SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended June 30, 2003

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.)
1900 Gulf Street, Lamar, Missouri	64759-1899
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (417) 682-3322

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Senior Preferred Stock, par value $0.01 per share

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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Securities Exchange Act of 1934 Rule 12b-2). Yes [ ] No [X]

As of August 20, 2003, 1,368,000 shares of common stock of O'Sullivan Industries Holdings, Inc. were outstanding. The aggregate market value of the voting stock held by non-affiliates of O'Sullivan Industries Holdings, Inc. can not be calculated because this stock is not traded.

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PART I

Item 1. Business.

History and Overview

O'Sullivan Industries Holdings, Inc., a Delaware corporation, is a leading designer, manufacturer and distributor of ready-to-assemble furniture in the United States. O'Sullivan Industries Holdings, Inc. is a holding company with no material operations. It owns all the capital stock of O'Sullivan Industries, Inc., a Delaware corporation. O’Sullivan Industries, Inc. was founded in 1954 by Thomas M. O’Sullivan, Sr. and was acquired by Tandy Corporation in 1983. In 1993, Tandy transferred O’Sullivan Industries to its subsidiary TE Electronics Inc. In February 1994, TE Electronics Inc. transferred O’Sullivan to O’Sullivan Industries Holdings, Inc. in exchange for O’Sullivan Holdings common stock and O’Sullivan Holdings’ obligations under the tax sharing agreement. TE Electronics Inc. then sold its shares of O’Sullivan Holdings stock in a public offering. On November 30, 1999, O’Sullivan Holdings completed a recapitalization and merger through which the outstanding stock of O’Sullivan Holdings was purchased by BRS, 34 members of our management and an affiliate of a former director. O'Sullivan Industries, Inc. owns all of the capital stock of O'Sullivan Industries - Virginia, Inc., a Virginia corporation, and O’Sullivan Furniture Factory Outlet, Inc., a Missouri corporation.

Our products provide the consumer with high quality, value and easy-to-assemble furniture and comprise a broad range of product offerings, including desks, computer workcenters, entertainment centers, television and audio stands, bookcases, storage units and cabinets. In calendar year 2002, we were the second-largest manufacturer of RTA furniture in the U.S., and our estimated share of RTA furniture sales was approximately 17%. For the fiscal year ended June 30, 2003, we had net sales of $289.2 million.

We distribute our products primarily through multi-store retail chains, including office superstores, discount mass merchants, home centers and consumer electronic superstores. Our largest retail customers include OfficeMax, Office Depot, Wal-Mart, Lowe’s and Staples. We service our customers from two modern manufacturing and distribution facilities totaling approximately 1.8 million square feet, located in Lamar, Missouri and South Boston, Virginia. Our manufacturing facilities are equipped with highly automated manufacturing processes which enhance our efficiency and flexibility. Our production capabilities enable us to optimally serve our customers and profitably pursue the most attractive categories of the RTA furniture market.

O'Sullivan Industries Holdings, Inc. is dependent on O'Sullivan Industries, Inc., to fund the interest cost on $22.2 million of debt, including accrued interest, and dividends on mandatorily redeemable senior preferred stock (liquidation value plus accumulated dividends totaling $37.4 million at June 30, 2003).

References to the words "O'Sullivan," "we," "our" and "us" refer to O'Sullivan Industries Holdings, Inc., and its subsidiaries. References to "O'Sullivan Holdings" refer to O'Sullivan Industries Holdings, Inc. only. References to "O'Sullivan Industries" refer to O'Sullivan Industries, Inc. and its subsidiaries. References to “O'Sullivan Industries - Virginia” refer to O'Sullivan Industries - Virginia, Inc.

We engage in one industry segment: the design, manufacture and sale of ready-to-assemble, or RTA, furniture.

Industry Overview

The RTA furniture industry is a segment of the broader residential wood furniture industry with retail sales of approximately $15 billion per year. In 2002, RTA furniture retail sales totaled approximately $3.3 billion. RTA furniture encompasses a broad range of furniture products including desks, computer workcenters, entertainment centers, television and audio stands, bookcases, cabinets and living room and bedroom furniture. RTA furniture is sold through a broad array of distribution channels, including discount mass merchants, office superstores, consumer electronic superstores, home centers, and national department stores. The majority of RTA furniture sales are made through discount mass merchants such as Wal-Mart, Target and Kmart and office superstores such as Office Depot, OfficeMax and Staples. Although a large number of companies manufacture RTA furniture, the RTA furniture industry is relatively concentrated with the top five North American RTA furniture manufacturers accounting for an estimated 70% of U.S. RTA furniture retail sales in 2002.

The RTA furniture industry experienced significant growth in the mid to late 1990s. According to *HomeWorld Business*, the compounded annual growth rate of RTA furniture retail sales from 1995 to 2000 was approximately 8%. Since 2000, the RTA furniture industry has declined in line with the broader furniture market, largely as a result of the closure of several significant retailers, a reduction in the demand for home office furniture due to a slowdown in demand for personal computers and increased competition from imported products. In response to these industry challenges, we have recently expanded into new furniture categories, such as home storage and organization. The home storage and organization market includes product offerings such as closet shelving systems, garage storage and workshop storage. Annual retail sales for the home storage and organization market were estimated at approximately $5 billion for calendar 2000. We have also increased our presence in the commercial office furniture industry. The commercial office furniture market includes furniture used in commercial offices such as panel and modular systems, seating, storage units, files, tables and desks in wood and other materials, such as steel and glass. The commercial office furniture market is significantly larger than the RTA furniture market with wholesale sales estimated at approximately $9 billion in calendar 2002.

Competitive Strengths

We believe that we benefit from the following competitive strengths:

Leader in RTA Furniture Market. We are the second-largest RTA furniture manufacturer in the U.S., a position that we have held for the last three years. In calendar year 2002, our estimated share of the RTA furniture market was approximately 17%. Our experience in the design and manufacturing of innovative and high quality RTA furniture helps us to maintain a leading position in the markets we serve. Additionally, our size and ability to offer our products across the country enable us to satisfy the substantial national purchasing requirements of the largest retailers in the U.S.

Superior Product Design and Innovation. We believe that we are recognized as a leader in product design and innovation in the RTA furniture industry. Over the past five years, we have received awards of distinction from the American Society of Furniture Designers and from *Design Journal* magazine. We have a dedicated design group that enables us to adapt to the changing demands of our customer base and to develop over 150 new products annually. Our leading design capabilities allow us to continually offer an innovative portfolio of RTA furniture products to our customers, such as our patent pending Digital Dock™ computer desk design, which allows easy access to disk drives and USB ports, and our patent pending design for a plasma TV stand.

Well-established Customer Relationships. We have well-established relationships with many of the largest retailers in the U.S. Our customer base includes leading retailers such as OfficeMax, Office Depot, Staples, Wal-Mart, Lowe's and Best Buy. We believe our broad and innovative product offerings, along with our flexible manufacturing and distribution capabilities, enable us to maintain strong relationships with these leading RTA furniture retailers. The average age of our relationship with our top ten customers is approximately 14 years.

Low Cost and Flexible Manufacturing Technology and Operations. We believe that we are one of the lowest cost manufacturers in the RTA furniture industry in the U.S. Our modern manufacturing facilities and manufacturing processes are highly automated, enabling us to operate efficiently and at high speeds. In addition, we are able to manufacture parts for different types of furniture over the same equipment which provides production scheduling flexibility and allows us to optimize the utilization of our plants. These manufacturing capabilities reduce our dependency on any single market, enabling us to pursue the most attractive markets of the RTA furniture industry, including the home storage and organization and commercial office markets.

Experienced Management Team with Significant Equity Ownership. Our executive officers have an average of 19 years of experience in the RTA furniture industry. Our Chief Executive Officer, Richard Davidson, has over 30 years of experience in the consumer products industry. Members of our senior management own approximately 27% of the outstanding common stock of O'Sullivan Holdings, aligning management's interests with our performance.

Business Strategy

Our principal business strategies include the following:

Continue to Solidify our Existing Relationships with Customers. We will derive the majority of our revenue from our existing customers. We will continue to provide these customers with new, innovative products at competitive prices. We intend to continue to work with our major customers to design and manufacture products that meet their particular requirements, as well as present new concepts for their consideration. Additionally, we will proactively respond to their changing buying initiatives to maintain or increase our market share.

Capitalize on our Expertise in Design and Production. We will leverage our position as a leader in the RTA furniture market and our existing skillset to capitalize on opportunities for RTA furniture manufacturers.

- *Offer New Product Categories through Existing Distribution Channels*. Retailers who have traditionally embraced RTA furniture, including discount mass merchants and home centers, have become aware of the growth in the bedroom, kitchen, bath and home organization markets. The recent focus on these growing markets creates an opportunity for new product development and innovation, which we believe can invigorate sales of existing retail space. We have directed personnel, resources and marketing to these markets and have already placed these types of products with several retailers.

- *Pursue Opportunities in Home Storage and Organization.* While we continue to support our current markets, we have also begun taking advantage of opportunities outside traditional furniture that exist in our current retail base. Home storage and organization is a larger market than our core RTA furniture business, and is growing at a much faster rate. While this market includes many opportunities such as closet storage, workshop storage and utility shelving and storage, it is the relatively untapped garage storage category that we believe presents one of the largest unmet consumer needs. We are aggressively pursuing this opportunity from both a product development and brand marketing perspective. To this end, we are currently manufacturing a new line of home storage products under the Coleman® brand pursuant to a license agreement.

- *Target the Small and Medium-Sized Commercial Office Market.* Increasingly, small and medium-sized businesses are joining home office consumers in choosing to purchase their office supply and furniture needs from office superstores and national discount mass merchants instead of locally-owned furniture outlets. The commercial office furniture market for the small and medium-sized business segment is at least three times the size of the home office furniture market. We currently serve all three national office superstores and are able to design, produce and install products for small and medium-sized businesses. In order to capitalize on this opportunity, we have focused our successful Intelligent Designs® brand, as well as our personnel, on providing comprehensive and affordable commercial office furniture solutions for this market.

Continue to Focus on Low-Cost Production and Efficiency of Operations. We continually endeavor to reduce the cost of our products without sacrificing quality. We work with our existing and new vendors to secure the most favorable pricing for our raw materials and components. For example, we have increased our sourcing of hardware from overseas in recent years. We also continually analyze our products to determine if there are changes we can make to the design, manufacture or packaging of a product to reduce its cost without compromising quality. Additionally, we intend to further improve our manufacturing efficiency and reduce set-up times through selective equipment upgrades and through the use of small group improvement activities.

Product Overview

We group our product offerings into five distinct categories:

- Home office and small office furniture, including desks, computer work centers, bookcases and filing cabinets;

- Entertainment furniture, including home entertainment centers, home theater systems, television and audio stands and audio and video storage units;

- Home decor furniture, including microwave oven carts, pantries, living room and recreation room furniture and bedroom pieces, including dressers, night stands and wardrobes;

- Light commercial office furniture, including desks, computer work centers, bookcases and filing cabinets; and

- Storage furniture, including storage cabinets and workbenches.

Customers

RTA furniture is sold through a broad array of distribution channels, including discount mass merchants, office superstores, consumer electronic superstores, home centers and national department stores. The majority of RTA furniture sales are made through discount mass merchants such as Wal-Mart, Target and Kmart and office superstores such as OfficeMax, Office Depot and Staples.

We have longstanding relationships with key customers in both of these two major distribution channels. In fiscal 2003, sales to OfficeMax accounted for about 19% of our gross sales, Office Depot accounted for about 13% of our gross sales and Wal-Mart accounted for about 12% of our gross sales. Similar to other large RTA furniture manufacturers, our sales are fairly concentrated.

Sales and Marketing

We manage our customer relationships both through our in-house sales force and a network of independent sales representatives. In general, key accounts such as OfficeMax, Office Depot and Wal-Mart are called on by our sales force. Smaller customers are serviced mainly by independent sales representatives, whose activities are reviewed by our in-house sales force.

We work extensively with our customers to meet their specific merchandising needs. Through customer presentations and other direct feedback from the customer and consumers, we identify the consumer tastes and profiles of a particular retailer. With this information, we make product recommendations to our customers. We maintain a close dialogue with customers to ensure that the design and functional requirements of our products are fulfilled.

Our products are promoted by our customers to the public under cooperative and other advertising agreements. Under these agreements, our products are advertised in newspaper inserts and catalogs, among other publications. We generally cover a portion of the customer's advertising expenses if the customer places approved advertisements mentioning us and our products by name. We may also provide support to some customers' advertising programs. We generally do not advertise directly to consumers. We do, however, advertise in trade publications to promote O'Sullivan as a producer of high quality RTA furniture.

We provide extensive service support to our customers. This support includes designing and installing in-store displays, educating retailers' sales forces and maintaining floor displays. We have been recognized for our commitment to our retail partners and have earned several awards in recent years.

We participate in the furniture trade shows held in High Point, North Carolina in April and October of each year. High Point is a major international trade show in the furniture industry. It attracts buyers from the U.S. and abroad. We also maintain other showrooms to market our product lines.

We sell our products throughout the U.S. and in Canada, Mexico, the United Kingdom, Australia and other countries. Export sales were $19.8 million, $19.1 million and $23.9 million in fiscal 2003, 2002 and 2001, respectively. In fiscal 2003, sales increased, primarily due to increased sales in Australia. In fiscal 2002, sales decreases in Central and South America, the Middle East and the United Kingdom were partially offset by sales increases in the Canadian market. In fiscal 2001, sales increases in the United Kingdom and Canada due to marketing successes were more than offset by sales decreases in the Middle East.

Manufacturing

Producing RTA furniture begins with laminating paper or polypropylene to particleboard and fiberboard. Only after laminating the board do we cut the board into parts. Each part for a unit is processed over the machines necessary to provide the desired size and shape, edge treatment, holes for assembly, decorative embossing and other features. Each part is processed only over the machines needed for its completion; therefore, we do not process all parts for a particular product on a single production line. We then assemble outsourced items such as screws, dowels, glass and other pieces as necessary. Finally, all of the parts and outsourced items needed for a unit are placed in a carton with assembly instructions and sealed.

We operate two modern manufacturing facilities, in Lamar, Missouri and South Boston, Virginia. In total, these facilities have approximately 1.8 million square feet of space.

- Lamar, Missouri: Opened in 1965, this facility has approximately 1.1 million square feet of space. It is our larger facility and has the capability to produce our entire product offering. This facility also serves as our corporate headquarters.

- South Boston, Virginia: Opened in 1989, our South Boston facility has been expanded to approximately 675,000 square feet, including an expansion of approximately 200,000 square feet completed in 2001. The South Boston facility has the capability to manufacture most of our products.

Product Design and Development

We believe we are an industry leader in product quality and innovation. We are committed to the continuing development of unique furniture that meets consumer needs. With over 50% of our sales to the home office and small office market, we believe we are recognized as one of the industry's premier producers of contemporary home office and small office RTA furniture. In the past three years, we introduced an average of over 150 products per year. In the RTA furniture industry, a new product can be a variation in color or styling of an existing product. By providing a continuous supply of new product introductions, we endeavor to drive demand for our products, which we believe will help us to maintain our profit margins.

We maintain an in-house product design staff that collaborates with our marketing personnel and customers to develop new products based on demographic and consumer information. We also work with outside designers. The product design professionals work with our engineering division to produce full-scale prototypes. The engineering staff uses computer-aided design software, which provides three-dimensional graphics capabilities. The software allows a design engineer to accelerate the time-to-completion for a new product design. This allows us to reduce the time for newly conceived products to reach the market. We then show our prototypes to our customers to gauge interest. We also respond to suggestions from our retail customers regarding potential new products. If initial indications of product appeal are favorable, we usually can commence production within twelve weeks. We spent approximately $1.3 million, $1.1 million and $1.0 million on product design and development in fiscal years 2003, 2002 and 2001, respectively.

Raw Materials

The materials used in our manufacturing operations include particleboard, fiberboard, coated paper or polypropylene laminates, glass, furniture hardware and packaging materials. Our largest raw material cost is particleboard. We purchase all of our raw material needs from outside suppliers. We buy our particleboard and fiberboard at market-based prices from several independent wood product suppliers. We purchase other raw materials from a limited number of vendors. These raw materials are generally available from other suppliers, although the cost from alternate suppliers might be higher.

As is customary in the RTA furniture industry, we do not maintain long-term supply contracts with our suppliers. We do, however, have long standing relationships with all of our key suppliers and encourage supplier partnerships. Our supplier base is sufficiently diversified so that the loss of any one supplier in any given commodity should not have a material adverse effect on our operations. We have never been unable to secure needed raw materials. However, there could be adverse effects on our operations and financial condition if we are unable to secure necessary raw materials like particleboard and fiberboard.

Because we purchase all of our raw materials from outside suppliers, we are subject to changes in the prices charged by our suppliers. Our two largest raw material costs are particleboard and fiberboard. Industry pricing for particleboard was flat to slightly lower in fiscal 2002 and the first half of fiscal 2003. We saw small increases in particleboard pricing in the third quarter of fiscal 2003 and another increase in the first quarter of fiscal 2004. Prices for fiberboard increased in the fourth quarter of fiscal 2002, but declined slightly during fiscal 2003. We generally cannot increase the prices at which we sell our products to our customers. However, as we introduce new models, our pricing for the model reflects our current costs. We cannot assure you that raw material prices will not increase in the future. If the demand for particleboard increases, prices may rise in 2004 or even earlier. See "Cautionary Statements Regarding Forward-Looking Information and Risk Factors—Our operating income would be reduced if the prices our suppliers charge us for raw materials increase."

Competition

The residential furniture market is highly competitive and includes a large number of both domestic and foreign manufacturers. Our competitors include manufacturers of both RTA and assembled furniture. Although a large number of companies manufacture RTA furniture, the top five North American RTA furniture manufacturers accounted for an estimated 70% of the United States RTA furniture retail sales in 2002. Our top four competitors are Sauder Woodworking, Inc., Bush Industries, Inc., Dorel Industries, Inc. and Creative Interiors. Some of our competitors have greater sales volume and financial resources than we do. RTA furniture manufacturers compete on the basis of price, style, functionality, quality and customer support.

In recent years, sales of imported RTA furniture have been increasing in the U.S. We anticipate that we will continue to compete with imports in the U.S. We are reacting to this new competition by emphasizing our design capabilities, our quality and our ability to deliver products from the factory more quickly and at competitive prices. We have also begun to source the manufacture of certain products from other countries.

Several manufacturers, including O'Sullivan, have excess manufacturing capacity due to the current decline in sales in the RTA furniture market and increasing imports. This excess capacity is causing increased price competition.

Patents and Trademarks

We have a U.S. trademark registration and international trademark registrations or applications for the use of the O'Sullivan® name on furniture. We believe that the O'Sullivan name and trademark are well-recognized and associated with high quality by both our customers and consumers and are important to the success of our business. Our products are sold under a variety of trademarks in addition to O'Sullivan. Some of these names are registered trademarks. We do not believe that the other trademarks we own enjoy the same level of recognition as the O'Sullivan trademark. We also do not believe that the loss of the right to use any one of these other trademarks would be material to our business.

We hold a number of patents and licenses. We do not consider any one of these patents and licenses to be material to our business.

Shipping

We offer customers the choice of paying their own freight costs or having us absorb freight costs. If we absorb the freight costs, our product prices are adjusted accordingly. When we pay freight costs, we use independent trucking companies with whom we have negotiated competitive transportation rates.

Backlog

Our business is characterized by short-term order and shipment schedules of generally less than two weeks. Accordingly, we do not consider backlog at any given date to be indicative of future sales.

Seasonality

We generally experience a somewhat higher level of sales in the second and third quarters of our fiscal year in anticipation of and following the holiday selling seasons.

Insurance

We maintain liability insurance at levels that we believe are adequate for our needs. We believe these levels are comparable to the level of insurance maintained by other companies in the furniture manufacturing business.

Employees

As of June 30, 2003, we had approximately 1,750 employees. About 76% percent of these employees are located in Lamar, Missouri. None of our employees are represented by a labor union. We believe that we have good relations with our employees. We decided to decrease our level of operations at our South Boston, Virginia facility in the fourth quarter of fiscal 2003. As a result, we had approximately 1,550 employees as of August 31, 2003.

Environmental and Safety Regulations

Our operations and current and/or former facilities are subject to extensive federal, state and local environmental, health and safety laws, regulations and ordinances. Some of our operations require permits. These permits are subject to revocation, modification and renewal by governmental authorities.

Governmental authorities have the power to enforce compliance with their regulations. Violators are subject to civil, and in some cases criminal, sanctions. Although compliance with these regulations imposes burdens and risks on us, in the past, they have not had a significant effect on our results of operations, capital expenditures or competitive position. In fiscal 2001, we received a Title V operating permit for our facility in Lamar, Missouri. The permit imposes additional monitoring restrictions on our operations, but has not required us to modify our operations. We have addressed certain issues with the Missouri Department of Natural Resources regarding the effectiveness of the monitoring requirements. There can be no assurance that future changes in laws and or regulations will not require us to make significant additional expenditures to ensure compliance in the future.

Our manufacturing process creates by-products, including sawdust and particleboard flats. At the South Boston facility, this material is given to a recycler or disposed of in landfills. At the Lamar facility, the material has been sent to recyclers and off-site disposal sites. In fiscal 2003, the percentage of material delivered to recyclers at a reduced cost declined; and our disposal costs increased 8%. Our by-product disposal costs were approximately $650,000 for fiscal 2003, $600,000 for fiscal 2002 and $1.1 million for fiscal 2001.

Our manufacturing facilities ship waste products to various disposal sites. If our waste products include hazardous substances and are discharged into the environment, we are potentially liable under various laws. These laws may impose liability for releases of hazardous substances into the environment. These laws may also provide for liability for damage to natural resources. One example of these laws is the federal Comprehensive

Environmental Response, Compensation and Liability Act. Generally, liability under this act is joint and several and is determined without regard to fault. In addition to the Comprehensive Environmental Response, Compensation and Liability Act, similar state or other laws and regulations may impose the same or even broader liability for releases of hazardous substances.

We have been designated as a potentially responsible party under the Arkansas Remedial Action Trust Fund Act for the cost of cleaning up a disposal site in Diaz, Arkansas. We entered into a *de minimis* buyout agreement with some of the other potentially responsible parties. We have contributed $2,000 to date toward cleanup costs under this agreement. The agreement subjects potentially responsible parties to an equitable share of any additional contributions if cleanup costs exceed $9 million. In this event, we would be liable for our share of the excess. Cleanup expenses have approached $9 million. The state has approved a plan providing that groundwater at the site be monitored. No further remediation activity is necessary unless further problems are discovered. The monitoring activities, which are underway, should not require the potentially responsible parties to make additional payments. Assuming no further problems are discovered, we believe that the amounts we may be required to pay in the future, if any, relating to this site will be immaterial.

Our operations also are governed by laws and regulations relating to workplace safety and worker health, principally the Occupational Safety and Health Act and related regulations. Additionally, some of our products must comply with the requirements and standards of the U.S. Consumer Products Safety Commission. We believe that we are in substantial compliance with all of these laws and regulations.

Item 2. Properties.

O'Sullivan owns two manufacturing, warehouse and distribution facilities. The Lamar, Missouri facility, which also serves as O'Sullivan's headquarters, consists of approximately 1.1 million square feet. The South Boston, Virginia facility has approximately 675,000 square feet. These properties are or will be subject to liens in favor of the holders of our credit agreement.

We purchased additional land adjacent to our Lamar facility in July 2002. We have some excess land at South Boston which may be used for expansion.

We lease space for showrooms in High Point, North Carolina and in other locations in the United States. We also lease warehouse space in Lamar and Neosho, Missouri. We lease space for factory outlet stores in Springfield and Joplin, Missouri to sell close-out and excess inventory.

Our Canadian operations are in a leased facility in Markham, Ontario. O'Sullivan's United Kingdom operations are in a leased facility in Oxfordshire.

The Cedar City, Utah manufacturing plant that we closed in January 2001 was sold in June 2003.

We consider our owned and leased facilities to be adequate for the needs of O'Sullivan and believe that all of our owned and leased properties are well maintained and in good condition.

Item 3. Legal Proceedings.

On September 24, 2002, Montgomery Ward, LLC filed suit against O'Sullivan Industries in the U.S. Bankruptcy Court, District of Delaware, alleging that payments made by Montgomery Ward within 90 days prior to its bankruptcy constituted preferential transfers under the Bankruptcy Code that should be recovered from O'Sullivan Industries by Montgomery Ward, together with interest. The alleged payments aggregate $3.7 million. We received the summons in this action on October 29, 2002. We responded to the suit denying we received any preferential payments. We intend to contest this lawsuit vigorously.

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 intend to respond to the suit denying we received any preferential payments. We intend to contest this lawsuit vigorously.

Other Litigation and Claims. In addition, we are a party to various pending legal actions arising in the ordinary operation of our business. These include product liability claims, employment disputes and general business disputes. We believe that these actions will not have a material adverse effect on our operating results, liquidity and financial condition.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders of O'Sullivan during the quarter ended June 30, 2003.

PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters.

There is no established public market for O'Sullivan Holdings' common equity.

As of September 1, 2003, there were approximately 91 common stockholders of record. No dividends have been paid or declared since our initial public offering in 1994.

We currently intend to retain all earnings to finance the development of our operations and to repay our indebtedness. Our credit agreements effectively prohibit us from paying dividends on our common or preferred stock. We do not anticipate paying cash dividends on our shares of common or preferred stock in the near future. Our future dividend policy will be determined by our Board of Directors on the basis of various factors, including but not limited to our results of operations, financial condition, business opportunities and capital requirements. The payment of dividends is subject to the requirements of Delaware law, as well as restrictive financial covenants in our debt agreements.

Item 6. Selected Consolidated Historical Financial Information.

The selected historical consolidated results of operations and balance sheet data for the four years ended June 30, 2003 and as of June 30, 2003, 2002 and 2001 are derived from O'Sullivan's audited financial statements. The selected historical consolidated results of operations and balance sheet data for the year ended June 30, 1999 and as of June 30, 2000 and 1999 are from O'Sullivan's accounting records. This selected consolidated financial data should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 8, "Consolidated Financial Statements and Related Notes," in Part II of this report.

	For the year ended June 30,				
	2003	2002	2001	2000	1999
	(in thousands)				
Net sales[1]	$ 289,152	$ 349,098	$ 358,811	$ 405,234	$ 363,678
Cost of sales	214,977	254,662	269,720	298,387	267,630
Gross profit	74,175	94,436	89,091	106,847	96,048
Selling, marketing and administrative expense[1]	45,834	54,584	56,682	64,173	59,008
Restructuring charge[2]	2,049	–	10,506	–	–
Merger related expenses[3]	–	–	–	7,792	1,143
Transaction fee to related party	–	–	–	3,062	–
Compensation expense associated with stock options[4]	–	–	–	10,627	–
Loss on settlement of interest rate swap	–	–	–	408	–
Operating income	26,292	39,852	21,903	20,785	35,897
Interest expense, net[5]	24,286	27,927	33,393	18,595	2,844
Other financing costs[5]	445	204	574	476	–
Income (loss) before income tax provision (benefit) and cumulative effect of accounting change	1,561	11,721	(12,064)	1,714	33,053
Income tax provision (benefit)[6]	–	100,927	(4,221)	4,879	11,900
Income (loss) before extraordinary item and cumulative effect of accounting change	1,561	(89,206)	(7,843)	(3,165)	21,153
Cumulative effect of accounting change, net of income tax benefit	–	–	(95)	–	–
Net income (loss)	$ 1,561	$ (89,206)	$ (7,938)	$ (3,165)	$ 21,153
Cash flows provided by operating activities	$ 14,740	$ 25,897	$ 24,928	$ 30,320	$ 25,216
Cash flows provided by (used for) investing activities	1,707	(8,644)	(16,811)	(17,129)	(15,554)
Cash flows used for financing activities	(24,247)	(8,536)	(12,924)	(5,064)	(7,732)
EBITDA[7]	$ 39,468	$ 54,178	$ 36,179	$ 35,725	$ 49,859
Depreciation and amortization	13,621	14,530	14,945	15,416	13,962
Capital expenditures	5,081	8,644	16,811	17,129	15,554

	June 30,				
	2003	2002	2001	2000	1999
	(in thousands)				
Total assets	$ 207,388	$ 244,432	$ 357,526	$ 387,569	$ 364,029
Long-term debt, less current portion	209,405	230,206	236,762	247,299	22,000
Payable to RadioShack	72,067	81,374	109,067	109,067	113,294
Mandatorily redeemable preferred stock	21,933	18,319	15,301	12,781	–
Stockholders' equity (deficit)	(138,360)	(136,903)	(44,695)	(33,888)	185,136

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[1]Net sales and selling, marketing and administrative expense for the fiscal years ended June 30, 1999 through June 30, 2001 have been adjusted to reflect a new accounting pronouncement which requires a classification of certain selling expenses to a reduction in sales.

[2]In fiscal 2001, the restructuring charge related to the January 2001 closure of our Cedar City, Utah facility and a staff reduction in our Lamar, Missouri headquarters. The $10.5 million charge consisted of an approximately $8.7 million of impairment charges against property and equipment, $527,000 of other facility exit costs and

approximately $1.3 million in employee severance costs. In fiscal 2003, the $2.0 million restructuring charge relates to a further reduction in the carrying value of our Utah facility of $540,000 and approximately $1.5 million for severance charges related to our South Boston, Virginia facility and further staff reductions at our headquarters.

[3]On November 30, 1999, we closed a recapitalization and merger pursuant to which Bruckmann, Rosser, Sherrill & Co. II, L.P., certain members of our management and an affiliate of a former director acquired our outstanding common stock. Merger related expenses represent costs of the recapitalization and merger transaction.

[4]Represents amounts expensed in connection with the termination of outstanding stock options upon the closing of the 1999 recapitalization and merger.

[5]We adopted Statement of Financial Accounting Standards ("SFAS") No. 145, *Recission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections* effective July 1, 2002. The pronouncement addresses, in part, the presentation of gains and losses from the extinguishment of debt. We currently present such items as other financing costs on a pre-tax basis as opposed to an extraordinary item, net of tax. We reclassified $476,000 of expense incurred in fiscal 2000 in connection with the extinguishment of debt from an extraordinary item to other financing costs. From 2001 to 2003, we also elected to present certain other financing costs previously recorded in interest expense as other financing costs and have reclassified prior periods accordingly.

[6]Tax expense for fiscal 2002 includes a $97.9 valuation allowance recorded in March 2002 against our net deferred tax asset following the settlement of the dispute with RadioShack Corporation related to the tax sharing agreement between us. See "Management's Discussion and Analysis of Financial Condition and Results of Operation—Company Overview—RadioShack Arbitration and Revised Accounting for Tax Sharing Agreement with RadioShack."

[7]EBITDA is presented to provide additional information about our operations. This item should be considered in addition to, but not as a substitute for or superior to, operating income, net income, operating cash flow and other measures of financial performance prepared in accordance with generally accepted accounting principles. EBITDA may differ in the method of calculation from similarly titled measures used by other companies. EBITDA provides another measure of the operations of our business prior to the impact of interest, taxes and depreciation and of our liquidity. Further, EBITDA is a common method of valuing companies such as O'Sullivan, and EBITDA, with adjustments, is a component of each of the financial covenants in our senior credit facility. The following table reconciles net income (loss) to EBITDA.

	For the year ended June 30,				
	2003	2002	2001	2000	1999
			(in thousands)		
Net income (loss)	$ 1,561	$ (89,206)	$ (7,938)	$ (3,165)	$ 21,153
Income tax provision (benefit)	–	100,927	(4,221)	4,879	11,900
Interest expense, net	24,286	27,927	33,393	18,595	2,844
Depreciation and amortization	13,621	14,530	14,945	15,416	13,962
EBITDA	$ 39,468	$ 54,178	$ 36,179	$ 35,725	$ 49,859

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the more detailed information in the historical financial statements, including the related notes thereto, appearing elsewhere in this report.

Overview.

We are a leading designer, manufacturer and distributor of RTA furniture products in the U.S., with over 45 years of experience. Our products provide the consumer with high quality, value and easy-to-assemble furniture and comprise a broad range of product offerings, including desks, computer workcenters, entertainment centers, television and audio stands, bookcases, storage units and cabinets. In calendar year 2002, we were the second-largest manufacturer of RTA furniture in the U.S., and our estimated share of RTA furniture sales was approximately 17%.

O'Sullivan Industries, Inc. was founded in 1954 by Thomas M. O'Sullivan, Sr. and was acquired by Tandy Corporation in 1983. In 1993, Tandy transferred O'Sullivan Industries to its subsidiary TE Electronics Inc. In February 1994, TE Electronics Inc. transferred O'Sullivan to O'Sullivan Industries Holdings, Inc. in exchange for O'Sullivan Holdings common stock and O'Sullivan Holdings' obligations under the tax sharing agreement. TE Electronics Inc. then sold its shares of O'Sullivan Holdings stock in a public offering. On November 30, 1999, O'Sullivan Holdings completed a recapitalization and merger through which the outstanding stock of O'Sullivan Holdings was purchased by BRS, 34 members of our management and an affiliate of a former director.

Recent Trends

Our net sales declined 17.2% in fiscal year 2003. This decline continued the net sales decreases experienced by us in fiscal 2001 and 2002. Our net sales declined for several reasons:

- the lack of growth in sales of personal computers, which reduced the need for computer desks and workcenters;
- increasing competition from imported furniture, particularly from China;
- the slowdown of economic growth and consumer spending in the U.S.;
- liquidations and bankruptcies by a number of customers, including Montgomery Ward, Ames and Kmart; increased competition from domestic competition due to excess capacity in the RTA furniture industry;
- inventory reductions by our customers; and
- the decline in price of the average unit sold, reflecting a trend toward more promotional merchandise and increased competition.

In addition to reducing net sales, the market conditions described above also reduced our margins and results of operations in fiscal 2002 and fiscal 2003. Operating income declined to $26.3 million in fiscal 2003 from $39.9 million in fiscal 2002. In response to the recent industry trends we have taken steps to reduce costs and mitigate the impact of the current market challenges. We may take similar actions in the future, which may result in asset write-downs or impairment or other charges.

While we have confidence in the long-term future of the RTA furniture industry, we expect these conditions to continue into fiscal 2004. We expect that our gross sales in the first quarter of fiscal 2004 will be about the same as gross sales in the first quarter of fiscal 2003. However, we anticipate our operating income in the first quarter of fiscal 2004 will decline approximately 40% to 50% in comparison to the first quarter a year ago due to lower production levels adversely affecting our fixed cost absorption and increased promotional activities with several of our major retail customers.

Customer Bankruptcy

In January 2002, Kmart Corporation, which accounted for around 9% of our gross sales in fiscal 2002, filed for Chapter 11 bankruptcy court protection. As part of its reorganization, Kmart closed approximately 600 stores. The bankruptcy court has approved Kmart's plan of reorganization, and Kmart emerged from Chapter 11 in May 2003. We resumed shipments to Kmart on a post-petition basis after the filing and anticipate significant net sales to Kmart in the future. However, there can be no assurance that we will ship as much to Kmart as we did in prior periods or that Kmart will be successful in its restructuring efforts.

On September 24, 2002, Montgomery Ward, LLC filed suit against O'Sullivan Industries in the U.S. Bankruptcy Court, District of Delaware, alleging that payments made by Montgomery Ward within 90 days prior to its bankruptcy constituted preferential transfers under the Bankruptcy Code that should be recovered from O'Sullivan Industries by Montgomery Ward, together with interest. The alleged payments aggregate $3.7 million. We received the summons in this action on October 29, 2002. We responded to the suit denying we received any preferential payments. We intend to contest this lawsuit vigorously.

In August 2002, Ames decided to close all of its stores and liquidate. Actual net sales to Ames in fiscal 2003 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 intend to respond to the suit denying we received any preferential payments. We intend to contest this lawsuit vigorously.

RadioShack Arbitration and Revised Accounting for 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, Inc. and further increase the tax basis of our assets from the 1994 initial public offering when payments are made to RadioShack.

To the extent the benefit of these basis step-up deductions caused us to have a federal taxable loss, we were only obligated to pay RadioShack to the extent that the benefits were used to reduce taxable income to zero. Any additional tax deductions resulting from the step-up create a net operating loss ("NOL") carryforward on our federal income tax return. Under the terms of the tax sharing agreement, if we utilized this NOL carryforward to generate future tax savings, we were also obligated to remit that benefit received to RadioShack.

Since 1994, we have treated the amount due to RadioShack as income tax expense when such amounts become payable and to the extent that we had sufficient consolidated taxable income. Thus, our tax expense approximated what it would have been in the absence of the Section 338(h)(10) step-up in basis and the tax sharing agreement.

Under this accounting method, the deferred tax asset from both the step-up in basis and the future liability to RadioShack were not recorded on our consolidated balance sheets because we deemed the benefits to be an asset of RadioShack. When the tax benefits were received and paid to RadioShack, we recorded the payment as tax expense since this amount would have been paid as federal income taxes in the absence of the step-up in basis and the tax sharing agreement.

In November 1999, we completed a leveraged recapitalization and merger transaction which significantly increased our debt. As a result of the higher debt levels, we also experienced increased interest expense, which reduced our taxable income and also reduced the tax benefits used from the deductions arising from the step-up in basis. We reduced our payments to RadioShack accordingly. RadioShack claimed that the deductions arising from the increased interest payments should not impact tax benefit payments due RadioShack under the tax agreement. RadioShack pursued this matter and prevailed in an arbitration ruling in March 2002. We reached a settlement agreement with RadioShack in May 2002. Pursuant to the settlement agreement, we paid RadioShack $24.6 million in May 2002 and an additional $3.1 million in June 2002. The sum of these two payments ($27.7 million) represented the amount due RadioShack under the settlement agreement through June 30, 2002. These amounts represent the calculation of what benefits we would have realized had we not had the additional interest expense from the 1999 recapitalization and merger. The settlement agreement requires calculations into the future and quarterly payments to RadioShack if our taxable income adjusted for the additional interest expense shows that we would have realized the benefits had we not incurred the additional interest expense. If on this basis, we could have used the deductions from the step-up in basis, we are required to make a payment to RadioShack even though we may not be receiving any current tax benefit from these deductions on our federal income tax return.

Following the decision in the arbitration and the settlement agreement with RadioShack, we recorded the $24.6 million payment to RadioShack as a deferred tax asset at March 31, 2002. We believed that this was appropriate as the payment represented the tax benefit we could realize from future use of net operating losses on our federal income tax return if we had sufficient taxable income in the future. After recording a tax provision of 3.2 million for the quarter ended March 31, 2002 and offsetting our deferred tax liabilities of $8.0 million, we had a net deferred tax asset of $13.4 million.

Under Statement of Financial Accounting Standards ("SFAS") 109, we must determine if it is more likely than not that we will realize the net deferred tax asset as a reduction in our tax liabilities in the future. SFAS 109 requires objective evidence to support the more likely than not conclusion. The arbitration decision dramatically affected our liquidity, which reduced the amounts we could invest in sales efforts or cost improvements, as most free cash flow would now be used to pay RadioShack or repay our indebtedness. In addition, it became evident to us by March 2002 that the prolonged economic slowdown that started prior to September 11, 2001 was continuing. This, coupled with the adverse effect on our liquidity of the settlement, caused us to lower our projections of future taxable income. Accordingly, we projected our expected future taxable income utilizing operating performance we achieved in fiscal 2002 assuming our performance would be no better or worse over an extended period of time. Such projections indicate that we would not have taxable income until 2009 when substantially all the tax benefit deductions had been taken. At that point, the projections indicated that our net operating losses existing at that time would be utilized before they expire. However, we currently have and expect to have taxable losses for a number of years in the future. Projections over a long time are inherently uncertain, and we cannot provide objective evidence that our operations in 2009 and beyond will produce sufficient taxable income. As a result, we provided a valuation allowance in our March 2002 quarter of $13.4 million against all of our net deferred tax assets with a corresponding charge to income tax expense. Consistent with our prior accounting, both before and after the 1999 recapitalization and merger, we did not record any deferred tax assets related to future deductions from the step-up in basis or any future obligations to RadioShack as they were still contingent upon our taxable income in the future.

Similarly, in our June, September and December 2002 financial statements, we accounted for each payment to RadioShack in the same manner as the initial $24.6 million payment under the settlement agreement by recording a deferred tax asset to the extent that we could not benefit currently from the increased deductions. We then provided a valuation allowance against the additional deferred tax asset with a corresponding charge to income tax expense on a quarter by quarter basis. We believed this method was in conformity with accounting principles generally accepted in the United States and consistent with our accounting for the tax sharing agreement since 1994.

In the third quarter of fiscal 2003, O'Sullivan received a comment letter from the staff of the SEC on the accounting for the tax sharing agreement. In the course of preparing our response to the SEC staff's comment letter, we reassessed our accounting for the tax sharing agreement in light of the arbitration settlement with RadioShack and concluded that our method of accounting for the tax sharing agreement should be changed. O'Sullivan determined that the deferred tax asset created by the step-up in basis and the additional basis from the probable future payments to RadioShack should be recorded as of February 1994. At the same time, we recorded our obligation to RadioShack. The amounts of the deferred tax asset and obligation to RadioShack were each $147.9 million at February 1994. From 1994 through 2001, we reduced the amount of the deferred tax asset and the obligation to RadioShack as we realized the benefits of the deferred tax asset and paid RadioShack amounts due under the tax sharing agreement.

At March 31, 2002, a full valuation allowance was provided against the $97.9 million net deferred tax asset, which consists of the $13.4 million valuation allowance originally recorded in the March 2002 quarter plus an additional $84.5 million representing the balance of the deferred tax asset at that time. The valuation allowance at June 30, 2002 of $97.4 million together with the $3.5 million tax provision for the fiscal year represent the $100.9 million recorded as tax expense for the year ended June 30, 2002. We recorded the valuation allowance because we were unable to determine, based on objective evidence, that it was more likely than not 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 expense.

The remaining maximum obligation to RadioShack was $109.1 million at March 31, 2002. We reduced the obligation by subsequent payments; the balance $81.4 million at June 30, 2002 and $72.1 million at June 30, 2003. We currently believe that it is probable that future payments to RadioShack will be made.

In summary, instead of accounting for our deferred tax asset resulting from the step-up in basis as tax expense through a valuation allowance on a quarter by quarter basis as we make payments to RadioShack under the tax sharing agreement, we revised our accounting to record the aggregate deferred tax asset and the obligation to RadioShack in February 1994. Our deferred tax asset has been reduced as we realized the benefits from 1994 to March 2002 and was fully offset by the March 2002 valuation allowance. Therefore, this revised method of accounting will increase our net income (or reduce our net loss) and will increase our net income attributable to common stockholders (or reduce the loss) by the amount we pay RadioShack for each quarterly period after March 31, 2002 through the quarter ending March 31, 2009 or until we can determine, based on objective evidence, that it is more likely than not that we will be able to utilize our net operating losses prior to their expiration and reverse all or a portion of the valuation allowance on our deferred tax assets.

The expected timing or amounts of our payments to RadioShack will not be affected by the revised method of accounting, although the future payments to RadioShack are contingent upon our achieving consolidated taxable income calculated on the basis stipulated in the settlement agreement.

We funded the back payment and subsequent payments from cash on hand. We expect to fund future payments from cash flows from operating activities, cash on hand or borrowings under our credit agreement. Payments under the tax sharing agreement for fiscal 2004 are expected to be about $6.8 million.

We have amended our senior credit facility as a result of the arbitration settlement. The amendment excludes from the definition of consolidated fixed charges $27.0 million of the total paid by us pursuant to the tax sharing agreement through the period ended June 30, 2002.

As a result of the comment letter from the SEC staff, there was a delay in the filing of our quarterly report on Form 10-Q for the quarter ended March 31, 2003. At any time during the period of this delay, the trustee under our senior subordinated note indenture could have given us notice of a default, which could have become an event of default had we not remedied the situation within 60 days. However, we have not received any such notice from the trustee, and any potential default has been cured by the filing of the quarterly report.

See "Cautionary Statement Regarding Forward Looking Statements and Risk Factors."

Results of Operations.

The following table sets forth the approximate percentage of items included in the Consolidated Statement of Operations relative to net sales for the three-year period ended June 30, 2003:

	Year ended June 30,		
	2003	**2002**	**2001**
Net sales	100.0%	100.0%	100.0%
Cost of sales	74.3%	72.9%	75.2%
Gross profit	25.7%	27.1%	24.8%
Selling, marketing and administrative	15.9%	15.6%	15.8%
Restructuring charge	0.7%	–	2.9%
Operating income	9.1%	11.5%	6.1%
Interest expense, net	8.4%	8.0%	9.3%
Other financing costs	0.2%	0.1%	0.2%
Income (loss) before income tax provision (benefit) and cumulative effect of accounting change	0.5%	3.4%	(3.4)%
Income tax provision (benefit)	0.0%	28.9%	(1.2)%
Income (loss) before cumulative effect of accounting change	0.5%	(25.5)%	(2.2)%
Cumulative effect of accounting change, net of income tax benefit	–	–	0.0%
Net income (loss)	0.5%	(25.5)%	(2.2)%
Depreciation and amortization	4.7%	4.2%	4.2%

Year Ended June 30, 2003 Compared to the Year Ended June 30, 2002.

Net Sales. Net sales consists of our gross sales less returns, allowances, rebates and certain advertising allowances given to customers. Net sales for the fiscal year ended June 30, 2003 decreased by $59.9 million, or 17.2%, to $289.2 million from $349.1 million for the fiscal year ended June 30, 2002. Net sales were down in every major channel with substantially all of the decline due to lower unit sales. Net sales declined principally because of U.S. economic conditions, increased competition from North American manufacturers and increased competition from Asian and South American manufacturers with substantially lower labor costs.

Gross Profit. Gross profit is equal to net sales less cost of goods sold. Our cost of goods sold includes the manufacturing costs of our products, including costs of raw materials, direct and indirect labor costs and manufacturing overhead. Gross profit decreased to $74.2 million, or 25.7% of net sales, for fiscal 2003, from $94.4 million, or 27.1% of net sales, for fiscal 2002. Fiscal 2003 gross profit dollars decreased primarily because of lower sales and operating levels, partially offset by lower material costs, primarily for particleboard. Lower operating levels hurt our gross profit and our gross profit as a percentage of net sales because our fixed manufacturing overhead was allocated over a smaller number of units produced.

Selling, Marketing and Administrative Expenses. Selling costs include the salaries and expenses of our inside sales force, commissions to outside sales representatives, customer service expenses, freight out expense, bad debt expense and rent expense for showrooms. Marketing costs include costs of product research and development, catalogs, trade show costs and store display costs. Administrative costs include salaries for our corporate staff, incentive compensation, benefits and professional fees. Selling, marketing and administrative expenses decreased to $45.8 million, or 15.9% of net sales, for fiscal 2003 from $54.6 million, or 15.6% of net sales, for fiscal 2002 due to lower freight out expense, incentive compensation, professional fees and bad debt expense, partially offset by increased marketing expense. Profit sharing and incentive compensation declined because of lower net sales and operating income compared to fiscal 2002. Freight out expense declined because of lower net sales and a change in the selling terms with a major customer. Commission expenses declined because of lower net sales levels. Legal fees and bad debt expense were higher in fiscal 2002 because of the RadioShack arbitration and Kmart bankruptcy, respectively. Marketing costs increased slightly due to store display costs and other promotional costs.

Restructuring Charges. In the fourth quarter of fiscal 2003, we determined to reduce our operations at our South Boston, Virginia facility to one shift. As a result, we reduced our workforce by about 200 people in Virginia. We also reduced our corporate staff in Lamar, Missouri by about 50 people, or about 15%. In connection with these reductions, we incurred severance costs of approximately $1.5 million, which we have recorded as a restructuring charge in the fourth quarter of fiscal 2003. Substantially all the severance will be paid within one year.

In January 2001, we closed our Cedar City, Utah production facility. Fixed assets with a net book value of $20.3 million were written down to estimated fair value, less cost to sell, resulting in an impairment charge of approximately $8.7 million. An additional impairment charge of $540,000 was recognized in the quarter ended March 31, 2003. The additional charge resulted from subsequent changes in the carrying amount of the assets held for sale due to unfavorable market conditions.

In June 2003, we sold the land and building we owned in Cedar City, Utah. We used the net proceeds of $6.8 million from the sale to reduce indebtedness under our senior credit facility. The sale did not require a further significant adjustment to the carrying value of the land and building. No significant assets remain from the closing of the facility.

Depreciation and Amortization. Depreciation and amortization represents the allocation of costs of long-lived assets such as buildings and equipment and debt issuance expenses. Depreciation is included in cost of goods sold and selling, marketing and administrative expenses in our statements of operations. Amortization of debt issuance costs is included in interest expense. Depreciation and amortization expenses decreased to $13.6 million for fiscal 2003 compared to $14.5 million for fiscal 2002. Capital additions in fiscal 2003 and 2002 were $5.1 million and $8.6 million, respectively. Fiscal 2003 capital expenditures were primarily for normal replacements of equipment.

Operating Income. Operating income decreased $13.6 million to $26.3 million for fiscal 2003 from $39.9 million in fiscal 2002. Lower net sales and operating levels, as well as the restructuring charges, were partially offset by lower material costs and lower selling, marketing and administrative expenses in fiscal 2003.

Net Interest Expense. Net interest expense is the cost for borrowed money. It represents interest paid to, or accrued for future payment to, lenders and the amortization of debt issuance costs, debt discount and loan fees. Changes in the value of our interest rate collar which expired in March 2003 were also reflected in interest expense. Net interest expense decreased to $24.3 million in fiscal 2003 from $27.9 million in fiscal 2002. Interest expense decreased due to the change in fair value of our interest rate collar, prior to its expiration on March 31, 2003, as well as our repayment of debt and lower variable interest rates on a portion of our debt. The following table describes the components of net interest expense.

	Year ended June 30, (in thousands) 2003	2002
Interest expense on senior credit facility, industrial revenue bonds and senior subordinated notes	$ 21,899	$ 23,942
Interest income	(266)	(395)
Non-cash items:		
Interest expense on O'Sullivan Holdings note	2,506	2,231
Interest rate collar	(2,091)	(5)
Amortization of debt discount	628	544
Amortization of loan fees	1,610	1,610
Net interest expense	$ 24,286	$ 27,927

Pre-Tax Income. Pre-tax income declined $10.1 million from $11.7 million in fiscal 2002 to $1.6 million in fiscal 2003. The decline was due principally to our lower net sales and operating levels, partially offset by lower raw material costs, lower selling, marketing and administrative expenses and a decrease in interest expense.

Income Tax Provision. As described above, we recorded no tax expense in fiscal 2003 because of the valuation allowance taken in March 2002 against our net deferred tax assets. Primarily as a result of the valuation allowance, our tax expense was $100.9 million in fiscal 2002.

Net Income (Loss). Our net income was $1.6 million in fiscal 2003 compared to a net loss of $89.2 million in fiscal 2002 due to the fiscal 2002 valuation allowance, partially offset by our lower net sales and operating levels.

Year Ended June 30, 2002 Compared to the Year Ended June 30, 2001.

Net Sales. Net sales for the fiscal year ended June 30, 2002 decreased by $9.7 million, or 2.7%, to $349.1 million from $358.8 million for the fiscal year ended June 30, 2001. Net sales decreases in the office superstore, consumer electronics and regional mass merchant channels were partially offset by increases in the mass merchant and home center channels.

Gross Profit. Gross profit increased to $94.4 million, or 27.1% of net sales, for fiscal 2002, from $89.1 million, or 24.8% of net sales, for fiscal 2001. Fiscal 2002 gross profit dollars increased primarily because of lower material costs, primarily for particleboard, and enhanced operating efficiency, particularly from the January 2001 closure of our less efficient Cedar City, Utah manufacturing plant.

Selling, Marketing and Administrative Expenses. Selling, marketing and administrative expenses decreased to $54.6 million, or 15.6% of net sales, for fiscal 2002 from $56.7 million, or 15.8% of net sales, for fiscal 2001. In fiscal 2002, costs for incentive and profit sharing programs increased with our improved financial results, and legal fees increased due to the RadioShack arbitration. Offsetting these increases were lower freight costs due to decreased net sales to retailers with prepaid shipping programs, lower store display expenses, less commission expense and the discontinuation of goodwill amortization on July 1, 2001.

Restructuring Charge. In November 2000, we announced a strategic restructuring plan. The slowdown in net sales during the first half of fiscal 2001 caused us to reassess our business plan, specifically expenses and available production capacity. The net sales downturn, combined with improvements in production efficiencies and expansions at the Missouri and Virginia plants during the past few years, provided production capacity that exceeded our near term sales requirements. Based on forecasted sales, the Missouri and Virginia plants would provide sufficient production for the next two and possibly three fiscal years with minimal capital expenditures for increased capacity after ongoing projects were completed. Accordingly, we closed our Utah facility on January 19, 2001.

Fixed assets with a net book value of $20.3 million were written down to estimated fair value, less cost to sell, resulting in an impairment charge of approximately $8.7 million. We also recognized a $495,000 cash expense for the involuntary termination of 325 management and non-management employees at the Utah facility as well as exit costs of approximately $527,000 for increased workers' compensation claims, real and personal property taxes and security expenses applicable to the Utah facility closure.

We reduced the administrative and support staff in the Lamar, Missouri headquarters through voluntary and involuntary terminations. About 40 employees received termination packages totaling approximately $807,000. The total restructuring charge of $10.5 million is included as a separate line item on the consolidated statement of operations.

The following summarizes the restructuring charge:

Restructuring Charges	Original Accrual	Charges through June 30,2001	Balance June 30,2001	Charges through June 30, 2002	Balance June 30, 2002
			(in thousands)		
Employee termination benefits(1)	$ 1,302	$ 915	$ 387	$ 387	$ –
Other Utah facility exit costs(1)	527	282	245	245	–
Total	$ 1,829	$ 1,197	$ 632	$ 632	$ –

(1)Included in accrued liabilities in the consolidated balance sheets.

Depreciation and Amortization. Depreciation and amortization expenses decreased to $14.5 million for fiscal 2002 compared to $14.9 million for fiscal 2001. The decline was due to the discontinuance of goodwill amortization upon the adoption of SFAS 142, *Goodwill and Other Intangible Assets,* partially offset by the impact of capital additions in recent years. Cash capital additions in fiscal 2002 and 2001 were $8.6 million and $16.8 million, respectively. Fiscal 2002 capital expenditures were primarily for normal replacement of equipment and efficiency improvements.

Operating Income. Operating income increased $18.0 million to $39.9 million for fiscal 2002 from $21.9 million in fiscal 2001. The restructuring charge in fiscal 2001 reduced operating income by $10.5 million. Lower material prices, lower selling costs and increased operating efficiency contributed to the increase in fiscal 2002.

Net Interest Expense. Net interest expense decreased from $33.4 million in fiscal 2001 to $27.9 million in fiscal 2002. Interest expense decreased due to the change in fair value of our interest rate collar as well as our repayment of debt and lower variable interest rates on a portion of our debt. The following table describes the components of net interest expense for the periods indicated.

	Year ended June 30, (in thousands) 2002	2001
Interest expense on senior credit facility, industrial revenue bonds and senior subordinated notes	$ 23,942	$ 27,860
Interest income	(395)	(500)
Non-cash items:		
Interest expense on O'Sullivan Holdings note	2,231	2,003
Interest rate collar	(5)	1,948
Amortization of debt discount	544	472
Amortization of loan fees	1,610	1,610
Net interest expense	$ 27,927	$ 33,393

Pre-Tax Income (Loss). Pre-tax income increased $23.8 million from a loss of $12.1 million in fiscal 2001 to income of $11.7 million in fiscal 2002. The increase was due principally to the $10.5 million restructuring charge taken in fiscal 2001, low raw material costs, improved operating efficiency, particularly from the January 2001 closure of our less efficient Cedar City, Utah manufacturing plant and a decrease in interest expense.

Income Tax Provision (Benefit). As described above, we recorded tax expense of $100.9 million in fiscal 2002 compared to a tax benefit of $4.2 million in fiscal 2001.

Cumulative Effect of Accounting Change. Upon the adoption of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, in July 2000, we recognized a liability of $386,000 based upon the fair value of a costless interest rate collar initiated on February 28, 2000. That portion of the liability incurred prior to fiscal 2001, $148,000, is included, net of income tax benefit of $53,000, as cumulative effect of accounting change on the consolidated statement of operations.

Net Loss. Net loss increased substantially to $89.2 million in fiscal 2002 from a loss of $7.9 million in fiscal 2001 primarily due to the increased tax expense in fiscal 2002. This was partially offset by the restructuring charge in fiscal 2001 and lower material costs, improved operating efficiency and lower interest expense in fiscal 2002.

Liquidity and Capital Resources.

We are highly leveraged and have a stockholders' deficit of approximately $138.4 million at June 30, 2003. Our liquidity requirements will be to pay our debt, including interest expense under our credit agreement and notes, to pay RadioShack amounts due under the tax sharing agreement and to provide for working capital and capital expenditures. Our primary sources of liquidity are cash flows from operating activities and borrowings under our credit agreement, which is discussed below. Decreased demand for our products could decrease our cash flows from operating activities and the availability of borrowings under our credit agreement.

Working Capital. As of June 30, 2003, cash and cash equivalents totaled $8.0 million. Net working capital was $45.8 million at June 30, 2003 compared to $51.6 million at June 30, 2001. The $5.8 million decrease in net working capital resulted primarily from the reduced investments in trade receivables due to the lower net sales levels partially offset by reductions to accounts payable, accrued advertising and accrued liabilities.

Operating Activities. Net cash provided by operating activities for the fiscal year ended June 30, 2003 was $14.7 million compared to net cash provided of $25.9 million for the fiscal year ended June 30, 2002. Cash flows from operating activities decreased year-over-year for the following reasons:

- Reduced net sales and lower levels of operating profits reduced cash provided by operating activities in fiscal 2003.

- In fiscal 2003, we paid RadioShack $9.3 million under the tax sharing agreement compared to payments of $27.7 million in fiscal 2002.

- Accounts receivable decreased $11.3 million in fiscal 2003 compared with a decrease of $14.1 million in fiscal 2002. In both years, the decline in trade receivables was due primarily to the lower net sales levels, although a portion of the decline was due to shorter terms with certain customers.

- Inventories were flat in fiscal 2003 compared with an increase in fiscal 2002 of $3.9 million.

- Accounts payable, accrued advertising and accrued liabilities decreased $7.7 million during fiscal 2003 compared to an increase of $9.1 million in fiscal 2002. The change in payables was due to the lower net sales levels and the timing of the shutdown of our manufacturing facilities between fiscal 2003 and 2002. The lower accrued advertising was due to the lower net sales levels. The reduced accrued liabilities was due to lower accrued profit sharing and compensation at the end of fiscal 2003 compared to fiscal 2002.

Investing Activities. We invested $5.1 million for capital expenditures for fiscal 2003 compared to $8.6 million for the prior year. We also sold our Cedar City manufacturing facility for net proceeds of $6.8 million in fiscal 2003. Our ability to make future capital expenditures is subject to certain restrictions under the indenture governing our senior secured notes.

Financing Activities. Net cash flows used for investing activities increased $15.7 million in fiscal 2003 from fiscal 2002 primarily because we repaid $24.3 million of debt in fiscal 2003, up from $8.5 million in fiscal 2002. Our consolidated principal amount of indebtedness at June 30, 2003 was $220.5 million, consisting of the following.

- $88.3 million in a senior credit facility consisting of five year $10.6 million tranche A term loans, seven and one-half year $77.7 million tranche B term loans and a $30.0 million revolving line of credit, with no borrowings at June 30, 2003. The current portion of these term loans was approximately $4.0 million at June 30, 2003. The revolving line of credit has a $15.0 million sub-limit for letters of credit, of which we are currently utilizing approximately $13.5 million.

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

- $10.0 million in variable rate industrial revenue bonds.

- $22.2 million, including $7.2 million of interest added to the principal of the note, in a senior note issued with warrants to purchase 6.0% of our common and Series B junior preferred stock on a fully diluted basis. These warrants were assigned a value of $3.5 million.

The reconciliation of consolidated principal amount of indebtedness to recorded book value as of June 30, 2003, is as follows:

	Consolidated indebtedness	Current portion	Original issue discount net of accretion	Warrants net of accretion	Recorded book value of long-term debt
			(in thousands)		
Term loan A	$ 10,593	$ (3,243)	$ –	$ –	$ 7,350
Term loan B	77,673	(796)	–	–	76,877
Senior credit facility	88,266	(4,039)	–	–	84,227
Senior subordinated note	100,000	–	(1,525)	(2,732)	95,743
Industrial revenue bonds	10,000	–	–	–	10,000
Senior note	22,235	–	–	(2,800)	19,435
Total	$ 220,501	$ (4,039)	$ (1,525)	$ (5,532)	$ 209,405

During fiscal 2003, we repaid $24.3 million of our indebtedness, including $20.9 million of prepayments. We expect to fund principal and interest payments on our debt from cash flows from operating activities, cash on hand or borrowings under our revolver.

The senior credit facility and notes are subject to certain financial and operational covenants and other restrictions, including among others, requirements to maintain certain financial ratios and restrictions on our ability to incur additional indebtedness. The financial covenants contained in the senior credit facility, as amended effective June 30, 2003, are as follows:

- Our consolidated leverage ratio must be less than 5.00. The ratio at June 30, 2003 was 4.55.

- Our consolidated interest coverage ratio must be greater than 1.75. The ratio at June 30, 2003 was 2.01.

- Our consolidated fixed charge coverage ratio must be greater than 1.00. The ratio at June 30, 2003 was 1.12.

- Our senior debt coverage ratio must be less than 2.35. The ratio at June 30, 2003 was 2.26.

- Our consolidated EBITDA as defined in the credit facility must be at least $42.0 million for the fiscal year ended June 30, 2003. Our consolidated EBITDA, as defined in the credit agreement, was $43.6 million.

Consolidated interest expense as defined in the senior credit facility for the fiscal year ended June 30, 2003 was $21.6 million. O'Sullivan Industries is the borrower under the senior credit facility, so the covenants do not include the $22.2 million senior note of O'Sullivan Holdings or interest on the note. Pursuant to an amendment to our senior credit facility as of May 15, 2002, $27.0 million of our payments to RadioShack under the tax sharing agreement through the period ending June 30, 2002 were excluded from the definition of consolidated fixed charges and thus from calculations of the consolidated fixed charge coverage ratio. In addition, the credit facility effectively prohibits the payment of dividends on our stock.

As of June 30, 2003, O'Sullivan Industries executed a fourth amendment to its existing credit facility. The facility amends certain financial covenants for quarters ending June 30, 2003 through June 30, 2004. The amendment made several other changes to the senior credit facility, including reducing the revolving credit commitment from $40 million to $30 million and increasing the excess cash flow prepayment percentage from 75% to 100%. The interest rate on loans under the existing credit facility was increased to LIBOR plus 4.75% or prime plus 3.75% for revolving credit and tranche A term loans and LIBOR plus 5.25% or prime plus 4.25% for tranche B term loans. In addition, O'Sullivan will pay additional interest of 2.0% on the outstanding balance of tranche B term loans on July 2, 2004 or earlier date of repayment or prepayment of all of the tranche B term loans. At June 30, 2003, we were in compliance with the amended debt covenants.

The restriction on the incurrence of additional indebtedness in the senior credit facility limited our ability to incur additional debt to approximately $4.1 million on June 30, 2003.

Refinancing

On September 29, 2003, we refinanced our senior credit facility with $100 million of new privately placed senior secured notes and an asset-based credit agreement.

The $100.0 million senior secured notes mature on October 1, 2008 and bear interest at 10.63%. The notes were issued by O'Sullivan Industries at a price of 95% providing $95.0 million in cash proceeds before expenses related to the issuance, which expenses are estimated to be about $5 million. 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 Industries - Virginia and O'Sullivan Furniture Factory Outlet, Inc. We also entered into a registration rights agreement pursuant to which we are obligated to file a registration statement with respect to an offer to exchange the notes for a new issue of identical notes registered under the Securities Act of 1933, as amended, within 90 days after this offering closes, and to use all commercially reasonable efforts to cause the registration statement to declared effective on or prior to 180 days after the notes were issued. We may also be required under certain circumstances to provide a shelf registration statement to cover resales of the notes.

The asset-based credit agreement permits revolving borrowings of up to $40.0 million to the extent of availability under a collateral borrowing base. The credit agreement has a $25.0 million sub-limit for letters of credit, of which we are currently utilizing approximately $14.0 million. The credit agreement is secured by a first-priority security interest in and lien on substantially all of our accounts receivable, inventory, deposit accounts, certain books and records and certain licenses, and a second-priority security interest in and lien on substantially all of our assets other than accounts receivable, inventory, capital stock of our subsidiaries, deposit accounts, certain books and records and certain licenses. The interest rate on loans under the credit agreement is a LIBOR rate plus 2.5% or an index rate plus 1.0%. We also pay a quarterly fee equal to 0.5% per annum of the unused commitment under the credit agreement. O'Sullivan Industries - Virginia and O'Sullivan Furniture Factory Outlet, Inc. are also parties to the credit agreement. No loans were outstanding under the credit agreement as of September 29, 2003.

In connection with the repayment of the term loans and the termination of the revolving credit facility under the senior credit facility, we will expense approximately $2.3 million of unamortized issuance costs related to the facility in the first quarter of fiscal 2004.

Off-balance Sheet Arrangements.

At June 30, 2003, we had no off-balance sheet arrangements that have or are likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations.

The following table illustrates our contractual obligations as of June 30, 2003 due in the future:

		Payments Due by Period (in thousands)			
Contractual Obligations	Total	Less than 12 months	12-36 months	36-60 months	After 60 months
Long-term debt	$ 220,501	$ 4,039	$ 22,486	$ 61,741	$ 132,235
Tax benefit payments to RadioShack[1]	72,067	11,644	21,820	26,770	11,833
Operating leases—unconditional	2,938	1,412	1,297	193	36
Other long-term obligations[2]	408	123	271	14	–
Total contractual cash obligations[3]	$ 295,914	$ 17,218	$ 45,874	$ 88,718	$ 144,104

[1]Timing and amounts of payments to RadioShack are contingent on actual taxable income adjusted to exclude the increased interest expense arising from the 1999 recapitalization and merger. The amounts in the table above represent the maximum amounts payable to RadioShack.

[2]Represents payments due under a retirement agreement.

[3]After giving effect to our September 2003 debt refinancing, our total contractual cash obligations would be—total: $307,648; less than 12 months: $13,179; 12-36 months: $23,388; 36-60 months: $26,977; and after 60 months: $244,104.

Market Risk and Inflation.

Our market risk is affected by changes in interest rates, foreign currency exchange rates and certain commodity prices. Under our policies, we may use natural hedging techniques and derivative financial instruments to reduce the impact of adverse changes in market prices. 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. Our interest rate collar expired on March 31, 2003. Approximately $98.3 million of our debt at June 30, 2003 is subject to variable interest rates. A change in interest rates of one percentage point would change our cash interest by about $1.0 million annually. After giving effect to our September 2003 refinancing, a change in interest rates of one percentage point would change our cash interest by about $100,000 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 price exposures primarily through the duration and terms of our vendor agreements. A 1.0% change in our raw material prices would affect our cost of sales by approximately $1.4 million annually.

In fiscal 2000, certain particleboard and fiberboard suppliers imposed price increases, which increased our cost of sales in fiscal 2000 and the first half of fiscal 2001. We were able to reduce the effect of the increases somewhat through our value analysis program and productivity gains in manufacturing. In fiscal 2001, particleboard and fiberboard prices declined, increasing our operating income in the later portion of the year. Industry pricing for particleboard was flat to slightly lower in fiscal 2002 and the first half of fiscal 2003. We saw small increases in particleboard pricing in the third quarter of fiscal 2003 and another increase in the first quarter of fiscal 2004. Prices for fiberboard increased in the fourth quarter of fiscal 2002, but declined slightly during fiscal 2003. We cannot assure you that raw materials prices will not increase further in the future.

If the demand for particleboard increases or the supply decreases, prices may also increase. We believe that we can continue to partially offset the effect of such increases through the programs mentioned above and through the eventual inclusion of the higher costs in the selling price of our products. However, there can be no assurance that we will be successful in offsetting these or future potential price increases.

Effect of Recent Changes in Accounting Standards.

In April 2001, the Emerging Issues Task Force, or EITF, reached a consensus on EITF 00-25. This issue addresses the income statement classification of slotting fees, cooperative advertising arrangements and buydowns. The consensus requires that certain customer promotional payments that were classified as selling expenses be classified as a reduction of revenue. We adopted EITF 00-25 effective January 1, 2002 and reclassified certain selling, marketing and administrative expenses as a reduction of net sales. Our adoption of EITF 00-25 had no impact on our operating income or net income (loss). As a result of the adoption of EITF 00-25, for the six months ended December 31, 2001, we reclassified $7.7 million as a reduction in revenue rather than as selling, marketing and administrative expense. Reclassification for fiscal year 2001 was $16.9 million.

The FASB issued SFAS 142, *Goodwill and Other Intangible Assets,* on June 30, 2001. We adopted SFAS 142 on July 1, 2001, the beginning of our 2002 fiscal year. With the adoption of SFAS 142, goodwill of approximately $38.1 million is no longer subject to amortization over its estimated useful life. Rather, goodwill will be assessed regularly for impairment by applying a fair-value-based test. We have completed the valuation of the reporting unit, using the enterprise as the reporting unit. Because the book value of the reporting unit is below the fair value of the reporting unit, there is no impairment loss. We discontinued amortizing approximately $1.7 million of goodwill per year upon adoption of SFAS 142 on July 1, 2001. Adjusted net loss and adjusted net loss attributable to common stockholders for the fiscal year ended June 30, 2001 had such amortization not been recorded would have been $6.5 million and $17.3 million, respectively.

In June 2001, the FASB issued SFAS 143, *Accounting for Asset Retirement Obligations*. This pronouncement, which is effective for fiscal years beginning after June 15, 2002, addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. We adopted this pronouncement effective July 1, 2002. The pronouncement had no material impact on our financial position or results of operations.

In August 2001, the FASB issued SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This pronouncement, which is effective for fiscal years beginning after December 15, 2001, addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. This pronouncement had no adverse current impact on our financial position or results of operations. We adopted this pronouncement effective July 1, 2002.

In April 2002, the FASB issued SFAS 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections.* The pronouncement, in part, addresses the presentation of gains and losses from the extinguishment of debt. We adopted SFAS 145 effective July 1, 2002 and currently present such items as other financing costs on a pre-tax basis as opposed to an extraordinary item, net of tax. We also elected to present certain other financing costs previously recorded in interest expense as other financing costs and have reclassified prior periods for comparability.

In June 2002, the FASB issued SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This pronouncement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than the date of an entity's commitment to an exit plan and establishes that fair value is the objective for initial measurement of the liability. The provisions of this pronouncement are effective for exit or disposal activities that are initiated after December 31, 2002. SFAS 146 has had no effect on our financial position or results of operation.

In December 2002, the FASB issued SFAS 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*. This pronouncement amends SFAS 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require more prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The additional disclosure requirements of SFAS 148 are effective for fiscal years ending after December 15, 2002.

We account for stock-based compensation for employees under Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and elected the disclosure-only alternative under SFAS 123. No stock-based compensation cost is recorded, as all options granted have an exercise price equal to the market value of the stock on the date of the grant. In accordance with SFAS 148, the following tables presents the effect on net income (loss) had compensation cost for the company's stock plans been determined consistent with SFAS 123:

	Year ended June 30,		
	2003	**2002**	**2001**
		(in thousands)	
Net income (loss) as reported	$ 1,561	$ (89,206)	$ (7,938)
Less: total stock-based compensation expense determined under fair value method for all stock options, net of related income tax benefit	(7)	(5)	(4)
Pro forma net income (loss)	$ 1,554	$ (89,211)	$ (7,942)

The fair value of each option on the date of the grant is estimated using the Black-Scholes option-pricing model based upon the following weighted average assumptions:

	2003	**2002**	**2001**
Risk-free interest rate	None granted	4.35%	5.09%
Dividend yield		None	None
Volatility factor		0.1%	0.1%
Weighted average expected life (years)		5.0	5.0

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

In May 2003, the FASB issued SFAS 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. This pronouncement changes the accounting for certain financial instruments that, under previous guidance, could be accounted for as equity and requires that those instruments be classified as liabilities (or assets in certain circumstances) in the balance sheet. SFAS 150 also requires disclosures about alternative ways of settling the instruments and the capital structure of entities – all of whose shares are mandatorily redeemable. SFAS 150 is generally effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 will result in the classification of our senior preferred stock as a liability, instead of as an item between the liabilities and equity section of the balance sheet as we have historically presented it, effective July 1, 2003. Adopting SFAS 150 will not affect our results of operations or liquidity.

Seasonality

Historically, we have generally experienced a somewhat higher level of sales in the second and third quarters of our fiscal year in anticipation of and following the holiday selling season.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

On an on-going basis, we evaluate our estimates, including those related to customer programs and incentives, bad debts, inventories, intangible assets, income taxes, restructuring, asset impairments, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

- We derive our revenue from product sales. We recognize revenue from the sale of products when persuasive evidence of an arrangement exists, the product has been delivered, the price is fixed or determinable and collection of the resulting receivable is reasonably assured. For all sales, we use purchase orders from the customer, whether oral, written or electronically transmitted, as evidence that a sales arrangement exists. Generally, delivery occurs when product is delivered to a common carrier or private carrier, with standard terms being FOB shipping point. We assess whether the price is fixed or determinable based upon the payment terms associated with the transaction. We assess collection based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. Collateral generally is not requested from customers.

- We record estimated reductions to revenue for customer programs and incentive offerings including special pricing agreements, price protection, promotions and other volume-based incentives. Market conditions could require us to take actions to increase customer incentive offerings. These offerings could result in our estimates being too small and reduce our revenues when the incentive is offered.

- We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

- We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and its estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by us, additional inventory write-downs may be required. Obsolete and slow-moving inventory reserves were approximately $4.3 million and $4.9 million at June 30, 2003 and 2002, respectively.

- We record our deferred tax assets at the amount that the asset is more likely than not to be realized. As of June 30, 2003, we have provided a valuation allowance against our total net deferred tax asset. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance, our determinations can change. If we objectively determine it was more likely than not we would be able to realize our deferred tax assets in the future in excess of our recorded amount, we would reduce our valuation allowance, increasing income in the period such determination was made.

- We periodically review our long-lived assets, including property and equipment, for impairment and determine whether an event or change in facts and circumstances indicates their carrying amount may not be recoverable. We determine recoverability of the assets by comparing the carrying amount of the assets to the net future undiscounted cash flows expected to be generated by those assets. If the sum of the undiscounted cash flows is less than the carrying value of the assets, an impairment charge is recognized. Adverse economic conditions could cause us to record impairment charges in the future.

- We assess goodwill regularly for impairment by applying a fair-value-based test, using the enterprise as the reporting unit. If the book value of the reporting unit is below the fair value of the reporting unit, there is no impairment loss. Adverse economic conditions could cause us to record impairment charges in the future.

Cautionary Statement Regarding Forward Looking Information and Risk Factors.

Certain portions of this report, and particularly the Management's Discussion and Analysis of Financial Condition and Results of Operations and the Notes to the Consolidated Financial Statements in Part II of this report, the portions of Item 1 in Part I captioned “Competitive Strengths,” “Business Strategy,” “Customers,” “Sales and Marketing,” “Product Design and Development,” “Raw Materials,” “Competition” and “Environmental and Safety Regulations” and Item 3 in Part I contain forward-looking statements. These include information relating to cost savings, benefits, revenues and estimated sales, and earnings and expenses. These statements can be identified by the use of future tense or dates or terms such as "believe," "would," "may," "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. 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.

Factors and possible events which could cause results to differ include:

- **Our substantial leverage could make it more difficult to pay our debts, divert our cash on hand for debt payments, limit our ability to borrow funds and increase our vulnerability to general adverse economic and industry conditions.** Any of these consequences of our substantial indebtedness could prevent us from fulfilling our obligations under our indebtedness because our ability to make required payments on our debt depends on our ability to generate sufficient cash flow to make these payments. We have a significant principal amount of indebtedness as shown in the chart below:

	June 30, 2003 (dollars in millions)
Total principal amount of indebtedness	$ 220.5
Principal amount of indebtedness senior to O'Sullivan Holdings note	$ 198.3
Principal amount of indebtedness senior to O'Sullivan Industries senior subordinated notes	$ 98.3
Stockholders' deficit	$ 138.4

Following our September 2003 refinancing, our indebtedness increased and is shown in the chart below:

(adjusted to give effect to the September 2003 refinancing)	**June 30, 2003 (dollars in millions)**
Total principal amount of indebtedness	$ 232.5
Principal amount of indebtedness senior to O'Sullivan Holdings note	$ 210.0
Principal amount of indebtedness senior to O'Sullivan Industries senior subordinated notes	$ 110.0

Our substantial indebtedness could have important consequences to holders of our debt or equity. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our debt, particularly our subordinated debt;
- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to fund future working capital, capital expenditures and other general corporate requirements;
- require a substantial portion of our cash on hand for debt payments;
- limit our flexibility to plan for, or react to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that are less leveraged;
- limit our ability to borrow additional funds; and
- expose us to fluctuations in interest rates because some of our debt has a variable rate of interest.

- **We may not have sufficient cash from cash flows from operating activities, cash on hand and available borrowings under our credit agreement to service our indebtedness and to pay amounts due RadioShack under the tax sharing agreement. These obligations require a significant amount of cash.** Our business may not generate sufficient cash flows from operating activities. Our ability to make payments on and to refinance our indebtedness will depend on our ability to generate cash in the future. This, to some extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Lower net sales will generally reduce our cash flow. In addition to servicing the payment of principal and interest on our indebtedness, we are obligated to make substantial payments to RadioShack under the tax sharing agreement. The maximum payments to RadioShack for fiscal 2004, 2005 and 2006 are $11.6 million, $10.5 million and $11.3 million, respectively.

We cannot assure you that our future cash flow will be sufficient to meet our obligations and commitments. If we are unable to generate sufficient cash flow from operating activities in the future to service our indebtedness and to meet our other commitments, we will be required to adopt one or more alternatives, such as refinancing or restructuring our indebtedness (including the notes), selling material assets or operations or seeking to raise additional debt or equity capital. We cannot assure you that any of these actions could be effected on a timely basis or on satisfactory terms or at all, or that these actions would enable us to continue to satisfy our capital requirements. In addition, our existing or future debt agreements and the tax sharing agreement may contain restrictive covenants prohibiting us from adopting any of these alternatives. Our failure to comply with these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debts. See

"Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

- **Failure to comply with any of the restrictions contained in the agreements governing our indebtedness could result in acceleration of our debt. Were this to occur, we would not have sufficient cash to pay our accelerated indebtedness.** A failure to comply with the restrictions contained in our credit agreement, the indenture governing our senior secured notes or the indenture governing our senior subordinated notes could lead to an event of default, which could result in an acceleration of that indebtedness and our other indebtedness by cross-default provisions. Were this to occur, we would not have sufficient cash to pay our accelerated indebtedness or other debt.

Due to our lower sales in fiscal 2003, we negotiated amendments to the financial covenants in our senior credit facility. Without the amendments, we may have been in default under the facility. If our sales continue to decline, we may face default under our credit agreement or our indentures governing the senior notes or senior subordinated notes. There is no assurance that the creditor under the credit agreement would amend the covenants or, if an amendment were agreed to, what the cost would be to O'Sullivan.

Our credit agreement, senior secured notes, senior subordinated notes and the O'Sullivan Holdings note restrict our ability, among others, to:

- incur additional indebtedness;
- pay dividends and make distributions;
- issue common and preferred stock of subsidiaries;
- make certain investments;
- repurchase stock;
- create liens;
- enter into transactions with affiliates;
- enter into sale and leaseback transactions;
- merge or consolidate; and
- transfer and sell assets other than in the ordinary course of business.

An acceleration under our credit agreement, the indenture governing our senior secured notes or the indenture governing our senior subordinated notes would also constitute an event of default under the other agreements or indentures and the securities purchase agreement relating to the O'Sullivan Holdings note.

- **Continued reductions in retail sales could reduce our sales, especially if the reductions occur in the industries that we believe contribute to the growth of the ready-to-assemble furniture industry and could reduce our ability to pay our debts.** Most of our sales are to major retail chains. If there is a reduction in the overall level of retail sales, our sales could also decline and our ability to pay our debts could be reduced. We believe that retail sales of ready-to-assemble furniture increased from fiscal 1995 through fiscal 2000 in part because of an increase in sales of personal computers and home entertainment electronic equipment. The slowdown in growth of sales of these products hurt our sales since fiscal 2001 and could continue to lower sales in fiscal 2004.

- **Our payments to RadioShack under the tax sharing agreement could reduce our liquidity.** Because of the arbitration panel's ruling and the subsequent settlement agreement in the arbitration proceedings between RadioShack and O'Sullivan, our payments to RadioShack under the tax sharing agreement have increased substantially. In fiscal 2002 we paid RadioShack $27.7 million, representing amounts due from November 1999 through June 2002. In fiscal 2003, we paid RadioShack $9.3 million. As of June 30, 2003, the maximum amount payable to RadioShack under the tax sharing agreement was approximately $72.1 million. The maximum amounts due RadioShack under the tax sharing agreement are $11.6 million, $10.5 million and $11.3 million in fiscal 2004, 2005 and 2006, respectively. The funds for these payments have come, and funds for future payments will continue to come, from O'Sullivan Industries. We plan to fund these increased payment obligations from cash flows from operating activities, cash on hand, borrowing under our credit agreement or other sources of capital, if available.

- **Our operating income would be reduced if the prices our suppliers charge us for raw materials increase.** We are dependent on outside suppliers for all of our raw material needs and are subject to changes in the prices charged by our suppliers. If these prices were to increase significantly, our gross profit would be reduced and could in turn lead to our being unable to service our indebtedness.

In the past, our profits have been reduced by increases in prices of particleboard and fiberboard. Industry pricing for particleboard was flat to slightly lower in fiscal 2002 and the first half of fiscal 2003. We saw small increases in particleboard pricing in the third quarter of fiscal 2003 and another increase in the first quarter of fiscal 2004. Prices for fiberboard increased in the fourth quarter of fiscal 2002, but declined slightly in fiscal 2003. If business conditions improve in fiscal 2004, or if particleboard or fiberboard manufacturers curtail supply through plant closings or otherwise, our prices for particleboard and fiberboard may increase. We will try to offset any price increases through cost savings, production efficiencies and the eventual inclusion of the higher costs in our selling prices, but these efforts may not be successful or sufficient.

- **Because we sell products to a small number of customers, our sales would be reduced if one of our major customers significantly reduced its purchases of our products or were unable to fulfill its financial obligations to us. If this were to happen, our ability to pay our debts may be significantly affected.** Our sales are concentrated among a relatively small number of customers. Any of our major customers can stop purchasing product from us or significantly reduce their purchases at any time. During fiscal year 2003, our three largest customers, OfficeMax, Office Depot and Wal-Mart accounted for approximately 44% of our gross sales. We do not have long term contracts with any of our customers and our sales depend on our continuing ability to deliver attractive products at reasonable prices. Reduced orders from some of our largest customers significantly reduced our sales in fiscal 2002 and 2003. Further, Montgomery Ward closed all of its stores in fiscal 2001, Ames closed all of its stores in 2002 and Kmart closed approximately 600 stores during its reorganization under the United States Bankruptcy Code in fiscal 2002 and 2003. We cannot assure you that our other customers will not experience similar financial difficulties in the future.

There can be no assurance that we will be able to maintain our current level of sales to these customers or that we will be able to sell our products to other customers on terms that will be favorable. The loss of, or substantial decrease in the amount of purchases by, or a write-off of any significant receivables due from, any of our major customers would have a material adverse effect on our business, results of operations, liquidity and financial condition.

At June 30, 2003, our largest five customer accounts receivable balances comprised approximately 62% of our net trade receivables balance. The bankruptcy of Ames in August 2001 and Kmart in January 2002 caused us to increase our reserves for doubtful accounts by $1.5 million in the fourth quarter of fiscal 2001 and $700,000 in the second quarter of fiscal 2002, respectively.

- **We operate in a highly competitive market which may force us to reduce margins, reducing our cash flows and our ability to pay our debts.** The industry in which we operate is highly competitive. Some of our competitors are significantly larger and have greater financial, marketing and other resources than we do. Because of lower sales of RTA furniture generally and an increase in imports, a number of manufacturers, including us, have excess capacity. The competitive nature of our industry has led and could continue to lead to smaller profit margins due to competitive pricing policies or excess capacity. If this were to occur, our cash flows and our ability to pay our debts may be reduced. This competitive pressure could be further exacerbated if additional excess manufacturing capacity develops in the RTA furniture industry due to over-expansion by manufacturers further reduction in demand or otherwise. Foreign manufacturers entering the United States market are also increasing competition in our markets. This competitive pressure could be further exacerbated if additional excess manufacturing capacity develops in the RTA furniture industry due to over-expansion by manufacturers, further reduction in demand or otherwise. Foreign manufacturers entering the United States market could also increase competition in our markets.

- **Because the O'Sullivan Industries senior subordinated notes, and the subsidiary guarantee thereof, and the O'Sullivan Holdings note rank behind O'Sullivan Industries' senior debt, holders of these notes may receive proportionately less than holders of our senior debt in a bankruptcy, liquidation, reorganization or similar proceeding**. In the event of a bankruptcy, liquidation, reorganization or similar proceeding relating to us, holders of O'Sullivan Industries senior subordinated notes and then the O'Sullivan Holdings note will participate with all other holders of our subordinated indebtedness in the assets remaining after we have paid all of the senior debt. Because our senior debt must be paid first, holders of these notes may receive proportionately less than trade creditors in any proceedings of this nature. In any of these cases, we may not have sufficient funds to pay all of our creditors. Therefore, holders of our subordinated indebtedness may receive ratably less than trade creditors.

In addition, all payments on the subordinated debt will be blocked in the event of a payment default on our senior debt and may be prohibited for up to 179 days each year in the event of some non-payment defaults on senior debt.

- **Despite our current levels of debt, we may still incur more debt and increase the risks described above.** We may be able to incur significant additional indebtedness in the future. If we or our subsidiaries add new debt to our current debt levels, the related risks that we and they now face could intensify, making it less likely that we will be able to fulfill our obligations to holders of the O'Sullivan Industries senior subordinated notes or the O'Sullivan Holdings senior note. None of the agreements governing our indebtedness completely prohibits us or our subsidiaries from doing so. The revolving credit facility of the senior credit facility permits additional borrowings of up to $4.1 million at June 30, 2003, plus $1.5 million for letters of credit. We may borrow up to an additional $40.0 million under our new credit agreement. These additional borrowings would be senior to the O'Sullivan Industries senior subordinated notes and the O'Sullivan Holdings note.

- **If we become bankrupt, the claims of holders of the O'Sullivan Industries senior subordinated notes against us may be less than the face value of the notes due to original issue discount.** The O'Sullivan Industries senior subordinated notes bear a discount from their stated principal amount at maturity. If a bankruptcy case is commenced by or against O'Sullivan Industries under the U.S. Bankruptcy Code, the claim of a holder of the notes with respect to the principal amount thereof would likely be limited to an amount equal to the sum of (1) the initial offering price and (2) the portion of the original issue discount, or OID, that is not deemed to constitute "unmatured interest" for purposes of the U.S. Bankruptcy Code. Any OID that was not accrued as of the bankruptcy filing would constitute "unmatured interest."

- **We are at risk that users of our products will sue us for product liability. If we were unable to defend ourselves against some product liability lawsuits, our success and our ability to pay our debts may be reduced.** All of our products are designed for use by consumers. Like other manufacturers of similar products, we are subject to product liability claims and could be subject to class action litigation with respect to our products. If we were unable to defend ourselves against certain product liability lawsuits, our success and ability to pay our debts may be adversely affected. We are party to various pending product liability claims and legal actions arising in the ordinary operation of our business. Our liability insurance may not be adequate for our needs, and we may not be fully insured against any particular lawsuit which may adversely affect us.

- **We may be liable for penalties under environmental, health and safety laws rules and regulations. This could negatively affect our success and our ability to pay our debts.** We are subject to many federal, state and local, environmental, health and safety laws, regulations and ordinances including the requirements and standards of the U.S. Consumer Products Safety Commission and the Occupational Health and Safety Act. Violations of environmental, health and safety laws are subject to civil, and in some cases criminal, sanctions. We have made and will continue to make capital and other expenditures in order to comply with these laws and regulations. However, the requirements of these laws and regulations are complex, change frequently, and could become more stringent in the future. We cannot predict what environmental legislation or regulations will be enacted in the future, how existing or future laws or regulations will be administered or interpreted or what environmental conditions may be found to exist. These costs and expenses may adversely affect our success and ability to pay our debts.

Our manufacturing facilities ship waste products to various disposal sites. To the extent that these waste products include hazardous substances that could be discharged into the environment at these disposal sites or elsewhere, we are potentially subject to laws that provide for responses to, and liability for, releases of hazardous substances into the environment and liability for natural resource damages. One example of these laws is the federal Comprehensive Environmental Response, Compensation and Liability Act. Generally, liability under this act is joint and several and is determined without regard to fault. In addition to the Comprehensive Environmental Response, Compensation and Liability Act, similar state or other laws and regulations may impose the same or even broader liability for releases of hazardous substances. Because these laws could subject us to liability even if we are not at fault, it is difficult for us to estimate the cost of complying with them.

- **The interests of our controlling stockholders may be in conflict with interests of the holders of our indebtedness. This conflict could result in corporate decision making that involves disproportionate risks to the holders of our indebtedness, including our ability to service our debts or pay the principal amount of indebtedness when due.** Bruckmann, Rosser, Sherrill & Co. II, L.P. ("BRS") owns securities representing approximately 72.7% of the voting power of the outstanding common stock of O'Sullivan Holdings. Pursuant to the stockholders agreement among O'Sullivan Holdings, BRS and certain other of our stockholders, BRS has the right to appoint five directors to the board of directors of O'Sullivan Holdings. As a result, directors appointed by BRS will be in a position to control all matters affecting us. Such concentration of ownership may have the effect of preventing a change in control. As a result, BRS will continue to have the ability to elect and remove directors and determine the outcome of matters presented for approval by our stockholders. In addition, there may be circumstances where the interests of BRS could be in conflict with the interests of the holders of our indebtedness. For example, BRS may have an interest in pursuing transactions that, in their judgment, could enhance their equity investment, even though these transactions might involve risks to the holders of O'Sullivan's debt. See Item 10, "Directors and Executive Officers of the Registrant," and Item 12, "Security Ownership of Certain Beneficial Owners and Management," in Part III of this report.

- **If our key personnel were to leave, our success could be negatively affected and our ability to service our debts could be adversely affected.** Our continued success is dependent, to a certain extent, upon our ability to attract and retain qualified personnel in all areas of our business, including management positions and key sales positions, especially those positions servicing our major customers. Members of the O'Sullivan family in particular have been instrumental in the development of our business and the implementation of our corporate strategy. We do not have employment agreements with any of our officers or key personnel located in the United States and we do not carry key person life insurance on any of our employees. We may not be able to keep existing personnel, including O'Sullivan family members, or be able to attract qualified new personnel. Our inability to do so could have a negative effect on us as we may be unable to efficiently and effectively run our business without these key personnel. See "Directors and Executive Officers of the Registrant," Item 10 of Part III of this report.

- **We rely heavily on product innovation.** Product life cycles can be short in the RTA furniture industry, and innovation is an important component of the competitive nature of the industry. While we emphasize new product innovation and product repositioning (*i.e.*, design changes or revised marketing strategies), we may be unable to continue to develop competitive products in a timely manner or to respond adequately to market trends. In addition, we may not be able to ensure that repositioned products will gain initial market acceptance, that interest in our products will be sustained, or that significant start-up costs with respect to new products will be recouped.

- **Our net sales are highly price sensitive, which can prevent us from passing cost increases to our customers.** Sales to mass retailers, which are among our primary customers, are highly price sensitive. We set many product prices on an annual basis but we typically purchase raw materials and components under purchase orders within periods of less than one year. Accordingly, we often must set prices for many products before production costs have been firmly established, before we have complete knowledge of the costs of raw materials and components and sometimes before product development is complete. After we have established prices, we generally are unable to pass cost increases along to our customers, nor can we compete as effectively if we seek to pass such costs along.

- **Fraudulent conveyance laws permit courts to void guarantees, subordinate claims and require holders of our debt to return payments received from guarantors in specific circumstances.** Under federal bankruptcy law and comparable provisions of state fraudulent transfer laws, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of a guarantor, if, among other things, the guarantor, at the time it incurred the indebtedness connected with its guarantee:

    - received less than reasonably equivalent value or fair consideration for the issuance of the guarantee, and was rendered insolvent by reason of such guarantee; or
    - was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or
    - intended to incur or believed that it would incur debts beyond our or its ability to pay such debts as they mature.

In addition, any payment by that guarantor pursuant to its guarantee could be voided and required to be returned to the guarantor, or to a fund for the benefit of the creditors of the guarantor.

The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a guarantor would be considered insolvent if:

- the sum of its debts, including contingent liabilities, were greater than the fair saleable value of all of its assets; or
- the present fair saleable value of its assets were less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they became absolute and mature; or
- it could not pay its debts as they became due.

If a court were to disagree with our conclusions as to the legality of any subsidiary guarantees it could adversely affect the rights of holders of O'Sullivan Industries' indebtedness.

- **We may not have the ability to raise the funds necessary to finance a change of control offer required by our debt agreements.** Upon certain change of control events, we will be required to offer to repurchase all of the O'Sullivan Industries senior secured notes and senior subordinated notes, and O'Sullivan Holdings may be required to repurchase its senior notes upon a change of control of O'Sullivan Holdings. If we do not have sufficient funds at the time of a change of control, we will not be able to make the required repurchase of these notes. This could be because of cash flow difficulties or because of restrictions in our credit agreement and any future credit agreements that will not allow these repurchases.

In addition, some kinds of corporate events, such as a leveraged recapitalization, would increase the level of our indebtedness but would not necessarily constitute a "Change of Control" and would therefore not require us to repurchase the notes.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The information required by this item is incorporated herein by reference to the section entitled "Market Risk and Inflation" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 8. Financial Statements and Supplementary Data.

Immediately following are the report of independent accountants, the consolidated balance sheets of O'Sullivan Industries Holdings, Inc. and subsidiaries as of June 30, 2003 and 2002, and the related consolidated statements of operations, cash flows and changes in stockholders' equity (deficit) for each of the three years in the period ended June 30, 2003, and the notes thereto.

Report of Independent Auditors

To the Board of Directors and Stockholders of
O'Sullivan Industries Holdings, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of cash flows and of changes in stockholders' equity (deficit) present fairly, in all material respects, the financial position of O'Sullivan Industries Holdings, Inc. and its subsidiaries at June 30, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company discontinued the amortization of goodwill effective July 1, 2001 upon adoption of a new accounting standard for goodwill.

/s/ PricewaterhouseCoopers LLP

Kansas City, Missouri
September 29, 2003

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

Assets	June 30, 2003	June 30, 2002
Current assets:		
Cash and cash equivalents	$ 7,977	$ 15,777
Trade receivables, net of allowance for doubtful accounts of $2,978 and $4,101, respectively	25,032	37,035
Inventories, net	52,426	52,397
Prepaid expenses and other current assets	2,772	2,765
Total current assets	88,207	107,974
Property, plant and equipment, net	71,867	79,144
Other assets	9,226	19,226
Goodwill, net of accumulated amortization	38,088	38,088
Total assets	$ 207,388	$ 244,432
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 10,006	$ 10,887
Current portion of long-term debt	4,039	4,430
Accrued advertising	9,493	11,680
Accrued liabilities	12,043	18,399
Payable to RadioShack	6,798	11,020
Total current liabilities	42,379	56,416
Long-term debt, less current portion	209,405	230,206
Other liabilities	6,762	6,040
Payable to RadioShack	65,269	70,354
Total liabilities	323,815	363,016
Commitments and contingent liabilities (Notes 3, 12, 17 and 18)		
Mandatorily redeemable senior preferred stock, $0.01 par value; $37,430 and $33,312 liquidation value including accumulated dividends at June 30, 2003 and June 30, 2002, respectively, 17,000,000 shares authorized, 16,431,050 issued	21,933	18,319
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 liquidation value including accumulated dividends; 1,000,000 shares authorized; 529,009.33 issued	85,682	74,838
Common stock, $0.01 par value; 2,000,000 shares authorized, 1,368,000 issued	14	14
Additional paid-in capital	13,053	13,053
Retained deficit	(237,062)	(224,166)
Accumulated other comprehensive income (loss)	296	(305)
Notes receivable from employees	(343)	(337)
Total stockholders' deficit	(138,360)	(136,903)
Total liabilities and stockholders' deficit	$ 207,388	$ 244,432

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

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

	For the year ended June 30,		
	2003	2002	2001
Net sales	$ 289,152	$ 349,098	$ 358,811
Cost of sales	214,977	254,662	269,720
Gross profit	74,175	94,436	89,091
Operating expenses:			
Selling, marketing and administrative	45,834	54,584	56,682
Restructuring charge	2,049	–	10,506
Total operating expenses	47,883	54,584	67,188
Operating income	26,292	39,852	21,903
Other income (expense):			
Interest expense	(24,552)	(28,322)	(33,893)
Interest income	266	395	500
Other financing costs	(445)	(204)	(574)
Income (loss) before income tax provision (benefit) and cumulative effect of accounting change	1,561	11,721	(12,064)
Income tax provision (benefit)	–	100,927	(4,221)
Income (loss) before cumulative effect of accounting change	1,561	(89,206)	(7,843)
Cumulative effect of accounting change, net of income tax benefit of $53	–	–	(95)
Net income (loss)	1,561	(89,206)	(7,938)
Dividends and accretion on preferred stock	(14,457)	(12,490)	(10,733)
Net loss attributable to common stockholders	$ (12,896)	$ (101,696)	$ (18,671)

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

O'SULLIVAN INDUSTRIES HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	For the year ended June 30, 2003	2002	2001
Cash flows provided by operating activities:			
Net income (loss)	$ 1,561	$ (89,206)	$ (7,938)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	13,621	14,530	14,945
Amortization of debt issuance costs	1,610	1,610	1,610
Amortization of debt discount and accrued interest on senior note	3,134	2,775	2,475
Interest rate collar	(2,091)	(5)	2,096
Bad debt expense	735	1,460	1,741
Loss on disposal of assets	154	991	230
Impairment of long-lived assets	540	–	8,677
Deferred income taxes	–	100,562	(4,028)
Accrual of special payment of options to purchase Series A junior preferred stock	1,240	1,083	946
Changes in assets and liabilities:			
Trade receivables	11,268	14,075	4,664
Inventories	(29)	(3,859)	16,718
Other assets	(6)	465	(1,600)
Payable to RadioShack	(9,307)	(27,694)	–
Accounts payable and accrued liabilities	(7,690)	9,110	(15,608)
Net cash flows provided by operating activities	14,740	25,897	24,928
Cash flows provided (used) by investing activities:			
Capital expenditures	(5,081)	(8,644)	(16,811)
Proceeds from sale of manufacturing facility	6,788	–	–
Net cash flows provided (used) by investing activities	1,707	(8,644)	(16,811)
Cash flows used for financing activities:			
Employee loans	18	8	–
Repayment of borrowings	(24,265)	(8,544)	(12,924)
Net cash flows used for financing activities	(24,247)	(8,536)	(12,924)
Net increase (decrease) in cash and cash equivalents	(7,800)	8,717	(4,807)
Cash and cash equivalents, beginning of year	15,777	7,060	11,867
Cash and cash equivalents, end of year	$ 7,977	$ 15,777	$ 7,060
Supplemental cash flow information:			
Interest paid	$ 21,638	$ 24,915	$ 28,258
Income taxes paid (refunded)	–	76	(17)
Non-cash investing and financing activities:			
Dividends accrued but not paid	14,961	13,136	11,473
Capital expenditures included in accounts payable	215	288	1,821

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

O'SULLIVAN INDUSTRIES HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands)

	Series B junior preferred stock		Common stock		Additional paid-in capital	Retained earnings (deficit)	Notes receivable from employees	Accumulated other comprehensive income (loss)	Total stockholders' equity (deficit)	Comprehensive income (loss)
	Shares	Dollars	Shares	Dollars						
Balance, June 30, 2000	516	$ 55,822	1,368	$ 14	$ 14,385	$ (103,799)	$ (296)	$ (14)	$ (33,888)	
Net loss						(7,938)			(7,938)	$ (7,938)
Other comprehensive loss								(322)	(322)	(322)
Loans to employees-interest income							(26)		(26)	
Issuance of preferred stock upon exercise of warrants	13	1,332			(1,332)				–	
Dividends and accretion on senior preferred stock						(2,521)			(2,521)	
Dividends and accretion on junior preferred stock		8,212				(8,212)			–	
Balance, June 30, 2001	529	$ 65,366	1,368	$ 14	$ 13,053	$ (122,470)	$ (322)	$ (336)	$ (44,695)	$ (8,260)
Net loss						(89,206)			(89,206)	$ (89,206)
Other comprehensive income								31	31	31
Loans to employees-interest income							(24)		(24)	
Repayment of employee loans							18		9	
Dividends and accretion on senior preferred stock						(3,018)			(3,018)	
Dividends and accretion on junior preferred stock		9,472				(9,472)				
Balance, June 30, 2002	529	$ 74,838	1,368	$ 14	$ 13,053	$ (224,166)	$ (337)	$ (305)	$ (136,903)	$ (89,175)
Net income						1,561			1,561	$ 1,561
Other comprehensive income								601	601	601
Loans to employees-interest income							(24)		(24)	
Repayment of employee loans							18		18	
Dividends and accretion on senior preferred stock						(3,613)			(3,613)	
Dividends and accretion on junior preferred stock		10,844				(10,844)				
Balance, June 30, 2003	529	$ 85,682	1,368	$ 14	$ 13,053	$ (237,062)	$ (343)	$ 296	$ (138,360)	$ 2,162

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

Note 1 - General Information.

O'Sullivan Industries Holdings, Inc. ("O'Sullivan"), a Delaware corporation, is a domestic producer of ready-to-assemble ("RTA") furniture. O'Sullivan's RTA furniture includes desks, computer workcenters, cabinets, home entertainment centers, audio equipment racks, bookcases, microwave oven carts and a wide variety of other RTA furniture for use in the home, office and home office. The products are distributed primarily through office superstores, discount mass merchants, mass merchants, home centers, electronics retailers, furniture stores and internationally. O’Sullivan owns all of the stock of O’Sullivan Industries, Inc. (“O’Sullivan Industries”). O’Sullivan Industries is the sole owner of O’Sullivan Industries - Virginia, Inc. (“O’Sullivan Industries - Virginia”) and O’Sullivan Furniture Factory Outlet, Inc.

Note 2 - Summary of Significant Accounting Policies.

Basis of Presentation: The consolidated financial statements include the accounts of O'Sullivan and its wholly owned subsidiaries. All significant intercompany transactions, balances and profits have been eliminated.

Use of Estimates: O’Sullivan’s consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires O’Sullivan to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities at the date of the financial statements. On an on-going basis, O’Sullivan evaluates its estimates, including those related to customer programs and incentives, uncollectible receivables, sales returns and warranty reserves, inventory valuation, restructuring costs, intangible assets, certain accrued liabilities, deferred taxes, and contingencies and litigation, among others. O’Sullivan bases its estimates on historical experience and on various other assumptions that it believes are reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from the estimates made by O’Sullivan with respect to these items and other items that require management’s estimates.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand and all highly liquid investments with original maturities of three months or less.

Business and Credit Risk Concentrations: The largest five customer accounts receivable balances accounted for approximately 62% and 66% of the trade receivable balance at June 30, 2003 and 2002, respectively. Credit is extended to customers based on evaluation of the customer's financial condition, generally without requiring collateral. Exposure to losses on receivables is dependent on each customer's financial condition. Therefore, O'Sullivan would be exposed to a large loss if one of its major customers were not able to fulfill its financial obligations. From time to time, O'Sullivan maintains certain limited credit insurance which may help reduce, but not eliminate, exposure to potential credit losses. In addition, O'Sullivan monitors its exposure for credit losses and maintains allowances for anticipated losses.

Revenue Recognition: O’Sullivan recognizes revenue from the sale of products when persuasive evidence of an arrangement exists, the product has been delivered, the price is fixed or determinable and collection of the resulting receivable is reasonably assured. For all sales, O’Sullivan uses purchase orders from the customer, whether oral, written or electronically transmitted, as evidence that a sales arrangement exists.

Generally, delivery occurs when product is delivered to a common carrier or private carrier, with standard terms being FOB shipping point. O’Sullivan assesses whether the price is fixed or determinable based upon the payment terms associated with the transaction.

O’Sullivan assesses collection based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. Collateral is generally not requested from customers.

Shipping and Handling: O'Sullivan reports amounts billed to customers as revenue, the cost of 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 fiscal 2003, 2002 and 2001 were approximately $6.3 million, $9.7 million and $11.6 million, respectively.

Inventories: Inventories are stated at the lower of cost, determined on a first-in, first-out ("FIFO") basis, or market. Provision for potentially obsolete or slow-moving inventory is made based on management's evaluation of inventory levels and future sales forecasts.

Property, Plant and Equipment: Depreciation and amortization of property, plant and equipment is calculated using the straight-line method, which amortizes the cost of the assets over their estimated useful lives. The ranges of estimated useful lives are: buildings—30 to 40 years; machinery and equipment—3 to 10 years; leasehold improvements—the lesser of the life of the lease or asset. Maintenance and repairs are charged to expense as incurred. Renewals and betterments which materially prolong the useful lives of the assets are capitalized. The cost and related accumulated depreciation of assets retired or sold are removed from the accounts, and gains or losses on disposal are recognized in the statement of operations.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Intangible Assets: O'Sullivan assesses goodwill regularly for impairment by applying a fair-value-based test, using the enterprise as the reporting unit. If the book value of the reporting unit is below the fair value of the reporting unit, there is no impairment loss. For fiscal years ended June 30, 2001 and earlier, goodwill was amortized over a 40-year period using the straight-line method. Accumulated amortization at June 30, 2003 and 2002 approximated $29.8 million.

O'Sullivan discontinued amortizing approximately $1.7 million of goodwill per year upon adoption of Statement of Financial Accounting Standard ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, on July 1, 2001. Adjusted net loss and adjusted net loss attributable to common stockholders for the fiscal year ended June 30, 2001 had such amortization not been recorded would have been $6.5 million and $17.3 million, respectively.

Fair Value of Financial Instruments: The fair value of financial instruments is determined by reference to various market data and other valuation techniques, as appropriate. Unless otherwise disclosed, the fair value of financial instruments approximates their recorded values due primarily to the short-term nature of their maturities.

Advertising Costs: The Emerging Issues Task Force ("EITF") in April 2001 reached a consensus on EITF No. 00-25, *Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products.* This issue requires that certain customer promotional payments that were classified as selling expenses be classified as a reduction of revenue. O'Sullivan adopted EITF 00-25 effective January 1, 2002. As a result of the adoption, $16.9 million was reclassified as a reduction in revenue rather than as a selling expense for fiscal year 2001.

Advertising costs are expensed as incurred. Advertising expense is included in selling, marketing and administrative expense and amounted to $7.5 million, $7.0 million and $8.5 million in fiscal 2003, 2002 and 2001, respectively.

Income Taxes: Deferred taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred tax liabilities for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when it can not be established that it is more likely than not that all of the deferred tax assets will be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Environmental Remediation and Compliance: Environmental remediation and compliance expenditures that relate to current operations are expensed or capitalized, as appropriate. Expenditures that relate to an existing condition caused by past operations and that do not contribute to current or future revenue generation are expensed. Liabilities are recognized when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with completion of a feasibility study or O'Sullivan's commitment to a formal plan of action. To date, environmental expenditures have not been material, and management is not aware of any material environmental related contingencies.

Significant Fourth Quarter Adjustments: Note 4 describes the $1.5 million restructuring charge recorded by O'Sullivan in the fourth quarter of fiscal 2003. During the fourth quarter of fiscal 2001, O'Sullivan recorded bad debt expense of $1.5 million associated with the August 20, 2001 bankruptcy filing of Ames Department Stores, Inc.

Accounting for Stock-Based Compensation: O'Sullivan accounts for stock based compensation pursuant to the intrinsic value based method of accounting as prescribed by APB Opinion No. 25, *Accounting for Stock Issued to Employees*. O'Sullivan has made pro forma disclosures of net income as if the fair value based method of accounting defined in SFAS 123, *Accounting for Stock-Based Compensation*, had been applied. See also Note 13 and "*New Accounting Standards*."

Comprehensive Income: Other comprehensive income consists of foreign currency translation adjustments. The tax benefit (expense) related to other comprehensive income (loss) approximated $0, ($10,000) and $113,000 for the years ended June 30, 2003, 2002 and 2001, respectively.

New Accounting Standards: In April 2001, the EITF reached a consensus on EITF 00-25. This issue addresses the income statement classification of slotting fees, cooperative advertising arrangements and buydowns. The consensus requires that certain customer promotional payments that were classified as selling expenses be classified as a reduction of revenue. O'Sullivan adopted EITF 00-25 effective January 1, 2002 and reclassified certain selling, marketing and administrative expenses as a reduction of net sales. Its adoption by O'Sullivan had no impact on operating income or net income (loss). As a result of the adoption of EITF 00-25, for the six months ended December 31, 2001, $7.7 million was reclassified as a reduction in revenue rather than as selling, marketing and administrative expense. Reclassification for fiscal year 2001 was $16.9 million.

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS 143, *Accounting for Asset Retirement Obligations.* This pronouncement, which is effective for fiscal years beginning after June 15, 2002, addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. O'Sullivan adopted this pronouncement effective July 1, 2002. The pronouncement had no material impact on O'Sullivan's financial position or results of operations.

In August 2001, the FASB issued SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This pronouncement, which is effective for fiscal years beginning after December 15, 2001, addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. This pronouncement had no adverse material impact on O'Sullivan's financial position or results of operations. O'Sullivan adopted this pronouncement effective July 1, 2002.

In April 2002, the FASB issued SFAS 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections.* The pronouncement, in part, addresses the presentation of gains and losses from the extinguishment of debt. O'Sullivan adopted SFAS 145 effective July 1, 2002 and currently presents such items as other financing costs on a pre-tax basis as opposed to an extraordinary item, net of tax. O'Sullivan also elected to present certain other financing costs previously recorded in interest expense as other financing costs and has reclassified prior periods for comparability.

In June 2002, the FASB issued SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This pronouncement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).* SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than the date of an entity's commitment to an exit plan and establishes that fair value is the objective for initial measurement of the liability. The provisions of this pronouncement are effective for exit or disposal activities that are initiated after December 31, 2002. SFAS 146 has had no effect on O'Sullivan's financial position or results of operation.

In December 2002, the FASB issued SFAS 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*. This pronouncement amends SFAS 123, *Accounting for Stock-Based Compensation* to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require more prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The additional disclosure requirements of SFAS 148 are effective for fiscal years ending after December 15, 2002.

O'Sullivan accounts for stock-based compensation for employees under APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and elected the disclosure-only alternative under SFAS 123. No stock-based compensation cost is included in net earnings, as all options granted have an exercise price equal to the market value of the stock on the date of the grant. In accordance with SFAS 148, the following tables present the effect on net earnings had compensation cost for the company's stock plans been determined consistent with SFAS 123.

	For the year ended June 30,		
	2003	2002	2001
		(in thousands)	
Net income (loss) as reported	$ 1,561	$(89,206)	$ (7,938)
Less: total stock-based compensation expense determined under fair value method for all stock options, net of related income tax benefit	(7)	(5)	(4)
Pro forma net income (loss)	$ 1,554	$(89,211)	$ (7,942)

The fair value of each option on the date of the grant is estimated using the Black-Scholes option-pricing model based upon the following weighted average assumptions:

	2003	2002	2001
Risk-free interest rate	None granted	4.35%	5.09%
Dividend yield		None	None
Volatility factor		0.1%	0.1%
Weighted average expected life (years)		5.0	5.0

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

In May 2003, the FASB issued SFAS 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. This pronouncement changes the accounting for certain financial instruments that, under previous guidance, could be accounted for as equity and requires that those instruments be classified as liabilities (or assets in certain circumstances) on the balance sheet. SFAS 150 also requires disclosures about alternative ways of settling the instruments and the capital structure of entities all of whose shares are mandatorily redeemable. SFAS 150 is generally effective for all financial instruments entered into or modified after

May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 will result in the classification of O'Sullivan's mandatorily redeemable senior preferred stock as a non-current liability, instead of as an item between the liabilities and equity section of the balance sheet as O'Sullivan has historically presented it, effective July 1, 2003. Adopting SFAS 150 will not affect O'Sullivan's cash payments or liquidity.

Reclassifications: Certain items in the prior years' financial statements have been reclassified to conform with the current year's presentation.

Note 3—Revised Accounting for Tax Sharing Agreement with RadioShack.

In 1994, RadioShack, then Tandy Corporation, completed an initial public offering of O'Sullivan. In connection with the offering, O'Sullivan entered into a tax sharing and tax benefit reimbursement agreement with RadioShack. O'Sullivan Holdings and RadioShack made elections under Sections 338(g) and 338(h)(10) of the Internal Revenue Code with the effect that the tax basis of O'Sullivan's 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 O'Sullivan's assets exceeded the historical book basis O'Sullivan used for financial reporting purposes.

The increased tax basis of O'Sullivan's assets results in increased tax deductions and, accordingly, reduced its taxable income or increased its net operating loss. Under the tax sharing agreement, O'Sullivan is 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, Inc. and further increase the tax basis of its assets from the 1994 initial public offering when payments are made to RadioShack.

To the extent the benefit of these basis step-up deductions caused O'Sullivan to have a federal taxable loss, O'Sullivan was only obligated to pay RadioShack to the extent that the benefits were used to reduce taxable income to zero. Any additional tax deductions resulting from the step-up create a net operating loss ("NOL") carryforward on O'Sullivan's federal income tax return. Under the terms of the tax sharing agreement, if O'Sullivan utilized this NOL carryforward to generate future tax savings, O'Sullivan was also obligated to remit that benefit received to RadioShack.

Since 1994, O'Sullivan has treated the amount due to RadioShack as income tax expense when such amounts become payable and to the extent that O'Sullivan had sufficient consolidated taxable income. Thus, O'Sullivan's tax expense approximated what it would have been in the absence of the Section 338(h)(10) step-up in basis and the tax sharing agreement.

Under this accounting method, the deferred tax asset from the step-up in basis, the obligation to RadioShack and O'Sullivan's payments to RadioShack were not recorded on O'Sullivan's consolidated balance sheets because O'Sullivan deemed the benefits to be an asset of RadioShack. When the tax benefits were received and paid to RadioShack, O'Sullivan recorded the payment as tax expense since this amount would have been paid as federal income taxes in the absence of the step-up in basis and the tax sharing agreement.

In November 1999, O'Sullivan Holdings completed a leveraged recapitalization and merger transaction which significantly increased the debt of O'Sullivan. As a result of the higher debt levels, O'Sullivan also experienced increased interest expense, which reduced the taxable income of O'Sullivan and also reduced the tax benefits used from the deductions arising from the step-up in basis. O'Sullivan reduced its payments to RadioShack accordingly. RadioShack claimed that the deductions arising from the increased interest payments should not impact tax benefit payments due RadioShack under the tax agreement. RadioShack pursued this matter and prevailed in an arbitration ruling in March 2002. O'Sullivan reached a settlement agreement with RadioShack in May 2002. Pursuant to the settlement agreement, O'Sullivan paid RadioShack \$24.6 million in May 2002 and an additional \$3.1 million in June 2002. The sum of these two payments (\$27.7 million) represented the amount due RadioShack under the settlement agreement through June 30, 2002. These amounts represent the calculation of what benefits

O’Sullivan would have realized had it not had the additional interest expense from the 1999 recapitalization and merger. The settlement agreement requires calculations into the future and quarterly payments to RadioShack if O’Sullivan’s taxable income adjusted for the additional interest expense shows that it would have realized the benefits had it not incurred the additional interest expense. If on this basis, O’Sullivan could have used the deductions from the step-up in basis, it is required to make a payment to RadioShack even though O’Sullivan may not be receiving any current tax benefit from these deductions on its federal income tax return.

Following the decision in the arbitration and the settlement agreement with RadioShack, O’Sullivan recorded the $24.6 million payment to RadioShack as a deferred tax asset at March 31, 2002. O’Sullivan believed that this was appropriate as the payment represented the tax benefit O’Sullivan could realize from future use of net operating losses on its consolidated federal income tax return if it had sufficient taxable income in the future. After recording a tax provision of $3.2 million for the quarter ended March 31, 2002 and offsetting its deferred tax liabilities of $8.0 million, O’Sullivan had a net deferred tax asset of $13.4 million.

Under SFAS 109, *Accounting for Income Taxes*, O'Sullivan must determine if it is more likely than not that its net deferred tax asset will be realized as a reduction in tax liabilities in the future. SFAS 109 requires objective evidence to support the more likely than not conclusion. The arbitration decision dramatically affected O’Sullivan’s liquidity, which reduced the amounts it could invest in sales efforts or cost improvements, as most free cash flow would now be used to pay RadioShack or repay O’Sullivan’s indebtedness. In addition, it became evident to O’Sullivan by March 2002 that the prolonged economic slowdown that started prior to September 11, 2001 was continuing. This, coupled with the adverse effect on O’Sullivan’s liquidity of the settlement, caused O’Sullivan to lower its projections of future taxable income. Accordingly, management projected O’Sullivan’s expected future taxable income utilizing operating performance it achieved in fiscal 2002 assuming O’Sullivan’s performance would be no better or worse over an extended period of time. Such projections indicate that O’Sullivan would not have taxable income until 2009 when substantially all the tax benefit deductions had been taken. At that point, the projections indicated that the net operating losses existing at that time would be utilized before they expire. However, O'Sullivan currently has and is expected to have taxable losses for a number of years in the future. Projections over a long time are inherently uncertain, and O'Sullivan cannot provide objective evidence that its operations in 2009 and beyond will produce sufficient taxable income. As a result, O'Sullivan provided a valuation allowance in its March 2002 quarter of $13.4 million against all of its net deferred tax assets with a corresponding charge to income tax expense. Consistent with O’Sullivan’s prior accounting, both before and after the 1999 1999 recapitalization and merger, O’Sullivan did not record any deferred tax assets related to future deductions from the step-up in basis or any future obligations to RadioShack as they were still contingent upon its taxable income in the future.

Similarly, in O’Sullivan’s June, September and December 2002 financial statements, it accounted for each payment to RadioShack in the same manner as the initial $24.6 million payment under the settlement agreement by recording a deferred tax asset to the extent that O’Sullivan could not benefit currently from the increased deductions. O’Sullivan then provided a valuation allowance against the additional deferred tax asset with a corresponding charge to income tax expense on a quarter by quarter basis. O’Sullivan believed this method was in conformity with accounting principles generally accepted in the United States and consistent with its accounting for the tax sharing agreement since 1994.

In the third quarter of fiscal 2003, O’Sullivan received a comment letter from the staff of the Securities and Exchange Commission (“SEC”) on the accounting for the tax sharing agreement. In the course of preparing the response to the SEC staff’s comment letter, O’Sullivan reassessed the accounting for the tax sharing agreement in light of the arbitration settlement with RadioShack and concluded that the method of accounting for the tax sharing agreement should be changed. O’Sullivan determined that the deferred tax asset created by the step-up in basis and the additional basis from the probable future payments to RadioShack should be recorded as of February 1994. At the same time, O’Sullivan recorded its obligation to RadioShack under the tax sharing agreement. The amounts of the deferred tax asset and the obligation to RadioShack were each $147.9 million at February 1994. From 1994 through December 2001, the amounts of the deferred tax asset and the obligation to RadioShack were reduced as O’Sullivan realized the benefits of the deferred tax asset and paid RadioShack amounts due under the tax sharing agreement.

At March 31, 2002, a full valuation allowance was provided against the $97.9 million net deferred tax asset, which consists of the $13.4 million valuation allowance originally recorded in the March 2002 quarter plus an additional $84.5 million representing the balance of the deferred tax asset at that time. The valuation allowance at June 30, 2002 of $97.4 million, together with the $3.5 million tax provision for the fiscal year, represent the $100.9 million recorded as tax expense for the year ended June 30, 2002. O'Sullivan recorded the valuation allowance because it was unable to determine, based on objective evidence, that it is more likely than not that O'Sullivan would be able to utilize its net operating losses prior to their expiration. If at a future date O'Sullivan determines that some or all of the deferred tax asset will more likely than not be realized, O'Sullivan will reverse the appropriate portion of the valuation allowance and credit income tax expense.

The remaining maximum obligation to RadioShack was $109.1 million at March 31, 2002. The obligation was reduced by subsequent payments; the balance was $81.4 million at June 30, 2002 and $72.1 million at June 30, 2003. O'Sullivan currently believes that it is probable that future payments to RadioShack will be made.

In summary, instead of accounting for O'Sullivan's deferred tax assets resulting from the step-up in basis as tax expense through a valuation allowance on a quarter by quarter basis as O'Sullivan makes payments to RadioShack under the tax sharing agreement, O'Sullivan revised its accounting to record the aggregate deferred tax asset and the obligation to RadioShack in February 1994. The deferred tax asset has been reduced as O'Sullivan realized the benefits from 1994 to March 2002 and was fully offset by the March 2002 valuation allowance. Therefore, this revised method of accounting will increase O'Sullivan's net income (or reduce O'Sullivan's net loss) and increase net income attributable to common stockholders (or reduce the loss) by the amount it pays RadioShack for each quarterly period after March 31, 2002 through the quarter ending March 31, 2009 or until O'Sullivan can determine, based on objective evidence, that it is more likely than not that O'Sullivan will be able to utilize its net operating losses prior to their expiration and reverses all or a portion of the valuation allowance on its deferred tax assets.

The expected timing or amounts of O'Sullivan's payments to RadioShack are not affected by the revised method of accounting, although the future payments to RadioShack are contingent upon achieving consolidated taxable income calculated on the basis stipulated in the settlement agreement.

Note 4 - Restructuring Charges.

In the fourth quarter of fiscal 2003, O'Sullivan determined to reduce its operations at its South Boston, Virginia facility to one shift. As a result, O'Sullivan reduced its workforce by about 200 people in Virginia. O'Sullivan also reduced its corporate staff in Lamar, Missouri by about 40 people, or about 15%. In connection with these reductions, O'Sullivan incurred severance costs of approximately $1.5 million, which it recorded as a restructuring charge in the fourth quarter of fiscal 2003. Substantially all of the severance will be paid within one year.

In January 2001, O'Sullivan closed its Cedar City, Utah production facility. Fixed assets with a net book value of $20.3 million were written down to estimated fair value, less cost to sell, resulting in an impairment charge of approximately $8.7 million in the second quarter of fiscal 2001. An additional impairment charge of $540,000 was recognized in the quarter ended March 31, 2003. The additional charge resulted from subsequent changes in the carrying amount of the assets held for sale due to unfavorable market conditions.

In June 2003, O'Sullivan sold the land and building it owned in Cedar City, Utah. The net proceeds from the sale were used to reduce indebtedness under O'Sullivan's senior credit facility. The sale did not require a further significant adjustment to the carrying value of the land and building. No significant assets remain from the closing of the facility.

The components of the restructuring charge and an analysis of the amounts charged against the accrual are outlined below:

Restructuring Charges	Original Accrual	Charges through June 30, 2001	Balance June 30, 2001	Charges through June 30, 2002	Balance June 30, 2002
			(in thousands)		
Employee termination benefits	$ 1,302	$ 915	$ 387	$ 387	$ –
Other Utah facility exit costs	527	282	245	245	–
Total	$ 1,829	$ 1,197	$ 632	$ 632	$ –

Note 5 - Derivative Financial Instruments.

O'Sullivan adopted SFAS 133 on July 1, 2000. As required by the transition provisions of SFAS 133, O'Sullivan recorded a net-of-tax cumulative-effect type loss of $95,000 in fiscal 2001 to recognize the fair value of its derivatives.

As required under its senior credit facility, O'Sullivan hedged one-half of its term loans with an initial notional amount of $67.5 million with a three-year, costless interest rate collar. The collar, which expired in March 2003, was based on three-month LIBOR with a floor of 6.43% and a ceiling of 8.75%. O'Sullivan recorded additional (reduced) interest expense of $(2.1 million), $(5,000) and $2.1 million for fiscal 2003, 2002 and 2001, respectively. These amounts represent the changes in fair value of the interest rate collar. At June 30, 2002, the fair value of the interest rate collar of $2.1 million was recorded in accrued liabilities in the consolidated balance sheets.

Note 6 - Inventory.

Inventory consists of the following:

	June 30, 2003	June 30, 2002
	(in thousands)	
Finished goods	$ 37,744	$ 39,199
Work in process	3,923	5,158
Raw materials	10,759	8,040
	$ 52,426	$ 52,397

Note 7 - Property, Plant and Equipment.

Property, plant and equipment consists of the following:

	June 30, 2003	June 30, 2002
	(in thousands)	
Land	$ 723	$ 414
Buildings and improvements	34,660	34,123
Machinery and equipment	137,856	131,887
Construction in progress	220	667
	173,459	167,091
Less: accumulated depreciation	(101,592)	(87,947)
	$ 71,867	$ 79,144

Depreciation expense was $13.3 million, $14.2 million and $12.8 million for fiscal 2003, 2002 and 2001, respectively, of which $11.4 million, $12.1 million, and $10.6 million, respectively, was included in cost of sales.

Note 8 - Accrued Liabilities.

Accrued liabilities consists of the following:

	June 30, 2003	June 30, 2002
	(in thousands)	
Accrued employee compensation	$ 6,302	$ 10,953
Accrued interest	3,170	2,839
Accrued termination benefits	1,509	–
Other current liabilities	1,062	4,607
	$ 12,043	$ 18,399

Note 9 - Long-Term Debt and Other Borrowing Arrangements.

Long-term debt consists of the following:

	June 30, 2003	June 30, 2,002
	(in thousands)	
Senior term loan, tranche A	$ 10,593	$ 25,247
Senior term loan, tranche B	77,673	87,285
Industrial revenue bonds	10,000	10,000
Senior subordinated notes	95,743	95,350
Senior note	19,435	16,754
Total debt	213,444	234,636
Less current portion	(4,039)	(4,430)
Total long-term debt	$ 209,405	$ 230,206

Total debt, including the discount, net of accretion, of $4.3 million on the senior subordinated notes and $2.8 million on the senior note, matures as follows (in thousands):

2004	$ 4,039
2005	6,417
2006	16,069
2007	61,741
2008	–
Thereafter	132,235
	$ 220,501

Senior Credit Facility. O'Sullivan Industries is the obligor under a senior credit facility totaling $175.0 million. O'Sullivan Industries entered into an agreement for the senior credit facility on November 30, 1999. The senior credit facility consisted of the following:

- Senior term loan, tranche A - $35.0 million term loan facility payable in 23 quarterly installments beginning March 31, 2000. The outstanding balance has been reduced to $10.6 million.

- Senior term loan, tranche B - $100.0 million term loan facility payable in 26 quarterly installments beginning March 31, 2001. The balance of these loans has been reduced to $77.7 million.

- Revolving credit facility - $30.0 million revolving credit facility due November 30, 2005, which includes a $15.0 million letter of credit subfacility and a $5.0 million swing line subfacility. At June 30, 2003, O'Sullivan had no borrowings outstanding on the revolving credit facility and approximately $13.5 million of letters of credit outstanding.

O'Sullivan Industries' obligations under the senior credit facility are secured by first priority liens and security interests in the stock of O'Sullivan Industries, O'Sullivan Industries - Virginia and O’Sullivan Furniture Factory Outlet, Inc. and substantially all of the assets of O'Sullivan Industries, O'Sullivan Industries - Virginia and O’Sullivan Furniture Factory Outlet, Inc.

The senior credit facility and notes are subject to certain financial and operational covenants and other restrictions, including among others, a requirement to maintain certain financial ratios and restrictions on O’Sullivan Industries’ ability to make capital expenditures, sell assets, sell securities, engage in acquisitions and incur additional indebtedness. In addition, the agreements effectively prohibit the payment of dividends on O’Sullivan stock.

The senior credit facility was amended as of January 30, 2001. The primary changes to the senior credit facility were to the covenants for minimum consolidated EBITDA, consolidated leverage ratios, consolidated interest coverage ratio and the consolidated fixed charge coverage ratio. The amended covenants are less restrictive than those in the original senior credit facility. The amendment also required a $10.0 million prepayment of the term loans on or before June 30, 2001. The prepayment was completed on May 1, 2001.

The senior credit facility was further amended in May 2002. The amendment excludes from the definition of consolidated fixed charges $27.0 million paid by O’Sullivan to RadioShack Corporation pursuant to the tax sharing agreement in the quarter ended June 30, 2002.

As of June 30, 2003, O’Sullivan executed an additional amendment to its senior credit facility. The amendment revises certain financial covenants for quarters ending June 30, 2003 through June 30, 2004. The amendment made several other changes to the senior credit facility, including reducing the revolving credit commitment from $40.0 million to $30.0 million and increasing the excess cash flow prepayment percentage from 75% to 100%. The interest rate on loans under the senior credit facility was increased to a Eurodollar rate plus 4.75% or prime plus 3.75% for revolving credit and tranche A term loans and a Eurodollar rate plus 5.25% or a base rate plus 4.25% for tranche B term loans. O'Sullivan Industries also pays a quarterly fee equal to 0.5% per annum of the unused commitment under the senior credit facility. On June 30, 2003, the interest rate for tranche A loans was 6.1%. The interest rate for tranche B loans was 6.6%. In addition, O’Sullivan will pay additional interest of 2.0% on the outstanding balance of the tranche B loans on July 2, 2004 or when the loans are repaid. At June 30, 2003, O’Sullivan was in compliance with the amended debt covenants.

The restriction on the incurrence of additional indebtedness in the senior credit facility limited O’Sullivan Industries’ ability to incur additional debt to approximately $4.1 million on June 30, 2003. In addition, about $1.5 million of the line of credit can be used for letters of credit.

Refinancing. On September 29, 2003, O’Sullivan Industries issued $100.0 million of privately placed, 10.63% senior secured notes maturing on October 1, 2008. The notes were issued at a price of 95% providing $95.0 million in cash proceeds before expenses related to the issuance, which are estimated to be about $5 million. The proceeds were used to repay the term loans under O’Sullivan’s senior credit facility. The notes are secured by a first-priority security interest in and lien on substantially all of O’Sullivan’s 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 O’Sullivan’s accounts receivable, inventory, deposit accounts, certain books and records and certain licenses. The notes are guaranteed by O’Sullivan Holdings, O’Sullivan Industries - Virginia and O’Sullivan Furniture Factory Outlet, Inc. O’Sullivan also entered into a registration rights agreement pursuant to which it is obligated to file a registration statement with respect to an offer to exchange the notes for a new issue of identical notes registered under the Securities Act of 1933, as amended, within 90 days after this offering closes, and to use all commercially reasonable efforts to cause the registration statement to declared effective on or prior to 180 days after the notes were issued. O’Sullivan may also be required under certain circumstances to provide a shelf registration statement to cover resales of the notes.

On September 29, 2003, O'Sullivan Industries, O’Sullivan - Virginia and O’Sullivan Furniture Factory Outlet, Inc. also entered into a new asset-based credit agreement which permits revolving borrowings of up to $40.0 million to the extent of availability under a collateral borrowing base. The credit agreement has a $25.0 million sub-limit for letters of credit, of which O’Sullivan is currently utilizing approximately $14.0 million. The credit agreement is secured by a first-priority security interest in and lien on substantially all of O’Sullivan’s accounts receivable, inventory, deposit accounts, certain books and records and certain licenses, and a second-priority security interest in and lien on substantially all of O’Sullivan’s assets other than accounts receivable, inventory, capital stock of O’Sullivan Industries and its subsidiaries, deposit accounts, certain books and records and certain licenses. O’Sullivan guaranteed the obligations under the credit agreement. The interest rate on loans under the credit agreement is a LIBOR rate plus 2.5% or an index rate plus 1.0%. A fee equal to 0.5% per annum is paid on the unused commitment under the credit agreement. O’Sullivan Industries - Virginia and O’Sullivan Furniture Factory Outlet, Inc. are also parties to the credit agreement. No loans were outstanding under the credit agreement as of September 29, 2003.

In connection with the repayment of the term loans and the termination of the revolving credit facility under the senior credit facility, O’Sullivan will expense approximately $2.3 million of unamortized issuance costs related to the facility in the first quarter of fiscal 2004.

Industrial Revenue Bonds. O'Sullivan Industries - Virginia is obligor on $10.0 million of variable rate industrial revenue bonds ("IRB's") that mature on October 1, 2008. Interest on the IRB's is paid monthly. The loan is secured by a $10.2 million standby letter of credit under the credit agreement. At June 30, 2003 the interest rate on these bonds was about 1.27%. A letter of credit provides liquidity and credit support for the IRB’s; the cost of the letter of credit was an additional 3.25% in fiscal 2003. Effective June 30, 2003 the cost increased to 4.75%.

Senior Subordinated Notes. The senior subordinated notes issued by O'Sullivan Industries totaling $100.0 million bear interest at the rate of 13.375% per annum and are due in 2009. The notes were sold at 98.046% of their face value. Interest is payable semiannually on April 15 and October 15. The senior subordinated notes contain various covenants including restrictions on additional indebtedness based on EBITDA coverage. In connection with these notes, O'Sullivan issued warrants to purchase 93,273 shares of O'Sullivan common stock at an exercise price of $0.01 per share and 39,273 shares of O'Sullivan Series B junior preferred stock at an exercise price of $0.01 per share. The warrants were immediately exercisable and were recorded at their fair value of $3.5 million. The notes were recorded net of discount, which consists of $2.0 million of original issue discount and $3.5 million of the original proceeds allocated to the estimated fair value of the warrants and which has been classified as paid-in capital in the consolidated balance sheets.

Senior Note. The $22.2 million senior note, including accrued interest, issued by O'Sullivan bears interest at the rate of 12.0% per annum, compounding semiannually, and principal and interest are due in 2009. In connection with this note, O'Sullivan issued warrants to purchase 93,273 shares of O'Sullivan common stock at an exercise price of $0.01 per share and 39,273 shares of O'Sullivan Series B junior preferred stock at an exercise price of $0.01 per share. The note was recorded net of discount of $3.5 million, which represents the estimated fair value of the warrants. Accordingly, this amount has been recognized as additional paid-in capital in the consolidated balance sheets. At O’Sullivan’s election, interest on this note may be added to the principal of the note rather than being paid currently.

The original issue discount and the warrants are amortized over the life of the notes using the effective interest rate method. Expenses related to the issuance of the debt financing as part of the 1999 recapitalization and merger were approximately $13.0 million and have been capitalized and recorded as other assets. Of this amount, $1.0 million was paid to Bruckmann, Rosser, Sherrill & Co., LLC (“BRS, LLC”).

Note 10 - Mandatorily Redeemable Preferred Stock.

As part of the 1999 recapitalization and merger, O'Sullivan issued shares of senior preferred stock, par value $0.01 per share, to the stockholders of O'Sullivan as partial consideration for their shares of common stock. The senior preferred stock has a liquidation preference of $1.50 per share. Dividends accrue at a rate of 12% per annum, compounding semiannually if unpaid. The liquidation value plus accumulated dividends on June 30, 2003 was $37.4 million. The senior preferred stock may be redeemed by O'Sullivan at any time and must be redeemed on November 30, 2011, or earlier in the event of a change in control of O'Sullivan.

The carrying amount of the senior preferred stock is based upon the fair market value of the senior preferred stock on November 30, 1999 plus accretion and accumulated dividends to June 30, 2003.

Note 11 - Junior Preferred Stock.

As part of the 1999 recapitalization and merger, O'Sullivan issued 515,681.33 shares of Series B junior preferred stock, par value $0.01 per share, to BRS and the management participants in the recapitalization and merger. Consideration paid for these consisted of cash and shares of O'Sullivan common stock. In fiscal 2001, 13,328 shares of Series B junior preferred stock were issued pursuant to the exercise of warrants, increasing junior preferred stock by $1.3 million and decreasing additional paid-in capital by the same amount. Dividends accrue at a rate of 14% per annum, compounding semiannually if unpaid. The liquidation value plus accumulated dividends on June 30, 2003 was $85.7 million, which is the carrying amount for the stock on the accompanying balance sheet. The junior preferred stock may be redeemed by O'Sullivan at any time, but there is no mandatory redemption date for the Series B junior preferred stock.

Note 12 - Income Taxes.

The income tax provision consists of the following:

	For the year ended June 30,		
	2003	2002	2001
		(in thousands)	
Current:			
Federal	$ –	$ 45	$ (210)
State	–	320	17
	–	365	(193)
Deferred	–	100,562	(4,028)
	$ –	$ 100,927	$ (4,221)

The following table reconciles O'Sullivan's federal corporate statutory rate and its effective income tax rate:

	For the year ended June 30,		
	2003	2002	2001
Statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	–	1.6	(1.6)
Goodwill amortization	–	–	2.5
Valuation allowance	(35.0)	823.3	–
Other, net	–	1.2	(0.9)
Effective tax rate	0.0%	861.1%	35.0%

Deferred tax assets and liabilities consist of the following:

	June 30, 2003	June 30, 2002
	(in thousands)	
Deferred tax assets:		
Allowance for doubtful accounts	$ 1,102	$ 1,517
Insurance liabilities	370	606
Accrued compensation	3,498	3,402
Inventories	1,561	1,621
Other	400	425
Section 338 deductions for future periods and unpaid liability to RadioShack	72,067	81,374
Net operating loss carryforwards	30,604	21,520
Subtotal	109,602	110,465
Valuation allowance	(97,554)	(97,364)
Total deferred tax assets	12,048	13,101
Deferred tax liabilities:		
Depreciation and amortization	(12,048)	(13,101)
Net deferred tax asset	$ –	$ –

O'Sullivan recorded no tax expense in the year ended June 30, 2003. O'Sullivan recorded tax expense of $100.9 million for the year ended June 30, 2002 that included a valuation allowance of $97.4 million. See Note 3 for a discussion of O'Sullivan's accounting with respect to the tax sharing agreement between RadioShack Corporation and O'Sullivan.

Note 13 - Stock Options.

In January 2000, O'Sullivan adopted its 2000 Common Stock Option Plan. Pursuant to this plan, O'Sullivan may issue up to 81,818 shares of O'Sullivan common stock to employees of O'Sullivan. The exercise price for shares issued under the plan is equal to the fair market value on the date of grant. Options issued pursuant to the plan will vest in five annual installments if certain performance targets are met; otherwise, the options will vest in seven years from their date of grant or one day prior to their expiration. On June 19, 2000, the compensation committee granted options to purchase 75,800 shares of common stock at an exercise price of $1.90 per share, which was the estimated fair value of the underlying common stock at the date of grant. The expiration date of these options is November 30, 2009. Twenty percent of these options were exercisable at June 30, 2003.

In November 2001, O'Sullivan adopted its 2001 Director Common Stock Option Plan. Pursuant to this plan, O'Sullivan may issue up to 15,000 shares of O'Sullivan common stock to O'Sullivan directors who are not employees of, or consultants to, O'Sullivan or BRS or any affiliate of BRS. The exercise price for shares issued under the plan is equal to the fair market value on the date of grant. Options issued pursuant to the plan will vest in three equal annual installments. On November 15, 2001, the Board granted options to purchase 6,000 shares of common stock at an exercise price of $1.90 per share, which was the estimated fair value of the underlying common stock at the date of grant. The expiration date of these options is November 15, 2011. Two thousand of these options were exercisable at June 30, 2003.

Summary of Common Stock Option Transactions
(share amounts in thousands)

	June 30, 2003		June 30, 2002		June 30, 2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	82	$ 1.90	76	$ 1.90	76	$ 1.90
Grants	–		6	1.90	1	1.90
Exercised	–		–		–	–
Converted into Series A junior preferred stock options	–		–		–	–
Extinguished and exchanged for senior preferred stock and cash	–		–		–	–
Canceled	(1)	1.90	–		(1)	1.90
Outstanding at end of year	81	1.90	82	1.90	76	1.90
Exercisable at end of year	17	1.90	15	1.90	15	1.90
Weighted average fair value of options granted during the year		$ N/A		$ 0.37		$ 0.43

In the 1999 recapitalization and merger, O'Sullivan issued options to purchase 60,318.67 shares of its Series A junior preferred stock, par value $0.01 per share, in exchange for certain options held by management participants in the buyout. All of these options are currently vested and exercisable and expire on December 31, 2025. The agreements for the options to purchase O'Sullivan's Series A junior preferred stock provide for a special accrual at the rate of 14% per annum on the difference between the liquidation value of the stock ($150.00 per share) and the exercise price of the option ($50.00 per share). The special accrual accrues at the same time and in the same manner as would dividends on issued and outstanding shares of O'Sullivan's Series A junior preferred stock. No amount is payable until the exercise of the option, and payment is further subject to the terms of any debt agreement of O'Sullivan. When made, payment of the special accrual may be made in cash or by a reduction in the exercise price for the option. The special accrual approximated $1.2 million, $1.1 million and $946,000 for fiscal 2003, 2002 and fiscal 2001, respectively, and is included in selling, marketing and administrative expense in the consolidated statements of operations.

O'Sullivan accounts for stock-based compensation for employees under Accounting Principles Board No. 25 and has adopted the disclosure-only provisions of SFAS 123. Accordingly, no stock-based compensation cost has been recognized for options except as mentioned above. See Note 2 for the pro forma disclosures had compensation cost for stock option plans been determined in accordance with the provisions of SFAS 123.

Note 14 - Employee Benefit Plans.

Prior to December 31, 2002, O'Sullivan maintained a stock purchase program that was available to most employees. The stock purchase program (the "SPP"), as amended, allowed a maximum employee contribution of 5%, while O'Sullivan's matching contribution was 25%, 40% or 50% of the employee's contribution, depending on the length of the employee's participation in the program. The program invested contributions in a broad-based mutual fund. The matching contributions to the stock purchase program were $307,000, $640,000 and $673,000 in fiscal years 2003, 2002 and 2001, respectively. O'Sullivan terminated the SPP effective December 31, 2002.

O'Sullivan also has a Savings and Profit Sharing Plan in which most employees are eligible to participate. Under the savings or § 401(k) portion of the plan, employees may contribute from 1% to 50% of their compensation (subject to certain limitations imposed by the Internal Revenue Code). Prior to January 1, 2003, O'Sullivan made matching contributions equal to 50% of the first 5% of eligible employee contributions. The matching contribution increased to 100% of the first 5% of eligible employee contributions effective January 1, 2003. Under the profit sharing portion of the plan, O'Sullivan may contribute annually an amount determined by the Board of Directors. Employer matching contributions vest immediately, while profit sharing contributions vest 100% when the employee has five years of service with O'Sullivan. For fiscal 2003, 2002 and 2001, O'Sullivan accrued approximately $0, $2.2 million, and $0 respectively, for the profit sharing portion of the plan. The matching contributions to the savings portion of the plan were $858,000, $458,000 and $600,000 in fiscal years 2003, 2002 and 2001, respectively.

Effective July 1, 1997, O'Sullivan implemented its Deferred Compensation Plan. This plan is available to employees of O'Sullivan deemed to be "highly compensated employees" pursuant to the Internal Revenue Code. O'Sullivan makes certain matching and profit sharing accruals to the accounts of participants. All amounts deferred or accrued under the terms of the plan represent unsecured obligations of O'Sullivan to the participants. Matching and profit sharing accruals under this plan were not material in fiscal 2003, 2002 or 2001.

Note 15 - Termination Protection Agreements.

O'Sullivan has entered into Termination Protection Agreements with its officers. These Termination Protection Agreements, all of which are substantially similar, have initial terms of two years which automatically extend to successive one-year periods unless terminated by either party. If the employment of any of these officers is terminated, with certain exceptions, within 24 months following a change in control, the officers are entitled to receive certain cash payments, as well as the continuation of fringe benefits for a period of up to twelve months. Additionally, all benefits under the Savings and Profit Sharing Plan and the Deferred Compensation Plan vest, all restrictions on any outstanding incentive awards or shares of restricted common stock will lapse and such awards or shares will become fully vested, all outstanding stock options will become fully vested and immediately exercisable, and O'Sullivan will be required to purchase for cash, on demand made within 60 days following a change in control, any shares of unrestricted common stock and options for shares at the then current per-share fair market value. The agreements also provide one year of outplacement services for the officer and that, if the officer moves more than 20 miles from his primary residence in order to accept permanent employment within 36 months after leaving O'Sullivan, O'Sullivan will, upon request, repurchase the officer's primary residence at a price determined in accordance with the agreement.

Under the Termination Protection Agreements, a "Change in Control" will be deemed to have occurred if either (i) any person or group acquires beneficial ownership of 15% of the voting securities of O'Sullivan; (ii) there is a change in the composition of a majority of the board of directors within any two-year period which is not approved by certain of the directors who were directors at the beginning of the two-year period; (iii) the stockholders of O'Sullivan approve a merger, consolidation or reorganization involving O'Sullivan; (iv) there is a complete liquidation or reorganization involving O'Sullivan; or (v) O'Sullivan enters into an agreement for the sale or other disposition of all or substantially all of the assets of O'Sullivan.

Note 16 - Stockholder Rights Plan.

O'Sullivan has adopted a Stockholder Rights Plan under which one right (a "Right") was issued with respect to each share of common stock. Each Right entitles the holder to purchase from O'Sullivan a unit consisting of one one-thousandth of a share of Series A junior participating preferred stock at a purchase price of $110 per Right, subject to adjustment in certain events.

The Rights are currently attached to all certificates representing outstanding shares of common stock, and separate certificates for the Rights will be distributed only upon the occurrence of certain specified events. The Rights will separate from the common stock and a "Distribution Date" will occur upon the earlier of (i) ten days following a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person") has acquired, or obtained the right to acquire, beneficial ownership of 15% or more of the outstanding shares of common stock, or (ii) ten business days (or such later date as may be determined by O'Sullivan's Board of Directors before the Distribution Date occurs) following the commencement of a tender offer or exchange offer that would result in a person becoming an Acquiring Person.

The Rights Plan was amended in March 1999 to change the Rights Agent and to conform the plan to recent Delaware court decisions. The Rights are not exercisable until the Distribution Date and will expire at the close of business on February 1, 2004, unless earlier redeemed or exchanged by O'Sullivan.

Note 17 - Related Party Transactions.

BRS. O'Sullivan Industries entered into a management services agreement with BRS, 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 can 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.

In September 2000, O'Sullivan paid BRS, LLC $682,000 under the management services agreement, of which $266,000 was a prepayment of a portion of the fiscal 2001 management fees. The management fee and other reimbursable costs of $442,000, $501,000 and $536,000 recognized during fiscal years 2003, 2002 and 2001, respectively, are included in selling, marketing and administrative expense in the consolidated statement of operations. The amounts due BRS, LLC at June 30, 2002 approximated $719,000 and is included in accrued liabilities on the consolidated balance sheets. O'Sullivan paid BRS, LLC $713,000 in the first quarter of fiscal 2003 for the balance owed through June 30, 2002 and $305,000 as a prepayment of the fiscal 2003 management fee. In January 2003, O'Sullivan made an additional prepayment of $285,000 for the fiscal 2003 management fee. At June 30, 2003, the prepaid balance of $147,000 is included in prepaid expenses on the consolidated balance sheets.

Employee Loans. At June 30, 2003, O'Sullivan held two notes receivable with a balance of approximately $343,000 from employees of O'Sullivan. O'Sullivan loaned the employees money to purchase common stock and Series B junior preferred stock of O'Sullivan in the 1999 recapitalization and merger. The notes bear interest at the rate of 9% per annum and mature on November 30, 2009, or earlier if there is a change of control and is with full recourse to the employees. The receivables are recorded on the O'Sullivan balance sheet as a reduction in stockholders' equity.

Note 18 - Commitments and Contingencies.

Leases. O'Sullivan leases warehouse space, computers and certain other equipment under operating leases. As of June 30, 2003, minimum future lease payments for all noncancellable lease agreements were as follows (in thousands):

2004	$ 1,412
2005	706
2006	591
2007	121
2008	72
Thereafter	36
Total	$ 2,938

Amounts incurred by O'Sullivan under operating leases (including renewable monthly leases) were $1.8 million, $1.9 million and $1.9 million in fiscal 2003, 2002 and 2001, respectively.

Tax Sharing Agreement with RadioShack. During fiscal 2003, 2002 and 2001, O'Sullivan paid $9.3 million, $27.7 million and $0.0, respectively, to RadioShack pursuant to the tax sharing agreement. Future tax sharing agreement payments are contingent on taxable income. The maximum payments are fiscal 2004 — $11.6 million; fiscal 2005 — $10.5 million; fiscal 2006 — $11.3 million; and thereafter — $38.7 million.

Litigation. On September 24, 2002, Montgomery Ward, LLC filed suit against O'Sullivan in the U.S. Bankruptcy Court, District of Delaware, for the avoidance and recovery of alleged preferential transfers under Bankruptcy Code §§ 547 and 550. Montgomery Ward claims the alleged payments aggregate $3.7 million and has demanded that amount, together with interest.

O'Sullivan responded to the complaint, asserting defenses under the Bankruptcy Code and denying an essential element of Montgomery Ward's case. O'Sullivan is contesting this lawsuit vigorously. No trial date has been set. O'Sullivan believes that the outcome of the preference action by Montgomery Wards will not have a material adverse effect on its results of operations, liquidity or financial condition.

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. O'Sullivan believes it did not receive any preferential payments and plans to contest this lawsuit vigorously. However, until the claim can be investigated further, O'Sullivan is unable to predict the outcome of this litigation.

O'Sullivan Industries is a party to various legal actions arising in the ordinary course of its business. O'Sullivan does not believe that any such pending actions will have a material adverse effect on its results of operations, liquidity or financial position. O'Sullivan maintains liability insurance at levels which it believes are adequate for its needs.

Regulatory Matters. O'Sullivan's operations are subject to extensive federal, state and local laws, regulations and ordinances relating to the generation, storage, handling, emission, transportation and discharge of certain materials, substances and waste into the environment. Permits are required for certain of O'Sullivan's operations and are subject to revocation, modification and renewal by governmental authorities. In general, compliance with air emission regulations is not expected to have a material adverse effect on O'Sullivan's business, results of operations or financial condition.

O'Sullivan's manufacturing facilities ship waste product to various disposal sites. O'Sullivan Industries has been designated as a potentially responsible party under the Arkansas Remedial Action Trust Fund Act in connection with the cost of cleaning up one site in Diaz, Arkansas and has entered into a *de minimis* buyout agreement with certain other potentially responsible parties, pursuant to which it has contributed $2,000 to date toward cleanup costs. O'Sullivan believes that amounts it may be required to pay in the future, if any, will be immaterial.

Retirement Agreement. In October 1998, O'Sullivan entered into a Retirement and Consulting Agreement, Release and Waiver of Claims with Daniel F. O'Sullivan. Under the retirement agreement, as amended in May 1999, Mr. O'Sullivan resigned as Chief Executive Officer in October 1998 and retired as an executive on March 31, 2000. O'Sullivan agreed to pay Mr. O'Sullivan $42,160 per month for 36 months after his retirement and then to pay him $11,458 per month until he reaches age 65. Payments under Mr. O'Sullivan's retirement and consulting agreement amount to an aggregate of $2.2 million and a present value of approximately $1.9 million. During this period, Mr. O'Sullivan is required to provide consulting, marketing and promotional services with respect to O'Sullivan's manufacturing activities and relations with major customers, if requested by O'Sullivan, from time to time. Mr. O'Sullivan has agreed not to compete with O'Sullivan during the period he is a consultant. O'Sullivan will also provide Mr. O'Sullivan with health insurance during the term of the agreement and thereafter until he becomes eligible for Medicare and life insurance during the term of the agreement.

Note 19 - Major Customers.

Sales to three customers exceeded 10% of gross sales. Sales to such customers as a percentage of gross sales were:

	Year ended June 30,		
	2003	2002	2001
Customer A	19%	19%	19%
Customer B	13%	14%	17%
Customer C	12%	12%	11%

Note 20 - Quarterly Operating Results – Unaudited

	(in thousands)			
	Fiscal 2003 (By Quarter)			
	1	2	3	4
Net sales	$ 71,557	$ 79,111	$ 86,866	$ 51,618
Gross profit	19,973	19,727	21,246	13,229
Net income (loss)	1,539 [1]	1,966 [1]	2,684 [1, 2]	(4,628) [1, 2]

	(in thousands)			
	Fiscal 2002 (By Quarter)			
	1	2	3	4
Net sales	$ 82,193 [3]	$ 84,314 [3]	$ 105,467	$ 77,124
Gross profit	20,468 [3]	21,665 [3]	30,507	21,796
Net income (loss)	(1,436)	1,136	(91,752) [4]	2,846 [1]

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[1]Net income (loss) reflects the absence of tax expense because of the valuation allowance taken against O’Sullivan’s net deferred tax asset in the third quarter of fiscal 2002.

[2]The third and fourth quarters of fiscal 2003 include $540,000 and $1.5 million, respectively, of restructuring charges as described in Note 4.

[3] Net sales, gross profit and selling, marketing and administrative expense for the first and second quarters of fiscal 2002 have been adjusted to reflect a new accounting pronouncement which requires a reclassification of certain selling expenses to a reduction of net sales.

[4]The third quarter of fiscal 2002 includes income tax expense of $101.1 million resulting from the valuation allowance recorded in connection with O’Sullivan’s net deferred tax asset.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.

None

Item 9A. Controls and Procedures.

O’Sullivan maintains disclosure controls and procedures (as defined in Rule 13a-14(c) 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. 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.

There have been no significant changes in O’Sullivan’s internal controls or in other factors that could significantly affect the internal controls subsequent to the date O’Sullivan completed its evaluation. Therefore, no corrective actions were taken.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The following sets forth certain information with respect to the business experience of each Director of O'Sullivan during the past five years and certain other directorships held by each Director. References to service with O'Sullivan in this section include service with O'Sullivan Industries.

Class I Directors—Term Expiring 2003.

Charles A. Carroll, 53, became President and Chief Executive Officer of Goodman Global Holdings, Inc., a manufacturer of air conditioning and heating equipment, in September 2001. Prior to that, he served for two years as President and Chief Executive Officer of Goodman Global’s Amana Appliances Division until its sale by Goodman Global to Maytag. From 1993 to 1999, Mr. Carroll was President and Chief Operating Officer and a director of Rubbermaid, Inc. Mr. Carroll was appointed a Director of O’Sullivan Holdings, O’Sullivan Industries and O’Sullivan - Virginia in July 2001.

Richard D. Davidson, 55, was promoted to President and Chief Executive Officer of O'Sullivan Holdings, O'Sullivan Industries and O'Sullivan Industries - Virginia in January 2000. He was named President and Chief Operating Officer and a Director of O'Sullivan Holdings, O'Sullivan Industries and O'Sullivan Industries - Virginia in 1996. He has also served as President and Chief Executive Officer and a director of O’Sullivan Furniture Factory Outlet, Inc. since March 2002.

Class II Director—Term Expiring 2004.

Harold O. Rosser, 54, was appointed a director of O'Sullivan Holdings, O'Sullivan Industries and O'Sullivan Industries - Virginia in connection with the November 1999 recapitalization and merger. Mr. Rosser has been a principal of BRS, LLC since August 1995. Mr. Rosser was an officer of Citicorp Venture Capital from 1987 through July 1995. He is a director of Acapulco Restaurants, Inc., H&E Equipment Services, LLC, Il Fornaio (America) Corporation, McCormick and Schmick Restaurant Corporation, Penhall International, Inc. and RACI Holdings Inc./Remington Arms Co., Inc.

Class III Director—Term Expiring 2005.

Daniel F. O'Sullivan, 62, was named President, Chief Executive Officer and a Director of O'Sullivan Holdings in November 1993 and became Chairman of the Board in December 1993. He relinquished the position of President of O'Sullivan Holdings in July 1996 and resigned as Chief Executive Officer in October 1998. He served as President of O'Sullivan Industries from 1986 until July 1996, and was appointed Chairman of the Board and Chief Executive Officer in 1994. He also served as Chairman of the Board and Chief Executive Officer of O'Sullivan Industries - Virginia. Mr. O'Sullivan was employed by O'Sullivan from 1962 until his retirement. Under the terms of his retirement and consulting agreement with O'Sullivan Holdings, Mr. O'Sullivan retired as an executive of O'Sullivan Holdings, O'Sullivan Industries and O'Sullivan Industries - Virginia effective March 31, 2000. He remains as non-executive Chairman of the Board for each company.

Executive Officers.

O'Sullivan's executive officers, and their ages and positions with O'Sullivan as of September 1, 2003, are as follows:

Name	Age	Officer Since[1]	Position(s)
Richard D. Davidson	55	1996	President and Chief Executive Officer and Director
Tyrone E. Riegel	60	1969	Executive Vice President
Phillip J. Pacey	38	1999	Senior Vice President and Chief Financial Officer
Thomas M. O'Sullivan, Jr.	48	1993	Senior Vice President-Sales
Michael P. O'Sullivan	43	1995	Senior Vice President-Marketing
Rowland H. Geddie, III	49	1993	Vice President, General Counsel and Secretary
E. Thomas Riegel	59	1993	Vice President-Strategic Operations
James C. Hillman	58	1973	Vice President-Human Resources
Tommy W. Thieman	52	1999	Vice President-Manufacturing-Lamar
Stuart D. Schotte	41	1999	Vice President-Supply Chain Management
Neal C. Ruggeberg	46	2002	Vice President and Chief Information Officer

[1]Includes officer positions held with O'Sullivan Industries

Tyrone E. Riegel has been Executive Vice President of O'Sullivan Industries since July 1986 and served as a Director from March 1994 through November 1999. He was appointed as Executive Vice President and a Director of O'Sullivan Holdings in November 1993. His service as a director of O'Sullivan Holdings ended November 1999. Mr. Riegel also serves as Executive Vice President of O'Sullivan Industries - Virginia. Mr. Riegel has been employed by O'Sullivan since January 1964. Since March 2002, he has served as Executive Vice President and a Director of O'Sullivan Furniture Factory Outlet, Inc. Mr. Riegel has announced his early retirement to take place in November 2003.

Phillip J. Pacey was promoted to Senior Vice President and Chief Financial Officer of O'Sullivan Holdings, O'Sullivan Industries and O'Sullivan Industries - Virginia in January 2000. He was appointed Vice President-Finance and Treasurer of O'Sullivan Holdings, O'Sullivan Industries and O'Sullivan Industries - Virginia in July 1999. From November 1995 until July 1999, he served as Treasurer of O'Sullivan Holdings, O'Sullivan Industries and O'Sullivan Industries - Virginia. Since March 2002, he has served as Senior Vice President and Chief Financial Officer and a Director of O'Sullivan Furniture Factory Outlet, Inc.

Thomas M. O'Sullivan, Jr. was promoted to Senior Vice President-Sales of O'Sullivan Holdings, O'Sullivan Industries and O'Sullivan Industries - Virginia in January 2000. He had been Vice President-Sales of O'Sullivan Holdings, O'Sullivan Industries and O'Sullivan Industries - Virginia since 1993. Since March 2002, he has served as Senior Vice President-Sales and a Director of O'Sullivan Furniture Factory Outlet, Inc. Mr. O'Sullivan has been employed by O'Sullivan since June 1979.

Michael P. O'Sullivan was named Senior Vice President-Marketing of O'Sullivan Holdings, O'Sullivan Industries and O'Sullivan Industries - Virginia in January 2000. He had been Vice President-Marketing of O'Sullivan Holdings, O'Sullivan Industries and O'Sullivan Industries - Virginia since November 1995. He served as National Sales Manager of O'Sullivan Industries and O'Sullivan Industries - Virginia from July 1993 until November 1995. He is also Senior Vice President-Marketing of O'Sullivan Furniture Factory Outlet, Inc. Mr. O'Sullivan has been employed by O'Sullivan since 1984.

Rowland H. Geddie, III has been Vice President, General Counsel and Secretary of O'Sullivan Holdings, O'Sullivan Industries and O'Sullivan Industries - Virginia since December 1993. He served as a Director of O'Sullivan Industries and O'Sullivan Industries - Virginia from March 1994 through November 1999. Since March 2002, he has served as Vice President, General Counsel and Secretary and a Director of O'Sullivan Furniture Factory Outlet, Inc.

E. Thomas Riegel has been Vice President-Strategic Operations of O'Sullivan Holdings, O'Sullivan Industries and O'Sullivan Industries - Virginia since November 1995. From June 1993 until November 1995, he was Vice President-Marketing of O'Sullivan Holdings, O'Sullivan Industries and O'Sullivan Industries - Virginia. He is also Vice President-Strategic Operations of O'Sullivan Furniture Factory Outlet, Inc. Mr. Riegel has been employed by O'Sullivan since May 1971.

James C. Hillman has been Vice President-Human Resources of O'Sullivan Holdings since November 1993 and of O'Sullivan Industries since 1980. He also serves as Vice President-Human Resources of O'Sullivan Industries - Virginia and O'Sullivan Furniture Factory Outlet, Inc. Mr. Hillman has been employed by O'Sullivan since May 1971.

Tommy W. Thieman was appointed Vice President-Manufacturing-Lamar in July 1999 for O'Sullivan Holdings and O'Sullivan Industries. Since 1987, he has served as the Plant Manager in Lamar for O'Sullivan Industries. Mr. Thieman has been employed by O'Sullivan since 1972.

Stuart D. Schotte was appointed Vice President-Supply Chain Management in July 1999 for O'Sullivan Holdings, O'Sullivan Industries and O'Sullivan Industries - Virginia. From February 1998 to July 1999, Mr. Schotte served as Controller for O'Sullivan Holdings, O'Sullivan Industries and O'Sullivan Industries - Virginia. From July 1996 until February 1998, Mr. Schotte served as Director of Financial Analysis and Planning for Fast Food Merchandisers, Inc. Since March 2002, he has also served as Vice President-Supply Chain Management for O'Sullivan Furniture Factory Outlet, Inc.

Neal C. Ruggeberg was promoted to Vice President and Chief Information Officer of O'Sullivan Holdings, O'Sullivan Industries and O'Sullivan Industries - Virginia in July 2002. From 1996 to July 2002, Mr. Ruggeberg served as Director of Information Services for O'Sullivan Industries and O'Sullivan Industries - Virginia.

Certain Relationships. Daniel F. O'Sullivan, Thomas M. O'Sullivan, Jr. and Michael P. O'Sullivan are brothers. Tommy W. Thieman is the brother-in-law of Daniel F. O'Sullivan, Thomas M. O'Sullivan, Jr. and Michael P. O'Sullivan. Tyrone E. Riegel and James C. Hillman were, prior to the deaths of their respective spouses, brothers-in-law of Daniel F. O'Sullivan, Thomas M. O'Sullivan, Jr. and Michael P. O'Sullivan. Tyrone E. Riegel and E. Thomas Riegel are brothers.

Section 16(a) Beneficial Ownership Reporting Compliance

Under the securities laws of the United States, O'Sullivan Holdings' directors, executives and any persons holding 10% or more of Common Stock are required to report their ownership of O'Sullivan Holdings' securities and any change in that ownership to the Securities and Exchange Commission. Specific due dates for these reports have been established and we are required to report in this report any failure to file by these dates during the fiscal year ended June 30, 2003. All of these filing requirements were satisfied by our directors and executives during fiscal 2003.

Code of Ethics

O'Sullivan has long had a code of ethics applicable to all of its employees. In response to the adoption of the Sarbanes-Oxley Act of 2002, we adopted an additional code of ethics applicable to our chief executive officer, chief financial officer, controller and the members of our disclosure committee. The additional code of ethics addresses the financial reporting process more specifically than the code of ethics applicable to all employees. We will provide a copy of both codes of ethics to any person without charge upon request. Requests should be sent in writing to General Counsel, O'Sullivan Industries Holdings, Inc., 1900 Gulf Street, Lamar, Missouri 64759-1899, including the name and address of the person to whom the copies should be sent.

Item 11. Executive Compensation.

SUMMARY COMPENSATION TABLE

The following table reflects the cash and non-cash compensation for the chief executive officer of O'Sullivan and the four next most highly compensated executive officers at June 30, 2002.

		Annual Compensation[1]		
Name and Principal Position	**Fiscal Year**	**Salary ($)**	**Bonus ($)**	**All Other Compensation ($)**[2]
Richard D. Davidson	2003	372,415	–	55,980
President and	2002	300,000	199,800	31,281
Chief Executive Officer	2001	297,885	105,000	49,896
Tyrone E. Riegel	2003	224,846	–	40,122
Executive Vice President	2002	231,200	101,570	25,872
	2001	212,885	53,300	39,603
Thomas M. O'Sullivan, Jr.	2003	179,531	–	30,133
Senior Vice President-Sales	2002	160,000	76,300	19,351
	2001	159,423	40,000	28,067
Phillip J. Pacey	2003	174,338	–	28,986
Senior Vice President and	2002	150,000	81,550	18,220
Chief Financial Officer	2001	149,615	37,500	24,970
Michael P. O'Sullivan	2003	151,277	–	26,752
Senior Vice President-Marketing	2002	140,400	66,990	17,653
	2001	140,192	35,100	25,876
E. Thomas Riegel	2003	151,277	–	27,477
Vice President-Strategic Operations	2002	140,400	53,352	18,464
	2001	140,192	28,380	26,953
Rowland H. Geddie, III	2003	151,277	–	26,179
Vice President, General Counsel &	2002	140,400	63,352	17,428
Secretary	2001	140,192	28,380	25,401

[1]For the years shown, the named officers did not receive any annual compensation not properly categorized as salary or bonus, except for certain perquisites and other personal benefits. The amounts for perquisites and other personal benefits for the named officers are not shown because the aggregate amount of such compensation, if any, for each of the named officers during the fiscal year shown does not exceed the lesser of $50,000 or 10% of total salary and bonus reported for such officer.

[2]In fiscal 2003, other compensation for the named officers consisted of the following:

Name	Group Life Insurance Premiums	Auto Allowance	Matching and Profit Sharing, Contributions under Savings and Profit Sharing Plan	Stock Purchase Program ("SPP") Matching Contributions	Matching and Profit Sharing Contributions under Deferred Compensation Plan
Richard D. Davidson	$ 2,583	$ 9,000	$ 16,837	$ 9,971	$ 17,589
Tyrone E. Riegel	$ 4,914	$ 8,500	$ 12,986	$ 5,557	$ 8,165
Thomas M. O'Sullivan, Jr.	$ 1,047	$ 8,500	$ 11,977	$ 4,311	$ 4,297
Phillip J. Pacey	$ 385	$ 8,500	$ 11,419	$ 4,370	$ 4,312
Michael P. O'Sullivan	$ 500	$ 8,500	$ 9,626	$ 3,702	$ 4,423
E. Thomas Riegel	$ 2,888	$ 8,000	$ 9,799	$ 3,369	$ 3,421
Rowland H. Geddie, III	$ 867	$ 8,000	$ 10,034	$ 3,619	$ 3,659

The table does not include amounts payable in the event of a Change in Control. See "Change in Control Protections".

OPTION GRANTS IN THE LAST YEAR

During the fiscal year ended June 30, 2003, no options were granted to the named officers.

OPTION EXERCISES IN THE LAST YEAR AND YEAR-END OPTION VALUES

No options were exercised by the named officers in fiscal 2003. The following table summarizes information regarding outstanding options to purchase stock held by the named officers as of June 30, 2003. All options to purchase Series A junior preferred stock are vested and exercisable.

	Common Stock				Series A junior preferred stock	
Name	Option shares exercisable at 6/30/03	Option shares unexercis-able at 6/30/03	Value of exercis-able options at 6/30/03	Value of unexercis-able options at 6/30/03	Option shares exercisable at 6/30/03	Value of exercisable options at 6/30/03
Richard D. Davidson	1,700	6,800	$ –	$ –	10,929	$ 1,775,479
Tyrone E. Riegel	800	3,200	$ –	$ –	3,378	$ 548,706
Thomas M. O'Sullivan, Jr.	800	3,200	$ –	$ –	5,996	$ 974,112
Phillip J. Pacey	800	3,200	$ –	$ –	1,411	$ 229,287
Michael P. O'Sullivan	800	3,200	$ –	$ –	6,176	$ 1,003,291
E. Thomas Riegel	600	2,400	$ –	$ –	4,390	$ 713,123
Rowland H. Geddie, III	600	2,400	$ –	$ –	6,375	$ 1,035,629

Tyrone E. Riegel, our Executive Vice President, has entered into an early retirement agreement with O’Sullivan. Pursuant to the agreement, he will retire effective November 15, 2003. O’Sullivan has agreed to pay him $335,336.54 in a lump sum on January 2, 2004, and to pay him $5,000 per month for thirty months, beginning May 15, 2005. In addition, we will pay health insurance for Mr. Riegel and his family through November 15, 2007. Mr. Riegel has agreed to act as our consultant through November 15, 2007 and has agreed not to compete with us through that period. In addition, the Compensation Committee has approved an amendment to Mr. Riegel’s common stock option agreement that permits him to retain his options after he is no longer an O'Sullivan employee. His options will continue to vest as though he were still an O'Sullivan employee.

CHANGE IN CONTROL PROTECTIONS

O'Sullivan has termination protection agreements with its executive officers. If the employment of a protected employee is terminated by us within a period of up to 24 months after a change in control, the employee will be entitled to receive various benefits. These benefits include:

1. a cash payment equal to the current base salary and highest bonus received in the previous three years;
2. a cash payment equal to the bonus earned by the employee in the year of termination, calculated on a pro rated basis on the date of termination;
3. a cash payment equal to accrued and unpaid vacation pay;
4. a cash payment for an automobile allowance of 12 months;
5. continued life and health insurance coverage for up to 12 months;
6. a lump sum payment, adjusted for taxes, to the employee in an amount equal to the protected employee's unvested profit sharing account in the Savings and Profit Sharing Plan;
7. a cash payment based on the amount that the protected employee would have received under our Deferred Compensation Plan had he continued to work for O'Sullivan until he attained the age of 65;
8. all outstanding stock options vest and become immediately exercisable;
9. O'Sullivan will be required to purchase for cash any shares of unrestricted common stock and options for shares at the fair market value;
10. one year of outplacement services;
11. for certain executive officers, if the protected employee moves more than 20 miles from his primary residence in order to accept permanent employment within 36 months after leaving O'Sullivan, we will repurchase the employee's primary residence; and
12. if the executive officer is required to pay an excise tax under Section 4999 of the Internal Revenue code of 1986, we will pay the employee an additional amount to offset the effect of the tax.

The agreements for certain executive officers also provide for cash payments in lieu of matching payments under the Savings and Profit Sharing Plan. The agreements for certain executive officers also provide that, in some circumstances, they may voluntarily leave our employment after a change in control and receive the benefits under the protection agreements. These circumstances include:

- an adverse change in the executive's status, title or duties;
- a reduction in the executive's salary or bonus;
- relocation of the executive's office to a site which is more than 20 miles from its present location;
- a reduction in the executive's benefit levels;
- the insolvency or bankruptcy of O'Sullivan; or
- the executive leaves the employment of O'Sullivan for any reason during the 60-day period beginning on the first anniversary of the change in control.

However, for purposes of the 1999 recapitalization and merger, each of the executive officers waived his right to receive benefits under the protection agreements in these circumstances, other than a reduction in his salary or bonus.

The table below sets forth the total payments that may be received by each of the named officers if these persons are terminated during fiscal 2004, assuming the provisions of his Termination Protection Agreement were applicable. The values of non-cash benefits have been included on the basis of their estimated fair value. These amounts do not include any payments to be received for shares of O'Sullivan stock or options to acquire O'Sullivan stock. These amounts also do not include payments which we would make to offset the effect of excise taxes or to purchase any officer's home. We have assumed for this purpose that the named officers are terminated on September 30, 2003.

Officer	Amount
Richard D. Davidson President and Chief Executive Officer	$794,762
Tyrone E. Riegel Executive Vice President	$476,590
Thomas M. O'Sullivan, Jr. Senior Vice President-Sales	$379,515
Phillip J. Pacey Senior Vice President and Chief Financial Officer	$362,253
Michael P. O'Sullivan Senior Vice President-Marketing	$330,478
E. Thomas Riegel Vice President-Strategic Operations	$315,298
Rowland H. Geddie, III Vice President, General Counsel & Secretary	$323,007

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The members of the Compensation Committee are Harold O. Rosser and Charles A. Carroll. No member of the Compensation Committee was an officer or employee of O'Sullivan or its subsidiaries during the fiscal year ended June 30, 2003. Neither was formerly an officer of O'Sullivan or any of its subsidiaries. In addition, no executive officer of O'Sullivan serves on the board of directors or the compensation committee of another entity where a committee member is employed. Mr. Rosser is a managing director of the general partner of BRS, which owns 72% of our common stock. BRS, LLC and O'Sullivan Industries have entered into a Management Services Agreement pursuant to which BRS, LLC provides general management services, assistance with the negotiation and analysis of financial alternatives and other services for O'Sullivan Industries. In exchange for these services, O'Sullivan Industries pays BRS, LLC a fee equal to the greater of 1.0% of O'Sullivan Industries' consolidated cash flow or $300,000. See Item 13, "Certain Relationships and Related Transactions."

DIRECTORS' COMPENSATION

Directors of O'Sullivan who are not employees of O'Sullivan, BRS or affiliates of either of them are paid $2,500 per meeting (with all meetings that occur on the same day being considered as one meeting). The chairmen of the compensation committee and the audit committee each receive an additional $1,000 per year if not employed by BRS or its affiliates. Expenses of attendance at meetings are paid by O'Sullivan. Directors who are not employees of O'Sullivan, BRS or affiliates of either of them will also receive a one-time option to purchase shares of common stock of O'Sullivan. Employees of O'Sullivan do not receive additional compensation for their service as a director other than payment of expenses, if any, to attend a meeting.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth, as of September 15, 2003, certain information with respect to the beneficial ownership of the securities of O'Sullivan Holdings by (i) each of our directors, (ii) each of the named executives, (iii) our executives and directors as a group and (iv) the only other owner of five percent of any class of O'Sullivan Holdings' equity securities known to us.

	Common Stock		Senior Preferred Stock		Options to Purchase Series A Junior Preferred Stock		Series B Junior Preferred Stock	
Name of Beneficial Owner	**Shares**	**%**	**Shares**	%	**Options**	**%**	**Shares**	**%**
BRS[1]	994,998[2]	72.73%	–	–	–	–	442,223[2]	83.59%
Harold O. Rosser	994,998[2]	72.73%	–	–	–	–	442,223[2]	83.59%
Charles A. Carroll	4,000[3]	0.29%	–	–	–	–	–	–
Daniel F. O'Sullivan	9,972[4]	0.73%	197,681[4]	1.20%	4,432	7.35%	–	–
Richard D. Davidson	83,249[4]	6.08%	14,707[4]	[5]	10,929	18.12%	20,839[4]	3.94%
Tyrone E. Riegel	22,065[6]	1.61%	101,806[6]	[5]	3,378	5.60%	3,644[6]	[5]
Thomas M. O'Sullivan, Jr.	34,951[7]	2.55%	23,963	[5]	5,996	9.94%	6,561	1.24%
Phillip J. Pacey	12,549[7]	0.92%	29,590[4]	[5]	1,411	2.34%	1,722[4]	[5]
Michael P. O'Sullivan	32,105[7]	2.35%	32,303[4]	[5]	6,176	10.24%	5,117[4]	[5]
E. Thomas Riegel	20,416[8]	1.49%	30,630	[5]	4,390	7.28%	2,425	[5]
Rowland H. Geddie, III	25,359[8]	1.85%	5,340	[5]	6,375	10.57%	2,636	[5]
Directors and executive officers as a group (14 persons)	1,300,149[9]	94.20%	464,046[5]	2.82%	52,539	87.10%	495,295[8]	93.63%
BancBoston Investments, Inc.	93,273[10]	6.38%	–	–	–	–	39,273[9]	6.91%

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[1] The principals of BRS' general partner are Bruce C. Bruckmann, Harold O. Rosser, Stephen C. Sherrill, Thomas J. Baldwin and Paul D. Kaminski, each of whom could be deemed to beneficially own the shares of O'Sullivan Holdings held by BRS.

[2] BRS holds 989,617 shares of common stock and 439,831 shares of Series B junior preferred stock. BRS's general partner holds 5,381 shares of common stock and 2,392 shares of Series B junior preferred stock. All of these shares of common and Series B junior preferred stock may be deemed to be beneficially owned by Harold O. Rosser, a Director of O'Sullivan.

[3] These shares are issuable upon the exercise of options.

[4] Includes 77,533 shares of common stock, 19,054 shares of Series B junior preferred stock and 13,874 shares of senior preferred stock held in a limited partnership of which Mr. Davidson and his wife are the general partners. Also includes 1,700 shares of common stock issuable upon the exercise of options.

[5] Less than one percent.

[6] Includes 16,423 shares of common stock and 1,503 shares of Series B junior preferred stock held in a trust of which Mr. Riegel is the trustee. Also includes 800 shares of common stock issuable upon the exercise of options.

[7] Includes 800 shares of common stock issuable upon the exercise of options.

[8] Includes 600 shares of common stock issuable upon the exercise of options.

[9] Includes the shares held by BRS and its general partner described in note 2. Also includes 7,900 shares of common stock issuable upon the exercise of options. In addition, includes the partnership and trust shares described in notes 4 and 6, respectively.

Each management participant has a business address at 1900 Gulf Street, Lamar, Missouri 64759-1899. BRS' address is 126 East 56th Street, 29th Floor, New York, New York 10022. Mr. Carroll's address is 2550 North Loop West, Suite 400, Houston, Texas 77092. BancBoston Investments, Inc.'s address is 175 Federal Street, 10th Floor, Boston, Massachusetts 02110. BancBoston Investments, Inc. is a subsidiary of Fleet Boston Financial Corporation, a publicly held corporation.

Equity Compensation Plan Information

The following table sets forth the number of shares issuable upon exercise of outstanding options pursuant to O'Sullivan's 1999 Preferred Stock Option Plan, 2000 Common Stock Option Plan and 2001 Director Common Stock Option Plan at June 30, 2002. Each of these plans has been approved by O'Sullivan's Board of Directors and stockholders. We do not have any warrants or rights issuable pursuant to compensation plans.

Equity compensation plans approved by security holders	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in second column)
Common Stock	82,100	$1.90	17,318
Series A Junior Preferred Stock	60,319	$50.00	–

Item 13. Certain Relationships and Related Transactions.

Casey O'Sullivan a son of Daniel F. O'Sullivan, works at Sun Container, a supplier of corrugated boxes to O'Sullivan. Ryan Fullerton, a son-in-law of Tom Riegel, also works for Sun Container, although he does not call on O'Sullivan. In fiscal 2003, O'Sullivan paid Sun $3.9 million for corrugated boxes. We have followed the practice of awarding purchase orders for cartons for a model to the lowest bidder for the carton. These relationships have been approved pursuant to O'Sullivan's conflict of interest policy.

World Charter Trading, Inc. is a corporation owned by the son of Richard D. Davidson, our president and chief executive officer. WCT sources furniture and other products from the Far East. During fiscal 2003, we paid WCT $537,000 for furniture it sourced for us. We source furniture products from the Far East from different sources; we select the best vendor for a product based on price, quality, and ability to make timely deliveries. Mr. Davidson is not involved in the sourcing of furniture through WCT. This relationship has been approved pursuant to O'Sullivan's conflict of interest policy. It is also monitored by O'Sullivan Holdings' Audit Committee.

In connection with the November 1999 recapitalization and merger, O'Sullivan loaned Stuart D. Schotte, Vice President-Supply Chain Management, $256,831 to purchase O'Sullivan Holdings common stock and Series B junior preferred stock. The loan bears interest at 9% per annum simple interest and is payable on November 30, 2009 or earlier if there is a change in control of O'Sullivan Holdings. The note is with full recourse to Mr. Schotte. During the fiscal year ended June 30, 2003, the largest amount outstanding under the note, including principal and interest, was $313,395, which was also the amount outstanding on June 30, 2003.

BRS, LLC Transaction Fees

BRS, LLC provided various advisory services to us related to the 1999 recapitalization and merger. These services included arranging and negotiating the financing of the recapitalization and merger, arranging and structuring the transaction, including planning our capital structure and related services. For these services, BRS, LLC received a transaction fee of $4.0 million plus $62,000 in expenses upon completion of the recapitalization and merger.

[10] BancBoston Investments, Inc. holds warrants to purchase these shares.

At the closing of the 1999 recapitalization and merger, BRS also provided $15.0 million of financing pursuant to a securities purchase agreement with O'Sullivan Holdings. BRS received a transaction fee of $300,000 in connection with its provision of this financing. BRS subsequently sold the securities it acquired under this agreement to BancBoston Investments, Inc.

BRS, LLC Management Services Agreement

At the closing of the 1999 recapitalization and merger, O'Sullivan Industries entered into a management services agreement with BRS, LLC. Under the terms of this agreement, BRS, LLC provides:

- general management services;
- assistance with the negotiation and analysis of financial alternatives; and
- other services agreed upon by BRS, LLC.

In exchange for these services, BRS, LLC will earn an annual fee equal to the greater of:

- 1.0% of O'Sullivan Industries' annual consolidated cash flow (as defined in the indenture related to the O'Sullivan Industries senior subordinated notes); or
- $300,000.

The credit agreement, the indentures for our senior secured notes and the management services agreement all contain certain restrictions on the payment of the management fee. The management services agreement, among other things, provides that no cash payment of the management fee will be made unless the fixed charge coverage ratio (as defined in the indenture for our senior subordinated notes) for our most recently ended four full fiscal quarters for which internal financial statements are available to management immediately preceding the date when the management fee is to be paid is at least 2.0 to 1. Similarly, the indenture for our 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 our 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 us from paying fees or 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. The management services agreement also provides that the payment of all fees and other obligations under the management services agreement will be subordinated to the prior payment in full in cash of all interest, principal and other obligations on O'Sullivan Industries' senior subordinated notes in the event of a bankruptcy, liquidation or winding-up of O'Sullivan Industries.

Pursuant to the management services agreement, we paid BRS, LLC $1.0 million in fiscal 2003, representing amounts due for a portion of fiscal 2001 and for fiscal 2002 and fiscal 2003. At June 30, 2003, the prepaid balance with respect to fiscal 2004 was $147,000.

Severance Agreement

In October 1998, O'Sullivan Holdings entered into a Retirement and Consulting Agreement, Release and Waiver of Claims with Daniel F. O'Sullivan. Under the retirement agreement, as amended in May 1999, Mr. O'Sullivan resigned as Chief Executive Officer in October 1998 and retired as an executive on March 31, 2000. O'Sullivan Holdings agreed to pay Mr. O'Sullivan $42,160 per month for 36 months after his retirement and then to pay him $11,458 per month until he reaches age 65. Payments under Mr. O'Sullivan's retirement and consulting agreement amount to an aggregate of $2.2 million and a present value of approximately $1.9 million. During this period, Mr. O'Sullivan is required to provide consulting, marketing and promotional services with respect to our manufacturing activities and relations with major customers, if requested by us, from time to time. Mr. O'Sullivan has agreed not to compete with us during the period he is a consultant. O'Sullivan Holdings will also provide Mr. O'Sullivan with health insurance during the term of the agreement and thereafter until he becomes eligible for Medicare and life insurance during the term of the agreement.

Early Retirement Agreement

Tyrone E. Riegel, our Executive Vice President, has entered into an early retirement agreement with O'Sullivan. Pursuant to the agreement, he will retire effective November 15, 2003. O'Sullivan has agreed to pay him $335,336.54 in a lump sum on January 2, 2004, and to pay him $5,000 per month for thirty months, beginning May 15, 2005. In addition, we will pay health insurance for Mr. Riegel and his family through November 15, 2007. Mr. Riegel has agreed to act as our consultant through November 15, 2007 and has agreed not to compete with us through that period. In addition, the Compensation Committee has approved an amendment to Mr. Riegel's stock common stock option agreement that permits him to retain his options after he is no longer an O'Sullivan employee. His options will continue to vest as though he were still an O'Sullivan employee.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a)(1) *Financial Statements*

The following consolidated statements of O'Sullivan Industries Holdings, Inc. and subsidiaries are filed as part of this report:

(a)(2) *Financial Statements Schedules*

Schedules have been omitted because they are not required or are not applicable or the information required to be set forth therein either is not material or is included in the financial statements or notes thereto.

(a)(3) *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.

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of Sections 13 and 15(d) 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, on the 29th day of September, 2003.

O'SULLIVAN INDUSTRIES HOLDINGS, INC.

By /s/ Richard D. Davidson
Richard D. Davidson
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Daniel F. O'Sullivan Daniel F. O'Sullivan	Chairman of the Board	September 29, 2003
/s/ Richard D. Davidson Richard D. Davidson	President and Chief Executive Officer and Director *(Principal Executive Officer)*	September 29, 2003
/s/ Phillip J. Pacey Phillip J. Pacey	Senior Vice President and Chief Financial Officer *(Principal Financial and Accounting Officer)*	September 29, 2003
/s/ Charles A. Carroll Charles A. Carroll	Director	September 29, 2003
/s/ Harold O. Rosser Harold O. Rosser	Director	September 29, 2003

INDEX TO EXHIBITS

Exhibit No.	Description	Page No.
3.1 & 4.1	Amended and Restated Certificate of Incorporation of O'Sullivan Holdings (incorporated by reference to Exhibit 2.4(a) to Appendix A to Proxy Statement /Prospectus included in Registration Statement on Form S-4 (File No. 333-81631))	
3.2 & 4.2	By-laws of O'Sullivan Holdings (incorporated by reference to Exhibit 3.2 to Registration Statement on Form S-1 (File No. 33-72120))	
4.3	Indenture dated as of November 30, 1999 by and among O'Sullivan Industries, O'Sullivan Industries - Virginia as Guarantor and the Norwest Bank of Minnesota, National Association, as Trustee (incorporated by reference to Exhibit 4.4 to Quarterly Report on Form 10-Q of O'Sullivan Holdings for the quarter ended December 31, 1999 (File No. 0-28493))	
4.4	Warrant Agreement dated as of November 30, 1999 between O'Sullivan Holdings and Norwest Bank Minnesota, National Association, as Warrant Agent, relating to warrants to purchase 39,273 shares of O'Sullivan Holdings Series B junior preferred stock, including form of warrant certificate (incorporated by reference to Exhibit 4.5 to Quarterly Report Form 10-Q of O'Sullivan Holdings for the quarter ended December 31, 1999 (File No. 0-28493))	
4.5	Warrant Agreement dated as of November 30, 1999 between O'Sullivan Holdings and Norwest Bank Minnesota, National Association, as Warrant Agent, relating to warrants to purchase 93,273 shares of O'Sullivan Holdings common stock, including form of warrant certificate (incorporated by reference to Exhibit 4.6 to Quarterly Report Form 10-Q of O'Sullivan Holdings for the quarter ended December 31, 1999 (File No. 0-28493))	
4.6	Amended and Restated Warrant Agreement dated as of January 31, 2000 between O'Sullivan Holdings and the holder thereof relating to warrants to purchase 39,273 shares of O'Sullivan Holdings Series B junior preferred stock, including form of warrant certificate (incorporated by reference to Exhibit 4.7 to Quarterly Report Form 10-Q of O'Sullivan Holdings for the quarter ended December 31, 1999 (File No. 0-28493))	
4.7	Amended and Restated Warrant Agreement dated as of January 31, 2000 between O'Sullivan Industries Holdings, Inc. and the holder thereof relating to warrants to purchase 93,273 shares of O'Sullivan Industries Holdings, Inc. common stock, including form of warrant certificate (incorporated by reference to Exhibit 4.8 to Quarterly Report Form 10-Q of O'Sullivan Industries Holdings, Inc. for the quarter ended December 31, 1999 (File No. 0-28493))	
9	Stockholders Agreement dated November 30, 1999 by and among O'Sullivan Holdings, Bruckmann, Rosser, Sherrill & Co. II L.P., each of the persons executing and investor or executive signature page thereto and each of the warrant holders executing a warrant holder signature page attached thereto and such other persons acquiring a warrant after the date thereof (incorporated by reference to Exhibit 10.5 to Quarterly Report Form 10-Q of O'Sullivan Holdings for the quarter ended December 31, 1999 (File No. 0-28493))	
10.1	Credit Agreement dated as of November 30, 1999 by and among O'Sullivan Industries, O'Sullivan Holdings, Lehman Brothers Inc. and Lehman Commercial Paper, Inc. (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q of O'Sullivan Holdings for the quarter ended December 31, 1999 (File No. 0-02843))	

Exhibit No.	Description	Page No.
10.1a	First Amendment to Credit Agreement, effective as of November 30, 1999 (incorporated by reference to Exhibit 10.4a to Amendment No. 2 to Registration Statement on Form S-4 (File No. 333-31282))	
10.1b	Second Amendment to Credit Agreement dated as of January 25, 2001 (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q for the quarter ended December 31, 2000 (File No. 0-28493))	
10.1c	Third Amendment to Credit Agreement dated as of May 15, 2002, incorporated by reference to Exhibit 10.4c to Annual Report on Form 10-K for the year ended June 30, 2002 (File No. 0-28493))	
10.1d	Fourth Amendment to Credit Agreement dated as of June 30, 2003	75
10.2	Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing dated as of November 30, 1999 from O'Sullivan Industries to the trustee named therein for the benefit of Lehman Brothers Inc., Lehman Commercial Paper, Inc. and the several lenders and financial institutions which become parties thereto from time to time (incorporated by reference to Exhibit 10.5 to Registration Statement on Form S-4 (File No. 333-31282))	
10.3	Guarantee and Collateral Agreement dated as of November 30, 1999 by and among O'Sullivan Industries, O'Sullivan Holdings, O'Sullivan Industries - Virginia, and Lehman Commercial Paper, Inc. (incorporated by reference to Exhibit 10.6 to Registration Statement on Form S-4 (File No. 333-31282))	
10.4	Intellectual Property Security Agreement dated as of November 30, 1999 by and among O'Sullivan Industries and Lehman Commercial Paper, Inc. (incorporated by reference to Exhibit 10.7 to Registration Statement on Form S-4 (File No. 333-31282))	
10.5	Intercompany Subordinated Demand Promissory Note dated as of November 30, 1999 by and among O'Sullivan Industries and O'Sullivan Industries - Virginia (incorporated by reference to Exhibit 10.8 to Registration Statement on Form S-4 (File No. 333-31282))	
*10.6	Early Retirement Agreement dated as of June 25, 2003 between O’Sullivan Industries, Inc. and Tyrone E. Riegel	87
*10.7	O'Sullivan Holdings Common Stock Option Plan (incorporated by reference to Exhibit 10.11 to Registration Statement on Form S-4 (File No. 333-31282))	
*10.7a	First Amendment to Common Stock Option Plan (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 (File No. 0 -28493))	
*10.8	Form of Common Stock Option Agreement (incorporated by reference to Exhibit 10.12 to Annual Report on Form 10-K for the year ended June 30, 2000 (File No. 0-28493))	
*10.9	O'Sullivan Holdings Preferred Stock Option Plan (incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q of O'Sullivan Holdings for the quarter ended December 31, 1999 (File No. 0-28493))	
*10.10	Form of Preferred Stock Option Agreement dated November 30, 1999 (incorporated by reference to Exhibit 10.4 to Quarterly Report on Form 10-Q of O'Sullivan Holdings for the quarter ended December 31, 1999 (File No. 0-28493))	

Exhibit No.	Description	Page No.
*10.11	Registration Rights Agreement dated November 30, 1999 by and among O'Sullivan Holdings, Bruckmann, Rosser, Sherrill & Co. II, L.P. and the individuals who executed executive signature pages or warrant holder signature pages or acquired warrants after execution of the signature pages attached thereto (incorporated by reference to Exhibit 10.6 to Quarterly Report on Form 10-Q of O'Sullivan Holdings for the quarter ended December 31, 1999 (File No. 0-28493))	
*10.12	Management Services Agreement dated November 30, 1999 by and among O'Sullivan Holdings and Bruckmann, Rosser, Sherrill & Co., L.L.C. (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q of O'Sullivan Holdings for the quarter ended December 31, 1999 (File No. 0-28493))	
*10.13	Form of Amended and Restated Termination Protection Agreement between O'Sullivan Holdings and certain members of management (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q of O'Sullivan Holdings for the quarter ended March 31, 1996 (File No. 1-12754))	
*10.14	Form of Termination Protection Agreement between O'Sullivan Holdings and certain members of management (incorporated by reference to Exhibit 10.3 to Annual Report on Form 10-K of O'Sullivan Holdings for the year ended June 30, 1999 (File No. 1-12754))	
*10.15	O'Sullivan Holdings Deferred Compensation Plan (the "DCP") (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q of O'Sullivan Holdings for the quarter ended March 31, 1997 (File No. 1-12754))	
*10.15a	First Amendment to the DCP (incorporated by reference to Exhibit 10.4a to Annual Report on Form of O'Sullivan Holdings 10-K for the year ended June 30, 1997 (File No. 1-12754))	
*10.15b	Second Amendment to the DCP (incorporated by reference to Exhibit 10.20b to Registration Statement on Form S-4 (File No. 333-31282))	
*10.15c	Third Amendment to the DCP (incorporated by reference to Exhibit 10.21c to Annual Report on Form 10-K for the year ended June 30, 2000 (File No. 0-28493))	
10.16	Amended and Restated Tax Sharing and Tax Reimbursement Agreement dated as of June 19, 1997 between O'Sullivan Holdings and RadioShack Corporation and TE Electronics Inc. (incorporated by reference to Exhibit 10.5 to Annual Report on Form 10-K of O'Sullivan Holdings for the year ended June 30, 1997 (File No. 1-12754))	
10.16a	Settlement Agreement between O’Sullivan Holdings and RadioShack dated May 13, 2002 (incorporated by reference to Exhibit 10.22a to Annual Report on Form 10-K for the year ended June 30, 2002 (File No. 0-28493))	
*10.17	Form of Indemnity Agreement between O'Sullivan Holdings and certain directors and officers (incorporated by reference to Exhibit 10.7 to Amendment No. 1 to Registration Statement on Form S-1 (File No. 33-72120))	
*10.18	Retirement and Consulting Agreement, Release and Waiver of Claims between O'Sullivan Holdings and Daniel F. O'Sullivan dated October 16, 1998 (incorporated by reference to Exhibit 10 to Quarterly Report on Form 10-Q of O'Sullivan Holdings for the quarter ended September 30, 1998 (File No. 1-12754))	

Exhibit No.	Description	Page No.
*10.18a	Amendment to Retirement Agreement dated as of May 16, 1999 between O'Sullivan Holdings and Daniel F. O'Sullivan (incorporated by reference to Exhibit 10.9a to Annual Report on Form 10-K of O'Sullivan Holdings for the year ended June 30, 1999 (File No. 1 -12754))	
*10.19	Description of O'Sullivan Holding's annual incentive compensation plan (incorporated by reference to Exhibit 10.13 to Annual Report on Form 10-K of O'Sullivan Holdings for the year ended June 30, 1999 (File No. 1-12754))	
*10.20	Schedule of outside director fees (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q for the quarter ended December 31, 2001 (File No. 0-28493))	
*10.21	O’Sullivan Industries Holdings, Inc. 2001 Director Common Stock Option Plan (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q of O’Sullivan Holdings for the quarter ended December 31, 2001 (File No. 0-28493))	
*10.22	Form of Director Common Stock Option Agreement (incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q of O’Sullivan Holdings for the quarter ended December 31, 2001 (File No. 0-28493))	
*10.23	O’Sullivan Industries Holdings, Inc. Amended and Restated Savings and Profit Sharing Plan (incorporated by reference to Exhibit 10.29 to Annual Report Form 10-K for the year ended June 30, 2002 (File No. 0-28493))	
21	Subsidiaries of the Registrant	96
23	Consent of PricewaterhouseCoopers LLP	97
31.1	Certificate of chief executive officer under Section 302 of the Sarbanes-Oxley Act of 2002	98
31.2	Certificate of chief financial officer under Section 302 of the Sarbanes-Oxley Act of 2002	99
32.1	Certificate of chief executive officer under Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Item 601(b)(31) of Regulation S-K)	100
32.2	Certificate of chief financial officer under Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Item 601(b)(31) of Regulation S-K)	101

*Each of these exhibits is a "management contract or compensatory plan or arrangement."

Pursuant to item 601(b)(4)(iii) of Regulation S-K, O'Sullivan has not filed agreements relating to certain long-term debt of O'Sullivan. O'Sullivan agrees to furnish the Securities and Exchange Commission a copy of such agreements upon request.

Exhibit 31.1

CERTIFICATION

I, Richard D. Davidson, certify that:

1. I have reviewed this annual report on Form 10-K of O'Sullivan Industries Holdings, Inc.

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 29, 2003

/s/ Richard D. Davidson
Richard D. Davidson
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Phillip J. Pacey, certify that:

1. I have reviewed this annual report on Form 10-K of O'Sullivan Industries Holdings, Inc.

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 29, 2003

/s/ Phillip J. Pacey
Senior Vice President and
Chief Financial Officer