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 December 31, 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, Roswell, Georgia	30076
(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 [ ] No [X]

As of June 1, 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
(DEBTOR-IN-POSSESSION)
UNAUDITED CONSOLIDATED BALANCE SHEETS
(in thousands, except for share data)

Assets	December 31, 2005	June 30, 2005
Current assets:		
Cash and cash equivalents	$ 441	$ 1,213
Trade receivables, net of allowance for doubtful accounts of $2,923 and $2,455, respectively	25,004	19,838
Inventories, net	41,903	43,608
Prepaid expenses and other current assets	6,712	2,184
Total current assets	74,060	66,843
Property, plant and equipment, net	38,515	43,155
Other assets	258	6,600
Goodwill	38,088	38,088
Total assets	$ 150,921	$ 154,686

Liabilities and Stockholders' Deficit	December 31, 2005	June 30, 2005
Current liabilities, not subject to compromise:		
Accounts payable	$ 8,450	$ 10,319
Accrued advertising	8,275	9,939
Accrued liabilities	5,674	15,756
Short-term debt	20,891	225,046
Total current liabilities not subject to compromise	43,290	261,060
Non-current liabilities not subject to compromise:		
Mandatorily redeemable senior preferred stock	–	31,437
Other liabilities	3,155	10,839
Payable to RadioShack	–	70,067
Total non-current liabilities not subject to compromise	3,155	112,343
Liabilities subject to compromise	350,185	–
Total liabilities	396,630	373,403
Commitments and contingent liabilities (Notes 2, 9, 11 and 12)		
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 December 31, 2005 and June 30, 2005	122,949	116,550
Junior preferred stock, Series C, $0.01 par value, 50,000 shares authorized, none and 50,000 shares issued at December 31, 2005 and June 30, 2005	1	1
Class A common stock, $0.01 par value; 2,000,000 shares authorized; 1,368,000 issued; and 1,356,788 outstanding at December 31, 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 December 31, 2005 and June 30, 2005	7	7
Additional paid-in capital	13,057	13,057
Retained deficit	(383,839)	(351,150)
Treasury stock, 11,208.75 shares of Class A common stock at December 31, 2005 and June 30, 2005, at cost	–	–
Accumulated other comprehensive income	2,102	2,804
Total stockholders' deficit	(245,709)	(218,717)
Total liabilities and stockholders' deficit	$ 150,921	$ 154,686

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

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

	Three months ended December 31, 2005	Three months ended December 31, 2004	Six months ended December 31, 2005	Six months ended December 31, 2004
Net sales	$ 50,911	$ 66,186	$ 104,156	$ 128,866
Cost of sales	42,439	57,117	88,418	108,360
Gross profit	8,472	9,069	15,738	20,506
Operating expenses:				
Selling, marketing and administrative	11,692	12,233	22,751	23,425
Restructuring costs	139	–	192	–
Operating loss	(3,359)	(3,164)	(7,205)	(2,919)
Other income (expense):				
Interest expense (Contractual interest was $9,360 and $18,561 for the three and six months ended December 31, 2005.)	(1,776)	(8,908)	(10,983)	(17,745)
Interest income	7	7	13	15
Loss before reorganization items and income tax provision	(5,128)	(12,065)	(18,175)	(20,649)
Reorganization items:				
Professional fees	5,367	–	7,422	–
Financing costs	612	–	693	–
	5,979	–	8,115	–
Loss before income tax provision	(11,107)	(12,065)	(26,290)	(20,649)
Income tax provision	–	–	–	–
Net loss	(11,107)	(12,065)	(26,290)	(20,649)
Dividends on Series B junior preferred stock	(845)	(4,902)	(6,399)	(9,278)
Net loss attributable to common stockholders	$ (11,952)	$ (16,967)	$ (32,689)	$ (29,927)

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

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

	Six months ended December 31, 2005	Six months ended December 31, 2004
Cash flow provided (used) by operating activities:		
Net loss	$ (26,290)	$ (20,649)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation and amortization	4,978	6,313
Amortization of debt issuance cost	495	848
Amortization of debt discount and accrued interest on O'Sullivan Holdings note	1,485	2,338
Interest and accretion on mandatorily redeemable senior preferred stock	1,557	2,473
Bad debt expense (recoveries), net	1	(165)
Loss on disposal of assets	5	7
Accrual of special payment on options to purchase Series A junior preferred stock	483	785
Changes in assets and liabilities:		
Trade receivables	(5,167)	(472)
Inventories	1,705	13,593
Other assets	(3,613)	387
Accounts payable and accrued liabilities	10,969	762
Changes in assets and liabilities related to reorganization:		
Other assets	(915)	–
Accounts payable and accrued liabilities	3,594	–
Net cash provided (used) by operating activities	(10,713)	6,220
Cash flow used for investing activities:		
Capital expenditures	(256)	(503)
Cash flow provided by financing activities:		
Proceeds from borrowings	54,044	5,700
Repayment of borrowings	(53,150)	(5,700)
Repayment of employee notes	–	30
Proceeds from issuance of common and preferred securities	–	16
Payments for reorganization costs related to credit facility (post-petition)	(693)	–
Net borrowings under short-term credit facility (post-petition)	9,996	–
Net cash flow provided by financing activities	10,197	46
Net increase (decrease) in cash and cash equivalents	(772)	5,763
Cash and cash equivalents, beginning of period	1,213	5,250
Cash and cash equivalents, end of period	$ 441	$ 11,013
Supplemental cash flow information:		
Payments for reorganization items		
Professional fees	$ 5,435	–
Financing costs	693	–
Total	$ 6,128	

	Six months ended December 31,	
	2005	2004
Interest paid	$ 638	$ 12,206
Income taxes paid	–	–
Non-cash investing and financing activities:		
Capital expenditures included in accounts payable	$ –	$ 43
Dividends accrued but not paid	6,399	9,278

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

O'SULLIVAN INDUSTRIES HOLDINGS, INC. AND SUBSIDIARIES
(DEBTOR-IN-POSSESSION)
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
For the six months ended December 31, 2005
(in thousands)

	Series B junior preferred stock		Series C 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	933	$ 116,550	50	$ 1	1,357	$ 14	701	$ 7	$ 13,057
Net loss									
Cumulative translation adjustments									
Dividends and accretion on junior preferred stock		6,399							
Balance, December 31, 2005	933	$ 122,949	50	$ 1	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	(26,290)				(26,290)	$ (26,290)
Cumulative translation adjustments				(702)	(702)	(702)
Dividends on Series B junior preferred stock	(6,399)					
Balance, December 31, 2005	$ (383,839)	11	$ –	$ 2,102	$ (245,709)	$ (26,992)

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

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 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.

In accordance with Statement of Position 90-7, *Financial Reporting by Entities in Reorganization under the Bankruptcy Code*, on October 14, 2005, O'Sullivan reclassified certain liabilities on its balance sheet to "Liabilities subject to compromise," and certain interest expense and dividend accruals were discontinued. See Note 3.

Under Chapter 11 proceedings, actions by creditors to collect claims in existence on the filing date are stayed, absent specific authorization by the bankruptcy court to pay such claims, while the company continues to manage the business as a debtor-in-possession. O'Sullivan received approval from the U.S. Bankruptcy Court to pay certain of its pre-petition claims including employee wages and certain employee benefits.

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 were jointly administered under case no. 05-83049. After the filing, O'Sullivan managed its business as debtor-in-possession. O'Sullivan emerged from bankruptcy on April 12, 2006 with the effectiveness of its 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, 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 fiscal 2006 was $6.6 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 the borrowing base as defined, 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. 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—Accounting Principles Applicable to O'Sullivan as Debtor-in-Possession

Since O'Sullivan was operating its business as debtor-in-possession at December 31, 2005, it has classified certain pre-petition liabilities as Liabilities subject to compromise in the accompanying consolidated balance sheet as required by SOP 90-7. These liabilities were impaired as a result of O'Sullivan's bankruptcy filing. The components of the impaired liabilities, net of capitalized loan fees, are as follows:

	December 31, 2005 (in thousands)
Accounts payable	$ 13,018
Accrued compensation	305
Accrued interest	14,298

Other accrued liabilities		566
Other non-current liabilities		9,157
Long-term debt, net of loan fees		209,781
Payable to RadioShack		70,067
Mandatorily redeemable senior preferred stock		32,994
	$	350,185

The treatment of these liabilities under our modified second amended plan of reorganization is discussed in Note 2 above.

In addition, as a result of our filing, O'Sullivan ceased the accrual of interest on the impaired liabilities and dividends on its preferred stock as of October 14, 2005. For the three months and six months ended December 31, 2005, the total contractual amount of interest expense and dividends that O'Sullivan was obligated pay, but did not due to the bankruptcy filing, was $9.4 million and $18.6 million, respectively. O'Sullivan also ceased amortization of debt discounts and capitalized loan expenses as of October 14, 2005. The amount of capitalized loan costs has been reclassified into Liabilities subject to compromise on the accompanying consolidated balance sheet. Had O'Sullivan recorded the interest expense and dividends and continued its amortization of debt discounts and loan fees, it would have reported a greater net loss and net loss attributable to common stockholders for the three months and six months ended December 31, 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 application method, O'Sullivan will continue to calculate expense related to its 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 and $4,000 during the three and six month periods ended December 31, 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 December 31, 2004	Six months ended December 31, 2004
Net loss as reported	$ (12,065)	$ (20,649)
Less: total stock-based compensation expense determined under fair value method for all stock options, net of related income tax	(2)	(3)
Pro forma net loss	$ (12,067)	$ (20,652)

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 second quarters of fiscal 2006 and fiscal 2005 were approximately $2.2 million and $2.1 million, respectively. Freight out costs in the six months ended December 31, 2005 and 2004 were $4.2 million and $4.2 million, respectively.

Note 6—Inventory

Inventory, net, consists of the following:

	December 31, 2005	June 30, 2005
	(in thousands)	
Finished goods	$ 20,593	$ 25,708
Work in process	4,541	4,011
Raw materials	12,671	9,622
Maintenance and Supplies	4,098	4,267
	$ 41,903	$ 43,608

Inventory reserves at December 31, 2005 and June 30, 2005 were $6.8 million and $7.0 million, respectively.

Note 7—Accrued Liabilities

Accrued liabilities consist of the following:

	December 31, 2005	June 30, 2005
	(in thousands)	
Accrued interest	$ 205	$ 7,677
Accrued compensation	3,080	5,256
Other	2,389	2,823
	$ 5,674	$ 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 are secured by substantially all the assets of O'Sullivan Industries and its guarantor subsidiaries O'Sullivan 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 includes 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 December 31, 2005 (in thousands)				
	O'Sullivan Holdings	O'Sullivan Industries	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ –	$ 36,010	$ 14,901	$ –	$ 50,911
Cost of sales	–	29,906	12,533	–	42,439
Gross profit	–	6,104	2,368	–	8,472
Operating expenses:					
Selling, marketing and administrative	61	10,025	1,606	–	11,692
Restructuring costs	–	116	23	–	139
Operating income (loss)	(61)	(4,037)	739	–	(3,359)
Other income (expense):					
Interest expense	(345)	(1,297)	(134)	–	(1,776)
Interest income	–	7	–	–	7
Equity in gain (loss) of subsidiary	(10,701)	605	–	10,096	–
Income (loss) before reorganization items and income tax provision	(11,107)	(4,722)	605	10,096	(5,128)
Reorganization items					
Professional fees	–	5,367	–	–	5,367
Financing costs	–	612	–	–	612
	–	5,979	–	–	5,979
Income (loss) before income tax provision	(11,107)	(10,701)	605	10,096	(11,107)
Income tax provision	–	–	–	–	–
Net loss	(11,107)	(10,701)	605	10,096	(11,107)
Dividends on Series B junior preferred stock	(845)	–	–	–	(845)
Net loss attributable to common stockholders	$ (11,952)	$ (10,701)	$ 605	$ 10,096	$ (11,952)

	Three months ended December 31, 2004 (in thousands)				
	O'Sullivan Holdings	O'Sullivan Industries	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ –	$ 50,228	$ 15,958	$ –	$ 66,186
Cost of sales	–	42,690	14,427	–	57,117
Gross profit	–	7,538	1,531	–	9,069
Operating expenses:					
Selling, marketing and administrative	73	10,538	1,622	–	12,233
Restructuring costs	–	192	–	–	192
Operating loss	(73)	(3,000)	(91)	–	(3,164)
Other income (expense):					
Interest expense	(2,110)	(6,652)	(146)	–	(8,908)
Interest income	5	2	–	–	7
Equity in loss of subsidiary	(9,887)	(237)	–	10,124	–
Loss before income tax provision	(12,065)	(9,887)	(237)	10,124	(12,065)
Income tax provision	–	–	–	–	–
Net loss	(12,065)	(9,887)	(237)	10,124	(12,065)
Dividends on Series B junior preferred stock	(4,902)	–	–	–	(4,902)
Net loss attributable to common stockholders	$ (16,967)	$ (9,887)	$ (237)	$ 10,124	$ (16,967)

	Six months ended December 31, 2005 (in thousands)				
	O'Sullivan Holdings	O'Sullivan Industries	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ –	$ 72,244	$ 31,912	$ –	$ 104,156
Cost of sales	–	61,226	27,192	–	88,418
Gross profit	–	11,018	4,720	–	15,738
Operating expenses:					
Selling, marketing and administrative	125	19,188	3,438	–	22,751
Restructuring costs	–	169	23	–	192
Operating income (loss)	(125)	(8,339)	1,259	–	(7,205)
Other income (expense):					
Interest expense	(2,635)	(8,030)	(318)	–	(10,983)
Interest income	–	13	–	–	13
Equity in earnings (loss) of subsidiary	(23,530)	941	–	22,589	–
Income (loss) before reorganization items and income tax provision	(26,290)	(15,415)	941	22,589	(18,175)
Reorganization items					
Professional fees	–	7,422	–	–	7,422
Financing costs	–	693	–	–	693
	–	8,115	–	–	8,115
Income (loss) before income tax provision	(26,290)	(23,530)	941	22,589	(26,290)
Income tax provision	–	–	–	–	–
Net income (loss)	(26,290)	(23,530)	941	22,589	(26,290)
Dividends on Series B junior preferred stock	(6,399)	–	–	–	(6,399)
Net income (loss) attributable to common stockholders	$ (32,689)	$ (23,530)	$ 941	$ 22,589	$ (32,689)

Six months ended December 31, 2004 (in thousands)					
	O'Sullivan Holdings	O'Sullivan Industries	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ –	$ 98,590	$ 30,276	$ –	$ 128,866
Cost of sales	–	81,645	26,715	–	108,360
Gross profit	–	16,945	3,561	–	20,506
Operating expenses:					
Selling, marketing and administrative	48	20,333	3,044	–	23,425
Operating income (loss)	(48)	(3,388)	517	–	(2,919)
Other income (expense):					
Interest expense	(4,179)	(13,314)	(252)	–	(17,745)
Interest income	11	4	–	–	15
Equity in earnings (loss) of subsidiary	(16,433)	265	–	16,168	–
Income (loss) before income tax provision	(20,649)	(16,433)	265	16,168	(20,649)
Income tax provision	–	–	–	–	–
Net income (loss)	(20,649)	(16,433)	265	16,168	(20,649)
Dividends on Series B junior preferred stock	(9,278)	–	–	–	(9,278)
Net income (loss) attributable to common stockholders	$ (29,927)	$ (16,433)	$ 265	$ 16,168	$ (29,927)

Condensed Consolidating Balance Sheets

December 31, 2005 (in thousands)					
	O'Sullivan Holdings	O'Sullivan Industries	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS:					
Current assets	$ –	$ 63,932	$ 10,128	$ –	$ 74,060
Property, plant and equipment, net	–	25,007	13,508	–	38,515
Other assets	–	258	–	–	258
Investment in subsidiaries	(182,323)	41,996	–	140,327	–
Goodwill	–	38,088	–	–	38,088
Receivable from affiliates	74,844	–	33,837	(108,681)	–
Total assets	$ (107,479)	$ 169,281	$ 57,473	$ 31,646	$ 150,921
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT):					
Current liabilities, not subject to compromise	$ 10	$ 30,319	$ 12,961	$ –	$ 43,290
Payable to affiliates	–	108,681	–	(108,681)	–
Other liabilities	365	2,790	–	–	3,155
Liabilities subject to compromise	137,855	209,814	2,516	–	350,185
Stockholders' equity (deficit)	(245,709)	(182,323)	41,996	140,327	(245,709)
Total liabilities and stockholders' equity (deficit)	$ (107,479)	$ 169,281	$ 57,473	$ 31,646	$ 150,921

	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
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

	Six months ended December 31, 2005 (in thousands)				
	O'Sullivan Holdings	O'Sullivan Industries	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net cash flows provided (used) by:					
Operating activities:	$ 356	$ (13,701)	$ 2,632	$ –	$ (10,713)
Investing activities:					
Capital expenditures	–	(237)	(19)	–	(256)
Repayment of loans to affiliates	(356)	–	–	356	–
Net	(356)	(237)	(19)	356	(256)
Financing activities:					
Advances (repayment) of loans from affiliates	–	3,033	(2,677)	(356)	–
Proceeds from borrowings	–	54,044	–	–	54,044
Repayment of borrowings	–	(53,150)	–	–	(53,150)
Payments for reorganization costs related to credit facility (post-petition)	–	(693)	–	–	(693)
Net borrowings under short-term credit facility (post-petition)	–	9,996	–	–	9,996
Net	–	13,230	(2,677)	(356)	10,197
Cash and cash equivalents:					
Net decrease in cash and cash equivalents	–	(708)	(64)	–	(772)
Cash and cash equivalents, beginning of period	–	1,045	168	–	1,213
Cash and cash equivalents, end of period	$ –	$ 337	$ 104	$ –	$ 441

	Six months ended December 31, 2004 (in thousands)				
	O'Sullivan Holdings	O'Sullivan Industries	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net cash flows provided by:					
Operating activities:	$ 687	$ 1,468	$ 4,065	$ –	$ 6,220
Investing activities:					
Capital expenditures	–	(383)	(120)	–	(503)
Repayment of loans to affiliates	(733)	4,069	–	(3,336)	–
Net	(733)	3,686	(120)	(3,336)	(503)
Financing activities:					
Advances (repayment) of loans from affiliates	–	733	(4,069)	3,336	–
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
Net	46	733	(4,069)	3,336	46
Cash and cash equivalents:					
Net increase (decrease) in cash and cash equivalents	–	5,887	(124)	–	5,763
Cash and cash equivalents, beginning of period	–	5,023	227	–	5,250
Cash and cash equivalents, end of period	$ –	$ 10,910	$ 103	$ –	$ 11,013

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 and six months ended December 31, 2005 and 2004.

Note 10—Preferred Stock

O'Sullivan discontinued accruing dividends on its senior preferred stock, Series C junior preferred stock and Series B junior preferred stock upon filing for bankruptcy protection on October 14, 2005. It also discontinued accruing the special payment on options to purchase Series A junior preferred stock on that date.

Pursuant to our modified second amended plan of reorganization, all of our common and preferred stock was cancelled and discharged on the effective date of the plan; and no distribution was, or will be, made with respect thereto. All options and warrants to purchase common or preferred stock were similarly cancelled and discharged pursuant to the plan.

Note 11—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 $86,000 and $150,000 recognized during the first half 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 December 31, 2005 and June 30, 2005 were $539,000 and $453,000, respectively, and are included in Liabilities subject to compromise on the accompanying consolidated balance sheet at December 31, 2005 and in Accrued liabilities on the accompanying consolidated balance sheet at June 30, 2005.

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 December 31, 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 12—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. The payable to RadioShack is included in Liabilities subject to compromise on the December 31, 2005 balance sheet. See Note 3

Under O'Sullivan's plan of reorganization, the tax sharing agreement was discharged and cancelled and no distribution was, or will be, 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 13—Other Comprehensive Income

O'Sullivan's comprehensive income is comprised of net income (loss) and foreign currency translation adjustments. The components of comprehensive income for the three and six month periods ended December 31 are:

	Three months ended December 31,		Six months ended December 31,	
	(in thousands)			
	2005	2004	2005	2004
Net loss	$ (11,107)	$ (12,065)	$ (26,290)	$ (20,649)
Cumulative translation adjustments	(848)	(19)	(702)	640
Comprehensive loss	$ (11,955)	$ (12,084)	$ (26,992)	$ (20,009)

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 were 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 half of fiscal 2006 was $6.6 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.

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.

- 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 our 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. 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 19.2% in the first half of fiscal 2006 from $128.9 million to $104.2 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 loss increased to $7.2 million in the first half of fiscal 2006 from $2.9 million 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 December 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 December 31, 2005 fell by $15.3 million, or 23.1%, to $50.9 million from $66.2 million for the quarter ended December 31, 2004. Net sales for the six months ended December 31, 2005 decreased by $24.7 million, or 19.2%, to $104.2 million from $128.9 million for the six months ended December 31, 2004. Our year to date sales declined in the office superstore, discount mass merchant and electronic superstore channels due to extremely competitive conditions, economic uncertainties and loss of market share noted above. Sales in the home improvement channel increased in the first half of the fiscal year. International sales increased for both the quarter and the year to date due to stronger sales in Canada.

Gross Profit. Gross profit decreased to $8.4 million, or 16.6% of sales, for the three month period ended December 31, 2005, from $9.1 million, or 13.7% of sales, for the comparable prior year quarter. The gross margin percentage for the second quarter of fiscal 2005 improved primarily because of improved pricing and the rationalization of low-margin sales, partially offset by lower production levels and higher raw material costs and freight costs. For the six months ended December 31, 2005, gross profit declined to $15.7 million, or 15.1% of sales, from $20.5 million, or 15.9% of sales. Gross profit declined for the first half of fiscal 2005 because of lower production levels impacting overhead absorption and high raw material costs, partially offset by product pricing and the rationalization of low-margin sales.

Selling, Marketing and Administrative Expenses. Selling, marketing and administrative expenses declined to $11.7 million, or 23.0% of net sales, for the three month period ended December 31, 2005, compared to $12.2 million, or 18.5% of net sales, for the quarter ended December 31, 2004. Sales and marketing compensation costs increased due to our increased efforts in this area, offset by declines in commissions, severance costs and recruiting costs.

For the six months ended December 31, 2005, selling, marketing and administrative expenses fell $674,000 from $23.4 million in fiscal 2005 to $22.8 million in fiscal 2006. The major factors contributing to the decrease were higher sales and marketing compensation and accounting fees, offset by lower severance and relocation expenses.

Restructuring Costs. The restructuring costs of $139,000 incurred during the second quarter of fiscal 2006, and of $192,000 incurred in the six months ended December 31, 2005, relate to the closing of our Australian operations and personnel changes in our South Boston, Virginia operations. We announced that the Australia 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 of $5.0 million for the first half of fiscal 2006 was lower than the $6.3 million of depreciation and amortization expenses for the comparable period of fiscal 2005. The continuing decline is due to our lower capital expenditures in recent years and the $8.0 million charge taken to reduce the value of our O'Sullivan Virginia fixed assets at the end of fiscal 2005.

Operating Loss. Operating loss was $3.4 million in the second quarter of fiscal 2006, an increase of $195,000 from the $3.2 million operating loss incurred in the second quarter of fiscal 2005. Our operating loss for the first six months of fiscal 2006 was $7.2 million, up $4.3 million from the $2.9 million operating loss incurred in fiscal 2005. Our operating loss increased because of our lower sales levels, lower production levels which adversely affected our fixed cost absorption and increasing raw material and freight costs.

Net Interest Expense. Net interest expense declined from $8.9 million in the second quarter of fiscal 2005 to $1.8 million in the second quarter of fiscal 2006 because we ceased accruing interest and amortizing loan fees and discounts on indebtedness included in Liabilities subject to compromise concurrently with our bankruptcy filing, partially offset by higher interest rates on the borrowings under our DIP credit agreement, which were higher than our borrowings under our credit agreement in fiscal 2005. Net interest expense decreased $6.8 million from $17.7 million for the first half of fiscal 2005 to $11.0 million for the first half of fiscal 2006 for the same reason. The following table summarizes our net interest expense:

	Three months ended December 31, (in thousands)		Six months ended December 31, (in thousands)	
	2005	2004	2005	2004
Interest expense on senior secured notes, credit agreement, senior credit facility, industrial revenue bonds, DIP credit agreement and senior subordinated notes	$ 1,307	$ 6,051	$ 7,446	$ 12,086
Interest income	(7)	(7)	(13)	(15)
Non-cash items:				
Interest expense on O'Sullivan Holdings note	127	786	969	1,536
Interest expense on mandatorily redeemable senior preferred stock	204	1,236	1,557	2,473
Amortization of debt discount	68	410	516	802
Amortization of loan fees	70	425	495	848
Net interest expense	$ 1,769	$ 8,901	$ 10,970	$ 17,730

If we had not ceased accruing interest expense, then interest expense would have been \$9.3 million and \$18.6 million for the three and six months ended December 31, 2005, respectively.

Reorganization Costs. We incurred \$6.0 million in the second quarter to pay reorganization costs. The year-to-date total is \$8.1 million. The costs include amounts accrued or paid to our legal, financial and restructuring advisers and to the advisers of our unsecured creditors committee and our senior secured note holder group. It also includes the costs incurred in connection with our DIP credit agreement.

Income Tax Provision. We recorded no tax expense in the three and six month periods ended December 31, 2005 and 2004 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. We incurred a net loss of \$11.1 million in the second quarter of fiscal 2006 compared to a net loss of \$12.1 million in fiscal 2005. Net loss increased \$5.6 million from a net loss of \$20.6 million in the first half of fiscal 2005 to a net loss of \$26.3 million in the first half of fiscal 2006. The increase in the loss for both periods was due to reorganization costs in fiscal 2006 and lower sales, lower operating levels and higher raw material costs, partially offset by a reduction in interest expense due to our bankruptcy filing.

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 December 31, 2005, we were highly leveraged and had a stockholders' deficit of approximately \$245.7 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 December 31, 2005, cash and cash equivalents totaled \$441,000.

Operating Activities. Net cash used by operating activities for the six months ended December 31, 2005 was \$10.7 million compared to net cash provided of \$6.2 million for the six months ended December 31, 2004. Cash flow from operations decreased for the following reasons.

- Net loss in the first half of fiscal 2006 was \$5.6 million higher than in the first half of fiscal 2005.
- Inventories declined \$1.7 million in the fiscal 2006 first half, compared to a decline of \$13.6 million in the first half of fiscal 2005.
- Accounts receivable increased \$5.2 million in the first half of fiscal 2006 compared with an increase of only \$472,000 in the first half of fiscal 2005.
- Accounts payable and accrued liabilities increased \$11.0 million during the first half of fiscal 2006 compared to an increase of \$762,000 during the first half of fiscal 2005. Accrued interest and accounts payable were materially higher at December 31, 2005 than at December 31, 2004 because we did not pay amounts outstanding when we filed for bankruptcy protection and because of short-term borrowings on our DIP credit agreement, partially offset by the reclassification of debt discount and loan fees to offset liabilities subject to compromise.

Investing Activities. We invested \$256,000 for capital expenditures for the six months ended December 31, 2005 compared to \$503,000 for the prior year six month period. We currently estimate that the total capital expenditure requirements for the remainder of the fiscal year will be approximately \$700,000, which we expect to fund from cash flow from operations or cash on hand.

Financing Activities. Our net cash provided by financing activities was $46,000 in the first half of fiscal 2005 from the issuance of stock and the repayment of a loan to an employee. At December 31, 2005, we had borrowed $10.0 million under our DIP credit agreement.

Our consolidated principal amount of indebtedness at December 31, 2005 was $246.7 million, consisting of the following:

- a DIP credit agreement providing for asset-based revolving credit of up to $35.0 million. At December 31, 2005, $10.0 million of borrowings were outstanding under the DIP credit agreement, and letters of credit aggregating approximately $15.2 million were outstanding. The DIP credit agreement provided for a revolving facility of up to $30 million with availability determined from a borrowing base including our accounts receivable and inventory, and a term facility of up to $5 million. 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. Subsequent to December 31, 2005, we borrowed $2.0 million under the term loan at a LIBOR rate plus 8.5%.

- $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. We used proceeds of the senior secured notes to repay the $88.7 million outstanding under our old senior credit facility and to pay issuance expenses. The notes are secured by a first-priority security interest in and lien on substantially all of our assets (and on O'Sullivan Industries' capital stock) other than accounts receivable, inventory, capital stock of O'Sullivan Industries' subsidiaries, deposit accounts, certain books and records and certain licenses, and by a second-priority security interest in and lien on substantially all of our accounts receivable, inventory, deposit accounts, certain books and records and certain licenses. The notes are guaranteed by O'Sullivan Holdings, O'Sullivan Virginia and O'Sullivan Furniture Factory Outlet, Inc.

- $96.0 million in 13-3/8% senior subordinated notes due 2009 issued with warrants to purchase 93,273 shares of our Class A common stock and 39,273 shares of our 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 in 1999 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. These bonds were repurchased and redeemed on March 1, 2006 using a draw on the letter of credit securing the bonds. The draw increased our indebtedness under the DIP credit agreement.

- $29.8 million, including $14.8 million of contractual interest added to the principal of the note, in a note issued by O'Sullivan Holdings with warrants to purchase 93,273 shares of our Class A common stock and 39,273 shares of our Series B junior preferred stock on a fully diluted basis. These warrants were assigned a value of $3.5 million.

Liquidity We had a stockholders' deficit of approximately $245.7 million as of December 31, 2005, incurred a net loss of $26.3 million for the six months ended December 31, 2005 and expect to incur additional losses during the remainder of the fiscal year ending June 30, 2006. Our net sales have declined each of the past five years and will decline again in fiscal 2006. Our sales and operating results during fiscal 2005 and the first two quarters of fiscal 2006 were impacted by a decline in the RTA furniture market, increased competition from foreign and domestic competitors, a product mix reflecting more promotional merchandise, and higher raw material costs, principally particleboard and fiberboard. 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. We filed for protection under Chapter 11 of the U.S. Bankruptcy Code on October 14, 2005.

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 December 31, 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.

As of December 31, 2005, our contractual obligations due in the future mature as follows:

		Payments Due by Period (in thousands)			
Contractual Obligations	Total	Less than 12 months	12-36 months	36-60 months	After 60 months
Liabilities subject to compromise	$ 350,185	$ 350,185	$ –	$ –	$ –
Short-term indebtedness	20,891	20,891	–	–	–
Cash interest on indebtedness[1]	654	654	–	–	–
Operating leases—unconditional	6,961	1,631	1,966	1,765	1,599
Other obligations[2]	4,254	4,254	–	–	–
Total contractual cash obligations	$ 382,945	$ 377,615	$ 1,966	$ 1,765	$ 1,599

[1]Includes interest expense on the industrial revenue bonds and under our DIP credit agreement. The industrial revenue bonds were repurchased and redeemed on March 1, 2006, resulting in increased borrowings under our DIP credit agreement. The DIP credit agreement was refunded with proceeds of our loan agreement on April 11, 2006. We have not included interest on our obligations after we emerged from bankruptcy.

[2]Represents (a) transaction fees in connection with our bankruptcy and (b) payments due under our Key Employee Retention Plan.

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 7, "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, 2005, 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 six months of fiscal 2006.

Legal Proceedings

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. We received the summons in this action on September 22, 2003. We 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:

- our bankruptcy filing on October 14, 2005;
- 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 we have experienced in recent years;
- lower borrowing availability under our loan agreement due to efforts to reduce our inventory levels;
- significant indebtedness that may limit our financial and operational flexibility;
- raw material cost increases, particularly in particleboard and fiberboard, as occurred in fiscal 2005;
- 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 and 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 2004;
- 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 such as the arbitration involving RadioShack;
- 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. We manage interest rate exposure through our mix of fixed and floating rate debt. Interest rate instruments may be used to adjust interest rate exposures when appropriate based on market conditions. At December 31, 2005, $20.9 million of our debt was subject to variable interest rates. As of May 18, 2006, a change in interest rates of one percentage point would change our interest expense by about $435,000 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 $1.1 million annually.

In fiscal 2005, market costs for particleboard, our largest-cost raw material, increased about 40% to 50%, depending on type, 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 the first half of fiscal 2005, while fiberboard costs declined slightly in the second quarter of fiscal 2005. After the second quarter of fiscal 2006, we have seen cost increases in particleboard, with the market cost approximately 16% higher than at December 31, 2005. Current market conditions suggest these costs may increase further. The high costs for particleboard and fiberboard reduced our operating margins and operating income in fiscal 2005 and continue to affect us in fiscal 2006.

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.

In the short term, we expect that raw materials costs will continue to increase.

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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

An annual meeting of stockholders of O'Sullivan was held on November 10, 2005 to elect two Class III directors. We did not solicit proxies. Messrs. Keith E. Alessi and Richard R. Leonard were reelected as Class III directors. Messrs. Alessi and Leonard each received 1,016,619 votes for reelection; no votes were withheld. The terms of office of Messrs. Richard D. Davidson, William J. Denton, Charles Macaluso, Robert S. Parker and Harold O. Rosser did not expire in 2005; they continued as directors of O'Sullivan until the effectiveness of our modified second amended plan of reorganization on April 12, 2006.

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, 2005

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	Page No.
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 Exhibit 3.2a to Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (File No. 0-28493))	
10.1	Post-Petition Credit and Security Agreement dated as of October 21, 2005 by and among O'Sullivan Industries, Inc., O'Sullivan Furniture Factory Outlet, Inc., O'Sullivan Virginia, Inc. and O'Sullivan Industries Holdings, Inc., as Borrowers, and The CIT Group/Business Credit, Inc., as Agent, L/C Issuer and a Lender and the other financial institutions party thereto, as Lenders (incorporated by reference to Exhibit 10 to Current Report on Form 8-K dated October 27, 2005 (File No. 0-28493))	
10.2	Severance Agreement dated as of December 13, 2005 between O'Sullivan Industries, Inc. and Michael L. Franks (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K dated January 19, 2006 (File No. 0-28493))	
31.1	Certification of chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	33
31.2	Certification of chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	34
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	35
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	36