SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2005

OR

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

For the transition period from _____________ to _________________

Commission file number: 0-28493

O'Sullivan Industries Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware	43-1659062
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
10 Mansell Court East, Suite 100, Roswell, Georgia	30076-4823
(Address of principal executive offices)	(ZIP Code)

(678) 939-0800

(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 [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one): [ ] Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. Yes [ ] No [X]

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes [X] No [ ]

As of May 16, 2006, 10,000,000 shares of common stock of O'Sullivan Industries Holdings, Inc. were outstanding.

PART I

Item 1. Financial Statements.

O'SULLIVAN INDUSTRIES HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS
(in thousands, except for share data)

Assets	September 30, 2005	June 30, 2005
Current assets:		
Cash and cash equivalents	$ 1,488	$ 1,213
Trade receivables, net of allowance for doubtful accounts of $2,742 and $2,455, respectively	23,665	19,838
Inventories, net	39,386	43,608
Prepaid expenses and other current assets	5,501	2,184
Total current assets	70,040	66,843
Property, plant and equipment, net	40,641	43,155
Other assets	6,099	6,600
Goodwill	38,088	38,088
Total assets	$ 154,868	$ 154,686
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 11,997	$ 10,319
Accrued advertising	9,404	9,939
Accrued liabilities	22,173	15,756
Long-term debt	230,455	225,046
Total current liabilities	274,029	261,060
Mandatorily redeemable senior preferred stock	32,790	31,437
Other liabilities	11,736	10,839
Payable to RadioShack	70,067	70,067
Total liabilities	388,622	373,403
Commitments and contingent liabilities (Notes 2, 7, 8 and 9)		
Stockholders' deficit:		
Junior preferred stock, Series A, $0.01 par value; 100,000 shares authorized, none issued	–	–
Junior preferred stock, Series B, $0.01 par value; at issue price including accumulated dividends; 997,503.81 shares authorized, 933,033.13 shares issued at September 30, 2005 and June 30, 2005	122,104	116,550
Junior preferred stock, Series C, $0.01 par value, 50,000 shares authorized, issued and outstanding at September 30, 2005 and June 30, 2005	1	1
Class A common stock, $0.01 par value; 2,000,000 shares authorized and 1,368,000 issued; and 1,356,788 outstanding at September 30, 2005 and June 30, 2005, respectively	14	14
Class B common stock, $0.01 par value, 1,000,000 shares authorized, 701,422 shares issued at September 30, 2005 and June 30, 2005	7	7
Additional paid-in capital	13,057	13,057
Retained deficit	(371,887)	(351,150)
Treasury stock, 11,208.75 shares of Class A common stock, at cost	–	–
Accumulated other comprehensive income	2,950	2,804
Total stockholders' deficit	(233,754)	(218,717)
Total liabilities and stockholders' deficit	$ 154,868	$ 154,686

The accompanying notes are an integral part of these consolidated financial statements.

O'SULLIVAN INDUSTRIES HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands)

	Three months ended September 30, 2005	Three months ended September 30, 2004
Net sales	$ 53,245	$ 62,680
Cost of sales	45,979	51,243
Gross profit	7,266	11,437
Operating expenses:		
Selling, marketing and administrative	11,059	11,192
Restructuring costs	53	–
Operating income (loss)	(3,846)	245
Other income (expense):		
Interest expense	(9,207)	(8,837)
Interest income	6	8
Loss before reorganization items and income tax provision	(13,047)	(8,584)
Reorganization items		
Professional fees	2,055	–
Financing costs	81	–
	2,136	–
Loss before income tax provision	(15,183)	(8,584)
Income tax provision	–	–
Net loss	(15,183)	(8,584)
Dividends on Series B junior preferred stock	(5,554)	(4,376)
Net loss attributable to common stockholders	$ (20,737)	$ (12,960)

The accompanying notes are an integral part of these consolidated financial statements.

O'SULLIVAN INDUSTRIES HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Three months ended September 30, 2005	Three months ended September 30, 2004
Cash flows used by operating activities:		
Net loss	$ (15,183)	$ (8,584)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation and amortization	2,705	3,110
Amortization of debt issuance costs	425	423
Amortization of debt discount and accrued interest on O'Sullivan Holdings note	1,290	1,142
Interest and accretion on mandatorily redeemable senior preferred stock	1,353	1,237
Bad debt expense (recoveries)	(379)	65
Gain on disposal of assets	–	(4)
Accrual of special payment on options to purchase Series A junior preferred stock	420	392
Changes in assets and liabilities:		
Trade receivables	(3,448)	(4,411)
Inventories	4,222	3,994
Other assets	(2,467)	302
Accounts payable and accrued liabilities	6,964	1,344
Changes in assets and liabilities related to reorganization		
Other assets	(700)	–
Accounts payable and accrued liabilities	458	–
Net cash flows used by operating activities	(4,340)	(990)
Cash flows used by investing activities:		
Capital expenditures	(115)	(236)
Cash flows provided by financing activities:		
Proceeds from borrowings	47,768	5,700
Repayment of borrowings	(42,807)	(5,700)
Repayment of employee note	–	30
Proceeds from issuance of common and preferred securities	–	16
Payments for reorganization costs related to credit facility (pre-petition)	(231)	–
Net cash flows provided by financing activities	4,730	46
Net increase (decrease) in cash and cash equivalents	275	(1,180)
Cash and cash equivalents, beginning of period	1,213	5,250
Cash and cash equivalents, end of period	$ 1,488	$ 4,070
Supplemental cash flow information:		
Payments for reorganization items		
Professional fees	$ 2,378	–
Financing costs	231	–
Total	$ 2,609	–

Interest paid	$ 260	$ 5,568
Income taxes paid	–	–
Non-cash investing and financing activities:		
Capital expenditures included in accounts payable	–	71
Dividends accrued but not paid	5,554	4,376

The accompanying notes are an integral part of these consolidated financial statements.

O'SULLIVAN INDUSTRIES HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
For the three months ended September 30, 2005
(in thousands)

	Series C junior preferred stock		Series B junior preferred stock		Class A common stock		Class B common stock		Additional paid-in capital
	Shares	Dollars	Shares	Dollars	Shares	Dollars	Shares	Dollars	
Balance, June 30, 2005	50	$ 1	933	$ 116,550	1,357	$ 14	701	$ 7	$ 13,057
Net loss									
Cumulative translation adjustments									
Dividends and accretion on junior preferred stock				5,554					
Balance, September 30, 2005	50	$ 1	933	$ 122,104	1,357	$ 14	701	$ 7	$ 13,057

	Retained deficit	Treasury shares Class A common stock		Accumulated other comprehensive income	Total stock-holders' deficit	Compre-hensive income (loss)
		Shares	Dollars			
Balance, June 30, 2005	$ (351,150)	11	$ –	$ 2,804	$ (218,717)	
Net loss	(15,183)				(15,183)	$ (15,183)
Cumulative translation adjustments				146	146	146
Dividends and accretion on junior preferred stock	(5,554)					
Balance, September 30, 2005	$ (371,887)	11	$ –	$ 2,950	$ (233,754)	$ (15,037)

The accompanying notes are an integral part of these consolidated financial statements.

O'SULLIVAN INDUSTRIES HOLDINGS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2005

Note 1—Basis of Presentation

The unaudited consolidated financial statements of O'Sullivan Industries Holdings, Inc. and subsidiaries ("O'Sullivan") included herein have been prepared in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The financial statements should be read in conjunction with the audited financial statements and notes thereto included in O'Sullivan's Annual Report on Form 10-K for the fiscal year ended June 30, 2005. The interim results are not necessarily indicative of the results that may be expected for a full year. O'Sullivan owns all of the stock of O'Sullivan Industries, Inc. ("O'Sullivan Industries"). O'Sullivan Industries is the sole owner of O'Sullivan Industries - Virginia, Inc. ("O'Sullivan Industries - Virginia") and O'Sullivan Furniture Factory Outlet, Inc.

The accompanying financial statements have been prepared under the assumption that O'Sullivan will continue to operate on a going concern basis, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business and do not reflect adjustments that might result if O'Sullivan is unable to continue as a going concern. However, on October 14, 2005, O'Sullivan, O'Sullivan Industries, O'Sullivan Virginia and O'Sullivan Furniture Factory Outlet, Inc. filed their petitions in the U.S. Bankruptcy Court for the Northern District of Georgia in Atlanta. From October 15, 2005 to April 12, 2006, O'Sullivan operated its business as a debtor-in-possession. O'Sullivan's Modified Second Amended Plan of Reorganization was confirmed by the U.S. Bankruptcy Court on March 16, 2006. O'Sullivan emerged from bankruptcy protection on April 12, 2006. See Note 2.

Note 2—Bankruptcy Filing and Subsequent Events

Bankruptcy Filing

O'Sullivan's declining sales and increasing losses resulted in lower cash flows from operations in recent years. As a result, O'Sullivan filed for protection from its creditors and other claimants under Chapter 11 of the United States Bankruptcy Code on October 14, 2005 in the United States Bankruptcy Court for the Northern District of Georgia. The cases for O'Sullivan Holdings and its domestic subsidiaries are being jointly administered under case no. 05-83049. Since the filing, O'Sullivan has managed its business as debtors-in-possession.

O'Sullivan Industries did not pay the $5.3 million interest payment due on July 15, 2005 with respect to its $100 million 10.63% senior secured notes. In July 2005, O'Sullivan initiated discussions with representatives of its major stakeholders regarding O'Sullivan's strategic alternatives, including potentially a consensual restructuring of its capital structure. O'Sullivan retained Lazard Frères & Co. LLC to serve as its financial advisor and Dechert LLP as legal advisor to assist with its evaluation of strategic alternatives and restructuring efforts. In August 2005, O'Sullivan entered into a forbearance agreement with controlling holders of its senior secured notes. Pursuant to the forbearance agreement, the noteholders agreed not to exercise any enforcement rights or remedies available to them under the senior secured notes indenture as a result of the non-payment of interest on the senior secured notes prior to the end of the applicable 30-day grace period provided for in the indenture. The term of the forbearance agreement, as extended, expired with its filing for protection under Chapter 11 of the Bankruptcy Code. In August, O'Sullivan also retained FTI Consulting to provide restructuring advice with respect to its reorganization efforts.

In August 2005, O'Sullivan also executed an amendment and consent with the lender under its credit agreement. Pursuant to the amendment, the lender agreed to continue to make available funding within terms of the credit agreement and not to enforce any event of default in connection with its failure to pay interest on its senior secured notes within the applicable 30-day grace period. The amendment also prohibited O'Sullivan from using loans under the credit agreement to pay interest on the senior secured notes and senior subordinated notes. The highest outstanding balance under the credit agreement during the first quarter of fiscal 2006 was $4.6 million.

As a result of the bankruptcy filing, O'Sullivan did not pay $6.4 million of interest on O'Sullivan Industries senior subordinated notes on October 15, 2005. After filing for bankruptcy, O'Sullivan operated its business as debtors-in-possession under court protection from creditors and claimants.

Under Chapter 11 proceedings, actions by creditors to collect claims in existence at the filing date, or pre-petition claims, are stayed, and such claims are not permitted to be paid absent specific authorization from the bankruptcy court and all transactions not in the ordinary course of business require prior approval of the bankruptcy court.

Since the Chapter 11 filing, the bankruptcy court entered several orders to enable O'Sullivan to conduct normal business operations, including orders authorizing it to pay wages, to honor customer programs and warranty claims, to use cash collateral prior to approval of O'Sullivan's debtor-in-possession credit agreement and other matters.

Debtor-in-Possession Credit Agreement. On October 21, 2005, the U.S. Bankruptcy Court granted interim authorization for O'Sullivan to draw on a $35 million debtor-in-possession credit agreement with certain lenders. O'Sullivan used the new DIP credit agreement to pay off the outstanding $6.6 million balance under its credit agreement and to support ongoing operations. The U.S. Bankruptcy Court issued a final order approving the DIP credit agreement on November 9, 2005.

The DIP credit agreement provided for borrowings of up to $35 million, including a revolving facility of up to $30 million with availability based a borrowing base including its accounts receivable and inventory, and a term facility of up to $5 million. The revolving facility had a sublimit of $20.0 million for letters of credit, of which we were using $2.8 million as of March 31, 2006. The largest letter of credit was drawn on March 1, 2006 to repurchase and redeem $10 million of industrial revenue bonds that were an obligation of O'Sullivan Virginia; the amount drawn increased the outstanding balance under the revolving facility. The interest rate on loans under the DIP credit agreement was, at O'Sullivan's option, a LIBOR rate plus 4.00% or an index rate plus 2.00%. After March 31, 2006, the margin fluctuated based on its average borrowing availability under the DIP credit agreement. The DIP credit agreement contained minimum EBITDA and gross sales covenants, as well as limits on capital expenditures. The fee for letters of credit was the LIBOR margin less 25 basis points. A fee of 0.5% was paid on the unused commitment under the DIP credit agreement.

The term facility under the DIP credit agreement was based on an agreement between the DIP lender and the holder of a majority of its senior secured notes. As of March 31, 2006, O'Sullivan had borrowed $2.0 million under the term facility. The interest rate on the term loan was LIBOR plus 8.5%, and was 13.2% as of March 22, 2006.

Under the DIP credit agreement and the order of the bankruptcy court authorizing us to borrow thereunder, the lenders under the DIP credit agreement were secured by "superpriority" liens and security interests in substantially all of O'Sullivan's property (with certain limitations).

In connection with the execution and delivery of the DIP credit agreement, O'Sullivan entered into lockbox agreements with the agent and certain banks. Under the terms of the lockbox agreements, the agent had control over the bank accounts and the cash deposited therein.

On April 11, 2006, the DIP credit agreement, including both the revolving facility and the term facility thereunder, was repaid with funds provided under our loan agreement discussed under "Exit Capital Structure" below.

Plan of Reorganization. On October 14, 2005, O'Sullivan filed a plan of reorganization with the U.S. Bankruptcy Court. It filed first and second amended plans on January 3, 2006 and February 10, 2006. O'Sullivan filed a modified second amended plan on March 16, 2006. The official committee of unsecured creditors and certain holders of its senior secured notes supported confirmation of the modified second amended plan of reorganization. The U.S. Bankruptcy Court approved the amended disclosure statement on February 10, 2006. O'Sullivan mailed the amended disclosure statement, the amended plan of reorganization, ballots and voting instructions to all parties entitled to vote on the plan on February 17, 2006. Following a hearing on March 16, 2006, the U.S. Bankruptcy Court confirmed the modified second amended plan of reorganization.

Under the modified second amended plan of reorganization, various classes of O'Sullivan's debt and equity received differing treatment in full satisfaction and discharge of their claims and interests, according to their respective priorities.

- Obligations under O'Sullivan's DIP credit agreement were paid in full and letters of credit outstanding under the DIP credit agreement were secured or replaced. O'Sullivan Virginia's obligations under a series of industrial revenue bonds due 2008 (and secured by a letter of credit issued pursuant to the DIP credit agreement) were repurchased and redeemed in full on March 1, 2006. The bonds were paid by a draw on the letter of credit and increased the amount drawn under the DIP credit agreement. O'Sullivan repaid these obligations with borrowings under its loan agreement on April 11, 2006.

- Obligations under the $100 million principal amount of 10.63% senior secured notes due 2008 of O'Sullivan Industries received an aggregate of $10 million of new secured notes (subordinate to the loan agreement) and ten million shares of new common stock of O'Sullivan Holdings, representing 100% of the outstanding equity of the reorganized O'Sullivan Holdings, subject to dilution upon the issuance of shares of restricted stock and the exercise of certain warrants and options.

- General unsecured claims against O'Sullivan Industries, O'Sullivan Virginia and O'Sullivan Furniture Factory Outlet, Inc., other than the $96 million principal amount 13.375% senior subordinated notes due 2009 of O'Sullivan Industries, received a cash distribution of 9% of their allowed claims. Certain vendor and utility creditors also had the right to elect to participate in a settlement under which O'Sullivan paid an additional 2% to 8% of their allowed claim in cash, based on the size of their allowed claim.

- Holders of O'Sullivan Industries' $96 million principal amount of 13.375% senior subordinated notes received

    - Series A warrants to purchase an aggregate of 526,316 shares of reorganized O'Sullivan Holdings common stock at a price of $7.06, which warrants will expire on April 12, 2010; and

    - Series B warrants to purchase an aggregate of 554,017 shares of reorganized O'Sullivan Holdings common stock at a price of $9.81, which warrants will expire on April 12, 2011.

- Holders of O'Sullivan Holdings equity, indebtedness and other obligations, including the O'Sullivan Holdings 12% note due 2009 with a principal amount of $29.8 million (as of October 15, 2005), the tax sharing agreement with RadioShack and options and warrants to purchase O'Sullivan Holdings Class A common stock, Series A junior preferred stock or Series B junior preferred stock, were cancelled and received no distribution under the plan of reorganization.

The disclosure statement describes the plan of reorganization in greater detail.

Costs of Bankruptcy. In connection with its reorganization, O'Sullivan engaged Dechert LLP as its bankruptcy counsel, Lazard Frères & Co. LLC as its financial adviser, FTI Consulting as its restructuring advisers and The Garden City Group, Inc. to handle communications with stakeholders and to tally votes. O'Sullivan is responsible for paying the fees and expenses of each of these service providers. Pursuant to the forbearance agreement executed with certain holders of the O'Sullivan Industries senior secured notes and an adequate protection order entered by the U.S. Bankruptcy Court in connection with its approval of the DIP credit agreement, O'Sullivan agreed to pay the fees and expense of the legal and financial advisers to the group of senior secured noteholders. In connection therewith, O'Sullivan entered into an agreement with Rothschild and the senior secured noteholders group, pursuant to which Rothschild is acting as financial adviser for the group of senior secured noteholders, and O'Sullivan is paying Rothschild's fees and expenses. Pursuant to the plan of reorganization, O'Sullivan assumed the obligations under this agreement. O'Sullivan is also paying the fees and expenses of the noteholders' counsel.

Pursuant to bankruptcy law, O'Sullivan is also responsible for paying the fees and expenses of other parties to the reorganization process, including the fees and expenses of counsel and financial advisers to the unsecured creditors committee.

The agreements with Lazard and Rothschild provide for additional fees if O'Sullivan is successful in its reorganization efforts. O'Sullivan has paid, or will pay, Lazard a $1.8 million transaction fee and a $375,000 financing fee. The transaction fee for Rothschild is $750,000. The transaction fee for the financial adviser to the unsecured creditors committee is $450,000. These fees are in addition to regular fees O'Sullivan has been accruing with respect to these advisers.

O'Sullivan's current estimate is that it will pay a total of approximately $16 million of fees and expenses to third parties in connection with its efforts to reorganize.

Exit Capital Structure. O'Sullivan emerged from bankruptcy with $10 million of secured notes and an asset backed loan agreement for up to $50 million of secured revolving loans. The loan agreement provides for a revolving line of credit of up to $50 million, subject to a borrowing base, with a $15 million sublimit for letters of credit. Indebtedness under the loan agreement is secured with first liens on substantially all of O'Sullivan's assets. Under the loan agreement, borrowings bear interest, at O'Sullivan's option, at either a Eurodollar rate plus a margin or the prime rate plus a margin. The initial margins would be 2.00% per annum for Eurodollar loans and 0.50% per annum for prime rate based loans. The applicable margin will vary each calendar quarter starting with the quarter beginning October 1, 2006. The amount of the margin will vary based on the unused availability under the loan agreement.

O'Sullivan borrowed approximately $27.5 million under the exit loan agreement on April 11, 2006. In addition, $2.7 million of letters of credit are outstanding under the loan agreement. O'Sullivan expects to borrow an additional $6.7 million shortly after the effectiveness of the plan of reorganization to fund additional fees and expenses associated with the plan of reorganization. After these initial borrowings, O'Sullivan will be able to use borrowings under the loan agreement for general operating, working capital and other proper corporate purposes. Upon O'Sullivan's exit from bankruptcy, availability under the loan agreement, after the additional $6.7 million of borrowings, was approximately $4.5 million.

O'Sullivan continues to serve its customers and to pay its employees and post-petition vendors in the ordinary course. O'Sullivan's facilities continue to operate and to fill customer orders.

Note 3—Current Maturities of Long-Term Indebtedness and Preferred Stock.

The documents governing O'Sullivan's indebtedness, including its credit agreement, the O'Sullivan Industries 10.63% senior secured notes due 2008, the O'Sullivan Industries 13.375% senior subordinated notes due 2009, the industrial revenue bonds that are the obligation of O'Sullivan Virginia and the O'Sullivan Holdings 12% note due 2009, provide the respective holders of such indebtedness with the right to accelerate the maturity of the indebtedness in the event of a default by O'Sullivan. O'Sullivan's filing for protection under Chapter 11 of the U.S. Bankruptcy Code on October 14, 2005 is one of the events constituting an event of default under the documents. Accordingly, O'Sullivan has classified its indebtedness, other than its obligations to RadioShack under the tax sharing agreement and its senior preferred stock liability, as current at September 30, 2005 and June 30, 2005.

O'Sullivan has determined there is insufficient collateral to cover the interest portion of scheduled payments on its pre-petition unsecured debt, other than for its credit agreement and the O'Sullivan Virginia industrial revenue bonds. As such, O'Sullivan Industries discontinued accruing interest on its senior secured notes and senior subordinated notes, and O'Sullivan Holdings ceased accruing interest on its note, effective with the filing of their petitions for protection under the U.S. Bankruptcy Code on October 14, 2005.

For similar reasons, O'Sullivan also ceased accruing dividends on its senior preferred stock and Series B junior preferred stock effective at the close of business on October 14, 2005. Accruals of the special payment due under option agreements to purchase Series A junior preferred stock also ceased as of October 14, 2005.

Note 4—Stock Based Compensation

Effective on July 1, 2005, O'Sullivan began accounting for stock based compensation for employees under SFAS 123(R), *Share Based Payments*, using the modified prospective application method as permitted by the statement. This statement requires O'Sullivan to recognize expense for share based compensation related to equity awards to its employees. Compensation costs are generally recognized based on the fair value of the award amortized over the vesting period of the award. Under the modified prospective method, O'Sullivan will continue to calculate expense related to equity awards issued prior to the effective date, using the same methodology that was used in prior years under FAS 123 for the disclosure only presentation.

During July 2005, O'Sullivan granted 15,500 options to purchase 15,500 shares of Class A common stock with an exercise price of $0.01. The exercise price was not greater than the estimated fair market value of the underlying stock on the date of grant. The options would have vested in five annual installments beginning July 28, 2006 and would have expired on July 28, 2016.

Using the Black-Scholes model, O'Sullivan estimates that the fair value of the options was zero as of July 28, 2005. The significant assumptions used for these grants are volatility of 40%, risk free interest rate of 3.636%, expected life of 5 years, dividend yield of 0%, and an estimated stock price of $0.01. O'Sullivan estimated the stock price to be $0.01 based on the fact that its common stock options were not traded, it had a net deficit as of June 30, 2005 of $218.7 million. In fact, under O'Sullivan's modified second amended plan of reorganization, all of the options and other equity was cancelled and received no distribution.

Accordingly, O'Sullivan recognized compensation expense of $2,000 during the quarter ended September 30, 2005. Prior to July 1, 2005, O'Sullivan applied APB 25, *Accounting for Stock Issued to Employees*, and elected to report the disclosure-only alternative under FAS 123 and 148. The FAS 123 disclosures are as follows:

	Three months ended September 30, 2004 (in thousands)
Net loss as reported	$ (8,584)
Less: total stock-based compensation expense determined under fair value method for all stock options, net of related income tax benefit	(1)
Pro forma net loss	$ (8,585)

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the vesting period.

Effective November 18, 2004, the Board of Directors of O'Sullivan approved a new 2004 Class A Common Stock Option Plan providing for the issuance of options to purchase up to 93,182 shares of Class A common stock, par value $0.01 per share, subject to adjustment. All of O'Sullivan's stock option plans and outstanding options were cancelled upon the effectiveness of its modified second amended plan of reorganization, and no distribution was or will be made with respect to any option plan or outstanding option.

Note 5—Shipping and Handling Costs

O'Sullivan reports amounts billed to customers as revenue, the cost for warehousing operations in cost of sales and freight out costs as part of selling, marketing and administrative expenses. Freight out costs included in selling, marketing and administrative expenses in the first quarters of fiscal 2005 and fiscal 2004 were approximately $2.0 million and $2.1 million, respectively.

Note 6—Inventory

Inventory, net, consists of the following:

	September 30, 2005	June 30, 2005
	(in thousands)	
Finished goods	$ 21,824	$ 25,708
Work in process	4,422	4,011
Raw materials	9,008	9,622

Maintenance and supplies	4,132	4,267
	$ 39,386	$ 43,608

Inventory reserves at September 30, 2005 and June 30, 2005 were $7.5 million and $7.0 million, respectively.

Note 7—Accrued Liabilities

Accrued liabilities consist of the following:

	September 30, 2005	June 30, 2005
	(in thousands)	
Accrued interest	$ 13,584	$ 7,677
Accrued compensation	4,461	5,256
Other current liabilities	4,128	2,823
	$ 22,173	$ 15,756

Note 8—Condensed Consolidating Financial Information.

In September 2003 O'Sullivan Industries issued $100.0 million of 10.63% senior secured notes due 2008. These notes were secured by substantially all the assets of O'Sullivan Industries and its guarantor subsidiaries O'Sullivan Industries - Virginia and O'Sullivan Furniture Factory Outlet, Inc. The senior secured notes are also guaranteed by O'Sullivan. The guarantees are full and unconditional. Security for the senior secured notes included first priority liens and security interests in the stock of O'Sullivan Industries. In the third quarter of fiscal 2004, O'Sullivan exchanged the senior secured notes issued in September 2003 for notes with substantially identical terms and associated guarantees. The exchange notes have been registered under the Securities Act of 1933, as amended.

The accompanying condensed consolidating financial information has been prepared and presented pursuant to SEC rules and regulations.

Condensed Consolidating Statements of Operations

	Three months ended September 30, 2005 (in thousands)				
	O'Sullivan Holdings	O'Sullivan Industries	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ –	$ 36,234	$ 17,011	$ –	$ 53,245
Cost of sales	–	31,320	14,659	–	45,979
Gross profit	–	4,914	2,352	–	7,266
Operating expenses:					
Selling, marketing and administrative	64	9,163	1,832	–	11,059
Restructuring costs	–	53	–	–	53
Operating income (loss)	(64)	(4,302)	520	–	(3,846)
Other income (expense):					
Interest expense	(2,290)	(6,733)	(184)	–	(9,207)
Interest income	–	6	–	–	6
Equity in earnings of subsidiary	(12,829)	336	–	12,493	–
Income (loss) before reorganization items and income tax provision	(15,183)	(10,693)	336	12,493	(13,047)
Reorganization items					
Professional fees	–	2,055	–	–	2,055
Financing costs	–	81	–	–	81
Total	–	2,136	–	–	2,136
Income (loss) before income tax provision	(15,183)	(12,829)	336	12,493	(15,183)
Income tax provision	–	–	–	–	–
Net income (loss)	(15,183)	(12,829)	336	12,493	(15,183)
Dividends on Series B junior preferred stock	(5,554)	–	–	–	(5,554)
Net income (loss) attributable to common stockholders	$ (20,737)	$ (12,829)	$ 336	$ 12,493	$ (20,737)

	Three months ended September 30, 2004 (in thousands)				
	O'Sullivan Holdings	O'Sullivan Industries	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ –	$ 48,362	$ 14,318	$ –	$ 62,680
Cost of sales	–	38,955	12,288	–	51,243
Gross profit	–	9,407	2,030	–	11,437
Operating expenses:					
Selling, marketing and administrative	(25)	9,794	1,423	–	11,192
Operating income (loss)	25	(387)	607	–	245
Other income (expense):					
Interest expense	(2,069)	(6,663)	(105)	–	(8,837)
Interest income	6	2	–	–	8
Equity in earnings (loss) of subsidiary	(6,546)	502	–	6,044	–
Income (loss) before income tax provision	(8,584)	(6,546)	502	6,044	(8,584)
Income tax provision	–	–	–	–	–
Net income (loss)	(8,584)	(6,546)	502	6,044	(8,584)
Dividends on Series B junior preferred stock	(4,376)	–	–	–	(4,376)
Net income (loss) attributable to common stockholders	$ (12,960)	$ (6,546)	$ 502	$ 6,044	$ (12,960)

Condensed Consolidating Balance Sheets

	September 30, 2005 (in thousands)				
	O'Sullivan Holdings	O'Sullivan Industries	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS:					
Current assets	$ –	$ 59,523	$ 10,517	$ –	$ 70,040
Property, plant and equipment, net	–	26,391	14,250	–	40,641
Other assets	158	5,906	35	–	6,099
Investment in subsidiaries	(170,403)	41,383	–	129,020	–
Goodwill	–	38,088	–	–	38,088
Receivable from subsidiary - tax sharing agreement	70,067	–	–	(70,067)	–
Receivable from affiliates	2,643	–	47,300	(49,943)	–
Total assets	$ (97,535)	$ 171,291	$ 72,102	$ 9,010	$ 154,868
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT):					
Current liabilities	$ 25,965	$ 234,650	$ 13,414	$ –	$ 274,029
Mandatorily redeemable senior preferred stock	32,790	–	–	–	32,790
Payable to affiliates	–	49,943	–	(49,943)	–
Other liabilities	7,397	4,339	–	–	11,736
Payable to RadioShack	70,067	–	–	–	70,067
Payable to parent - tax sharing agreement	–	52,762	17,305	(70,067)	–
Stockholders' equity (deficit)	(233,754)	(170,403)	41,383	129,020	(233,754)
Total liabilities and stockholders' equity (deficit)	$ (97,535)	$ 171,291	$ 72,102	$ 9,010	$ 154,868

	June 30, 2005 (in thousands)				
	O'Sullivan Holdings	O'Sullivan Industries	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS:					
Current assets	$ –	$ 56,050	$ 10,793	$ –	$ 66,843
Property, plant and equipment, net	–	27,854	15,301	–	43,155
Other assets	168	6,390	42	–	6,600
Investment in subsidiaries	(157,720)	41,047	–	116,673	–
Goodwill	–	38,088	–	–	38,088
Receivable from subsidiary - tax sharing agreement	70,067	–	–	(70,067)	–
Receivable from affiliates	3,981	–	44,623	(48,604)	–
Total assets	$ (83,504)	$ 169,429	$ 70,759	$ (1,998)	$ 154,686
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT):					
Current liabilities	$ 25,879	$ 222,774	$ 12,407	$ –	$ 261,060
Long-term debt	–	–	–	–	–
Mandatorily redeemable senior preferred stock	31,437	–	–	–	31,437
Payable to affiliates	–	48,604	–	(48,604)	–
Other liabilities	7,830	3,009	–	–	10,839
Payable to RadioShack	70,067	–	–	–	70,067
Payable to parent - tax sharing agreement	–	52,762	17,305	(70,067)	–
Stockholders' equity (deficit)	(218,717)	(157,720)	41,047	116,673	(218,717)
Total liabilities and stockholders' equity (deficit)	$ (83,504)	$ 169,429	$ 70,759	$ (1,998)	$ 154,686

Condensed Consolidating Statements of Cash Flows

	Three months ended September 30, 2005 (in thousands)				
	O'Sullivan Holdings	O'Sullivan Industries	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net cash flows provided (used) by:					
Operating activities:	$ 358	$ (7,330)	$ 2,632	$ –	$ (4,340)
Investing activities:					
Capital expenditures	–	(96)	(19)	–	(115)
Repayment of loans to affiliates	(358)	–	–	358	–
Net	(358)	(96)	(19)	358	(115)
Financing activities:					
Proceeds from borrowings	–	47,768	–	–	47,768
Repayment of borrowings	–	(42,807)	–	–	(42,807)
Advances (repayment) of loans from affiliates	–	3,035	(2,677)	(358)	–
Payments for reorganization costs relating to credit facility (post-petition)	–	(231)	–	–	(231)
Net	–	7,765	(2,677)	(358)	4,730
Cash and cash equivalents:					
Net increase (decrease) in cash and cash equivalents	–	339	(64)	–	275
Cash and cash equivalents, beginning of period	–	1,045	168	–	1,213
Cash and cash equivalents, end of period	$ –	$ 1,384	$ 104	$ –	$ 1,488

	Three months ended September 30, 2004 (in thousands)				
	O'Sullivan Holdings	O'Sullivan Industries	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net cash flows provided (used) by:					
Operating activities:	$ 370	$ (2,976)	$ 1,616	$ –	$ (990)
Investing activities:					
Capital expenditures	–	(192)	(44)	–	(236)
Repayment of loans to affiliates	(416)	–	–	416	–
Net	(416)	(192)	(44)	416	(236)
Financing activities:					
Proceeds from borrowings	–	5,700	–	–	5,700
Repayment of borrowings	–	(5,700)	–	–	(5,700)
Repayment of employee notes	30	–	–	–	30
Proceeds from issuance of common and preferred securities	16	–	–	–	16
Advances (repayment) of loans from affiliates	–	2,074	(1,658)	(416)	–
Net	46	2,074	(1,658)	(416)	46
Cash and cash equivalents:					
Net decrease in cash and cash equivalents	–	(1,094)	(86)	–	(1,180)
Cash and cash equivalents, beginning of period	–	5,023	227	–	5,250
Cash and cash equivalents, end of period	$ –	$ 3,929	$ 141	$ –	$ 4,070

Note 9—Income Taxes

O'Sullivan entered into a significant tax sharing and tax benefit reimbursement agreement with RadioShack Corporation (O'Sullivan's former parent) in 1994. Pursuant to O'Sullivan's modified second amended plan of reorganization, the tax sharing agreement was cancelled upon the effectiveness of the plan and RadioShack received no distribution with respect thereto. Because of the current tax benefits associated with the Section 338 election and the valuation allowance recorded in the fiscal year ended June 30, 2002, O'Sullivan recorded no tax expense for the three months ended September 30, 2005 and 2004.

Note 10—Related Party Transactions

BRS. O'Sullivan Industries entered into a management services agreement with Bruckmann, Rosser Sherrill & Co., LLC for strategic and financial advisory services on November 30, 1999. The fee for these services is the greater of (a) 1% of O'Sullivan Industries' consolidated cash flow (as defined in the indenture related to the O'Sullivan Industries senior subordinated notes) or (b) $300,000 per year. Under the management services agreement, BRS, LLC could also receive reimbursement for expenses.

The credit agreement, the indenture for the senior secured notes and the management services agreement all contain certain restrictions on the payment of the management fee. The management services agreement provides that no cash payment for the management fee can be made unless the fixed charge coverage ratio (as defined in the indenture for the senior subordinated notes) for O'Sullivan Industries' most recently ended four full fiscal quarters would have been greater than 2.0 to 1.0. Similarly, the indenture for the senior secured notes provides that payments under the management services agreement are conditional and contingent upon the fixed charge coverage ratio (as defined in the indenture for the senior secured notes) for the four most recently ended full fiscal quarters immediately preceding any payment date being at least 2.0 to 1. The credit agreement prevents O'Sullivan Industries from paying fees and expenses under the management services agreement if a default or event of default exists or if one would occur as a result of the payment. All fees and expenses under the management services agreement are subordinated to the senior subordinated notes.

The management fee and other reimbursable costs of $75,000 and $75,000 recognized during the first quarters of fiscal years 2006 and 2005, respectively, are included in selling, marketing and administrative expense in the consolidated statement of operations. The amounts due BRS at September 30, 2005 and June 30, 2005 were $528,000 and $453,000, respectively, and are included in accrued liabilities on the accompanying consolidated balance sheets.

O'Sullivan filed a motion with the bankruptcy court to reject the management services agreement, and the court issued an order on November 7, 2005 authorizing such rejection.

Employee Loans. At September 30, 2004, O'Sullivan held a note receivable with a balance of approximately $342,000 from an officer of O'Sullivan. O'Sullivan loaned the officer money to purchase common stock and Series B junior preferred stock of O'Sullivan in the 1999 recapitalization and merger. The note bore interest at the rate of 9% per annum and matured on November 30, 2009, or earlier if there is a change of control, and were with full recourse to the employees. The receivables were recorded on the O'Sullivan balance sheet as a reduction in stockholders' equity.

In March 2005, O'Sullivan entered into a severance agreement with the officer. Under the agreement, O'Sullivan released the officer from his obligations under the note. In exchange, the officer transferred to O'Sullivan all of the shares of Class A common stock and Series B junior preferred stock in O'Sullivan held by him. In addition, his Series A junior preferred stock option agreement was cancelled, including the special payment accrued under the agreement of approximately $49,000; and he released O'Sullivan from any obligations it had to him under O'Sullivan's Deferred Compensation Plan. The net expense to earnings was approximately $283,000.

Executive Stock Agreements. In the first quarter of fiscal 2005, we issued stock to three executives of the Corporation pursuant to Executive Stock Agreements between O'Sullivan and each executive. The stock was issued at fair value. O'Sullivan issued an aggregate of 701,422 shares of its Class B common stock, 384,085 shares of its Series B junior preferred stock and 50,000 shares of its Series C junior preferred stock. The sales prices for the shares was $0.01 per share for the Class B common stock and the Series B junior preferred stock and $0.10 per share for the Series C junior preferred stock.

Note 11—Commitments and Contingencies

Tax Sharing Agreement with RadioShack. Future tax sharing agreement payments were contingent on taxable income. The maximum payments were fiscal 2006 — $31.5 million; fiscal 2007 — $12.3 million; fiscal 2008 — $14.5 million; fiscal 2009 — $11.8 million. O'Sullivan will not pay RadioShack any amounts during fiscal 2006; accordingly, no amount has been recorded in current liabilities. See Note 4 to the consolidated financial statements included in O'Sullivan's Annual Report on Form 10-K for the year ended June 30, 2005.

Under O'Sullivan's plan of reorganization, the tax sharing agreement was discharged and cancelled and no distribution was made to RadioShack with respect thereto.

Litigation. There were no changes in pending litigation involving O'Sullivan after June 30, 2005 except as described in the next two paragraphs.

On October 14, 2005, O'Sullivan Holdings, O'Sullivan Industries, O'Sullivan Virginia and O'Sullivan Furniture Factory Outlet, Inc. filed for protection under Chapter 11 of the U. S. Bankruptcy Code. See Note 2 for information regarding the bankruptcy.

In August 2002, Ames decided to close all of its stores and liquidate. Actual net sales to Ames in fiscal 2005 were minimal. In August 2003, Ames Department Stores, Inc. filed suit against O'Sullivan Industries in the U.S. Bankruptcy Court, Southern District of New York alleging that payments made by Ames within 90 days prior to its bankruptcy constituted preferential transfers under the Bankruptcy Code that should be recovered from O'Sullivan Industries by Ames, together with interest. The alleged payments aggregate $2.1 million. O'Sullivan received the summons in this action on September 22, 2003. It responded to the suit denying it received any preferential payments. In May 2006, O'Sullivan settled Ames' preference claim and O'Sullivan's administrative claim against Ames, with Ames agreeing to pay O'Sullivan a *de minimis* amount.

Note 12—Other Comprehensive Income

O'Sullivan's comprehensive income is comprised of net loss and foreign currency translation adjustments. The components of comprehensive loss for the three month periods ended September 30 are:

	Three months ended September 30,	
	2005	2004
	(in thousands)	
Net loss	$ (15,183)	$ (8,584)
Cumulative translation adjustments	146	659
Comprehensive loss	$ (15,037)	$ (7,925)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

Bankruptcy Filing

Our declining sales and increasing losses resulted in lower cash flows from operations in recent years. As a result, we filed for protection from its creditors and other claimants under Chapter 11 of the United States Bankruptcy Code on October 14, 2005 in the United States Bankruptcy Court for the Northern District of Georgia. The cases for O'Sullivan Holdings and its domestic subsidiaries are being jointly administered under case no. 05-83049. After the filing, we managed our business as debtors-in-possession. We emerged from bankruptcy on April 12, 2006 with the effectiveness of our modified second amended plan of reorganization.

O'Sullivan Industries did not pay the $5.3 million interest payment due on July 15, 2005 with respect to its $100 million 10.63% senior secured notes. In July 2005, we initiated discussions with representatives of our major stakeholders regarding our strategic alternatives, including potentially a consensual restructuring of our capital structure. We retained Lazard Frères & Co. LLC to serve as our financial advisor and Dechert LLP as legal advisor to assist with our evaluation of strategic alternatives and restructuring efforts. In August 2005, we entered into a forbearance agreement with controlling holders of its senior secured notes. Pursuant to the forbearance agreement, the noteholders agreed not to exercise any enforcement rights or remedies available to them under the senior secured notes indenture as a result of the non-payment of interest on the senior secured notes prior to the end of the applicable 30-day grace period provided for in the indenture. The term of the forbearance agreement, as extended, expired with our filing for protection under Chapter 11 of the Bankruptcy Code. In August, we also retained FTI Consulting to provide restructuring advice with respect to our reorganization efforts.

In August 2005, we also executed an amendment and consent with the lender under our credit agreement. Pursuant to the amendment, the lender agreed to continue to make available funding within terms of the credit agreement and not to enforce any event of default in connection with our failure to pay interest on our senior secured notes within the applicable 30-day grace period. The amendment also prohibited us from using loans under the credit agreement to pay interest on the senior secured notes and senior subordinated notes. The highest outstanding balance under the credit agreement during the first quarter of fiscal 2006 was $5.0 million.

As a result of the bankruptcy filing, we did not pay $6.4 million of interest on the O'Sullivan Industries senior subordinated notes on October 15, 2005. After filing for bankruptcy, we operated its business as debtors-in-possession under court protection from creditors and claimants.

Under Chapter 11 proceedings, actions by creditors to collect claims in existence at the filing date, or pre-petition claims, are stayed, and such claims are not permitted to be paid absent specific authorization from the bankruptcy court and all transactions not in the ordinary course of business require prior approval of the bankruptcy court.

After the Chapter 11 filing, the bankruptcy court entered several orders to enable us to conduct normal business operations, including orders authorizing us to pay wages, to honor customer programs and warranty claims, to use cash collateral prior to approval of our debtor-in-possession credit agreement and other matters.

Debtor-in-Possession Credit Agreement. On October 21, 2005, the U.S. Bankruptcy Court granted interim authorization for us to draw on a $35 million debtor-in-possession credit agreement with certain lenders. We used the new DIP credit agreement to pay off the outstanding $6.6 million balance under our credit agreement and to support ongoing operations. The U.S. Bankruptcy Court issued a final order approving the DIP credit agreement on November 9, 2005.

The DIP credit agreement provided for borrowings of up to $35 million, including a revolving facility of up to $30 million with availability based a borrowing base including our accounts receivable and inventory, and a term facility of up to $5 million. The revolving facility had a sublimit of $20.0 million for letters of credit, of which we were using $2.7 million as of April 10, 2006. The largest letter of credit was drawn on March 1, 2006 to repurchase and redeem $10 million of industrial revenue bonds that were an obligation of O'Sullivan Virginia; the amount drawn increased the outstanding balance under the revolving facility. The interest rate on loans under the DIP credit agreement was, at our option, a LIBOR rate plus 4.00% or an index rate plus 2.00%. After March 31, 2006, the margin fluctuated based on our average borrowing availability under the DIP credit agreement. The DIP credit agreement contained minimum EBITDA and gross sales covenants, as well as limits on capital expenditures. The fee for letters of credit was the LIBOR margin less 25 basis points. A fee of 0.5% was paid on the unused commitment under the DIP credit agreement.

The term facility under the DIP credit agreement was based on an agreement between the DIP lender and the holder of a majority of our senior secured notes. As of April 10, 2006, we had borrowed $2.0 million under the term facility. The interest rate on the term loan was LIBOR plus 8.5%, and was 13.2% as of March 22, 2006.

Under the DIP credit agreement and the order of the bankruptcy court authorizing us to borrow thereunder, the lenders under the DIP credit agreement were secured by "superpriority" liens and security interests in substantially all of our property (with certain limitations).

In connection with the execution and delivery of the DIP credit agreement, we entered into lockbox agreements with the agent and certain banks. Under the terms of the lockbox agreements, the agent had control over the bank accounts and the cash deposited therein.

On April 11, 2006, the DIP credit agreement, including both the revolving facility and the term facility thereunder, was repaid with funds provided under our loan agreement discussed under "Exit Capital Structure" below.

Plan of Reorganization. On October 14, 2005, we filed a plan of reorganization with the U.S. Bankruptcy Court. We filed first and second amended plans on January 3, 2006 and February 10, 2006. We filed a modified second amended plan on March 16, 2006. The official committee of unsecured creditors and certain holders of our senior secured notes supported confirmation of the modified second amended plan of reorganization. The U.S. Bankruptcy Court approved the amended disclosure statement on February 10, 2006. We mailed the amended disclosure statement, the amended plan of reorganization, ballots and voting instructions to all parties entitled to vote on the plan on February 17, 2006. Following a hearing on March 16, 2006, the U.S. Bankruptcy Court confirmed the modified second amended plan of reorganization.

Under the modified second amended plan of reorganization, various classes of our debt and equity received differing treatment in full satisfaction and discharge of their claims and interests, according to their respective priorities.

- Obligations under our DIP credit agreement were paid in full and letters of credit outstanding under the DIP credit agreement were secured or replaced. O'Sullivan Virginia's obligations under a series of industrial revenue bonds due 2008 (and secured by a letter of credit issued pursuant to the DIP credit agreement) were repurchased and redeemed in full on March 1, 2006. The bonds were paid by a draw on the letter of credit and increased the amount drawn under the DIP credit agreement. We repaid obligations under the DIP credit agreement with borrowings under our loan agreement on April 11, 2006.

- Obligations under the $100 million principal amount of 10.63% senior secured notes due 2008 of O'Sullivan Industries received an aggregate of $10 million of new secured notes (subordinate to the loan agreement) and ten million shares of new common stock of O'Sullivan Holdings, representing 100% of the outstanding equity of the reorganized O'Sullivan Holdings, subject to dilution upon the issuance of shares of restricted stock and the exercise of certain warrants and options. Interest on the new secured note is LIBOR plus 8.5%.

- General unsecured claims against O'Sullivan Industries, O'Sullivan Virginia and O'Sullivan Furniture Factory Outlet, Inc., other than the $96 million principal amount 13.375% senior subordinated notes due 2009 of O'Sullivan Industries, received a cash distribution of 9% of their allowed claims. Certain vendor and utility creditors also had the right to elect to participate in a settlement under which we paid an additional 2% to 8% of their allowed claim in cash, based on the size of their allowed claim.

- Holders of O'Sullivan Industries' $96 million principal amount of 13.375% senior subordinated notes received

  - Series A warrants to purchase an aggregate of 526,316 shares of reorganized O'Sullivan Holdings common stock at a price of $7.06, which warrants will expire on April 12, 2010; and

  - Series B warrants to purchase an aggregate of 554,017 shares of reorganized O'Sullivan Holdings common stock at a price of $9.81, which warrants will expire on April 12, 2011.

- Holders of O'Sullivan Holdings equity, indebtedness and other obligations, including the O'Sullivan Holdings 12% note due 2009 with principal plus accrued interest of $29.7 million (as of October 14, 2005), the tax sharing agreement with RadioShack and options and warrants to purchase O'Sullivan Holdings Class A common stock, Series A junior preferred stock or Series B junior preferred stock, were discharged and cancelled and received no distribution under the plan of reorganization.

The disclosure statement describes the plan of reorganization in greater detail.

Costs of Bankruptcy. In connection with our reorganization, we engaged Dechert LLP as our bankruptcy counsel, Lazard Frères & Co. LLC as our financial adviser, FTI Consulting as our restructuring advisers and The Garden City Group, Inc. to handle communications with stakeholders and to tally votes. We are responsible for paying the fees and expenses of each of these service providers. Pursuant to the forbearance agreement executed with certain holders of the O'Sullivan Industries senior secured notes and an adequate protection order entered by the U.S. Bankruptcy Court in connection with its approval of the DIP credit agreement, we agreed to pay the fees and expense of the legal and financial advisers to the group of senior secured noteholders. In connection therewith, we entered into an agreement with Rothschild and the senior secured noteholders group, pursuant to which Rothschild is acting as financial adviser for the group of senior secured noteholders, and we are paying Rothschild's fees and expenses. Pursuant to the plan of reorganization, we assumed the obligations under this agreement. We are also paying the fees and expenses of the senior secured noteholders' counsel.

Pursuant to bankruptcy law, we are also responsible for paying the fees and expenses of other parties to the reorganization process, including the fees and expenses of counsel and financial advisers to the unsecured creditors committee.

The agreements with Lazard and Rothschild provided for additional fees if we are successful in our reorganization efforts. We have paid, or will pay, Lazard a $1.8 million transaction fee and a $375,000 financing fee. The transaction fee for Rothschild is $750,000. The transaction fee for the financial adviser to the unsecured creditors committee is $450,000. These fees are in addition to regular fees we have been accruing with respect to these advisers.

Our current estimate is that it will pay a total of approximately $16 million of fees and expenses to third parties in connection with its efforts to reorganize.

Exit Capital Structure. We emerged from bankruptcy on April 12, 2006 with $10 million of secured notes and an asset backed loan agreement for up to $50 million of secured revolving loans. The loan agreement provides for a revolving line of credit of up to $50 million, subject to a borrowing base, with a $15 million sublimit for letters of credit. Indebtedness under the loan agreement is secured with first liens on substantially all of our assets. Under the loan agreement, borrowings bear interest, at O'Sullivan's option, at either a Eurodollar rate plus a margin or the prime rate plus a margin. The initial margins are 2.00% per annum for Eurodollar loans and 0.50% per annum for prime rate based loans. The applicable margins will vary each calendar quarter starting with the quarter beginning October 1, 2006. The amount of the margins will vary based on the unused availability under the loan agreement.

We borrowed approximately $27.5 million under the exit loan agreement on April 11, 2006. In addition, $2.7 million of letters of credit are outstanding under the loan agreement. We expect to borrow an additional $6.7 million shortly to fund additional fees and expenses associated with the plan of reorganization. After these initial borrowings, we will be able to use borrowings under the loan agreement for general operating, working capital and other proper corporate purposes. Upon our exit from bankruptcy, availability under the loan agreement, after the additional $6.7 million of borrowings, was approximately $4.5 million.

We continue to serve our customers and to pay our employees and post-petition vendors in the ordinary course. Our facilities continue to operate and to fill customer orders.

Recent Trends. Our net sales declined 15.1% in the first quarter of fiscal 2006 from $62.7 million to $53.2 million. This decline continued the decreases in net sales from prior year quarters experienced by us in recent years. Our net sales declined for several reasons:

- a decline in sales of RTA furniture;
- increasing competition from imported furniture, particularly from China;
- increased competition from domestic competition due to excess capacity in the RTA furniture industry and increasing concentration of retail stores;
- market share losses at an office superstore and a large mass merchant.

Operating income declined to a loss of $3.8 million in the first quarter of fiscal 2006 from operating income of $245,000 in fiscal 2005. The decline was due to:

- lower sales levels;
- lower gross margins due to lower production levels due to lower sales and efforts to reduce our inventory levels, which unfavorably affected overhead absorption; and
- continued high prices of raw materials, particularly particleboard, and increased prices for freight, cartoning and certain other raw materials.

In response to our sales trends, we have taken steps to reduce costs, increase selling prices, lower our inventories and mitigate the impact of the current market challenges and our bankruptcy proceedings. We may take similar actions in the future, which may result in asset write-downs or impairment or other charges. See "Market Risk and Inflation" for more information regarding our raw material price increases.

Fiscal 2006 Outlook.

We anticipate that our net sales for fiscal 2006 will be from 15% to 20% lower than our sales in fiscal 2005, due to a number of factors. Among these factors are increased competition from domestic and international competitors and losses in product placement at a large discount mass merchant and an office superstore. As a result of our lower sales levels, we expect that our fiscal 2006 factory utilization rate will be lower than our fiscal 2005 factory utilization rate of around 62%. Our lower utilization rate will reduce our gross margin and gross margin percentage because our fixed overhead costs will be applied against our lower production levels, increasing the cost per unit.

Customer Bankruptcy

In August 2002, Ames Department Stores, Inc. decided to close all of its stores and liquidate. In August 2003, Ames filed suit against O'Sullivan Industries in the U.S. Bankruptcy Court, Southern District of New York alleging that payments made by Ames within 90 days prior to its bankruptcy constituted preferential transfers under the Bankruptcy Code that should be recovered from O'Sullivan Industries by Ames, together with interest. The alleged payments aggregate $2.1 million. We have responded to the suit denying we received any preferential payments. In May 2006, we settled Ames' preference claim and our administrative claim against Ames, with Ames agreeing to pay us a *de minimis* amount.

Tax Sharing Agreement with RadioShack

In 1994, RadioShack, then Tandy Corporation, completed an initial public offering of O'Sullivan. In connection with the offering, we entered into a tax sharing and tax benefit reimbursement agreement with RadioShack. RadioShack and O'Sullivan made elections under Sections 338(g) and 338(h)(10) of the Internal Revenue Code with the effect that the tax basis of our assets was increased to the deemed purchase price of the assets, and an equal amount of such increase was included as taxable income in the consolidated federal tax return of RadioShack. The result was that the tax basis of our assets exceeded the historical book basis we used for financial reporting purposes.

The increased tax basis of our assets results in increased tax deductions and, accordingly, reduced our taxable income or increased our net operating loss. Under the tax sharing agreement, we are contractually obligated to pay RadioShack nearly all of the federal tax benefit expected to be realized with respect to such additional basis. The payments under the agreement represent additional consideration for the stock of O'Sullivan Industries and further increase the tax basis of our assets from the 1994 initial public offering when payments are made to RadioShack. Accordingly, we recorded the deferred tax asset created by the step-up in tax basis and the additional tax basis from the probable future payments to RadioShack.

Additionally, we recorded the remaining maximum obligation to RadioShack pursuant to the tax sharing agreement. The remaining maximum obligation to RadioShack was $70.1 million at September 30, 2005 and June 30, 2005. Future payments to RadioShack were contingent upon achieving consolidated taxable income calculated on the basis of the tax sharing agreement. In our plan of reorganization, the tax sharing agreement was discharged and cancelled, with no distribution to RadioShack.

During the year ended June 30, 2002, we recorded a full valuation allowance against our net deferred tax assets because we were unable to determine, based on objective evidence, that it was more likely than not that we would be able to utilize our net operating losses prior to their expiration. If at a future date we determine that some or all of the deferred tax asset will more likely than not be realized, we will reverse the appropriate portion of the valuation allowance and credit income tax.

Under our modified second amended plan of reorganization confirmed by the U.S. Bankruptcy Court, no distribution will be made with respect to the tax sharing agreement and our obligations under the agreement have been extinguished. As a result of our reorganization under Chapter 11 of the Bankruptcy Code, our tax loss carryforwards will be substantially reduced. Additionally, our ability to use pre-petition net operating losses and any remaining step up in our tax basis may be limited.

See "**Cautionary Statement Regarding Forward Looking Information**."

Results of Operations

Net Sales. Net sales for the quarter ended September 30, 2005 decreased by $9.4 million, or 15.1%, to $53.2 million from $62.7 million for the quarter ended September 30, 2004. During the quarter, sales declined in every channel of distribution except home centers for the reasons cited in the overview section above.

Gross Profit. Gross profit decreased to $7.3 million, or 13.7% of net sales, for the three month period ended September 30, 2005, from $11.4 million, or 18.2% of net sales, for the comparable prior year quarter. Fiscal 2006 first quarter gross profit dollars and margin declined because of lower sales, higher raw material costs, and lower production levels that adversely affected our fixed cost absorption, partially offset by price increases, all as compared to the fiscal 2005 first quarter.

Selling, Marketing and Administrative Expenses. Selling, marketing and administrative expenses declined to $11.1 million, or 20.8% of net sales, for the three month period ended September 30, 2005, from $11.2 million, or 17.9% of net sales, for the quarter ended September 30, 2004. In the fiscal 2006 first quarter, selling and marketing compensation expense increased due to our increased sales and marketing staffing, partially offset by lower commission expense. Administrative expense decreased slightly due to lower incentive compensation accruals.

Restructuring Costs. The restructuring costs of $53,000 incurred during the first quarter of fiscal 2006 relate to the closing of our Australian operations. We announced that the operations were closing in February 2005, and most of the expenses related to the closing of these operations were incurred in the last half of fiscal 2005.

Depreciation and Amortization. Depreciation and amortization expenses declined from $3.1 million for the first quarter of fiscal 2005 to $2.7 million for the first quarter of fiscal 2006. The lower depreciation expense results from lower capital expenditures in recent years and the $8.0 million impairment charge taken against our assets located in South Boston, Virginia as of June 30, 2005 pursuant to Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Operating Income (Loss). Operating income decreased to a loss of $3.8 million for the quarter ended September 30, 2005 from operating income of $245,000 in the quarter ended September 30, 2004 for the reasons described above.

Net Interest Expense. Net interest expense increased from $8.8 million in the first quarter of fiscal 2005 to $9.2 million in the first quarter of fiscal 2006. Interest expense increased because of higher rates on borrowings under our credit agreement and because of the additional amounts on which interest was computed for the O'Sullivan Holdings note, revolving loans and senior preferred stock. Amortization of debt discount and loan fees also increased. The following table describes the components of net interest expense.

	Three months ended September 30, (in thousands)	
	2005	2004
Interest expense on senior secured notes, credit agreement, senior credit facility, industrial revenue bonds and senior subordinated notes	$ 6,139	$ 6,035
Interest income	(6)	(8)
Non-cash items:		
Interest expense on O'Sullivan Holdings senior note	842	750
Interest expense on mandatorily redeemable senior preferred stock	1,353	1,237
Amortization of debt discount	448	392
Amortization of loan fees	425	423
Net interest expense	$ 9,201	$ 8,829

Reorganization Costs. In the first quarter of fiscal 2006, we incurred $2.1 million of reorganization costs as we endeavored to restructure our indebtedness prior to our filing for bankruptcy protection in October 2005.

Pre-Tax Loss. Our pre-tax loss in the first quarter of fiscal 2005 was $15.2 million compared to a pre-tax loss of $8.6 million in the first quarter of fiscal 2005. The decline was due principally to our lower net sales and operating levels and higher raw material prices.

Income Tax Provision. We recorded no tax expense in the first quarters of fiscal 2005 or fiscal 2005 because of the current tax benefits associated with the Section 338 election (See "Tax Sharing Agreement with RadioShack") and because of the valuation allowance against our net deferred tax assets.

Net Loss. Net loss increased $6.6 million from a net loss of $8.6 million in the first quarter of fiscal 2005 to a net loss of $15.2 million in the first quarter of fiscal 2006 due principally to lower sales and lower production levels and reorganization expenses incurred in the fiscal 2006 quarter as described above.

Liquidity and Capital Resources

Bankruptcy Filing. On October 14, 2005, as a result of reduced cash flows from our declining sales and increasing operating losses, we filed for protection under Chapter 11 of the United States Bankruptcy Code in the Bankruptcy Court for the Northern District of Georgia. The filing constituted an event of default under all of the agreements relating to our indebtedness.

At September 30, 2005, we were highly leveraged and had a stockholders' deficit of $233.8 million. We filed for bankruptcy protection primarily because we did not have the liquidity to pay the interest on our indebtedness, including interest expense under our credit agreement and notes. Our primary sources of liquidity are cash flows from operating activities and borrowings under our loan agreement, which is discussed below. Decreased demand for our products could further decrease our cash flows from operating activities and the availability of borrowings under our loan agreement.

Cash and Cash Equivalents. As of September 30, 2005, cash and cash equivalents totaled $1.5 million.

Operating Activities. Net cash used by operating activities for the three months ended September 30, 2005 was $4.3 million compared to net cash used of $990,000 for the three months ended September 30, 2004. Cash flow from operations decreased year-over-year for the following reasons:

- Our net loss in the first quarter of fiscal 2005 was $15.2 million compared to a net loss of $8.6 million in the first quarter of fiscal 2005.

- Accounts receivable increased $3.4 million in the first quarter of fiscal 2006 compared with an increase of $4.4 million in the first quarter of fiscal 2005. The larger increase in the fiscal 2005 quarter reflects higher sales in the fiscal 2005 quarter.

- Accounts payable, accrued advertising and accrued liabilities increased $7.0 million during the first quarter of fiscal 2006 compared to an increase of $1.3 million during the first quarter of fiscal 2005. The principal cause of the increase was our failure to pay the $5.3 million interest payment on the O'Sullivan Industries senior secured notes that was due July 15, 2005.

- Other assets increased $2.5 million in the first quarter of fiscal 2006, while declining $302,000 in the same quarter of fiscal 2005. The increase was due to increases in prepaid workers' compensation insurance and deposits.

Investing Activities. We invested $115,000 in capital expenditures for the three months ended September 30, 2005 compared to $236,000 in the prior year three month period. We currently estimate that the total capital expenditure requirements for the fiscal year will be approximately $700,000, which we expect to fund from cash flow from operations, cash on hand or borrowings under our loan agreement.

Financing Activities. Our net cash provided by financing activities was $4.7 million in the first quarter of fiscal 2006 from borrowings under our credit agreement. In the first quarter of fiscal 2005, the issuance of additional stock and the repayment of a loan to an employee provided $46,000 of net cash.

Our consolidated principal amount of indebtedness at September 30, 2005 was $239.0 million, consisting of the following:

- a credit agreement providing for asset-based revolving credit of up to $40.0 million, subject to a borrowing base. At September 30, 2005, we had borrowed approximately $5.0 million. In addition, letters of credit aggregating approximately $14.4 million were outstanding under the credit agreement. Outstanding letters of credit reduced the amount available under the credit agreement. The highest outstanding borrowings under the credit agreement in the first quarter of fiscal 2006 was $5.0 million. This agreement was refinanced in October 2005 with funds borrowed under our DIP credit agreement.

- $100.0 million in 10.63% senior secured notes due 2008. We sold the notes in September 2003 at 95% of their par value, yielding $95.0 million in proceeds before issuance expenses of approximately $3.8 million. The proceeds of the senior secured notes were used to repay $88.7 million outstanding under our senior credit facility and to pay issuance expenses.

- $96.0 million in 13-3/8% senior subordinated notes due 2009 issued with warrants to purchase 6.0% of our common and Series B junior preferred stock on a fully diluted basis. These warrants were assigned a value of $3.5 million. We issued $100.0 million of these notes at a price of 98.046%, providing $98.0 million in cash proceeds before expenses related to the issuance. We repurchased $4.0 million of the notes during fiscal 2004.

- $10.0 million in variable rate industrial revenue bonds. On March 1, 2006, these bonds were repurchased and redeemed; the trustee for the bonds drew on the letter of credit securing the bonds for funds to repay the bonds. The draw on the letter of credit increased the loans outstanding under our DIP credit agreement.

- $28.1 million, including $13.1 million of interest added to the principal of the note, in a note issued by O'Sullivan Holdings with warrants to purchase 6.0% of our common and Series B junior preferred stock on a fully diluted basis. These warrants were assigned a value of $3.5 million.

The reconciliation of consolidated principal amount of indebtedness to recorded book value as of September 30, 2005, is as follows:

	Consolidated indebtedness	Original issue discount net of accretion	Warrants net of accretion	Recorded book value of long-term debt
		(in thousands)		
Credit agreement	$ 4,961	–	–	4,961
Senior secured notes	100,000	$ (3,348)	$ –	$ 96,652
Senior subordinated notes	96,000	(1,086)	(2,027)	92,887
Industrial revenue bonds	10,000	–	–	10,000
O'Sullivan Holdings note	28,072	–	(2,117)	25,955
Total	$ 239,033	$ (4,434)	$ (4,144)	$ 230,455

Liquidity

We have a stockholders' deficit of approximately $233.8 million as of September 30, 2005, incurred a net loss of $15.2 million for the quarter ended September 30, 2005 and expect to incur a loss before reorganization items during fiscal 2006. Our net sales have declined each of the past five years and will decline further in fiscal 2006. Our sales and operating results during the quarter ended September 30, 2005 were impacted by a decline in the RTA furniture market, increased competition from foreign and domestic competitors, high raw material costs and principally particleboard and fiberboard and reorganization charges. Our independent registered public accounting firm issued a "going concern" qualification to their report for the year ended June 30, 2005 regarding our financial condition, expressing their concern that we may not be able to continue to operate as a going concern.

By filing for protection under the United States Bankruptcy Code, we defaulted under the indenture for our senior secured notes, the indenture for our senior subordinated notes and the agreement governing the O'Sullivan Holdings note. Under our modified second amended plan of reorganization, which was confirmed by the U.S. Bankruptcy Court on March 16., 2006 and became effective on April 12, 2006, our debt has been substantially reduced. See "Plan of Reorganization" above.

Exit Loan Agreement. We emerged from bankruptcy on April 12, 2006 with $10 million of secured notes and an asset backed loan agreement for up to $50 million of secured revolving loans. The loan agreement provides for a revolving line of credit of up to $50 million, subject to a borrowing base, with a $15 million sublimit for letters of credit. Indebtedness under the loan agreement is secured with first liens on substantially all of our assets. Under the loan agreement, borrowings bear interest, at O'Sullivan's option, at either a Eurodollar rate plus a margin or the prime rate plus a margin. The initial margins are 2.00% per annum for Eurodollar loans and 0.50% per annum for prime rate based loans. The applicable margins will vary each calendar quarter starting with the quarter beginning October 1, 2006. The amount of the margins will vary based on the unused availability under the loan agreement.

We borrowed approximately $27.5 million under the exit loan agreement on April 11, 2006. In addition, $2.7 million of letters of credit are outstanding under the loan agreement. We expect to borrow an additional $6.7 million shortly to fund additional fees and expenses associated with the plan of reorganization. After these initial borrowings, we will be able to use borrowings under the loan agreement for general operating, working capital and other proper corporate purposes. Upon our exit from bankruptcy, availability under the loan agreement, after the additional $6.7 million of borrowings, was approximately $4.5 million.

Off-balance Sheet Arrangements. At September 30, 2005, we had no off-balance sheet arrangements that have or are likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations. The following table illustrates our contractual obligations due in the future:

		Payments Due by Period (in thousands)			
Contractual Obligations	Total	Less than 12 months	12-36 months	36-60 months	After 60 months
Indebtedness[1]	$ 239,033	$ 239,033	$ –	$ –	$ –
Cash interest on indebtedness[2]	1,022	1,022	–	–	–
Tax Benefit payments to RadioShack[3]	70,067	34,388	27,839	7,840	–
Operating leases - unconditional	7,166	1,553	2,028	1,650	1,935
Senior preferred stock[4]	48,655	–	–	–	48,655
Other long-term obligations[5]	4,716	4,531	135	1	50
Total contractual cash obligations	$ 370,659	$ 280,527	$ 30,002	$ 9,491	$ 50,640

[1]All of our indebtedness for borrowed money is shown as short-term because of our bankruptcy filing and the resulting defaults under the documents governing such indebtedness. See "Overview—Plan of Reorganization" for a summary of the treatment of our indebtedness under our modified second amended plan of reorganization.

[2]Interest shown is through October 14, 2005, the date of our filing for protection under Chapter 11 of the U.S. Bankruptcy Code for indebtedness that was not fully paid after our bankruptcy filing and the senior preferred stock.

[3]Timing and amounts of payments to RadioShack are contingent on actual taxable income adjusted to exclude the increased interest expense arising from the 1999 recapitalization and merger. The amounts in the table above represent the maximum amounts that were payable to RadioShack under the tax sharing agreement. Under our plan of reorganization, the tax sharing agreement was cancelled and no distribution will be made in respect thereof.

[4]The liquidation value plus accrued dividends for our senior preferred stock through June 30, 2005 is shown here. Dividends accumulating after June 30, 2005 are included as interest expense above. Under the terms of our modified second amended plan of reorganization, our senior preferred stock was cancelled and no distribution will be made with respect thereto.

[5]Represents (a) transaction fees in connection with our bankruptcy, (b) payments due under retirement agreements, (c) payments due under our Key Employee Retention Plan and (d) amounts due under our Deferred Compensation Plan. Under the terms of our modified second amended plan of reorganization, the Deferred Compensation Plan was cancelled and the retirement agreements were rejected, and amounts due thereunder will be treated as unsecured obligations.

Critical Accounting Policies and Estimates

Preparation of our consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management believes the most complex and sensitive judgments, because of their significance to our consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Item 8, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 2 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended June 30, 2005 filed with the Securities and Exchange Commission on April 10, 2006, describe the significant accounting estimates and policies used in preparation of our consolidated financial statements. Actual results in these areas could differ from management's estimates. There have been no significant changes in our accounting policies and estimates during the first three months of fiscal 2006 other than our adoption of SFAS 123(R), *Accounting for Stock-Based*

Compensation, and SFAS 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4*. Neither change in accounting policies had a material impact upon our results of operation or financial position.

Legal Proceedings

In August 2002, Ames Department Stores, Inc. decided to close all of its stores and liquidate. In August 2003, Ames filed suit against O'Sullivan Industries in the U.S. Bankruptcy Court, Southern District of New York alleging that payments made by Ames within 90 days prior to its bankruptcy constituted preferential transfers under the Bankruptcy Code that should be recovered from O'Sullivan Industries by Ames, together with interest. The alleged payments aggregate $2.1 million. We have responded to the suit denying we received any preferential payments. In May 2006, we settled Ames' preference claim and our administrative claim against Ames, with Ames agreeing to pay us a *de minimis* amount.

Cautionary Statement Regarding Forward Looking Information

Certain portions of this Report, and particularly the Notes to the Consolidated Financial Statements and the Management's Discussion and Analysis of Financial Condition and Results of Operations, contain forward-looking statements. These statements can be identified by the use of future tense or dates or terms such as "believe," "would," "expect," "anticipate" or "plan." These forward-looking statements involve risks and uncertainties. Actual results may differ materially from those predicted by the forward-looking statements. Factors and possible events which could cause results to differ include:

- the effects of our filing for bankruptcy on October 14, 2005, including the impairment of our obligations and changes to our historical costs as a result of our emergence from bankruptcy in April 2006;
- changes from anticipated levels of sales, whether due to
  - future national or regional economic and competitive conditions, as we have seen in recent years with slower economic conditions and declines in the sales of personal computers;
  - new domestic or foreign entrants into the industry, as with competitors and retailers sourcing products competitive with ours from overseas in recent years;
  - customer acceptance of existing and new products, as have experienced in recent years;
- limitations on our borrowing capacity under our loan agreement;
- raw material cost increases, particularly in particleboard and fiberboard, as occurred in fiscal 2004 and are again occurring in fiscal 2006;
- pricing pressures due to excess capacity in the ready-to-assemble furniture industry, as is occurring now, or customer demand in excess of our ability to supply product;
- transportation cost increases, due to higher fuel costs or otherwise;
- loss of or reduced sales to significant customers as a result of bankruptcy, liquidation, merger, acquisition or any other reason, as occurred with the liquidation of Ames in fiscal 2003, with the reorganization of Kmart beginning in fiscal 2002 and with the loss of significant business at Best Buy and a mass merchant in fiscal 2005;
- actions of current or new competitors, foreign or domestic, that increase competition with our products or prices, as has been occurring with imported products from China and other countries in recent years;
- the consolidation of manufacturers in the ready-to-assemble furniture industry;
- increased advertising costs associated with promotional efforts;
- increased interest rates;
- pending or new litigation or governmental regulations;
- other uncertainties which are difficult to predict or beyond our control; and
- the risk that we incorrectly analyze these risks and forces, or that the strategies we develop to address them could be unsuccessful.

See also the Risk Factors section in our annual report on Form 10-K for the year ended June 30, 2005.

Because these forward-looking statements involve risks and uncertainties, actual results may differ significantly from those predicted in these forward-looking statements. You should not place a lot of weight on these statements. These statements speak only as of the date of this document or, in the case of any document incorporated by reference, the date of that document.

All subsequent written and oral forward-looking statements attributable to O'Sullivan or any person acting on our behalf are qualified by the cautionary statements in this section. We will have no obligation to revise these forward-looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our market risk is affected by changes in interest rates, foreign currency exchange rates and certain commodity costs. Under our policies, we may use natural hedging techniques and derivative financial instruments to reduce the impact of adverse changes in market costs. We do not hold or issue derivative instruments for trading purposes. We believe that our foreign exchange risk is not material.

We have market risk in interest rate exposure, primarily in the United States. Interest rate instruments may be used to adjust interest rate exposures when appropriate based on market conditions. At May 8, 2006, all of our indebtedness was subject to variable interest rates. A change in interest rates of one percentage point would change our cash interest by about $400,000 annually.

Due to the nature of our product lines, we have material sensitivity to some commodities, including particleboard, fiberboard, corrugated cardboard and hardware. We manage commodity cost exposures primarily through the duration and terms of our vendor agreements. A 1.0% change in our raw material costs would affect our cost of sales by approximately $1.2 million annually.

In fiscal 2004, market costs for particleboard, our largest-cost raw material, increased about 40% to 50%, depending on thickness and origin. Market costs for fiberboard increased about 30%. Costs increased as demand for particleboard and fiberboard increased and because producers reduced their manufacturing capacity. Market costs for particleboard declined slightly in fiscal 2005, while fiberboard costs were flat. Costs have increased further in fiscal 2006. Because we utilize first-in, first-out accounting for our inventory, not all of the cost increases are immediately reflected in our cost of goods sold. These cost increases will reduce our operating margins and operating income for fiscal 2006 and perhaps beyond.

We are endeavoring to reduce the impact of the cost increases through our productivity programs, by cost increases and by the eventual inclusion of the higher costs in the pricing of our products. In our productivity programs, we endeavor to remove costs from the production of a product without sacrificing utility or quality of the product. We cannot assure you that we will be successful in offsetting these or future potential raw material cost increases.

We cannot assure you that raw materials costs will not increase further in the future.

ITEM 4. CONTROLS AND PROCEDURES.

O'Sullivan maintains disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) of the Securities Exchange Act of 1934) that are designed to ensure that information required to be disclosed in O'Sullivan's Exchange Act reports is recorded, processed, summarized and reported accurately within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to O'Sullivan's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Nevertheless, the controls and procedures did not allow O'Sullivan to file its annual report on Form 10-K for the fiscal year ended June 30, 2005 or its quarterly reports for the quarters ended September 30, 2005, December 31, 2005 and March 31, 2006 within the time periods specified by the SEC's rules and form because of O'Sullivan's efforts to reorganize under the protection of Chapter 11 of the U.S. Bankruptcy Code. 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 was necessarily required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of the end of the period covered by this report, O'Sullivan carried out an evaluation, under the supervision and with the participation of O'Sullivan's management, including O'Sullivan's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of O'Sullivan's disclosure controls and procedures. Based on the foregoing, O'Sullivan's Chief Executive Officer and Chief Financial Officer concluded that O'Sullivan's disclosure controls and procedures were effective.

During our most recent quarter, there have been no changes in O'Sullivan's internal controls over financial reporting identified in the evaluation described above that has materially affected or is reasonably likely to materially affect, O'Sullivan's internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 6. EXHIBITS.

A list of exhibits required to be filed as part of this Report is set forth in the Index to Exhibits, which immediately precedes such exhibits, and is incorporated herein by reference.

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.

O'SULLIVAN INDUSTRIES HOLDINGS, INC.

Date: June 2, 2006

By: /s/ Rick A. Walters
Rick A. Walters
President and
Chief Executive Officer

Date: June 2, 2006

By: /s/ Russell L. Steinhorst
Russell L. Steinhorst
Senior Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

Exhibit No.	Description
3.1 & 4.1	Second Amended and Restated Certificate of Incorporation of O'Sullivan Holdings (incorporated by reference to Exhibit 3 to Current Report on Form 8-K dated May 17, 2004 (File No. 0-28493))
3.2 & 4.2	Bylaws of O'Sullivan (incorporated by reference from Exhibit 3.2 to Annual Report on Form 10-K of Holdings for the fiscal year ended June 30, 2004 (File No. 0-28493))
3.2a & 4.2a	Amendment to By-laws of O'Sullivan (incorporated by reference from Exhibits 3.2a and 4.2a to quarterly report on Form 10-Q of Holdings for the quarter ended September 30, 2005 (File No. 0-28493))
10.1a	Amendment and Consent No. 3 dated as of August 17, 2005 to Credit Agreement dated as of September 29, 2003 by and among O'Sullivan Industries, O'Sullivan Furniture Factory Outlet, Inc. and O'Sullivan Industries - Virginia, as Borrowers, and the other persons party thereto that are designated as credit parties and General Electric Capital Corporation, as Agent, L/C issuer and as a lender, and the other financial institutions party hereto, as lenders (incorporated by reference to Exhibit 10 to Current Report on Form 8-K of O'Sullivan Holdings dated August 17, 2004 (File No. 0-28493))
10.1b	Amendment No. 4 to the Credit Agreement dated as of August 22, 2005 (incorporated by reference to Exhibit 10.1d to Annual Report on Form 10-K of O'Sullivan Holdings for the year ended June 30, 2005(File No. 0-28493))
10.1c	Amendment and Consent No. 5 to the Credit Agreement dated as of September 16, 2005 (incorporated by reference to Exhibit 10.1e to Annual Report on Form 10-K of O'Sullivan Holdings for the year ended June 30, 2005(File No. 0-28493))
10.2	Forbearance Agreement dated August 12, 2005 by and among O'Sullivan Industries, O'Sullivan Holdings, O'Sullivan Virginia, O'Sullivan Furniture Factory Outlet, Inc., GoldenTree Asset Management L.P., as investment advisor for certain Senior Secured Noteholders, and Mast Credit Opportunities I, (Master) Ltd. (incorporated by reference to Exhibit 10 to Current Report on Form 8-K dated August 15, 2005 (File No. 0-28493))
10.2b	Amendment No. 1 to the Forbearance Agreement dated as of September 13, 2005 (incorporated by reference to Exhibit 10 to Current Report on Form 8-K of O'Sullivan Holdings dated September 14, 2005 (File No. 0-28493))
10.2b	Amendment No. 2 to the Forbearance Agreement dated as of September 26, 2005 (incorporated by reference to Exhibit 10 to Current Report on Form 8-K of O'Sullivan Holdings dated September 29, 2005 (File No. 0-28493))
10.3	Description of Key Employee Retention Plan (incorporated by reference to Exhibit 10.46 to Annual Report on Form 10-K of O'Sullivan Holdings for the year ended June 30, 2005(File No. 0-28493))
10.48	Letter agreement dated as of August 22, 2005 between O'Sullivan Industries and FTI Consulting relating to accounting and reorganization consulting services (incorporated by reference to Exhibit 10.48 to Annual Report on Form 10-K of O'Sullivan Holdings for the year ended June 30, 2005(File No. 0-28493))
31.1	Certification of chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit No.	Description
32.1	Certification of chief executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of chief financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002