INSPIRING A NEW GENERATION

Quiksilver 2010 Annual Report

Kelly Slater, age 20 in 1992
THEY ARE OUR FUTURE
AND THE CORE OF OUR BRANDS
FOLLOW THEM AND YOU’LL FIND US
Dear Shareholders,

I’m pleased to report that the spirit of Quiksilver is thriving – and inspiring a new generation of boardriders and action sports enthusiasts around the world. We’ve had a great year and made tremendous progress in reshaping our business to solidify our position as the #1 action sports lifestyle company in the world for many years to come. In reviewing our performance in fiscal 2010, it’s clear that we were successful in continuing our tradition of product development leadership through innovation across our brands while delivering new operating efficiencies and making tremendous strides in improving our balance sheet. But most evident to our loyal consumers - the young people who have come to love and support our brands from Brazil to Moscow, from China to Australia and from Hawaii to the Eastern Seaboard of the United States – was our success in refocusing our product development and distribution on our core markets. In continuing more than ever our strong presence in surf, skate and snow shops around the globe, we signaled to the world that Quiksilver continues to lead the industry.

After a full year of executing our business plan more efficiently with our leaner, more energized organization, we’re very pleased to deliver fiscal 2010 financial results that greatly exceeded our expectations when the year began. Our team executed our business plan extremely well in an inconsistent global economic environment and we greatly improved our operating condition. For the full fiscal year:

- Revenues declined 7% as we refined our distribution and focused our efforts on higher quality sales.
- Operating Income of $124 million was up 80% compared to last year.
- Pro-forma Adjusted EBITDA improved 34% to $214 million compared to $160 million in fiscal 2009, despite the revenue decline.
- Gross margins improved 550 basis points to 52.6% of sales compared to 47.1% in fiscal 2009.
• We reduced our net debt 31% from $887 million to $608 million at the end of the fiscal year.
• And we did an excellent job controlling inventories, enabling our gross margin expansion. Inventories at the end of the year were clean and current.

This outstanding performance resulted from many factors including our innovation and execution in developing and delivering great products, our creative and impactful marketing efforts, our strong relationships with our customers through our dedicated teams of employees and sales reps and from a focused business discipline that we’ve made standard practice throughout the year.

There are still areas of weakness in some of our markets around the world, but we believe we are now well positioned and more sharply focused. We’ve also learned over time how to weather inconsistent markets.

Regarding our balance sheet, we greatly reduced our cost of capital by completing a $140 million debt-for-equity exchange and by amending our Americas credit line with substantially better terms given our significantly improved operating condition. And in December, we completed a highly successful €200 million offering of Senior Notes that underscored the strength of our European business. We used the proceeds of the offering to repay our European term loans and eliminate their required amortization payments, giving us significantly more financial and operating flexibility for the next few years.

Given the tremendous progress we’ve made in fiscal 2010, it’s time we begin to transition our global business from a defensive posture - where we restructured operations and refinanced our balance sheet - to an offensive strategy. We’ve taken some important steps to activate this new path and we’re embarking on a new five-year plan focused on achieving a much higher standard for our business.

Our financial flexibility will enable us over the next few years to invest in the many attractive growth opportunities that we’ve identified within our own terrific global brands: Quiksilver, Roxy and DC. In that context, I’d like to summarize the company’s major objectives looking forward:

Our overriding strategic objective is to remain the world’s number one action sports lifestyle company centered on boardriding. And boardriding for us has a broader connotation than just surfing, skating and snowboarding. Our space includes the closely related interests of our growing, global demographic - BMX, rally, moto, bike, hike, climb, paddle, mixed-martial arts and many other growing action sports and activities. These are, for the most part, outdoor sports that cater to the individual, where one can truly appreciate the environment. And in terms of personal expression, some of these activities can actually transcend sport to become simply a form of art.

We plan to protect and grow our leading position by focusing on our primary initiatives:

• First, we will focus our energy and resources primarily on our three major brands. Our principal efforts and major initiatives are directed towards the continual development of Quiksilver, Roxy and DC.

• Second, we plan to focus on strategic core marketing initiatives and core athletes. Authenticity, which is at the heart of our brands, was developed and is maintained through our connection to core accounts, core events and athletes, which drive our marketing initiatives and connect us to our core consumers.

• Third, we plan to expand through product line extensions (our Quiksilver girls and winter outerwear are examples), geographical reach (in places where we’ve established a presence and infrastructure but have under-invested such as China, Eastern Europe and Latin America) and further channel development (think e-Commerce).

• And our fourth focus is the development of incubator brand concepts that can potentially represent opportunities consistent with our culture and areas of expertise. Current examples include our Lib Tech and Gnu brands along with “incubator” brands that include Moskova, which we developed in Europe and a collaboration currently under development with Kelly Slater.

We have come a long way over the past couple of years to produce great results and to achieve a fantastic year. A great deal of hard work has enabled us to reshape the company and close the book on a particularly difficult chapter in our company’s history. Our progress is evident in every aspect of our business. Our products have never looked better. They’re in step with – or ahead of – today’s fashion and look and they’re innovative and well made. Our relationships with our customers, especially within the core shop environment, have never been stronger. And our people are working harder, wanting it more, and accomplishing objectives more efficiently.

The spirit of Quiksilver is embodied in the athletes we sponsor. Put quite simply - we’re winning just like our athletes are winning. From Kelly Slater’s incomparable 10th World Title to Torah Bright’s Olympic Gold; from Travis Rice’s transcendent big mountain freestyle riding to our newly signed 4-time defending World Champion and Quiksilver Girl Stephanie Gilmore, we have accomplished a great deal across our terrific brands. Still, the spirit of Quiksilver has just made us hungrier for more success.

And to state the obvious, our customer demographic is huge and is growing. We’re focused on young people - both guys and girls - and the global numbers are staggering. As their interest in action sports continues to grow, they are connected like no generation has ever been connected, demonstrating the enormous power of social media, which happens to be an area of expertise for our brands Quiksilver, Roxy and DC. As you can imagine, we are extremely excited at the prospects for our business in the future.

Our worldwide market-leading position is driven by the broad appeal of our three core brands – Quiksilver, Roxy and DC. These brands have become synonymous with core action sports and they continue to define the casual outdoor sports lifestyle that our company represents.

Quiksilver is by far and away the biggest and most respected action sports lifestyle brand in the world. With fiscal 2010 revenues of over $770 million, the Quiksilver brand showed its resiliency in maintaining a dominant market share position. From a product perspective, Quiksilver offers a broad assortment of apparel, footwear and accessories that represent a casual lifestyle for young-minded people that connect with our boardriding culture and heritage.

We continually offer the most innovative technical products in the market, validated by the athletes we sponsor who help us develop and who also wear our products both in and out of competition. We especially look forward to the launch of Quiksilver’s new juniors line this Spring and expect the addition of Stephanie Gilmore as its brand ambassador to provide an authentic foundation upon which to grow this exciting new line.
Roxy is the largest, most respected and most recognized girls action sports brand in the world - by far - at over $525 million in fiscal 2010 revenue. Despite its position as the clear market leader, we continue to see fast fashion and price-point-driven goods impact the branded segment of the juniors market for all surf, skate and snow companies. Overall we are seeing that junior trends at retail are stabilizing across all channels of distribution as declines in the Roxy business are moderating. With its core in boardsports, Roxy’s return to its roots is clearly reflected in its Spring and Summer 2011 offerings and Roxy’s Fall 2011 line shows great promise. We continue to invest in coordinated marketing efforts to support this great product offering while we anticipate a flattening and return to growth in the near future.

Focused on innovation and a thorough understanding of the skate, snow, street and moto markets, DC continues to impress consumers and retailers with its new products and strong brand appeal. Generating revenues of roughly $500 million in fiscal 2010, DC clearly has the most growth potential of our three core brands, particularly in international markets. Considering that DC represents approximately 30% of our consolidated revenue in the Americas region and less than 20% of our business in Europe - and even less in our Asia Pacific region - it’s evident that the brand is underpenetrated outside of the Americas and has plenty of room to grow. We believe that DC could reasonably double in size over the next 5 years. This terrific brand represents a solid growth opportunity not only regionally, but in its overall apparel business, in the juniors market, in the area of newly evolving action sports and in its snow and winter outerwear business.

With regard to our other brands, our snowboard company Lib Tech broadened its product arsenal this year by introducing innovative Freedom Dolly skateboards. Lib’s snowboards featuring highly acclaimed Banana and Magne-Traction technologies have now become the platform of choice for many of the world’s best snowboarders including Travis Rice and Torah Bright.

Our Hawk brand, the namesake of legendary skateboarder and long-time Quiksilver team rider Tony Hawk, also continues to thrive in its exclusive arrangement at Kohl’s.

We sponsor the world’s best action sports athletes to maintain our close ties to the sports that inspire us and to help us reach our core demographic. Teens and young adults today are connected globally through the Internet and their own mobile devices and we specialize in connecting to them through the same websites and on-line forums that they use to communicate with each other, further cementing our relationship with our fantastic demographic.

We’re now taking a longer view toward what is to come for Quiksilver. In order to achieve our strategic goals and drive the business to a higher standard of operating performance, we have established a new set of operating and financial objectives for the future. We view 2011 as a transition year and expect our performance to be roughly in-line with that of 2010. Beyond that, our five-year plan establishes higher expectations for our business worldwide and defines where we want to be in the future. Consequently, our entire team is now focused on these 5-year objectives:

- Our first objective is to retain our global leadership position in product development, innovation, and quality. At the core of our success lies product excellence and, as you would expect, this is our primary operating initiative.
- Second, we’re targeting a longer term revenue growth rate in the mid-to-high single digit range on a percentage basis with earnings growing faster than revenues.
- Our third objective is to grow EBITDA margins by at least 200 basis points over time.
- Next, we plan to reduce and then maintain our net debt to EBITDA ratio below a multiple of 2 times. Our multiple at the end of fiscal 2010 was 2.8 times. We believe that achieving a ratio below 2 times would strike a balance between the objectives of generating free cash flow, reinvesting in our business, and maintaining financial flexibility for the future.
- And finally, we plan to operate at a high level of efficiency in all of our major functions. This initiative is the basis for our decision to implement a global ERP system, which is currently underway.

These assumptions reflect the high degree of optimism that, within our existing portfolio of brands, we can build our business over the next five years to between $2.5 billion and $3 billion in revenue with EBITDA of $350 million or more.

Quiksilver is a very special company whose spirit and reputation stem from the strength of our core brands, the regional, product and channel diversification of our global business and the tremendous talent and energy of our people. I would like to extend my personal thanks to our employees for their hard work and dedication in 2010 and to their families for their support along the way. As a result of the many changes we’ve made to transform our operations and improve our capital structure, we’re now positioned to invest in our own brands over the next few years in order to deliver improved financial results for years to come. After many years of managing through periods of both prosperity and challenge, we’re proud to be the #1 action sports lifestyle company in the world.

This annual report has been designed with cost savings and improved functionality in mind, consistent with the many cost cutting initiatives we’ve implemented over the past two years. You’ll see in the next several pages that we are all about our three powerful leadership brands Quiksilver, Roxy and DC. This book contains a brief visual sampling of each of these great brands. But if you’d like to see more about what each brand has to offer and the action sports lifestyles inspired by them, please take a few minutes to visit www.quiksilver.com. Here you’ll find a variety of ways to connect with our brands including our on-line stores so that you can shop or search for products in a store near you. You’ll also find videos and additional images that help bring these great brands to life as well as our brand-specific blogs and other popular social media interfaces that help connect people like you who share our same interests no matter where in the world you might be. Thanks again for your continuing support.

Sincerely,

Robert B. McKnight, Jr.
Chairman of the Board
From its beginnings four decades ago, Quiksilver has been based on creativity, adventure, progression and freedom. This is embodied in its boardriding culture and is symbolized by its logo, a wave breaking over a snowcapped mountain. Quiksilver’s essential qualities of functionality, innovation and durability remain true to its heritage. We have grown our Quiksilver product line from its origins as a line of boardshorts to now include shirts, walkshorts, t-shirts, fleece, pants, jackets, technical outerwear, footwear, hats, backpacks, wetsuits, skateboards, watches, eyewear and other accessories. Quiksilver has also expanded its target market beyond young men to include its womens collection and is launching its juniors line in Spring 2011. The Quiksilver product line accounted for approximately 42% of our revenues in fiscal 2010.
With its core in boardsports, Roxy is a fashion outdoor brand that expresses the coastal and mountain casual lifestyle, which is represented in its heart logo that combines offsetting Quiksilver mountain wave logos. The Roxy girl is fun and alive, daring and confident, naturally beautiful, and she appreciates innovation and simplicity. Roxy was introduced in 1989 targeted at the juniors market and later expanded to include girls with the Teenie Wahine and Roxy Girl product lines. Roxy includes a full range of sportswear, swimwear, footwear, eyewear, bags, outerwear, snowboards, snowboard boots, skis, skateboards, beauty care, bedroom furnishings and other accessories for young women. The Roxy product line is sold in over 90 countries worldwide and accounted for approximately 29% of our revenues in fiscal 2010.
DC was founded in 1993 and continues to stay true to its original mission - pushing style and performance skateboarding to a level one step ahead of its competition. With its roots in skateboarding, DC has also established a strong and authentic presence in snowboarding, surfing, BMX, rally and motocross, along with collaborations with artists, musicians and cultural influencers that surround its world. These connections with some of the world’s best athletes and influencers enable DC to develop signature products and support its promotional efforts. DC’s product line includes skateboard and action sports inspired men’s and women’s shoes, men’s and women’s casual apparel, snowboard boots, technical outerwear, snowboards and a full line of accessories, as well as kids’ and toddlers’ shoes. The DC product line accounted for approximately 26% of our revenues in fiscal 2010.
BOARD OF DIRECTORS
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Corporate Counsel
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Annual Meeting
10:00 am, Tuesday, March 22, 2011

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Market Place
Our common stock trades on the New York Stock Exchange (“NYSE”) under the symbol “ZQK”.

Form 10-K
A copy of our Form 10-K for the fiscal year ended October 31, 2010 has been filed with the Securities and Exchange Commission and has been enclosed herewith in a format that includes financial statements but excludes exhibits. Additional copies of the Annual Report on Form 10-K, including financial statements but excluding exhibits, will be made available without charge to stockholders upon written request to the Company, sent to the attention of Bruce Thomas, Investor Relations, at the Quiksilver corporate headquarters.

Sustainable Printing
This piece was printed on Opus Sheets manufactured by Sappi Fine Paper North America with 10% PCW and FSC Chain of Custody Certification. 100% of the electricity used to manufacture Opus Sheets is Green-e® certified renewable energy.

By printing on Opus sheets, the amount of greenhouse gas emissions avoided as compared to the industry average is 2,519 lbs, which is equivalent to emissions from:

- 80 gallons of gas
- 30 propane cylinders used for the home BBQ
- 484 lbs of waste recycled instead of sent to landfill