revenue growth came primarily from apparel and, to a lesser extent, footwear. Decreases in our *Quiksilver* brand came primarily from our apparel product lines. The slight decrease in Asia/Pacific's revenue was offset by the positive effects of foreign currency exchange rates, which added approximately \$7.9 million to Asia/Pacific's revenue. The currency adjusted decrease in Asia/Pacific came primarily from our *Roxy* brand and, to a lesser extent, our *Quiksilver* and *DC* brands.

Our consolidated gross profit margin for the three months ended July 31, 2008 increased to 50.4% from 47.7% in the comparable period of the prior year. The gross profit in the Americas segment decreased to 41.4% from 41.8%, while our European segment gross profit margin increased to 59.7% from 55.9%, and our Asia/Pacific segment gross profit margin increased to 55.5% from 48.9% for those same periods. The decrease in the Americas segment gross profit margin occurred in both the wholesale and retail channels, partially offset by a higher percentage of sales through company owned retail stores where higher gross margins are generated, and through improved sourcing. Our European segment gross profit margin increased primarily as a result of the foreign exchange effect of sourcing goods in U.S. dollars and improved sourcing. In our Asia/Pacific segment, our gross profit margin increase was primarily due to improved margins in Japan compared to the prior year which were caused by a change in mix to a higher retail percentage of sales compared to the prior year.

Our selling, general and administrative expense ("SG&A") for the three months ended July 31, 2008 increased 19% to \$232.1 million from \$194.3 million in the comparable period of the prior year. The effect of foreign currency exchange rates accounted for approximately \$15.0 million of the increase in total SG&A. In the Americas segment, these expenses increased 14% to \$89.4 million from \$78.3 million in the comparable period of the prior year, while our European segment SG&A increased 28% to \$97.5 million from \$76.4 million, and our Asia/Pacific segment SG&A increased 17% to \$28.6 million from \$24.3 million for those same periods. As a percentage of revenues, our consolidated SG&A increased to 41.1% for the three months ended July 31, 2008 from 36.8% for the three months ended July 31, 2007. In the Americas, SG&A as a percentage of revenues increased to 32.9% compared to 27.8% the year before. In Europe, SG&A as a percentage of revenues increased to 42.0% from 41.2% and in Asia/Pacific, SG&A as a percentage of revenues increased to 47.9% from 40.6% for those same periods. 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 increase in SG&A costs as a percentage of revenue primarily related to the cost of opening and operating additional retail stores.

Interest expense for the three months ended July 31, 2008 decreased to \$11.8 million from \$11.9 million in the comparable period of the prior year. This decrease was primarily due to lower variable rates in the United States.

Our foreign currency gain amounted to \$1.2 million for the three months ended July 31, 2008 compared to a loss of \$0.3 million in the same 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 July 31, 2008 was 20.8% compared to 21.5% for the three months ended July 31, 2007. The income tax rate for the three months ended July 31, 2008 was positively impacted, primarily by favorable adjustments to our FIN 48 accrual for settlement of certain contingencies.

Our income from continuing operations for the three months ended July 31, 2008 was \$33.1 million, or \$0.25 per share on a diluted basis, compared to income from continuing operations of \$35.7 million, or \$0.28 per share on a diluted basis, in the same period of the prior year. Adjusted EBITDA decreased to \$71.7 million from \$73.5 million for those same periods.

#### *Nine Months Ended July 31, 2008 Compared to Nine Months Ended July 31, 2007*

Our total net revenues for the nine months ended July 31, 2008 increased 14% to \$1,657.7 million from \$1,459.8 million in the comparable period of the prior year. The effect of foreign currency exchange rates accounted for approximately \$107.1 million of the increase in total net revenues.

Revenues in the Americas increased 5% to \$754.5 million for the nine months ended July 31, 2008 from \$716.0 million in the comparable period of the prior year, while European revenues increased 24% to \$716.8 million from \$578.7 million and Asia/Pacific revenues increased 13% to \$182.5 million from \$162.0 million for those same periods. In the Americas, the increase in revenues came primarily from DC brand revenue offset by decreases in our Quiksilver and Roxy brand revenues. Increases in DC brand revenues came primarily from growth in apparel and footwear product lines. Decreases in Quiksilver and Roxy came across all product lines except for an increase in our Quiksilver footwear product line. Approximately \$84.7 million of Europe's revenue increase was attributable to the positive effects of changes in foreign currency exchange rates. The currency adjusted increase in Europe came primarily from growth in our DC brand and, to a lesser extent, growth in our Roxy brand. Increases in DC brand revenues came primarily from growth in footwear and apparel product lines while increases in Roxy came primarily from growth in the accessories and apparel product lines. Approximately \$22.4 million of Asia/Pacific's revenue increase was attributable to the positive effects of changes in foreign currency exchange rates. On a currency adjusted basis, there was a decrease in Asia/Pacific revenues which

came primarily from our *Roxy* and *Quiksilver* brands, but partially offset by an increase in our *DC* brand revenues.

Our consolidated gross profit margin for the nine months ended July 31, 2008 increased to 50.0% from 47.7% in the comparable period of the prior year. The gross profit in the Americas segment increased to 42.4% from 41.9%, while our European segment gross profit margin increased to 57.2% from 54.5%, and our Asia/Pacific segment gross profit margin increased to 52.9% from 48.5% for those same periods. The increase in the Americas segment gross profit margin was due primarily to a higher percentage of sales through company owned retail stores where higher gross margins are generated, and through improved sourcing. Our European segment gross profit margin increased primarily as a result of the foreign exchange effect of sourcing goods in U.S. dollars and improved sourcing. In our Asia/Pacific segment, our gross profit margin increase was primarily due to improved margins in Japan compared to the prior year caused by a change in mix to higher retail sales compared to the prior year.

Our SG&A for the nine months ended July 31, 2008 increased 21% to \$684.3 million from \$565.7 million in the comparable period of the prior year. The effect of changes in foreign currency exchange rates accounted for approximately \$45.5 million of the increase in total SG&A. In the Americas segment, SG&A increased 19% to \$273.7 million from \$229.5 million in the comparable period of the prior year, while our European segment SG&A increased 29% to \$283.6 million from \$220.4 million, and our Asia/Pacific segment SG&A increased 21% to \$88.7 million from \$73.3 million for those same periods. As a percentage of revenues, SG&A increased to 41.3% for the nine months ended July 31, 2008 from 38.8% for the nine months ended July 31, 2007. In the Americas, SG&A as a percentage of revenues increased to 36.3% compared to 32.1% during the same period the year before. In Europe, SG&A as a percentage of revenues increased to 39.6% from 38.1% and in Asia/Pacific, SG&A as a percentage of revenues increased to 48.6% from 45.3% for those same periods. 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, increased distribution costs and increased marketing costs. The increase in SG&A 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 increase in SG&A as a percentage of revenue primarily related to the cost of opening and operating additional retail stores and, to a lesser extent, a legal settlement on a retail store lease.

Interest expense for the nine months ended July 31, 2008 increased to \$35.8 million from \$35.4 million in the comparable period of the prior year. This increase was primarily due to higher borrowing levels on our lines of credit, partially offset by decreasing variable-rate debt in the United States.

Our foreign currency gain amounted to \$0.5 million for the nine months ended July 31, 2008 compared to a \$1.7 million loss in the comparable period of the prior year. This current year gain resulted primarily from the foreign currency exchange effect of certain non-U.S. dollar denominated liabilities.

Our effective income tax rate for the nine months ended July 31, 2008 was 26.9% compared to 22.3% for the nine months ended July 31, 2007. The income tax rate for the nine months ended July 31, 2008 was unfavorably impacted by limitations on our interest deductibility and favorably impacted by changes in accrual amounts for certain tax contingencies accounted for under FIN 48.

Our income from continuing operations for the nine months ended July 31, 2008 was \$79.4 million, or \$0.61 per share on a diluted basis, compared to \$72.8 million, or \$0.56 per share on a diluted basis, in the same period of the prior year. Adjusted EBITDA increased to \$197.6 million from \$175.7 million for those same periods.

### **Financial Position, Capital Resources and Liquidity**

We generally finance our working capital needs and capital investments with operating cash flows and bank revolving lines of credit. Multiple banks in the United States, Europe and Australia make these lines of credit available to us. Term loans are also used to supplement these lines of credit and are typically

used to finance long-term assets. In fiscal 2005, we issued \$400 million of senior notes to fund a portion of the purchase price for our acquisition of Rossignol and to refinance certain existing indebtedness.

The net increase in cash and cash equivalents for the nine months ended July 31, 2008 was \$25.1 million compared to \$39.2 million in the comparable period of the prior year. Cash and cash equivalents totaled \$99.5 million at July 31, 2008 compared to \$74.3 million at October 31, 2007, while working capital was \$607.2 million at July 31, 2008 compared to \$631.9 million at October 31, 2007.

The planned sale of our Rossignol business is expected to be on a debt-free basis and, as a result, all Rossignol related debt in excess of the net sale proceeds will be retained by us subsequent to the closing of the sale. Future debt levels will be impacted by the timing and net proceeds received from the Rossignol sale. We will also fund Rossignol's working capital needs until the sale date which we expect to occur in the fall of 2008. These working capital needs are expected to be significant, with the actual amount depending on the timing of the closing, and could further increase our debt levels from continuing operations. For the nine months ended July 31, 2008, we recorded approximately \$46.5 million of interest expense, which includes \$10.7 million classified in discontinued operations related to the financing of our Rossignol business. Rossignol interest includes interest on third-party debt plus intercompany interest charged to Rossignol by other Quiksilver entities that currently finance Rossignol's operations. After the sale of Rossignol, our continuing operations interest expense is expected to be higher as no interest will be allocated to that business. Subsequent to the closing of the Rossignol sale, we will no longer have the obligation to fund the losses or capital expenditures of these operations and we expect to significantly improve our future debt leverage.

In August 2008, we entered into a new 100.0 million euro secured financing arrangement for our financing needs in Europe, including the financing of Rossignol's working capital. We intend to use approximately 36.0 million euros of such capacity to cash collateralize an existing letter of credit. The amount we may borrow under this facility is based on accounts receivable assigned by certain of our European subsidiaries to secure the debt. Borrowings bear an interest rate of Euribor plus a margin of 0.55% and such facility expires in 2011. As of September 9, 2008, we have borrowings of approximately 40 million euros under this facility. In August 2008, we also extended the term on a 70.0 million euro short term financing from September 17, 2008 to October 31, 2008.

We intend to use the net proceeds from the sale of our Rossignol business to repay Rossignol related indebtedness. However, the recently extended 70 million euro short term financing, as well as certain other Rossignol related debt in excess of the net sale proceeds, will have to be refinanced or repaid. We are currently evaluating potential financing alternatives and plan to seek additional financing prior to the closing of the Rossignol sale. Potential sources of alternative funding include our existing lenders (whether for short or longer term financing) and the broader capital markets. We believe that our cash flow from operations, together with our existing credit facilities and alternative sources of financing will be adequate to fund our capital requirements for at least the next twelve months. The availability and cost of new financing is subject to certain risks and could be adversely affected by credit market conditions.

During the three months ended April 30, 2008 we reclassified a 50.0 million euro term loan of Rossignol to short term as it was expected to be out of compliance with certain profitability covenants to be measured on October 31, 2008. During the three months ended July 31, 2008 we transferred the ownership of this term loan to a non-Rossignol subsidiary and obtained an amendment to the debt agreement to remove the profitability covenants. This term loan is due in July 2010 and is classified as long-term debt in our balance sheet as of July 31, 2008. As a result of the transfer of ownership of this term loan from Rossignol to a non-Rossignol subsidiary, this term loan was reclassified to continuing operations, whereas at April 30, 2008 it was classified as discontinued operations. This non-cash activity is presented on our statement of cash flows as a borrowing on long-term debt in our cash flows from financing activities of continuing operations, and as cash used in financing activities of discontinued operations.

### *Cash Flows*

We generated \$149.9 million of cash from operating activities of continuing operations in the nine months ended July 31, 2008 compared to \$118.0 million for the same period of the prior year. This \$31.9 million increase in cash provided was due to increased cash flow from working capital of \$17.2 million plus the effect of our net loss and other non-cash charges which amounted to \$14.7 million.

Capital expenditures of continuing operations totaled \$66.3 million for the nine months ended July 31, 2008, compared to \$54.0 million in the comparable period of the prior year. These investments included company owned retail stores and ongoing investments in computer and warehouse equipment. We also used \$31.1 million of cash for acquisitions during the nine months ended July 31, 2008, of which \$19.2 million relates to a payment to the former owners of DC Shoes, Inc. and was the final payment for the achievement of certain sales and earnings targets, \$10.8 million relates primarily to store acquisitions, and the remaining \$1.1 million relates to certain other acquisitions.

During the nine months ended July 31, 2008, net cash provided by financing activities of continuing operations totaled \$179.1 million, compared to \$47.6 million provided by financing activities of continuing operations in the comparable period of the prior year. Borrowings increased as we funded the operations of Rossignol. The increase in cash provided by financing activities also reflects a \$78.2 million non-cash transfer of a term loan that was previously classified in discontinued operations.

### *Trade Accounts Receivable and Inventories*

Our trade accounts receivable increased 3% to \$491.4 million at July 31, 2008 from \$478.0 million at October 31, 2007. Accounts receivable in our Americas segment increased 1% to \$231.4 million at July 31, 2008 from \$228.4 million at October 31, 2007, European segment accounts receivable increased 22% to \$217.6 million from \$178.1 million and Asia/Pacific segment accounts receivable decreased 41% to \$42.3 million from \$71.6 million for those same periods. Compared to July 31, 2007, accounts receivable increased 9% in the Americas segment, 20% in our European segment, and decreased 19% in our Asia/Pacific segment. Changes in foreign currency exchange rates accounted for approximately \$31.5 million of the increase in accounts receivable compared to July 31, 2007. Included in accounts receivable at July 31, 2008 are approximately \$31.6 million of value added tax and goods and services tax related to foreign accounts receivable. Such taxes are not reported as net revenues and as such, must be deducted from accounts receivable to more accurately compute days sales outstanding. Overall days sales outstanding increased by approximately one day at July 31, 2008 compared to July 31, 2007.

Consolidated inventories increased 21% to \$358.6 million at July 31, 2008 from \$296.2 million at October 31, 2007. Inventories in the Americas segment increased 13% to \$160.5 million from \$141.4 million at October 31, 2007, European segment inventories increased 44% to \$142.6 million from \$98.9 million, and Asia/Pacific segment inventories decreased 1% to \$55.5 million from \$55.8 million for those same periods. Compared to July 31, 2007, inventories increased 11% in the Americas segment, 22% in our European segment, and 4% in our Asia/Pacific segment. Changes in foreign currency exchange rates accounted for approximately \$22.5 million of the increase in inventories compared to July 31, 2007. Consolidated average annual inventory turnover was approximately 3.2 at July 31, 2008 compared to 3.4 in the comparable period of the prior year.

### *Commitments*

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 12 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 (classified in discontinued operations) 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, all of which result in exposure to gains and losses that could occur from fluctuations in foreign currency exchange rates. Our assets and liabilities that are denominated in foreign currencies are translated at the rate of exchange on the balance sheet date. Revenues and expenses are translated using the average exchange rate for the period. Gains and losses from translation of foreign subsidiary financial statements 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 changes in the fair value of these contracts 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 to Condensed Consolidated Financial Statements – 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," "likely," "should," "would," "could," "potential," "continue," "ongoing," and similar expressions, and variations or negatives of these words. In addition, any statements that refer to expectations, projections, guidance, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. These statements are not guarantees of future results and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statement as a result of various factors, including, but not limited to, the following:

- our ability to close the pending sale of our Rossignol business and the price at which we do so;
- our ability to obtain additional financing or to do so on reasonable terms;
- our ability to remain compliant with our debt covenants;
- our ability to achieve the financial results that we anticipate;
- 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;
- 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 increased 8% in euros during the nine months ended July 31, 2008 compared to the nine months ended July 31, 2007. As measured in U.S. dollars and reported in our consolidated statements of operations, European revenues increased 24% during the nine months ended July 31, 2008 as a result of a stronger euro versus the U.S. dollar in comparison to the same period in the prior year.

Asia/Pacific revenues decreased 1% in Australian dollars during the nine months ended July 31, 2008 compared to the nine months ended July 31, 2007. As measured in U.S. dollars and reported in our consolidated statements of operations, Asia/Pacific revenues increased 13% during the nine months ended July 31, 2008 as a result of a stronger Australian dollar versus the U.S. dollar in comparison to the same period in 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 July 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 July 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 July 31, 2008 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

On February 27, 2007, a class action captioned Burnis L. Simon, Jr. v. Quicksilver, Inc. (sic), Case No. CV07-01326, was filed against us in the United States District Court for the Central District of California. The complaint alleged willful violation of the federal Fair and Accurate Credit Transactions Act (“FACTA”) based upon certain of our retail stores’ alleged electronic printing of receipts on which appeared more than the last five digits of customers’ credit or debit card numbers and/or the expiration dates of such customers’ credit or debit cards. The complaint sought statutory damages of not less than \$100 and not more than \$1,000 for each violation, as well as unspecified punitive damages, attorneys’ fees and a permanent injunction from further engaging in violations of FACTA. The complaint did not allege that any class member had suffered actual damages. In June 2008, we settled this matter and the plaintiff agreed to dismiss the case with prejudice. In connection with such settlement, we paid \$2,500 to the plaintiff’s counsel. The case was dismissed on July 8, 2008.

### Item 1A. Risk Factors

*Our financial condition, results of operations and share price could be negatively impacted if we are unable to sell the Rossignol Group in a timely manner.*

On August 25, 2008, we received an irrevocable and binding offer to acquire our “Rossignol Group,” which engages in the wintersports equipment and apparel business, including the *Rossignol*, *Dynastar*, *Look*, and *Lange* brands, through the acquisition of certain of our subsidiaries. The buyer’s obligation to finalize the transaction and enter into a stock purchase agreement is subject to our acceptance of their offer and the satisfaction of certain other closing conditions, including, among other things, (i) the buyer’s receipt of adequate debt financing to fund a portion of the cash purchase price as well as the ongoing operations of the Rossignol Group, (ii) no material adverse change in the Rossignol Group’s business between the date we received the buyer’s binding offer and the closing date of the stock purchase agreement, (iii) our representations and warranties in the stock purchase agreement being true and correct, (iv) all required antitrust clearances being obtained, (v) the completion of required employee consultation procedures, primarily in France, and (vi) the receipt of certain other consents, approvals and deliverables. If any of these conditions are not satisfied in a timely manner, we may be unable to complete the sale of our Rossignol Group and our financial condition, results of operations and share price may be negatively impacted.

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

On June 1, 2008, we acquired an additional 29% of Quicksilver Brazil, a California general partnership, in a stock purchase transaction for an aggregate purchase price of approximately \$7.7 million. As a result of such stock purchase, we now own 51% of our Brazilian joint venture. In connection with the stock purchase transaction, we issued 300,180 unregistered shares of our common stock and approximately \$3.9 million in cash to the other partners in the joint venture. The shares of common stock we issued are exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4 (2) of such Act.

## Item 6. Exhibits

### Exhibits

- 2.1 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).
- 2.2 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).
- 2.3 Offer Letter dated August 25, 2008, by and among Quiksilver, Inc., Pilot S.A.S., Meribel S.A.S., Quiksilver Americas, Inc. and Chartreuse et Mont Blanc LLC (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on August 27, 2008).
- 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 Seventh Amendment to Amended and Restated Credit Agreement dated July 31, 2008.
- 10.2 English translation of Supplementary Agreement No. 1 dated July 31, 2008 among Quiksilver, Inc., Skis Rossignol Finance Luxembourg S.A., Skis Rossignol S.A. and Societe Generale Bank & Trust. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on August 5, 2008).
- 10.3 AR Financing Facility Contract dated August 22, 2008 between Na Pali S.A.S. and GE Factofrance SNC (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on August 27, 2008).
- 10.4 Separation and Transition Agreement between David H. Morgan and Quiksilver, Inc. dated August 24, 2008 (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on August 27, 2008).<sup>(1)</sup>
- 10.5 Amendment to Employment Agreement between Joseph Scirocco and Quiksilver, Inc. dated June 13, 2008.<sup>(1)</sup>
- 10.6 English Translation of Amendment No.1 to the Credit Facility Agreement by and among Pilot SAS, the Banks named therein, BNP Paribas as the Security Agent and Societe Generale as the Credit Agent, dated August 14, 2008.

- 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

<sup>(1)</sup> 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

September 9, 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: September 9, 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: September 9, 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 July 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  
September 9, 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 July 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  
September 9, 2008