SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2004

OR

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

For the transition period from ____________ to ________________

Commission file number: 0-28493

O'Sullivan Industries Holdings, Inc.

(Exact name of registrant as specified in its charter)

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

(678) 939-0800

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

As of November 10, 2004, 1,368,000 shares of Class A common stock, par value $0.01 per share, and 701,422 shares of Class B common stock, par value $0.01 per share, of O'Sullivan Industries Holdings, Inc. were outstanding.

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PART I

Item 1. Financial Statements.

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

Assets	September 30, 2004	June 30, 2004
Current assets:		
Cash and cash equivalents	$ 4,070	$ 5,250
Trade receivables, net of allowance for doubtful accounts of $2,158 and $2,144, respectively	26,925	22,579
Inventories, net	51,077	55,071
Prepaid expenses and other current assets	2,787	3,229
Total current assets	84,859	86,129
Property, plant and equipment, net	58,884	61,683
Other assets	8,104	8,462
Goodwill, net of accumulated amortization	38,088	38,088
Total assets	$ 189,935	$ 194,362
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 7,943	$ 8,199
Accrued advertising	10,260	9,422
Accrued liabilities	15,380	15,237
Payable to RadioShack	-	3,658
Total current liabilities	33,583	36,516
Long-term debt	220,672	220,279
Mandatorily redeemable senior preferred stock	27,495	26,258
Other liabilities	10,554	9,452
Payable to RadioShack	70,067	66,409
Total liabilities	362,371	358,914
Commitments and contingent liabilities (Notes 7, 8 and 9)		
Stockholders' deficit:		
Junior preferred stock, Series A, $0.01 par value; 100,000 shares authorized, none issued	–	–
Junior preferred stock, Series B, $0.01 par value; at issue price including accumulated dividends; 1,000,000 shares authorized, 529,009.33 and 911,229.33 shares issued at June 30, 2004 and September 30, 2004, respectively	102,477	98,097
Junior preferred stock, Series C, $0.01 par value, 50,000 shares authorized, none and 50,000 shares issued at June 30, 2004 and September 30, 2004, respectively	1	–
Class A common stock, $0.01 par value; 2,000,000 shares authorized, 1,368,000 issued	14	14
Class B common stock, $0.01 par value, 1,000,000 shares authorized, none and 701,422 shares issued at June 30, 2004 and September 30, 2004, respectively	7	–
Additional paid-in capital	13,057	13,053
Retained deficit	(289,870)	(276,910)
Notes receivable from employees	(342)	(367)
Accumulated other comprehensive income	2,220	1,561
Total stockholders' deficit	(172,436)	(164,552)
Total liabilities and stockholders' deficit	$ 189,935	$ 194,362

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

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

	Three months ended September 30, 2004	Three months ended September 30, 2003
Net sales	$ 62,680	$ 71,464
Cost of sales	51,243	57,156
Gross profit	11,437	14,308
Operating expenses:		
Selling, marketing and administrative	11,192	10,476
Operating income	245	3,832
Other income (expense):		
Interest expense	(8,837)	(7,866)
Interest income	8	29
Other financing costs, net	–	(3,294)
Loss before income tax provision	(8,584)	(7,299)
Income tax provision	–	–
Net loss	(8,584)	(7,299)
Dividends and accretion on Series B junior preferred stock	(4,376)	(2,999)
Net loss attributable to common stockholders	$ (12,960)	$ (10,298)

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

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

	Three months ended September 30, 2004	Three months ended September 30, 2003
Cash flows provided (used) by operating activities:		
Net loss	$ (8,584)	$ (7,299)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation and amortization	3,110	3,312
Amortization of debt issuance costs	423	441
Amortization of debt discount and accrued interest on O'Sullivan Holdings note	1,142	833
Interest and accretion on mandatorily redeemable senior preferred stock	1,237	1,032
Bad debt expense	65	51
Loss (gain) on disposal of assets	(4)	1
Debt extinguishment costs, net	–	3,108
Accrual of special payment on options to purchase Series A junior preferred stock	392	343
Changes in assets and liabilities:		
Trade receivables	(4,411)	(8,947)
Inventories	3,994	7,148
Other assets	302	425
Accounts payable and accrued liabilities	1,344	3,654
Net cash flows provided (used) by operating activities	(990)	4,102
Cash flows used by investing activities:		
Capital expenditures	(236)	(244)
Cash flows provided by financing activities:		
Proceeds from borrowings	5,700	95,000
Repayment of borrowings	(5,700)	(88,265)
Debt issuance costs	–	(4,236)
Repayment of employee note	30	–
Proceeds from issuance of common and preferred securities	16	–
Net cash flows provided by financing activities	46	2,499
Net increase (decrease) in cash and cash equivalents	(1,180)	6,357
Cash and cash equivalents, beginning of period	5,250	7,977
Cash and cash equivalents, end of period	$ 4,070	$ 14,334
Non-cash investing and financing activities:		
Capital expenditures included in accounts payable	$ 71	$ 43
Dividends accrued but not paid	4,376	2,999

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

O'SULLIVAN INDUSTRIES HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
For the three months ended September 30, 2004
(in thousands)

	Series C junior preferred stock		Series B junior preferred stock		Class A common stock		Class B common stock	
	Shares	Dollars	Shares	Dollars	Shares	Dollars	Shares	Dollars
Balance, June 30, 2004	–	$ –	529	$ 98,097	1,368	$ 14	–	$ –
Net loss								
Cumulative translation adjustments								
Loans to employees–interest income								
Repayment of employee loans								
Issuance of Series C junior preferred stock	50	1						
Issuance of Series B junior preferred stock			382	4				
Issuance of Class B common stock							701	7
Dividends and accretion on junior preferred stock				4,376				
Balance, September 30, 2004	50	$ 1	911	$ 102,477	1,368	$ 14	701	$ 7

	Additional paid-in capital	Retained deficit	Notes receivable from employees	Accumulated other comprehensive income	Total stock-holders' deficit	Compre-hensive income (loss)
Balance, June 30, 2004	$ 13,053	$ (276,910)	$ (367)	$ 1,561	$ (164,552)	
Net loss		(8,584)			(8,584)	$ (8,584)
Cumulative translation adjustments				659	659	659
Loans to employees–interest income			(5)		(5)	
Repayment of employee loans			30		30	
Issuance of Series C junior preferred stock	4				5	
Issuance of Series B junior preferred stock					4	
Issuance of Class B common stock					7	
Dividends and accretion on junior preferred stock		(4,376)				
Balance, September 30, 2004	$ 13,057	$ (289,870)	$ (342)	$ 2,220	$ (172,436)	$ (7,925)

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

O'SULLIVAN INDUSTRIES HOLDINGS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2004

Note 1—Basis of Presentation

The unaudited consolidated financial statements of O'Sullivan Industries Holdings, Inc. and subsidiaries ("O'Sullivan") included herein have been prepared in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The financial statements should be read in conjunction with the audited financial statements and notes thereto included in O'Sullivan's Annual Report on Form 10-K for the fiscal year ended June 30, 2004. The interim results are not necessarily indicative of the results that may be expected for a full year. O'Sullivan owns all of the stock of O'Sullivan Industries, Inc. ("O'Sullivan Industries"). O'Sullivan Industries is the sole owner of O'Sullivan Industries - Virginia, Inc. ("O'Sullivan Industries - Virginia") and O'Sullivan Furniture Factory Outlet, Inc.

Note 2—Liquidity

O'Sullivan has a stockholders' deficit of approximately $172 million as of September 30, 2004, incurred a net loss of $8.6 million for the quarter ended September 30, 2004 and expects to incur additional losses during the remainder of the fiscal year ending June 30, 2005. O'Sullivan's net sales have declined each of the past four years. O'Sullivan's sales and operating results during fiscal 2004 and the first quarter of fiscal 2005 were impacted by a decline in the RTA furniture market, increased competition from foreign and domestic competitors, a product mix reflecting more promotional merchandise, and higher raw material costs, principally particleboard and fiberboard.

O'Sullivan has recently added several new key members to its executive management team. The new executive management team has evaluated O'Sullivan's strategies and core competencies to determine the most effective way to improve sales, reduce costs and increase operating income. Management has developed and is implementing a strategic plan developed from that evaluation. O'Sullivan refinanced its previous senior credit facility on September 29, 2003. As a result of the refinancing, O'Sullivan has no principal payments on debt due until October 2008. In connection with the refinancing, O'Sullivan entered into a five year $40 million revolving credit agreement. Borrowing availability under the credit agreement is subject to, among other things, a borrowing base determined by qualified inventory and accounts receivable levels, and is further reduced by outstanding letters of credit. O'Sullivan expects borrowing availability under the credit agreement to approximate $8 million to $12 million, after the effect of outstanding letters of credit ($15.2 million at September 30, 2004), from November 2004 through the end of fiscal 2005. Decreased demand for O'Sullivan products, as well as efforts to reduce working capital requirements, could negatively affect levels of inventory and accounts receivable and the availability of borrowings under the credit agreement. No borrowings were outstanding under the credit agreement at September 30, 2004.

O'Sullivan management believes that cash on hand, net cash to be generated from operations, and forecasted availability under the credit agreement will be sufficient to meet O'Sullivan's cash needs for the next twelve months. O'Sullivan was in compliance with its debt covenants at September 30, 2004 and expects to remain in compliance with these covenants during the next twelve months. In the event that revenues are significantly below fiscal year 2005 forecasted revenues, O'Sullivan believes it has the ability to reduce or delay discretionary expenditures, including capital purchases, and further reduce operating costs and expenses so that it will have sufficient cash resources through the next twelve months. However, there can be no assurance that O'Sullivan will be able to adjust its costs in sufficient time to respond to revenue shortfalls, should that occur.

Note 3—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, as amended, *Accounting for Stock-Based Compensation*, had been applied.

No stock-based compensation cost is included in net income (loss), as all historical options granted had an exercise price equal to the market value of the stock on the date of the grant. The following tables present the effect on net loss had compensation cost for the company's stock plans been determined consistent with SFAS 123.

	Three months ended September 30, 2004	Three months ended September 30, 2003
	(in thousands)	
Net loss as reported	$ (8,584)	$ (7,299)
Less: total stock-based compensation expense determined under fair value method for all stock options, net of related income tax benefit	(1)	(2)
Pro forma net loss	$ (8,585)	$ (7,301)

For purposes of pro forma disclosures, the estimated fair value of the options is amortized over the vesting period. No options were granted during the three months ended September 30, 2004 and 2003.

Note 4—Shipping and Handling Costs

O'Sullivan reports amounts billed to customers as revenue, the cost for warehousing operations in cost of sales and freight out costs as part of selling, marketing and administrative expenses. Freight out costs included in selling, marketing and administrative expenses in the first quarters of fiscal 2005 and fiscal 2004 were approximately $2.1 million and $1.5 million, respectively.

Note 5—Inventory

Inventory, net, consists of the following:

	September 30, 2004	June 30, 2004
	(in thousands)	
Finished goods	$ 30,453	$ 36,645
Work in process	5,105	4,817
Raw materials	15,519	13,609
	$ 51,077	$ 55,071

During the quarter ended September 30, 2004, O'Sullivan increased its finished goods inventory allowance by approximately $985,000 and decreased its allowance for maintenance and supplies inventory by approximately $1.4 million for changes in management estimates about the future recoverability of these assets.

Note 6 - Condensed Consolidating Financial Information.

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

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

Condensed Consolidating Statements of Operations

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

	Three months ended September 30, 2003 (in thousands)				
	O'Sullivan Holdings	O'Sullivan Industries	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ –	$ 53,082	$ 18,382	$ –	$ 71,464
Cost of sales	–	40,828	16,328	–	57,156
Gross profit	–	12,254	2,054	–	14,308
Operating expenses:					
Selling, marketing and administrative	119	8,582	1,775	–	10,476
Operating income (loss)	(119)	3,672	279	–	3,832
Other income (expense):					
Interest expense	(1,772)	(5,878)	(216)	–	(7,866)
Interest income	6	23	–	–	29
Other financing costs, net	–	(3,294)	–	–	(3,294)
Equity in earnings of subsidiary	(5,414)	63	–	5,351	–
Income (loss) before income tax provision	(7,299)	(5,414)	63	5,351	(7,299)
Income tax provision	–	–	–	–	–
Net income (loss)	(7,299)	(5,414)	63	5,351	(7,299)
Dividends and accretion on Series B junior preferred stock	(2,999)	–	–	–	(2,999)
Net income (loss) attributable to common stockholders	$ (10,298)	$ (5,414)	$ 63	$ 5,351	$ (10,298)

Condensed Consolidating Balance Sheets

	September 30, 2004 (in thousands)				
	O'Sullivan Holdings	O'Sullivan Industries	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS:					
Current assets	$ –	$ 75,431	$ 9,428	$ –	$ 84,859
Property, plant and equipment, net	–	32,515	26,369	–	58,884
Other assets	196	7,845	63	–	8,104
Investment in subsidiaries	(117,946)	48,833	–	69,113	–
Goodwill	–	38,088	–	–	38,088
Receivable from subsidiary - tax sharing agreement	70,067	–	–	(70,067)	–
Receivable from affiliates	2,670	–	42,937	(45,607)	–
Total assets	$ (45,013)	$ 202,712	$ 78,797	$ (46,561)	$ 189,935
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT):					
Current liabilities	$ 10	$ 30,914	$ 2,659	$ –	$ 33,583
Long-term debt	22,532	188,140	10,000	–	220,672
Mandatorily redeemable senior preferred stock	27,495	–	–	–	27,495
Payable to affiliates	–	45,607	–	(45,607)	–
Other liabilities	7,319	3,235	–	–	10,554
Payable to RadioShack	70,067	–	–	–	70,067
Payable to parent - tax sharing agreement	–	52,762	17,305	(70,067)	–
Stockholders' equity (deficit)	(172,436)	(117,946)	48,833	69,113	(172,436)
Total liabilities and stockholders' equity (deficit)	$ (45,013)	$ 202,712	$ 78,797	$ (46,561)	$ 189,935

	June 30, 2004 (in thousands)				
	O'Sullivan Holdings	O'Sullivan Industries	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS:					
Current assets	$ –	$ 77,972	$ 8,157	$ –	$ 86,129
Property, plant and equipment, net	–	34,292	27,391	–	61,683
Other assets	206	8,186	70	–	8,462
Investment in subsidiaries	(112,059)	34,364	–	77,695	–
Goodwill	–	38,088	–	–	38,088
Receivable from subsidiary - tax sharing agreement	70,067	–	–	(70,067)	–
Receivable from affiliates	2,254	–	41,279	(43,533)	–
Total assets	$ (39,532)	$ 192,902	$ 76,897	$ (35,905)	$ 194,362
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT):					
Current liabilities	$ 3,718	$ 17,889	$ 18,567	$ (3,658)	$ 36,516
Long-term debt	22,459	187,820	10,000	–	220,279
Mandatorily redeemable senior preferred stock	26,258	–	–	–	26,258
Payable to affiliates	–	43,533	–	(43,533)	–
Other liabilities	6,176	3,276	–	–	9,452
Payable to RadioShack	66,409	–	–	–	66,409
Payable to parent - tax sharing agreement	–	52,443	13,966	(66,409)	–
Stockholders' equity (deficit)	(164,552)	(112,059)	34,364	77,695	(164,552)
Total liabilities and stockholders' equity (deficit)	$ (39,532)	$ 192,902	$ 76,897	$ (35,905)	$ 194,362

Condensed Consolidating Statements of Cash Flows

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

	Three months ended September 30, 2003 (in thousands)				
	O'Sullivan Holdings	O'Sullivan Industries	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net cash flows provided (used) by:					
Operating activities:	$ 254	$ (2,983)	$ 6,831	$ –	$ 4,102
Investing activities:					
Capital expenditures	–	(229)	(15)	–	(244)
Repayment of loans to affiliates	(254)	–	–	254	–
Net	(254)	(229)	(15)	254	(244)
Financing activities:					
Proceeds from borrowings	–	95,000	–	–	95,000
Repayment of borrowings	–	(88,265)	–	–	(88,265)
Debt issuance costs	–	(4,236)	–	–	(4,236)
Advances (repayment) of loans from affiliates	–	6,876	(6,622)	(254)	–
Net		9,375	(6,622)	(254)	2,499
Cash and cash equivalents:					
Net decrease in cash and cash equivalents	–	6,163	194	–	6,357
Cash and cash equivalents, beginning of period	–	7,878	99	–	7,977
Cash and cash equivalents, end of period	$ –	$ 14,041	$ 293	$ –	$ 14,334

Note 7—Income Taxes

O'Sullivan entered into a significant tax sharing and tax benefit reimbursement agreement with RadioShack Corporation (O'Sullivan's former parent) in 1994. See Note 3 to the consolidated financial statements included in O'Sullivan's Annual Report on Form 10-K for the year ended June 30, 2004. Because of the current tax benefits associated with the Section 338 election and the valuation allowance recorded in the fiscal year ended June 30, 2002, O'Sullivan recorded no tax expense for the three months ended September 30, 2004 and 2003.

Note 8—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.

The management fee and other reimbursable costs of $75,000 recognized during the first quarter of each of fiscal years 2005 and 2004 are included in selling, marketing and administrative expense in the consolidated statement of operations. At September 30, 2004 and June 30, 2004, the amount due BRS of $228,000 and $153,000, respectively, is included in accrued liabilities.

Employee Loans. At September 30, 2004, O'Sullivan held one note receivable with a balance of approximately $342,000 from an employee of O'Sullivan. O'Sullivan loaned the employee money to purchase common stock and Series B junior preferred stock of O'Sullivan in the November 1999 recapitalization and merger. The note bears interest at the rate of 9% per annum and matures on November 30, 2009, or earlier if there is a change of control, and is with full recourse. The receivable is recorded on O'Sullivan's consolidated balance sheets as an increase in stockholders' deficit.

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

Note 9—Commitments and Contingencies

Tax Sharing Agreement with RadioShack. Future tax sharing agreement payments are contingent on taxable income. The maximum payments are fiscal 2005 — $20.2 million; fiscal 2006 — $11.3 million; fiscal 2007 — $12.3 million; fiscal 2008 — $14.5 million; and thereafter — $11.8 million. The amount O'Sullivan estimates it will pay during fiscal 2005 has been recorded in current liabilities. See Note 3 to the consolidated financial statements included in O'Sullivan's Annual Report on Form 10-K for the year ended June 30, 2004.

Litigation. There have been no significant changes in pending litigation involving O'Sullivan since June 30, 2004, except for the House2Home litigation described below.

In November 2001, House2Home filed for bankruptcy and eventually closed all of its stores. House2Home filed a suit against O'Sullivan Industries in the U.S. Bankruptcy Court, Central District of California, alleging that payments made by House2Home within 90 days prior to its bankruptcy constituted preferential transfers under the Bankruptcy Code that should be recovered from O'Sullivan Industries by House2Home together with interest. The alleged payments aggregated $700,000. O'Sullivan Industries settled this suit in the second quarter of fiscal 2005 for a *de minimis* amount.

Note 10—Other Comprehensive Income

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

	Three months ended September 30,	
	2004	2003
	(in thousands)	
Net income (loss)	$ (8,584)	$ (7,299)
Cumulative translation adjustments	659	325
Comprehensive income (loss)	$ (7,925)	$ (6,974)

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

Overview

Our net sales declined 12.3% in the first quarter of fiscal 2005 from $71.5 million to $62.7 million. This decline continued the net sales decreases experienced by us in recent years. Our net sales declined for several reasons:

- market share losses at two large retailers in the last half of fiscal 2004.
- a weaker than expected back-to-school selling season;
- increased competition from imported furniture, particularly from China;
- increased competition from domestic competition due to excess capacity in the RTA furniture industry and increasing concentration of retail stores; and
- the decline in price of the average unit sold, reflecting increased competition and a trend toward more promotional merchandise;

Operating income declined to $245,000 in the first quarter of fiscal 2005 from $3.8 million in fiscal 2004. The decline was due to:

- lower sales levels;
- lower gross margins due to lower production levels due to lower sales and efforts to reduce our inventory levels, which unfavorably affected overhead absorption;
- continued high prices of raw materials, particularly particleboard; and
- a product mix during the first quarter of fiscal 2005 that contained more promotionally priced, lower margin units.

In response to the industry trends, we have taken steps to reduce costs, increase selling prices, lower our inventories 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. See "Market Risk and Inflation" for more information regarding our raw material price increases.

Second Quarter Outlook.

We anticipate the second quarter of fiscal 2005 will be challenging. Sales are anticipated to be flat to slightly down compared to the second quarter of fiscal 2004, but earnings will be reduced by several factors including:

- Our gross margins will be reduced due to unabsorbed manufacturing overhead due to lower production levels. The lower production levels are a part of our plan to reduce inventory levels significantly. Most of the reduction will be completed in the second quarter, allowing us to balance production and sales in future quarters.
- Raw material prices, particularly particleboard prices, continue at high levels.
- Our product mix in fiscal 2005 will contain more promotionally priced lower margin units compared to the product mix sold in the second quarter of fiscal 2004.

The fundamental changes described above will take time to implement and to take effect. However, we believe these initiatives will help O'Sullivan achieve improved long-term results.

New Management Team and Strategic Planning

In May 2004, we announced the hiring of Robert S. Parker as our President and Chief Executive Officer, followed in succeeding months by the arrival of Rick A. Walters as Executive Vice President and Chief Financial Officer and Michael D. Orr as Executive Vice President-Operations. Each of these gentlemen came from the Sharpie/Calphalon Group of Newell Rubbermaid Corporation. The new executive management team has evaluated our strategies and core competencies to determine the most effective way to improve sales, reduce costs and increase operating income. We have developed and are implementing a strategic plan developed from that evaluation. Strategic initiatives that are currently underway at O'Sullivan include:

- creating a new sales and marketing organization to focus on targeted market segments and the key customers in those segments;
- evaluating all aspects of our cost structure and our new product development process in order to introduce new consumer oriented, profitable products to our customers;
- building a more capable and far reaching organization to source parts and products from outside the United States;
- focusing on our factories to improve their productivity and better control their costs, including the introduction of lean manufacturing training programs;
- improving working capital management and cash flow through better planning, reduction in required inventory levels, improving vendor and customer terms, etc.;
- moving our corporate headquarters from Lamar, Missouri to the Atlanta, Georgia area, which will make us more accessible to our valued customers and expand our management recruiting opportunities;
- adding seasoned professionals to our sales and marketing organization; and
- implementing a disciplined new product development program that is designed to introduce consumer oriented products that provide distinctive value.

Customer Bankruptcy

In August 2002, Ames Department Stores, Inc. decided to close all of its stores and liquidate. In August 2003, Ames filed suit against O'Sullivan Industries in the U.S. Bankruptcy Court, Southern District of New York alleging that payments made by Ames within 90 days prior to its bankruptcy constituted preferential transfers under the Bankruptcy Code that should be recovered from O'Sullivan Industries by Ames, together with interest. The alleged payments aggregate $2.1 million. We have responded to the suit denying we received any preferential payments. We are contesting this lawsuit vigorously.

Tax Sharing Agreement with RadioShack

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

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

Additionally, we recorded the remaining maximum obligation to RadioShack pursuant to the tax sharing agreement. The remaining maximum obligation to RadioShack was $70.1 million at September 30, 2004 and June 30, 2004. Future payments to RadioShack are contingent upon achieving consolidated taxable income calculated on the basis of the tax sharing agreement.

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

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

Results of Operations

Net Sales. Net sales for the quarter ended September 30, 2004 decreased by $8.8 million, or 12.3%, to $62.7 million from $71.5 million for the quarter ended September 30, 2003. During the quarter, sales declined in virtually every channel of distribution for the reasons cited in the overview section above. Our average price per unit declined, while the number of units sold increased slightly as we sold more promotional merchandise in the first quarter of fiscal 2005 than in fiscal 2004.

Gross Profit. Gross profit decreased to $11.4 million, or 18.2% of net sales, for the three month period ended September 30, 2004, from $14.3 million, or 20.0% of net sales, for the comparable prior year quarter. Fiscal 2005 first quarter gross profit dollars and margin declined because of lower sales, higher raw material costs, a shift in product mix toward more promotional merchandise with lower margins and lower production levels that adversely affected our fixed cost absorption, partially offset by price increases, all as compared to the fiscal 2004 first quarter. Gross profit was also affected by an increase of our finished goods inventory allowance of $985,000, a decrease of our allowance for maintenance and supplies inventory of $1.4 million and the establishment of a $600,000 reserve for expenses expected to be incurred in connection with the termination of agreements to purchase certain raw materials.

Selling, Marketing and Administrative Expenses. Selling, marketing and administrative expenses increased to $11.2 million, or17.9% of net sales, for the three month period ended September 30, 2004, from $10.5 million, or 14.7% of net sales, for the quarter ended September 30, 2003. In the fiscal 2005 first quarter, freight out expense increased due to higher sales shipped directly to customers, royalty expense increased due to higher sales of our Coleman® storage products, and employee costs rose due to recruiting expenses, severance agreements and higher executive salaries. These increases were partially offset by lower advertising and store display expenses and lower benefit expenses, all as compared to the same quarter in the prior year.

Depreciation and Amortization. Depreciation and amortization expenses declined from $3.3 million for the first quarter of fiscal 2004 to $3.1 million for the first quarter of fiscal 2005. The lower depreciation expense results from lower capital expenditures in recent years.

Operating Income. Operating income decreased $3.6 million to $245,000 for the quarter ended September 30, 2004 from $3.8 million in the quarter ended September 30, 2003 for the reasons described above.

Net Interest Expense. Net interest expense increased from $7.8 million in the first quarter of fiscal 2004 to $8.8 million in the first quarter of fiscal 2005. Interest expense increased because the interest rate on our senior secured notes issued on September 29, 2003 is higher than the interest rate incurred on our senior credit facility that was repaid with the proceeds from the senior secured notes. The following table describes the components of net interest expense.

	Three months ended September 30, (in thousands) 2004	2003
Interest expense on senior secured notes, credit agreement, senior credit facility, industrial revenue bonds and senior subordinated notes	$ 6,035	$ 5,560
Interest income	(8)	(29)
Non-cash items:		
Interest expense on O'Sullivan Holdings senior note	750	667
Interest expense on mandatorily redeemable senior preferred stock	1,237	1,032
Amortization of debt discount	392	166
Amortization of loan fees	423	441
Net interest expense	$ 8,829	$ 7,837

Other Financing Costs. In the first quarter of fiscal 2004, we wrote off $3.3 million of capitalized loan fees related to our old senior credit facility as we refinanced this debt.

Pre-Tax Loss. Our pre-tax loss in the first quarter of fiscal 2005 was $8.6 million compared to a pre-tax loss of $7.3 million in the first quarter of fiscal 2004. The decline was due principally to our lower net sales and operating levels, a shift in product mix toward lower margin promotional items, higher raw material costs and increased interest expense.

Income Tax Provision. We recorded no tax expense in the first quarters of fiscal 2005 or fiscal 2004 because of the current tax benefits associated with the Section 338 election (See "Tax Sharing Agreement with RadioShack") and because of the valuation allowance against our net deferred tax assets.

Net Loss. Net loss increased $1.3 million from a net loss of $7.3 million in the first quarter of fiscal 2004 to a loss of $8.6 million in the first quarter of fiscal 2005 due to lower sales, a shift in product mix toward lower margin promotional items, higher raw material costs, lower production levels and increased interest expense.

Liquidity and Capital Resources

We are highly leveraged and had a stockholders' deficit of approximately $172.4 million at September 30, 2004. 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, our inventory and accounts receivable balances and the availability of borrowings under our credit agreement.

Working Capital. As of September 30, 2004, cash and cash equivalents totaled $4.1 million. Net working capital was $51.3 million at September 30, 2004 compared to $49.6 million at June 30, 2004.

Operating Activities. Net cash used by operating activities for the three months ended September 30, 2004 was $990,000 compared to net cash provided of $4.1 million for the three months ended September 30, 2003. Cash flow from operations decreased year-over-year for the following reasons:

- Our net loss in the first quarter of fiscal 2005 was $8.6 million compared to a net loss of $7.3 million in the first quarter of fiscal 2004.

- Accounts receivable increased $4.4 million in the first quarter of fiscal 2005 compared with an increase of $8.9 million in the first quarter of fiscal 2004. The larger increase in the fiscal 2004 quarter reflects the $19.8 million increase in sales from the last quarter of fiscal 2003 compared to the $3.8 million increase in sales from the last quarter of fiscal 2004 to the first quarter of fiscal 2005.

- Inventories declined $4.0 million in the quarter ended September 30, 2004 compared with a decline in the quarter ended September 30, 2003 of $7.1 million as we lowered production levels in both years to reduce inventory levels and to adapt to reduced demand. We expect to continue to focus on reducing our inventory to levels 20% to 30% below those recorded at June 30, 2004.

- Accounts payable, accrued advertising and accrued liabilities increased $1.3 million during the first quarter of fiscal 2005 compared to an increase of $3.7 million during the first quarter of fiscal 2004. The smaller increase in payables in fiscal 2005 was due to lower production levels during the first quarter of fiscal 2005 compared to the first quarter of fiscal 2004 and the timing of the shutdowns of our manufacturing facilities around the start of fiscal 2005 and 2004.

- We expensed $3.1 million of unamortized debt issuance costs in fiscal 2004 in connection with the refinancing of our previous senior credit facility. We had no similar costs in fiscal 2005.

Investing Activities. We invested $236,000 in capital expenditures for the three months ended September 30, 2004 compared to $244,000 in the prior year three month period. We currently estimate that the total capital expenditure requirements for the fiscal year will be approximately $2 million to $3 million, which we expect to fund from cash flow from operations, cash on hand or borrowings under our credit agreement. Our ability to make future capital expenditures is limited to $10.0 million per year, with certain carryforwards, under the indenture governing our senior secured notes.

Financing Activities. Our net cash provided by financing activities was $46,000 in the first quarter of fiscal 2005 from the issuance of additional stock and the repayment of a loan to an employee. In the first quarter of fiscal 2004, the refinancing of our old senior credit facility provided $2.5 million of cash.

Our consolidated principal amount of indebtedness at September 30, 2004 was $231.0 million, consisting of the following:

- a credit agreement providing for asset-based revolving credit of up to $40.0 million. The borrowing base at September 30, 2004 was approximately $29 million. No borrowings were outstanding under the credit agreement at September 30, 2004, although letters of credit aggregating approximately $15.2 million were outstanding under the credit agreement. The outstanding letters of credit reduced the borrowing base to approximately $13.8 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.

- $100.0 million in 10.63% senior secured notes due 2008. We sold the notes in September 2003 at 95% of their par value, yielding $95.0 million in proceeds before issuance expenses of approximately $3.8 million. We used proceeds of the senior secured notes to repay the $88.7 million outstanding under our old senior credit facility and to pay issuance expenses. The notes are secured by a first-priority security interest in and lien on substantially all of our assets (and on O'Sullivan Industries' capital stock) other than accounts receivable, inventory, capital stock of O'Sullivan Industries' subsidiaries, deposit accounts, certain books and records and certain licenses, and by a second-priority security interest in and lien on substantially all of our accounts receivable, inventory, deposit accounts, certain books and records and certain licenses. The notes are guaranteed by O'Sullivan Holdings, O'Sullivan Industries - Virginia and O'Sullivan Furniture Factory Outlet, Inc.

- $96.0 million in 13-3/8% senior subordinated notes due 2009 issued with warrants to purchase 6.0% of our common and Series B junior preferred stock on a fully diluted basis. These warrants were assigned a value of $3.5 million. We issued $100.0 million of these notes in 1999 at a price of 98.046%, providing $98.0 million in cash proceeds before expenses related to the issuance. We repurchased $4.0 million of the notes during fiscal 2004.

- $10.0 million in variable rate industrial revenue bonds.

- $25.0 million, including $10.0 million of interest added to the principal of the note, in a note issued by O'Sullivan Holdings with warrants to purchase 6.0% of our common and Series B junior preferred stock on a fully diluted basis. These warrants were assigned a value of $3.5 million.

The reconciliation of consolidated principal amount of indebtedness to recorded book value as of September 30, 2004, is as follows:

	Consolidated indebtedness	Original issue discount net of accretion	Warrants net of accretion	Recorded book value of long-term debt
		(in thousands)		
Senior secured notes	$ 100,000	$ (4,223)	$ –	$ 95,777
Senior subordinated notes	96,000	(1,269)	(2,368)	92,363
Industrial revenue bonds	10,000	–	–	10,000
O'Sullivan Holdings note	24,984	–	(2,452)	22,532
Total	$ 230,984	$ (5,492)	$ (4,820)	$ 220,672

Liquidity

We have a stockholders' deficit of approximately $172 million as of September 30, 2004, incurred a net loss of $8.6 million for the quarter ended September 30, 2004 and expect to incur additional losses during the remainder of the fiscal year ending June 30, 2005. Our net sales have declined each of the past four years. Our sales and operating results during fiscal 2004 and the first quarter of fiscal 2005 were impacted by a decline in the RTA furniture market, increased competition from foreign and domestic competitors, a product mix reflecting more promotional merchandise, and higher raw material costs, principally particleboard and fiberboard.

We have recently added several new key members to our executive management team. The new executive management team has evaluated O'Sullivan's strategies and core competencies to determine the most effective way to improve sales, reduce costs and increase operating income. Management has developed and is implementing a strategic plan developed from that evaluation.

As noted above, we refinanced our previous senior credit facility on September 29, 2003. As a result of the refinancing, we have no principal payments on debt due until October 2008. In connection with the refinancing, we entered into the five year $40 million revolving credit agreement discussed above. Borrowing availability under the credit agreement is subject to, among other things, a borrowing base determined by qualified inventory and accounts receivable levels, and is further reduced by outstanding letters of credit ($15.2 million at September 30, 2004). We expect borrowing availability under the credit agreement to approximate $8 million to $12 million, after the effect of outstanding letters of credit, from November 2004 through the end of fiscal 2005. Decreased demand for our products, as well as efforts to reduce working capital requirements, could negatively affect levels of inventory and accounts receivable and the availability of borrowings under the credit agreement. No borrowings were outstanding under the credit agreement at September 30, 2004.

Our management believes that cash on hand, net cash to be generated from operations, and forecasted availability under the credit agreement will be sufficient to meet our cash needs for the next twelve months. We were in compliance with our debt covenants at September 30, 2004 and expect to remain in compliance with these covenants during the next twelve months. In the event that revenues are significantly below fiscal year 2005 forecasted revenues, we believe we have the ability to reduce or delay discretionary expenditures, including capital purchases, and further reduce operating costs and expenses so that we will have sufficient cash resources through the next twelve months. However, there can be no assurance that we will be able to adjust our costs in sufficient time to respond to revenue shortfalls, should that occur.

See the overview section of this Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of the impact of tax sharing agreement with RadioShack on our liquidity and financial condition.

Off-balance Sheet Arrangements. At September 30, 2004, we had no off-balance sheet arrangements that have or are likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

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

		Payments Due by Period (in thousands)			
Contractual Obligations	Total	Less than 12 months	12-36 months	36-60 months	After 60 months
Long-term debt	$ 230,984	$ –	$ –	$ 110,000	$ 120,984
Tax Benefit payments to RadioShack[1]	70,067	22,897	24,116	23,054	–
Operating leases—unconditional	4,954	1,964	2,020	763	207
Other long-term obligations[2]	403	99	214	90	–
Total contractual cash obligations	$ 306,408	$ 24,960	$ 26,350	$ 133,907	$ 121,191

[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 retirement agreements.

Critical Accounting Policies and Estimates

Preparation of our consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management believes the most complex and sensitive judgments, because of their significance to our consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Item 8, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 2 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended June 30, 2004 filed with the Securities and Exchange Commission on September 28, 2004, describe the significant accounting estimates and policies used in preparation of our consolidated financial statements. Actual results in these areas could differ from management's estimates. There have been no significant changes in our accounting policies and estimates during the first three months of fiscal 2005.

Legal Proceedings

In August 2002, Ames Department Stores, Inc. decided to close all of its stores and liquidate. In August 2003, Ames filed suit against O'Sullivan Industries in the U.S. Bankruptcy Court, Southern District of New York alleging that payments made by Ames within 90 days prior to its bankruptcy constituted preferential transfers under the Bankruptcy Code that should be recovered from O'Sullivan Industries by Ames, together with interest. The alleged payments aggregate $2.1 million. We have responded to the suit denying we received any preferential payments. We are contesting this lawsuit vigorously.

In November 2001, House2Home filed for bankruptcy and eventually closed all of its stores. House2Home filed a suit against O'Sullivan Industries in the U.S. Bankruptcy Court, Central District of California, alleging that payments made by House2Home within 90 days prior to its bankruptcy constituted preferential transfers under the Bankruptcy Code that should be recovered from O'Sullivan Industries by House2Home together with interest. The alleged payments aggregated $700,000. We settled this suit in the second quarter of fiscal 2005 for a *de minimis* amount.

Cautionary Statement Regarding Forward Looking Information

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

- changes from anticipated levels of sales, whether due to
    - future national or regional economic and competitive conditions, as we have seen in recent years with slower economic conditions and declines in the sales of personal computers;
    - new domestic or foreign entrants into the industry, as with competitors and retailers sourcing products competitive with ours from overseas in recent years;
    - customer acceptance of existing and new products, as have experienced in recent years;
- loss of liquidity due to the arbitration panel's opinion in *RadioShack Corporation v. O'Sullivan Industries Holdings, Inc.*;
- significant indebtedness that limits our financial and operational flexibility;
- raw material cost increases, particularly in particleboard and fiberboard, as occurred in fiscal 2004;
- pricing pressures due to excess capacity in the ready-to-assemble furniture industry, as is occurring now, or customer demand in excess of our ability to supply product;
- transportation cost increases, due to higher fuel costs or otherwise;
- loss of or reduced sales to significant customers as a result of bankruptcy, liquidation, merger, acquisition or any other reason, as occurred with the liquidation of Ames in fiscal 2003, with the reorganization of Kmart beginning in fiscal 2002 and with the loss of significant business at Best Buy and a mass merchant in fiscal 2004;
- actions of current or new competitors, foreign or domestic, that increase competition with our products or prices, as has been occurring with imported products from China and other countries in recent years;
- the consolidation of manufacturers in the ready-to-assemble furniture industry;
- increased advertising costs associated with promotional efforts;
- increased interest rates as the Federal Reserve increases interest rates from their historic low levels;
- pending or new litigation or governmental regulations such as the arbitration involving RadioShack;
- other uncertainties which are difficult to predict or beyond our control; and
- the risk that we incorrectly analyze these risks and forces, or that the strategies we develop to address them could be unsuccessful.

See also the Risk Factors section in our annual report on Form 10-K for the year ended June 30, 2004.

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our market risk is affected by changes in interest rates, foreign currency exchange rates and certain commodity 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. Interest rate instruments may be used to adjust interest rate exposures when appropriate based on market conditions. At June 30, 2004, $10.0 million of our indebtedness was subject to variable interest rates. A change in interest rates of one percentage point would change our cash interest by about $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 2004, market prices for particleboard, our largest-cost raw material, increased about 40% to 50%, depending on thickness and origin. Market prices for fiberboard increased about 30%. Prices increased as demand for particleboard and fiberboard increased and because producers reduced their manufacturing capacity. Market prices for particleboard declined slightly in the first quarter of fiscal 2005, while fiberboard prices were flat. Industry sources anticipate flat to slightly lower prices for particleboard and fiberboard through the remainder of fiscal 2005. Because we utilize first-in, first-out accounting for our inventory, not all of the price increases are reflected in our cost of goods sold in the first quarter of fiscal 2005. These price increases will reduce our operating margins and operating income for fiscal 2005 and perhaps beyond.

We are endeavoring to reduce the impact of the price increases through our productivity programs, by price increases and by the eventual inclusion of the higher costs in the pricing of our products. We have negotiated higher prices for our products with our customers, although these price increases recovered only a part of the price increases we have incurred. In our productivity programs, we endeavor to remove costs from the production of a product without sacrificing utility or quality of the product. We cannot assure you that we will be successful in offsetting these or future potential raw material price increases.

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

ITEM 4. CONTROLS AND PROCEDURES.

O'Sullivan maintains disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) of the Securities Exchange Act of 1934) that are designed to ensure that information required to be disclosed in O'Sullivan's Exchange Act reports is recorded, processed, summarized and reported accurately within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to O'Sullivan's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was necessarily required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

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

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

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

In November 2001 House2Home filed for bankruptcy and eventually closed all of its stores. House2Home filed a suit against us in the U.S. Bankruptcy Court, Central District of California, alleging that payments made by House2Home within 90 days prior to its bankruptcy constituted preferential transfers under the Bankruptcy Code that should be recovered from O'Sullivan Industries by House2Home together with interest. The alleged payments aggregated $700,000. We settled this suit in the second quarter of fiscal 2005 for a *de minimis* amount.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

During the fourth quarter of fiscal 2004 and the first quarter of fiscal 2005, we entered into Executive Stock Agreements with Messrs. Robert S. Parker, Rick A. Walters and Michael D. Orr, our President and Chief Executive Officer, Executive Vice President and Chief Financial Officer and Executive Vice President-Operations, respectively. Pursuant to the agreements, we issued and sold the following shares to Messrs. Parker, Walters and Orr during the first quarter of fiscal 2005:

Executive	Shares of Class B Common Stock	Shares of Series B Junior Preferred Stock	Shares of Series C Junior Preferred Stock	Date of issuance of shares
Robert S. Parker	467,614	291,905	40,000	July 27, 2004
Rick A. Walters	116,904	46,090	5,000	August 3, 2004
Michael D. Orr	116,904	46,090	5,000	July 27, 2004

We issued the shares without registration under the Securities Act of 1933, as amended, in reliance on the exemption from registration contained in Section 4(2) of the Securities Act. We used the proceeds of the sale of stock for general working capital purposes. The sales price for the Class B common stock and Series B junior preferred stock was $0.01 per share, while the sales price for the Series C junior preferred stock was $0.10 per share.

ITEM 6. EXHIBITS.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

O'SULLIVAN INDUSTRIES HOLDINGS, INC.

Date: November 12, 2004	By:	/s/ Robert S. Parker
		Robert S. Parker President and Chief Executive Officer
Date: November 12, 2004	By:	/s/ Rick A. Walters
		Rick A. Walters Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

Exhibit No.	Description	Page No.
4.10	Indenture dated as of September 29, 2003 between O’Sullivan Industries, Inc. and each of the guarantors party thereto and The Bank of New York, as Trustee, including form of Notes (incorporated by reference to Exhibit 4 to Current Report on Form 8-K dated September 29, 2003 (File No. 333-31282))	
10.1	Severance Agreement between O'Sullivan Industries and Richard D. Davidson dated as of August 13, 2004 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K of O'Sullivan Industries dated October 14, 2004 (File No. 333-31282))	
10.2	Severance Agreement between O'Sullivan Industries and Thomas M. O'Sullivan, Jr. dated as of August 13, 2004 (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K of O'Sullivan Industries dated October 14, 2004 (File No. 333-31282))	
10.3	Severance Agreement between O'Sullivan Industries and E. Thomas Riegel dated as of August 18, 2004 (incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K of O'Sullivan Industries dated October 14, 2004 (File No. 333-31282))	
10.4	Schedule of outside director fees	31
31.1	Certification of chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	32
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