

COINMACH SERVICE CORP

Form 10-Q

February 05, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

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

**For the quarterly period ended December 31, 2006**

**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: 001-32359**

**Coinmach Service Corp.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**20-0809839**

(I.R.S. Employer Identification No.)

303 Sunnyside Blvd., Suite 70, Plainview, New York

**11803**

(Address of principal executive offices)

(Zip Code)

**(516) 349-8555**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at January 31, 2007
Class A common stock, \$0.01 par value per share	29,246,141 shares
Class B common stock, \$0.01 par value per share	23,374,450 shares

The registrant publicly trades Income Deposit Securities (IDSs) on the American Stock Exchange. Each IDS is comprised of one underlying share of Class A common stock and an underlying 11% senior secured note due 2024 in a principal amount of \$6.14. As of January 31, 2007, there were 13,274,032 IDSs outstanding.

**COINMACH SERVICE CORP. AND SUBSIDIARIES**  
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(in thousands of dollars, except share data)

	<b>December 31, 2006 (Unaudited)</b>	<b>March 31, 2006<sup>1</sup></b>
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 38,354	\$ 62,008
Receivables, net	6,610	5,635
Inventories	14,645	11,458
Prepaid expenses	6,041	4,375
Interest rate swap asset	933	2,615
Other current assets	1,701	1,796
Total current assets	68,284	87,887
Advance location payments	64,527	67,242
Property, equipment and leasehold improvements, net of accumulated depreciation and amortization of \$457,695 and \$403,024	245,396	252,398
Contract rights, net of accumulated amortization of \$124,890 and \$114,535	298,348	296,912
Goodwill	208,496	206,196
Other assets	9,741	11,531
Total assets	\$ 894,792	\$ 922,166
<b>LIABILITIES AND STOCKHOLDERS EQUITY:</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 37,536	\$ 32,656
Accrued rental payments	34,319	33,044
Accrued interest	7,026	3,563
Current portion of long-term debt	5,601	11,151
Total current liabilities	84,482	80,414
Deferred income taxes	49,795	49,984
Long-term debt, less current portion	652,635	653,102
Total liabilities	786,912	783,500
Stockholders equity:		
Class A Common Stock \$0.01 par value; 100,000,000 shares authorized; 29,246,141 shares issued and outstanding at December 31, 2006 and 29,113,641 shares issued and outstanding at	292	291

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March 31, 2006

Class B Common Stock \$0.01 par value; 100,000,000 shares authorized; 23,374,450 shares issued and outstanding	234	234
Capital in excess of par value	389,801	389,616
Carryover basis adjustment	(7,988)	(7,988)
Accumulated other comprehensive income, net of tax	439	1,547
Accumulated deficit	(274,898)	(245,034)
Total stockholders equity	107,880	138,666
Total liabilities and stockholders equity	\$ 894,792	\$ 922,166

See accompanying notes.

1 The March 31, 2006 balance sheet has been derived from the audited consolidated financial statements as of that date.

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

(in thousands of dollars, except share data)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>December</b>	<b>December</b>	<b>December</b>	<b>December</b>
	<b>31,</b>	<b>31,</b>	<b>31,</b>	<b>31,</b>
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>REVENUES</b>	\$ 140,971	\$ 138,744	\$ 416,566	\$ 404,894
<b>COSTS AND EXPENSES:</b>				
Laundry operating expenses (exclusive of depreciation and amortization and amortization of advance location payments)	94,732	93,767	281,934	274,799
General and administrative (including stock-based compensation expense of \$118, \$0, \$194 and \$12, respectively)	3,100	3,571	9,236	9,141
Depreciation and amortization	18,874	19,027	55,887	56,887
Amortization of advance location payments	4,900	5,015	14,702	14,188
Amortization of intangibles	3,560	3,514	10,680	10,485
Other items, net				310
	125,166	124,894	372,439	365,810
<b>OPERATING INCOME</b>	15,805	13,850	44,127	39,084
<b>INTEREST EXPENSE</b>	13,999	15,570	41,359	46,216
<b>TRANSACTION COSTS</b>		2,620	845	2,620
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	1,806	(4,340)	1,923	(9,752)
<b>PROVISION (BENEFIT) FOR INCOME TAXES:</b>				
Current	506		887	
Deferred	440	(1,674)	384	(3,823)
	946	(1,674)	1,271	(3,823)
<b>NET INCOME (LOSS)</b>	\$ 860	\$ (2,666)	\$ 652	\$ (5,929)
<b>Distributed earnings per share:</b>				
Class A Common Stock	\$ 0.21	\$ 0.21	\$ 0.62	\$ 0.62
Class B Common Stock	\$	\$	\$ 0.53	\$

**Basic and diluted net income****(loss) per share:**

Class A Common Stock	\$	0.11	\$	0.06	\$	0.05	\$	0.22
Class B Common Stock	\$	(0.10)	\$	(0.15)	\$	(0.04)	\$	(0.40)

**Weighted average common stock****outstanding:**

Class A Common Stock	29,060,305	18,911,532	29,052,500	18,911,532
Class B Common Stock	23,374,450	24,980,445	23,374,450	24,980,445

**Cash dividends per share:**

Class A Common Stock	\$	0.21	\$	0.21	\$	0.62	\$	0.62
Class B Common Stock	\$		\$		\$	0.53	\$	

See accompanying notes.



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**COINMACH SERVICE CORP. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**  
**NINE MONTHS ENDED DECEMBER 31, 2006**  
**(UNAUDITED)**  
(in thousands of dollars)

	Class A	Class B	Capital in Excess of Par Value	Carryover Basis Adjustment	Accumulated Other Comprehensive Income, net of tax	Accumulated Deficit	Stockholders Equity
	Common Stock	Common Stock					
Balance, March 31, 2006	\$ 291	\$ 234	\$ 389,616	\$ (7,988)	\$ 1,547	\$ (245,034)	\$ 138,666
Issuance costs			(9)				(9)
Issuance of common stock	1						1
Comprehensive loss:							
Net income						652	652
Loss on derivative instruments					(1,108)		(1,108)
Total comprehensive loss							(456)
Dividends						(30,516)	(30,516)
Stock-based compensation			194				194
Balance, December 31, 2006	\$ 292	\$ 234	\$ 389,801	\$ (7,988)	\$ 439	\$ (274,898)	\$ 107,880

See accompanying notes.

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**  
(in thousands of dollars)

	<b>Nine Months Ended</b>	
	<b>December 31, 2006</b>	<b>December 31, 2005</b>
<b>OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 652	\$ (5,929)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	55,886	56,887
Amortization of advance location payments	14,702	14,188
Amortization of intangibles	10,681	10,485
Deferred income taxes	384	(3,823)
Amortization of deferred issue costs	595	1,603
Write-off of deferred financing costs	414	1,700
Premium on redemption of 11% senior secured notes due 2024	417	
Gain on sale of equipment	(365)	(46)
Stock-based compensation	194	12
Change in operating assets and liabilities, net of businesses acquired:		
Other assets	263	(567)
Receivables, net	(804)	391
Inventories and prepaid expenses	(4,426)	529
Accounts payable and accrued expenses, net	5,461	2,739
Accrued interest	3,463	6,304
Net cash provided by operating activities	87,517	84,473
<b>INVESTING ACTIVITIES:</b>		
Additions to property, equipment and leasehold improvements	(42,398)	(43,431)
Advance location payments to location owners	(10,775)	(9,806)
Acquisition of net assets related to acquisitions of businesses, net of cash acquired	(17,837)	(3,436)
Proceeds from sale of property and equipment	1,168	1,077
Net cash used in investing activities	(69,842)	(55,596)
<b>FINANCING ACTIVITIES:</b>		
Repayments under credit facility	(1,725)	(240,507)
Proceeds from credit facility		230,000
Redemption of 11% senior secured notes due 2024	(5,649)	
Payment of premium on 11% senior secured notes due 2024	(417)	
Principal payments on capitalized lease obligations	(2,872)	(3,652)
Repayments from bank and other borrowings	(141)	(183)
Debt issuance costs	(9)	(3,225)

Cash dividends paid	(30,516)		(11,696)
Net cash used in financing activities	(41,329)		(29,263)
Net decrease in cash and cash equivalents	(23,654)		(386)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	62,008		57,271
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ 38,354	\$	56,885
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Interest paid	\$ 37,301	\$	38,309
Income taxes paid	\$ 199	\$	930
<b>NON CASH FINANCING ACTIVITIES:</b>			
Acquisition of fixed assets through capital leases	\$ 4,370	\$	4,531
Transfer of assets held for sale to fixed assets	\$	\$	1,936

See accompanying notes.

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**COINMACH SERVICE CORP. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

**1. Basis of Presentation**

The condensed consolidated financial statements include the accounts of Coinmach Service Corp., a Delaware corporation ( CSC ), and all of its subsidiaries, including Coinmach Corporation, a Delaware corporation ( Coinmach ). All significant intercompany profits, transactions and balances have been eliminated in consolidation. CSC was incorporated on December 23, 2003 as a wholly-owned subsidiary of Coinmach Holdings, LLC, a Delaware limited liability company ( Holdings ). Unless otherwise specified herein, references to the Company, we, us and our sha mean CSC and its subsidiaries.

CSC and its wholly-owned subsidiaries are providers of outsourced laundry equipment services for multi-family housing properties in North America. The Company s core business (which the Company refers to as the route business) involves leasing laundry rooms from building owners and property management companies, installing and servicing laundry equipment and collecting revenues generated from laundry machines. Through Appliance Warehouse of America, Inc., a Delaware corporation jointly-owned by CSC and Coinmach ( AWA ), the Company rents laundry machines and other household appliances to property owners, managers of multi-family housing properties, and to a lesser extent, individuals and corporate relocation entities. Super Laundry Equipment Corp., a Delaware corporation and a direct wholly-owned subsidiary of Coinmach ( Super Laundry ), constructs, designs and retrofits laundromats and distributes laundromat equipment.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles ( GAAP ) for interim financial reporting and pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). Accordingly, such financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. GAAP requires the Company s management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from such estimates.

The interim results presented herein are not necessarily indicative of the results to be expected for the entire year.

In the opinion of management of the Company, these unaudited condensed consolidated financial statements contain all adjustments of a normal recurring nature necessary for a fair presentation of the consolidated financial statements for the interim periods presented. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2006.

**The IDS Transactions and Class A Common Stock Offering**

On November 24, 2004, CSC completed its initial public offerings (collectively, the IPO ) of (i) 18,911,532 Income Deposit Securities ( IDSs ) (each IDS consisting of one

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED) (continued)**

share of Class A common stock, par value \$0.01 per share (the Class A Common Stock ) and an 11% senior secured note due 2024 in a principal amount of \$6.14), and (ii) \$20.0 million aggregate principal amount of 11% senior secured notes due 2024 separate and apart from the IDSs (such notes, together with the 11% senior secured notes underlying IDSs, the 11% Senior Secured Notes ). In connection with the IPO, (i) Holdings became the sole holder of all outstanding shares of the Company's Class B common stock, par value \$0.01 per share (the Class B Common Stock ), and (ii) Coinmach Laundry Corporation, a Delaware corporation ( CLC or Laundry Corp. ), and AWA became wholly-owned subsidiaries of CSC. The IPO and the use of proceeds therefrom and the transactions related thereto are referred to herein collectively as the IDS Transactions.

On February 8, 2006, CSC completed a public offering of 12,312,633 shares of Class A Common Stock at a price to the public of \$9.00 per share (the Class A Offering ). Net proceeds from the Class A Offering were approximately \$102.7 million. As a result of the Class A Offering, the Company incurred approximately \$8.2 million in issuance costs, including underwriting discounts and commissions, which was recorded as a reduction of the proceeds from its sale of the Class A Common Stock. In addition to the issuance costs, CSC incurred certain expenses that were classified as transaction costs on the Consolidated Statements of Operations for the fiscal year ended March 31, 2006, which included (i) a premium (including an early tender payment of approximately \$0.5 million) paid with proceeds of the Class A Offering to redeem the 11% Senior Secured Notes of approximately \$4.8 million, (ii) the write-off of a proportionate amount of unamortized deferred financing costs of approximately \$3.4 million and (iii) certain direct expenses related to the Tender Offer (defined below) of approximately \$1.0 million which included approximately \$0.5 million relating to special bonuses.

The net proceeds of the Class A Offering, upon their distribution to CSC, were used (i) to purchase approximately \$48.4 million aggregate principal amount outstanding of 11% Senior Secured Notes pursuant to the Tender Offer further described in Note 4, and related fees and expenses, (ii) to repurchase 2,199,413 shares of Class A Common Stock owned by an affiliate of GTCR CLC, LLC (the controlling equity investor in Holdings) at a repurchase price of \$8.505 per share or approximately \$18.7 million in the aggregate, (iii) to repurchase 1,605,995 shares of Class B Common Stock that had been distributed to equity investors of Holdings (including CSC officers and certain directors) at a repurchase price of \$8.505 per share or approximately \$13.7 million in the aggregate and (iv) for general corporate purposes.

Subject to the satisfaction of certain conditions, the indenture governing the 11% Senior Secured Notes permits us to merge Laundry Corp. and Coinmach into CSC. We refer to such potential mergers collectively as the Merger Event. If we were to consummate the Merger Event in the future, CSC would become an operating company as well as the direct borrower under the Senior Credit Facility (as defined below) and sole owner of the capital stock of Coinmach's subsidiaries. We are not currently contemplating completion of the Merger Event.

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED) (continued)**

**Dividends**

Pursuant to CSC's current dividend policy, CSC intends to pay dividends on its Class A Common Stock on each March 1, June 1, September 1 and December 1 to holders of record as of the preceding February 25, May 25, August 25 and November 25, respectively, in each case with respect to the immediately preceding fiscal quarter. CSC currently intends to pay annual dividends on its Class B Common Stock on each June 1 to holders of record as of the preceding May 25 with respect to the immediately preceding fiscal year, subject to certain limitations and exceptions with respect to such dividends, if any. The payment of dividends by CSC on its common stock is subject to the sole discretion of the board of directors of CSC, various limitations imposed by the certificate of incorporation of CSC, the terms of outstanding indebtedness of CSC and Coinmach, and applicable law. Payment of dividends on all classes of CSC common stock will not be cumulative.

**2. Inventories**

Inventory costs for the route business and AWA are determined principally by using the average cost method and are stated at the lower of cost or net realizable value. Inventory costs for Super Laundry are valued at the lower of cost (first-in, first-out). Machine repair parts inventory is valued using a formula based on total purchases and the annual inventory turnover. Inventory consists of the following (in thousands):

	<b>December 31, 2006</b>	<b>March 31, 2006</b>
Laundry equipment	\$ 10,806	\$ 7,884
Machine repair parts	3,839	3,574
	<b>\$ 14,645</b>	<b>\$ 11,458</b>

**3. Goodwill and Contract Rights**

The Company accounts for goodwill in accordance with the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 142 ( SFAS 142 ) Goodwill and Other Intangible Assets . SFAS 142 requires an annual impairment test of goodwill. Goodwill is further tested between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Based on present operating and strategic plans, management believes that there have not been any indications of impairment of goodwill. The fair value of the reporting units for these tests is based upon a discounted cash flow model. The Company has determined that its reporting units with goodwill consist of the route business, AWA and Super Laundry. Goodwill attributed to the route business, AWA and Super Laundry is as follows (in thousands):

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED) (continued)**

	<b>December 31,</b> <b>2006</b>	<b>March 31,</b> <b>2006</b>
Route	\$ 197,015	\$ 195,026
Rental	8,564	8,253
Distribution	2,917	2,917
	<b>\$ 208,496</b>	<b>\$ 206,196</b>

The Company performed its annual assessment of goodwill as of January 1, 2006 and determined that no impairment existed. There can be no assurances that future goodwill impairment tests will not result in a charge to income.

Contract rights represent the value of location contracts arising from the acquisition of laundry machines on location. These amounts, which arose primarily from purchase price allocations pursuant to acquisitions, are amortized using accelerated methods over periods ranging from 30 to 35 years. The Company does not record contract rights relating to new locations signed in the ordinary course of business.

Amortization expense for contract rights for the remainder of the fiscal year ending March 31, 2007 and each of the next five years is estimated to be as follows (in millions of dollars):

Years ending March 31,	
2007 (remainder of year)	\$ 3.6
2008	13.6
2009	13.3
2010	12.9
2011	12.6
2012	12.3

The Company assesses the recoverability of contract rights in accordance with the provisions of SFAS No. 144 ( SFAS 144 ) Accounting for the Impairment and Disposal of Long-Lived Assets. The Company has twenty-eight geographic regions to which contract rights have been allocated. The Company has contracts at every location/property, and analyzes revenue and certain direct costs on a contract-by-contract basis, however, the Company does not allocate common region costs and servicing costs to contracts, therefore regions represent the lowest level of identifiable cash flows in grouping contract rights. The assessment includes evaluating the financial results/cash flows and certain statistical performance measures for each region in which the Company operates. Factors that generally impact cash flows include commission rates paid to property owners, occupancy rates at properties, sensitivity to price increases, loss of existing machine base, and the regions general economic conditions. If as a result of this evaluation there are indicators of impairment that result in losses to the machine base, or an event occurs that would indicate that the carrying amounts may not be recoverable, the Company reevaluates the carrying value of contract rights based on future undiscounted cash

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED) (continued)**

flows attributed to that region and records an impairment loss based on discounted cash flows if the carrying amount of the contract rights are not recoverable from undiscounted cash flows. Based on present operations and strategic plans, management believes that there have not been any indicators of impairment of contract rights or long lived assets.

On April 3, 2006, the Company completed the acquisition of substantially all of the assets of American Sales, Inc. ( ASI ) for a purchase of \$15.0 million, subject to the outcome of certain purchase price adjustments. Based on a preliminary price allocation, the Company allocated approximately \$1.8 million to goodwill, approximately \$9.7 million to contract rights and approximately \$3.5 million to working capital assets.

For the nine month period ended December 31, 2006, the Company completed other acquisitions of route businesses for purchase prices aggregating approximately \$3.3 million, of which the Company allocated approximately \$0.3 to goodwill, approximately \$2.1 million to contract rights and approximately \$0.9 million to working capital assets.

**4. Long-Term Debt**

Long-term debt consists of the following (in thousands):

	<b>December 31, 2006</b>	<b>March 31, 2006</b>
Credit facility indebtedness	\$ 567,700	\$ 569,425
11% Senior Secured Notes	82,067	87,716
Obligations under capital leases	8,219	6,721
Other long-term debt with varying terms and maturities	250	391
	658,236	664,253
Less current portion	5,601	11,151
	\$ 652,635	\$ 653,102

**11% Senior Secured Notes**

The 11% Senior Secured Notes were issued on November 24, 2004 and December 21, 2004 as part of the IPO. The 11% Senior Secured Notes, which are scheduled to mature on December 1, 2024, are senior secured obligations of the Company and are redeemable, at the Company's option, in whole or in part, at any time or from time to time, upon not less than 30 nor more than 60 days' notice (i) prior to December 1, 2009, upon payment of a make-whole premium and (ii) on or after December 1, 2009, at the redemption prices set forth in the indenture governing the 11% Senior Secured Notes plus accrued and unpaid interest thereon.

Interest on the 11% Senior Secured Notes is payable quarterly, in arrears, in cash on each March 1, June 1, September 1 and December 1, to the holders of record at the close of business on the February 25, May 25, August 25 and November 25, respectively, immediately preceding the applicable interest payment date.



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**COINMACH SERVICE CORP. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED) (continued)**

On February 8, 2006, CSC completed an offer to purchase for cash (the Tender Offer ) approximately \$48.4 million aggregate principal amount of its outstanding 11% Senior Secured Notes. The total aggregate amount paid by the Company for the 11% Senior Secured Notes tendered in the Tender Offer was approximately \$55.1 million, including a premium of approximately \$4.8 million and accrued and unpaid interest thereon of approximately \$1.8 million.

The Company recorded a charge to operations of approximately \$9.3 million in the fiscal quarter ended March 31, 2006, consisting of (i) a premium (including an early tender payment of approximately \$0.5 million) paid to redeem such 11% Senior Secured Notes of approximately \$4.8 million, (ii) the write-off of a proportionate amount of unamortized deferred financing costs of approximately \$3.4 million and (iii) certain direct expenses related to the Tender Offer of approximately \$1.0 million which included approximately \$0.5 million relating to special bonuses.

On April 28, 2006, the Company purchased approximately \$5.6 million aggregate principal amount of its outstanding 11% Senior Secured Notes in open market purchases. The total aggregate amount paid by the Company in order to purchase the 11% Senior Secured Notes was approximately \$6.3 million, including accrued and unpaid interest thereon. The Company recorded a charge to operations of approximately \$0.8 million in the quarter ended June 30, 2006, which represents the premium paid to purchase such 11% Senior Secured Notes of approximately \$0.4 million and the write-off of a proportionate amount of unamortized deferred financing costs of approximately \$0.4 million.

At December 31, 2006, there was approximately \$82.1 million aggregate principal amount of 11% Senior Secured Notes outstanding.

At December 31, 2006, the Company was in compliance with the covenants under the indenture governing the 11% Senior Secured Notes and was not aware of any events of default pursuant to the terms of such indebtedness.

**Senior Credit Facility**

The Company's senior credit facility (the Senior Credit Facility ) is comprised of a \$570.0 million term loan facility and a \$75.0 million revolving credit facility (subject to outstanding letters of credit). The revolver portion of the Senior Credit Facility also provides a \$15.0 million letter of credit facility and short-term borrowings under a swing line facility of up to \$7.5 million.

The revolving loans accrue interest, at Coinmach's option, at a rate per annum equal to the base rate plus a margin of 2.00% or the Eurodollar rate plus 3.00%, subject in each case to performance based adjustments. The term loans accrue interest, at Coinmach's option, at a rate per annum equal to the base rate plus a margin of 1.50% or the Eurodollar rate plus 2.50%, subject in each case to performance based adjustments. The term loans are scheduled to be fully

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repaid by December 19, 2012, and the revolving credit facility is scheduled to expire on December 19, 2010. At December 31, 2006, the monthly variable Eurodollar rate was 5.375%.

As a result of the debt refinancing in December 2005, Coinmach incurred approximately \$3.1 million in issuance costs related to the Senior Credit Facility, which were capitalized as deferred financing costs to be amortized using the effective interest method through December 19, 2012.

At December 31, 2006, the \$567.7 million of term loan borrowings under the Senior Credit Facility had an interest rate of approximately 7.875% and the amount available under the revolving credit portion of the Senior Credit Facility was approximately \$68.2 million. Letters of credit under the revolver portion of the Senior Credit Facility outstanding at December 31, 2006 were approximately \$6.8 million.

At December 31, 2006, Coinmach was in compliance with the covenants under the Senior Credit Facility and was not aware of any events of default pursuant to the terms of such indebtedness.

**Intercompany Loan**

Pursuant to the indenture governing the 11% Senior Secured Notes, CSC used a portion of the proceeds from each of the IPO and the Class A Offering to make an intercompany loan (the **Intercompany Loan**) to Coinmach, which is eliminated in consolidation. The Intercompany Loan is represented by an intercompany note from Coinmach for the benefit of CSC (the **Intercompany Note**). As of December 31, 2006, the principal amount of indebtedness represented by the Intercompany Note was \$183.6 million. Interest under the Intercompany Loan accrues at an annual rate of 10.95% and is payable quarterly on March 1, June 1, September 1 and December 1 of each year and the Intercompany Loan is due and payable in full on December 1, 2024. The Intercompany Loan and the guaranty of the Intercompany Loan by certain subsidiaries of the Company were pledged by CSC to secure the repayment of the 11% Senior Secured Notes.

At December 31, 2006, Coinmach was in compliance with the covenants under the Intercompany Loan and was not aware of any events of default pursuant to the terms of such indebtedness.

**Interest Rate Swaps**

On November 17, 2005, Coinmach entered into two separate interest rate swap agreements, effective February 1, 2006, totaling \$230.0 million in aggregate notional amount that effectively convert a portion of its floating-rate term loans pursuant to the Senior Credit Facility to a fixed rate basis, thereby reducing the impact of interest rate changes on future interest expense. The two swap agreements consist of: (i) a \$115.0 million notional amount interest rate swap transaction with a financial institution effectively fixing the three-month LIBOR interest rate (as determined therein) at 4.90% and expiring on November 1, 2010, and (ii) a \$115.0 million notional amount interest rate swap transaction with a financial institution

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effectively fixing the three-month LIBOR interest rate (as determined therein) at 4.89% and expiring on November 1, 2010. These interest rate swaps used to hedge the variability of forecasted cash flows attributable to interest rate risk were designated as cash flow hedges. The Company recognized accumulated other comprehensive loss of approximately \$1.1 million, net of tax, in the stockholders' equity section for the nine months ended December 31, 2006, relating to the interest rate swaps that qualify as cash flow hedges.

**5. Guarantor Subsidiaries**

CLC has guaranteed the 11% Senior Secured Notes referred to in Note 4 on a full and unconditional basis. The 11% Senior Secured Notes are not currently guaranteed by any other subsidiary. Other subsidiaries, including Coinmach, are required to guarantee the 11% Senior Secured Notes on a senior unsecured basis upon the occurrence of certain events. The condensed consolidating balance sheets, the condensed consolidating statements of operations and the condensed consolidating statements of cash flows include the condensed consolidating financial information for CSC, CLC and CSC's other indirect subsidiaries.

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**(UNAUDITED) (continued)**

Condensed consolidating financial information for the Company and CLC is as follows (in thousands):  
**Condensed Consolidating Balance Sheets**

	<b>December 31, 2006</b>				
	<b>Coinmach Service Corp.</b>	<b>Coinmach Laundry Corporation</b>	<b>Coinmach Corporation And Subsidiaries</b>	<b>Adjustments and Eliminations</b>	<b>Consolidated</b>
<b>Assets</b>					
Current assets, consisting of cash, receivables, inventories, prepaid expenses and other current assets	\$ 944	\$	\$ 67,413	\$ (73)	\$ 68,284
Advance location payments			64,527		64,527
Property, equipment and leasehold improvements, net			245,396		245,396
Intangible assets, net			506,844		506,844
Deferred income taxes		815		(815)	
Intercompany loans and advances	(9,295)			9,295	
Due from Parent		48,977		(48,977)	
Investment in subsidiaries	(166,235)	(50,738)		216,973	
Investment in preferred stock	164,826			(164,826)	
Other assets	194,906		3,486	(188,651)	9,741
<b>Total assets</b>	<b>\$ 185,146</b>	<b>\$ (946)</b>	<b>\$ 887,666</b>	<b>\$ (177,074)</b>	<b>\$ 894,792</b>
<b>Liabilities and Stockholders Equity (Deficit)</b>					
Current liabilities:					
Accounts payable, accrued expenses and accrued rental payments	\$ 3,025	\$ 73	\$ 80,943	\$ (5,160)	\$ 78,881
Current portion of long-term debt			5,601		5,601
<b>Total current liabilities</b>	<b>3,025</b>	<b>73</b>	<b>86,544</b>	<b>(5,160)</b>	<b>84,482</b>
Deferred income taxes	(7,436)		58,046	(815)	49,795
Long-term debt, less current portion	82,067		570,568		652,635
Loan payable to parent			183,564	(183,564)	
Due to parent/subsidiary			39,682	(39,682)	
Preferred stock and dividends payable		164,826		(164,826)	
	107,490	(165,845)	(50,738)	216,973	107,880

Total stockholders' equity  
(deficit)

Total liabilities and stockholders' equity (deficit)	\$ 185,146	\$ (946)	\$ 887,666	\$ (177,074)	\$ 894,792
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**COINMACH SERVICE CORP. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED) (continued)**

**Condensed Consolidating Balance Sheets (continued)**

	<b>March 31, 2006</b>				
	<b>Coinmach</b>	<b>Coinmach</b>	<b>Coinmach</b>	<b>Adjustments</b>	
	<b>Service</b>	<b>Laundry</b>	<b>Corporation</b>	<b>and</b>	
	<b>Corp.</b>	<b>Corporation</b>	<b>Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Assets</b>					
Current assets, consisting of cash, receivables, inventories, prepaid expenses and other current assets	\$ 940	\$	\$ 87,002	\$ (55)	\$ 87,887
Advance location payments			67,242		67,242
Property, equipment and leasehold Improvements, net			252,398		252,398
Intangible assets, net			503,108		503,108
Deferred income taxes	9,471	689		(10,160)	
Intercompany loans and advances	(311)			311	
Due from Parent		49,253		(49,253)	
Investment in subsidiaries	(152,462)	(23,762)		176,224	
Investment in preferred stock	178,216			(178,216)	
Other assets	194,334		4,602	(187,405)	11,531
<b>Total assets</b>	<b>\$ 230,188</b>	<b>\$ 26,180</b>	<b>\$ 914,352</b>	<b>\$ (248,554)</b>	<b>\$ 922,166</b>
<b>Liabilities and Stockholders Equity (Deficit)</b>					
Current liabilities:					
Accounts payable, accrued expenses and accrued rental payments	\$ 4,196	\$ 36	\$ 68,927	\$ (3,896)	\$ 69,263
Current portion of long-term debt	5,649		5,502		11,151
<b>Total current liabilities</b>	<b>9,845</b>	<b>36</b>	<b>74,429</b>	<b>(3,896)</b>	<b>80,414</b>
Deferred income taxes			60,144	(10,160)	49,984
Long-term debt, less current portion	82,067		571,035		653,102
Loan payable to parent			183,564	(183,564)	
Due to parent/subsidiary			48,942	(48,942)	
Preferred stock and dividends payable		178,216		(178,216)	
	138,276	(152,072)	(23,762)	176,224	138,666

Total stockholders' equity  
(deficit)

Total liabilities and stockholders' equity (deficit)	\$ 230,188	\$ 26,180	\$ 914,352	\$ (248,554)	\$ 922,166
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**COINMACH SERVICE CORP. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED) (continued)**

**Condensed Consolidating Statements of Operations**

	<b>Three Months Ended December 31, 2006</b>				
	<b>Coinmach Service Corp.</b>	<b>Coinmach Laundry Corporation</b>	<b>Coinmach Corporation and Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues	\$	\$	\$ 140,971	\$	\$ 140,971
Costs and expenses	529	104	124,533		125,166
Operating (loss) income	(529)	(104)	16,438		15,805
Interest (income) expense, net	(5,996)	3,316	16,679		13,999
Income (loss) before taxes	5,467	(3,420)	(241)		1,806
Income tax provision (benefit)	879	(42)	(109)		946
	4,588	(3,378)	(350)		860
Equity in loss (income) of Subsidiaries	3,728	350		(4,078)	
Net income (loss)	\$ 860	\$ (3,728)	\$ (350)	\$ 4,078	\$ 860

	<b>Three Months Ended December 31, 2005</b>				
	<b>Coinmach Service Corp.</b>	<b>Coinmach Laundry Corporation</b>	<b>Coinmach Corporation and Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues	\$	\$	\$ 138,744	\$	\$ 138,744
Costs and expenses	859	106	123,929		124,894
Operating (loss) income	(859)	(106)	14,815		13,850
Interest (income) expense non cash preferred stock dividend	(3,663)	3,663			
Interest expense, net	1,641		13,929		15,570
Transaction costs	206		2,414		2,620
Income (loss) before taxes	957	(3,769)	(1,528)		(4,340)
Income tax provision (benefit)	431	(1,539)	(566)		(1,674)
	526	(2,230)	(962)		(2,666)
Equity in loss (income) of subsidiaries	3,192	962		(4,154)	



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Net loss	\$ (2,666)	\$ (3,192)	\$ (962)	\$ 4,154	\$ (2,666)
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**COINMACH SERVICE CORP. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED) (continued)**

**Condensed Consolidating Statements of Operations**

	<b>Nine Months Ended December 31, 2006</b>				
	<b>Coinmach Service Corp.</b>	<b>Coinmach Laundry Corporation</b>	<b>Coinmach Corporation and Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues	\$		\$	\$	\$
Costs and expenses	1,698	312	416,566		416,566
Operating (loss) income	(1,698)	(312)	370,429		372,439
Interest (income) expense, net	(18,087)	10,092	46,137		44,127
Transaction costs	845		49,354		41,359
Income (loss) before taxes	15,544	(10,404)	(3,217)		1,923
Income tax provision (benefit)	2,227	(127)	(829)		1,271
	13,317	(10,277)	(2,388)		652
Equity in loss (income) of subsidiaries	12,665	2,388		(15,053)	
Net income (loss)	\$ 652	\$ (12,665)	\$ (2,388)	\$ 15,053	\$ 652

	<b>Nine Months Ended December 31, 2005</b>				
	<b>Coinmach Service Corp.</b>	<b>Coinmach Laundry Corporation</b>	<b>Coinmach Corporation and Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues	\$		\$	\$	\$
Costs and expenses	1,764	324	404,894		404,894
Operating (loss) income	(1,764)	(324)	363,722		365,810
Interest (income) expense non cash preferred stock dividend	(11,053)	11,053	41,172		39,084
Interest expense, net	4,923		41,293		46,216
Transaction costs	206		2,414		2,620
Income (loss) before taxes	4,160	(11,377)	(2,535)		(9,752)

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Income tax provision (benefit)	1,739	(4,647)	(915)	(3,823)
	2,421	(6,730)	(1,620)	(5,929)
Equity in loss (income) of subsidiaries	8,350	1,620	(9,970)	
Net (loss) income	\$ (5,929)	\$ (8,350)	\$ (1,620)	\$ 9,970
			\$	\$ (5,929)

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED) (continued)**

**Condensed Consolidating Statements of Cash Flows**

	Nine Months Ended December 31, 2006				
	Coinmach Service Corp.	Coinmach Laundry Corporation	Coinmach Corporation And Subsidiaries	Eliminations	Consolidated
<b>Operating Activities:</b>					
Net income (loss)	\$ 13,317	\$ (10,277)	\$ (2,388)	\$	\$ 652
Noncash adjustments	(6,874)	9,966	79,816		82,908
Change in operating assets and Liabilities	(2,392)	35	6,314		3,957
Net cash provided by (used in) operating activities	4,051	(276)	83,742		87,517
<b>Investing Activities:</b>					
Capital expenditures and advance location payments			(53,173)		(53,173)
Acquisition of net assets			(17,837)		(17,837)
Proceeds from sale of property and equipment			1,168		1,168
Net cash used in investing activities			(69,842)		(69,842)
<b>Financing Activities:</b>					
Repayment of debt	(5,649)		(1,725)		(7,374)
Other financing items	1,627	276	(35,858)		(33,955)
Net cash (used in) provided by financing activities	(4,022)	276	(37,583)		(41,329)
Net increase (decrease) in cash and cash equivalents	29		(23,683)		(23,654)
Cash and cash equivalents, beginning of period	880		61,128		62,008
Cash and cash equivalents, end of period	\$ 909	\$	\$ 37,445	\$	\$ 38,354

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED) (continued)**

**Condensed Consolidating Statements of Cash Flows (continued)**

	Nine Months Ended December 31, 2005				
	Coinmach Service Corporation	Coinmach Laundry Corporation	Coinmach Corporation and Subsidiaries	Elimination	Consolidated
<b>Operating Activities:</b>					
Net income (loss)	\$ 2,421	\$ (6,730)	\$ (1,620)	\$	\$ (5,929)
Noncash adjustments	(11,147)	11,053	81,100		81,006
Change in operating assets and Liabilities	1,832	(4,623)	12,187		9,396
Net cash (used in) provided by operating activities	(6,894)	(300)	91,667		84,473
<b>Investing Activities:</b>					
Capital expenditures and advance location payments			(53,237)		(53,237)
Acquisition of net assets			(3,436)		(3,436)
Proceeds from sale of property and equipment			1,077		1,077
Net cash used in investing activities			(55,596)		(55,596)
<b>Financing Activities:</b>					
Repayment of debt			(240,507)		(240,507)
Other financing items	6,894	300	204,050		211,244
Net cash provided by (used in) financing activities	6,894	300	(36,457)		(29,263)
Net decrease in cash and cash equivalents			(386)		(386)
Cash and cash equivalents, beginning of period	431		56,840		57,271
Cash and cash equivalents, end of period	\$ 431	\$	\$ 56,454	\$	\$ 56,885

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**COINMACH SERVICE CORP. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED) (continued)**

**6. Segment Information**

The Company reports segment information for the route segment, its only reportable operating segment, and provides information for its two other operating segments reported as All other. The route segment, which comprises the Company's core business, involves leasing laundry rooms from building owners and property management companies typically on a long-term, renewal basis, installing and servicing the laundry equipment, collecting revenues generated from laundry machines, collection services to third party operators and operating retail laundromats. The other business operations reported in All other include the aggregation of the rental and distribution. The rental business involves the leasing of laundry machines and other household appliances to property owners, managers of multi-family housing properties and to a lesser extent, individuals and corporate relocation entities through the Company's jointly-owned subsidiary, AWA. The distribution business involves constructing complete turnkey retail laundromats, retrofitting existing retail laundromats, distributing exclusive lines of coin and non-coin machines and parts, and selling service contracts through the Company's subsidiary, Super Laundry. The Company evaluates performance and allocates resources based on EBITDA (earnings from continuing operations before interest, taxes and depreciation and amortization), cash flow and growth opportunity. The accounting policies of the segment are the same as those described in the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2006.

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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The table below presents information about the Company's segments (in thousands):

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Revenue:				
Route	\$ 125,424	\$ 122,102	\$ 369,332	\$ 358,618
All other:				
Rental	9,582	9,255	28,850	26,751
Distribution	5,965	7,387	18,384	19,525
Subtotal	15,547	16,642	47,234	46,276
Total Revenue	\$ 140,971	\$ 138,744	\$ 416,566	\$ 404,894
EBITDA (1):				
Route	\$ 41,243	\$ 40,734	\$ 120,350	\$ 118,227
All other:				
Rental	4,425	4,031	12,838	11,243
Distribution	571	212	1,444	625
Subtotal	4,996	4,243	14,282	11,868
Other items, net				(310)
Transaction costs (2)		(2,620)	(845)	(2,620)
Corporate expenses	(3,100)	(3,571)	(9,236)	(9,141)
Total EBITDA	43,139	38,786	124,551	118,024
Reconciling items:				
Depreciation and amortization expense, amortization of advance location payments and amortization of intangibles:				
Route	(24,430)	(24,586)	(72,177)	(72,685)
All other	(1,925)	(2,150)	(6,108)	(6,421)
Corporate	(979)	(820)	(2,984)	(2,454)
Total depreciation	(27,334)	(27,556)	(81,269)	(81,560)
Interest expense	(13,999)	(15,570)	(41,359)	(46,216)
Consolidated income (loss) before income taxes	\$ 1,806	\$ (4,340)	\$ 1,923	\$ (9,752)

(1) See description of Non-GAAP Financial Measures immediately following this table for more information regarding EBITDA and a reconciliation of net income (loss) to EBITDA for the periods indicated above.

(2) The computation of EBITDA for the nine months ended December 31, 2006 has not been adjusted to exclude transaction costs consisting of:

- (i) the premium paid to purchase certain 11% Senior Secured Notes of approximately \$0.4 million and
- (ii) the write-off of a proportionate amount of unamortized deferred financing costs of approximately \$0.4 million.

The computation of EBITDA for the three and nine months ended



December 31, 2005 has not been adjusted to exclude transaction costs consisting of: (i) the write-off of the unamortized deferred financing costs relating to the previous senior secured credit facility term loans repaid aggregating approximately \$1.7 million, (ii) expenses aggregating approximately \$0.7 million relating to an amendment to the previous senior secured credit facility and (iii) additional expenses aggregating approximately \$0.2 million relating to the IPO.

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**  
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*Non-GAAP Financial Measures*

EBITDA represents earnings from continuing operations before deductions for interest, income taxes and depreciation and amortization. Management believes that EBITDA is useful as a means to evaluate the Company's ability to service existing debt, to sustain potential future increases in debt and to satisfy capital requirements. EBITDA is also used by management as a measure of evaluating the performance of the Company's three operating segments. Management further believes that EBITDA is useful to investors as a measure of comparative operating performance as it is less susceptible to variances in actual performance resulting from depreciation, amortization and other non-cash charges and more reflective of changes in pricing decisions, cost controls and other factors that affect operating performance. Management uses EBITDA to develop compensation plans, to measure sales force performance and to allocate capital assets. Additionally, because the Company has historically provided EBITDA to investors, management believes that presenting this non-GAAP financial measure provides consistency in financial reporting. Management's use of EBITDA, however, is not intended to represent cash flows for the period, nor has it been presented as an alternative to either (a) operating income (as determined by U.S. generally accepted accounting principles) as an indicator of operating performance or (b) cash flows from operating, investing and financing activities (as determined by U.S. generally accepted accounting principles) as a measure of liquidity. Given that EBITDA is not a measurement determined in accordance with U.S. generally accepted accounting principles and is thus susceptible to varying calculations, EBITDA may not be comparable to other similarly titled measures of other companies. The following table reconciles the Company's net income (loss) to EBITDA for each period presented (in millions):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Net income (loss)	\$ 0.9	\$ (2.7)	\$ 0.7	\$ (5.9)
Provision (benefit) for income taxes	0.9	(1.7)	1.3	(3.8)
Interest expense	14.0	15.6	41.3	46.2
Depreciation and amortization	27.3	27.6	81.3	81.5
<b>EBITDA *</b>	<b>\$ 43.1</b>	<b>\$ 38.8</b>	<b>\$ 124.6</b>	<b>\$ 118.0</b>

\* The computation of EBITDA for the nine months ended December 31, 2006 has not been adjusted to exclude transaction costs consisting of: (i) the premium paid to purchase certain 11% Senior Secured

Notes of approximately \$0.4 million and (ii) the write-off of a proportionate amount of unamortized deferred financing costs of approximately \$0.4 million.

The computation of EBITDA for the three and nine months ended December 31, 2005 has not been adjusted to exclude transaction costs consisting of: (i) the write-off of the unamortized deferred financing costs relating to the previous senior secured credit facility term loans repaid aggregating approximately \$1.7 million, (ii) expenses aggregating approximately \$0.7 million relating to an amendment to the previous senior secured credit facility and (iii) additional expenses aggregating

approximately  
\$0.2 million  
relating to the  
IPO.

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED) (continued)**

**7. Income Taxes**

The components of the Company's deferred tax liabilities and assets are as follows (in thousands):

	<b>December 31, 2006</b>	<b>March 31, 2006</b>
Deferred tax liabilities:		
Accelerated tax depreciation and contract rights	\$ 89,911	\$ 97,084
Interest rate swap	381	1,063
Other	2,438	2,123
<b>Total deferred tax liabilities</b>	<b>92,730</b>	<b>100,270</b>
Deferred tax assets:		
Net operating loss carryforwards	47,436	55,430
Covenant not to compete	1,342	1,267
Transaction costs	3,068	2,726
Other	1,819	1,593
<b>Total deferred tax asset</b>	<b>53,665</b>	<b>61,016</b>
Valuation allowance	(10,730)	(10,730)
<b>Net deferred tax assets</b>	<b>42,935</b>	<b>50,286</b>
<b>Net deferred tax liability</b>	<b>\$ 49,795</b>	<b>\$ 49,984</b>

The net operating loss carryforwards of approximately \$116 million expire between fiscal years 2008 through 2026. In addition, the net operating losses are subject to annual limitations imposed under the provisions of the Internal Revenue Code regarding changes in ownership. For the nine months ended December 31, 2006, the Company generated taxable income of approximately \$19.6 million primarily due to the reversal of temporary differences related to depreciation. The Company utilized \$19.6 million of its net operating loss carryforwards to offset the entire amount of its taxable income.

The provision (benefit) for income taxes consists of (in thousands):

	<b>Three months ended December 31,</b>		<b>Nine months ended December 31,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Federal	\$ 493	\$ (1,256)	\$ 449	\$ (2,868)
State	453	(418)	822	(955)
	<b>\$ 946</b>	<b>\$ (1,674)</b>	<b>\$ 1,271</b>	<b>\$ (3,823)</b>

The effective income tax rate differs from the amount computed by applying the U.S. federal statutory rate to loss before taxes as a result of state taxes and permanent book/tax differences as follows (in thousands):

<b>Three months ended December 31,</b>	<b>Nine months ended December 31,</b>
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	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Expected tax provision (benefit)	\$ 629	\$ (1,429)	\$ 670	\$ (3,323)
State tax provision (benefit), net of federal taxes	294	(272)	535	(580)
Permanent book/tax differences	23	27	66	80
Tax provision (benefit)	\$ 946	\$ (1,674)	\$ 1,271	\$ (3,823)

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**8. Income (Loss) per Common Share**

Basic income (loss) per share for the two classes of common stock is calculated by dividing net loss by the weighted average number of shares of Class A Common Stock and Class B Common Stock outstanding. Diluted loss per share is computed using the weighted average number of shares of Class A Common Stock and Class B Common Stock plus the potentially dilutive effect of common stock equivalents. Diluted loss per share for the Company's two classes of common stock will be the same as basic loss per share because the Company does not have any potentially dilutive securities outstanding.

Undistributed net loss is allocated to the Company's two classes of common stock based on the weighted average number of shares outstanding since both classes have the same participation rights. Loss per share for each class of common stock under the two class method is presented below (dollars in thousands, except share and per share data):

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Net income (loss) attributable to common stockholders	\$ 860	\$ (2,666)	\$ 652	\$ (5,929)
Add: Dividends paid on common stock	(6,014)	(3,899)	(30,517)	(11,696)
Undistributed loss available to Class A and Class B common stock	\$ (5,154)	\$ (6,565)	\$ (29,865)	\$ (17,625)
Basic and diluted allocation of undistributed loss:				
Class A Common Stock	\$ (2,856)	\$ (2,829)	\$ (16,550)	\$ (7,594)
Class B Common Stock	(2,298)	(3,736)	(13,315)	(10,031)
Total	\$ (5,154)	\$ (6,565)	\$ (29,865)	\$ (17,625)
Weighted average common stock outstanding:				
Class A Common Stock	29,060,305	18,911,532	29,052,500	18,911,532
Class B Common Stock	23,374,450	24,980,445	23,374,450	24,980,445
Total	52,434,755	43,891,977	52,426,950	43,891,977
Distributed earnings per share:				
Class A Common Stock	\$ 0.21	\$ 0.21	\$ 0.62	\$ 0.62
Class B Common Stock	\$	\$	\$ 0.53	\$
Undistributed loss per share:				
Class A Common Stock	\$ (0.10)	\$ (0.15)	\$ (0.57)	\$ (0.40)

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Class B Common Stock	\$	(0.10)	\$	(0.15)	\$	(0.57)	\$	(0.40)
Basic and diluted income (loss) per share								
Class A Common Stock	\$	0.11	\$	0.06	\$	0.05	\$	0.22
Class B Common Stock	\$	(0.10)	\$	(0.15)	\$	(0.04)	\$	(0.40)

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On May 10, 2006, the board of directors of CSC declared a quarterly cash dividend of \$0.20615 per share of Class A Common Stock (or approximately \$6.0 million in aggregate) and a cash dividend of \$0.53477 per share of Class B Common Stock for its fiscal quarter ended March 31, 2005 and the fiscal year ended March 31, 2006 (or \$12.5 million in aggregate), which cash dividend was paid on June 1, 2006 to holders of record as of the close of business on May 25, 2006.

On August 1, 2006, the board of directors of CSC declared a quarterly cash dividend of \$0.20615 per share of Class A Common Stock (or approximately \$6.0 million in the aggregate), which cash dividend was paid on September 1, 2006 to holders of record as of the close of business on August 25, 2006.

On November 3, 2006, the board of directors of CSC declared a quarterly cash dividend of \$0.20615 per share of Class A Common Stock (or approximately \$6.0 million in the aggregate), which cash dividend was paid on December 1, 2006 to holders of record as of the close of business on November 27, 2006.

On February 1, 2007, the board of directors of CSC declared a quarterly cash dividend of \$0.20615 per share of Class A Common Stock (or approximately \$6.0 million in the aggregate), which cash dividend is payable on March 1, 2007 to holders of record as of the close of business on February 26, 2007.

**9. 2004 Long-Term Incentive Plan**

The Company's Long-Term Incentive Plan (the "2004 LTIP") provides for the grant of non-qualified options, incentive stock options, stock appreciation rights, full value awards and cash incentive awards. The maximum number of securities available for awards under the 2004 LTIP is 15% of the aggregate number of outstanding shares of Class A Common Stock and Class B Common Stock immediately following consummation of the IDS Transactions, which equals 6,583,796 shares. As of December 31, 2006, the board of directors of CSC had authorized up to 2,996,729 shares of Class A Common Stock for issuance under the 2004 LTIP.

During the 2006 fiscal year, the Company awarded restricted shares of Class A Common Stock as follows: (i) with respect to executive officers, 51,111 shares in the aggregate (ii) with respect to our independent directors, 5,001 shares in the aggregate and (iii) with respect to a non-independent director, 11,111 shares. In addition, 21,666 restricted shares of Class A Common Stock were awarded to employees (such award together with the restricted stock awards approved by the board of directors of CSC, the "2006 Restricted Stock Awards") other than executive officers.

The 2006 Restricted Stock Awards to the independent directors were fully vested on the date of grant, and those to the non-independent director, the executive officers and the employees vested 20% on the date of grant and the balance at 20% per year over a consecutive four-year period thereafter. In addition, the 2006 Restricted Stock Awards to the executive officers and the

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non-independent director vest upon a change of control of CSC or upon the death or disability of the award recipient and contain all of the rights and are subject to all of the restrictions of Class A Common Stock prior to becoming fully vested, including voting and dividend rights. The fair value of the restricted stock issued of \$9.01 per share will be recorded as compensation expense over the vesting periods.

On November 3, 2006, the compensation committee of the board of directors of CSC awarded performance contingent and time-based vesting restricted shares of Class A Common Stock with a grant date of November 3, 2006 as follows: (i) an aggregate of 100,000 shares to certain executive officers, (ii) an aggregate of 7,500 shares to our three independent directors and (iii) 25,000 shares to one of our non-independent directors (collectively, the 2007 Restricted Stock Awards ).

The 2007 Restricted Stock Awards to our independent directors were fully vested on the date of grant. The 2007 Restricted Stock Awards to our executive officers consisted of time-based shares (the Time Vesting Shares ) as well as performance-based shares (the Performance Vesting Shares ). Pursuant to the award agreements for the executive officers, 25% of all of the shares awarded are Time Vesting Shares and 75% of all of the shares awarded are Performance Vesting Shares. The 2007 Restricted Stock Award to our non-independent director consisted solely of Time Vesting Shares.

The Performance Vesting Shares vest upon the attainment of certain earnings and cash flow growth performance criteria established by the compensation committee during the performance period ending March 31, 2009. The Time Vesting Shares vest in three equal annual installments commencing on the first anniversary of the date of grant.

The 2007 Restricted Stock Awards to each of the executive officers and the non-independent director fully vest upon a change of control of CSC or upon the death or disability of the award recipient. In addition, the executive officers, the non-independent director and the independent directors shall be entitled to vote the restricted shares underlying their awards during the restricted period, but will not be entitled to receive dividends prior to the vesting of such shares.

The fair value of the Time Vesting Shares issued of \$10.00 per share will be recorded as compensation expense over the vesting periods. In addition, since the Performance Vesting Shares vest upon the attainment of certain performance criteria, the Company will record compensation expense only for those Performance Vesting Shares of which the attainment of applicable performance conditions is probable.

Compensation expense relating to the 2006 Restricted Stock Awards and the 2007 Restricted Stock Awards of approximately \$0.2 million has been recorded for the nine months ended December 31, 2006. We have estimated the forfeiture rate to be zero.

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A summary of the status of the Company's restricted shares as of December 31, 2006 is presented below:

	<b>Shares Outstanding</b>	<b>Weighted Average Fair Value at Date of Contract</b>
Restricted shares unvested at April 1, 2006	67,113	\$ 9.01
Granted	132,500	10.00
Vested	20,083	9.38
Restricted shares unvested at December 31, 2006	179,530	\$ 9.70

As of December 31, 2006, there was less than \$1.2 million of unrecognized compensation costs related to restricted share compensation arrangements pertaining to the 2006 Restricted Stock Awards and the Time Vesting Shares from the 2007 Restricted Stock Awards. That cost is expected to be recognized over a weighted average period of 3.25 years. In addition, as of December 31, 2006, there was less than \$0.1 million of unrecognized compensation costs related to restricted share compensation arrangements pertaining only to those Performance Vesting Shares that the Company has determined will relate to the probable outcome for the attainment of certain performance conditions. Such costs are expected to be recognized over a weighted average period of 2.5 years. At December 31, 2006, there was also approximately \$0.7 million of unrecognized compensation costs related to restricted share compensation arrangements pertaining only to those Performance Vesting Shares that the Company has determined are not probable for the attainment of certain performance conditions.

**10. New Accounting Pronouncements**

In July 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*. FIN No. 48 provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including the decision whether to file or not file in a particular jurisdiction. FIN No. 48 must be applied to all existing tax positions upon initial adoption. The cumulative effect of applying FIN No. 48 at adoption, if any, is to be reported as an adjustment to opening retained earnings for the year of adoption. FIN No. 48 is effective for fiscal years beginning after December 15, 2006, which is the Company's 2008 fiscal year, although early adoption is permitted. The Company is currently evaluating the impact, if any, the adoption of FIN No. 48 will have on our operating income or net earnings.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We plan to adopt SFAS No. 157 beginning in the first quarter of fiscal 2009. We have not determined the impact, if any, the adoption of SFAS No. 157 will have on our operating income or net earnings.

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In September 2006, the SEC issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB No. 108 provides interpretative guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. This pronouncement is effective for fiscal years ending after November 15, 2006. We are currently evaluating the provisions of SAB No. 108.

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**

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

**General**

*Except for the historical information contained herein, certain matters discussed in this document are forward-looking statements based on the beliefs of our management and are subject to certain risks and uncertainties, including the risks and uncertainties discussed below, as well as other risks set forth in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2006 under the caption Business Risk Factors. Should any of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our future performance and actual results of operations may differ materially from those expected or intended. See Special Note Concerning Forward Looking Statements below.*

Our primary financial objective is to increase our cash flow from operations. Cash flow from operations represents a source of funds available to service indebtedness, pay dividends and for investment in both organic growth and growth through acquisitions. We have experienced net losses during the past three fiscal years. Such net losses were attributable in part to significant non-cash charges associated with our acquisitions and the related amortization of contract rights accounted for under the purchase method of accounting. We incur significant depreciation and amortization expense relating to annual capital expenditures, which also reduces our net income. The continued incurrence of significant depreciation and amortization expenses may cause us to continue to incur losses.

**Overview**

We are principally engaged in the business of supplying laundry equipment services to multi-family housing properties. Our most significant revenue source is our route business, which over the last three fiscal years has accounted for approximately 89% of our revenue. Through our route operations, we provide laundry equipment services to locations by leasing laundry rooms from building owners and property management companies, typically on a long-term, renewable basis. In return for the exclusive right to provide these services, most of our contracts provide for commission payments to the location owners. Commission expense (also referred to as rent expense), our single largest expense item, is included in laundry operating expenses and represents payments to location owners. Commissions may be fixed amounts or percentages of revenues and are generally paid monthly. In addition to commission payments, many of our leases require us to make advance location payments to location owners, which are capitalized and amortized over the life of the applicable leases. Advance location payments to location owners are paid, as required by the applicable lease, at the inception or renewal of a lease for the right to operate applicable laundry rooms during the contract period, which generally ranges from 5 to 10 years. The amount of advance location payments varies depending on the size of the location and the term of the lease.

We also operate an equipment rental business through Appliance Warehouse of America, Inc. (AWA), a Delaware corporation that is jointly-owned by us and Coinmach. AWA leases laundry equipment and other household appliances and electronic items to property owners, managers of multi-family housing properties, and to a lesser extent, individuals and corporate relocation entities.

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)**

We also operate an equipment distribution business through Super Laundry Equipment Corp. ( Super Laundry ), our indirect wholly-owned subsidiary. Super Laundry's business consists of constructing and designing complete turnkey retail laundromats, retrofitting existing retail laundromats, distributing exclusive lines of commercial coin and non-coin operated machines and parts, and selling service contracts.

Laundry operating expenses include, in addition to commission payments, (i) the cost of machine maintenance and revenue collection in the route and retail laundromat business, including payroll, parts, insurance and other related expenses, (ii) costs and expenses incurred in maintaining our retail laundromats, including utilities and related expenses, (iii) the cost of sales associated with the equipment distribution business and (iv) certain expenses related to the operation of our rental business.

**Critical Accounting Policies:**

Our financial statements are based on the selection and application of significant accounting policies, which require management to make significant estimates and assumptions. We believe that the following is one of the more critical judgment areas in the application of our accounting policies that currently affect our financial condition and results of operations.

We have developed software to be utilized internally by our customer service representatives. Expenditures related to such qualifying computer software costs incurred during the application development stage, have been capitalized by us since the activities performed during this stage will create probable future economic benefits as required per Statement of Position (SOP) 98-1, *Accounting for Computer Software Developed For or Obtained For Internal-Use* ( SOP 98-1 ). In order for computer software costs to be considered internal-use software and subject to SOP 98-1, the costs must have the following characteristics: (i) the software must be internally developed, acquired, or modified solely to meet our internal needs and (ii) no plan exists or is being developed to market the software externally during the development or modification of the software. Once we determine that such expenditures are available for actual application, these expenditures will be expensed as incurred, similar to maintenance.

**Table of Contents****COINMACH SERVICE CORP. AND SUBSIDIARIES****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)****Results of Operations**

The following discussion should be read in conjunction with the attached unaudited condensed consolidated financial statements and notes thereto.

***Comparison of the three- and nine-month periods ended December 31, 2006 and December 31, 2005.***

The following table sets forth our revenues for the periods indicated (in millions of dollars):

	<b>Three months ended December 31,</b>			<b>Nine months ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>Change</b>	<b>2006</b>	<b>2005</b>	<b>Change</b>
Route	\$ 125.4	\$ 122.1	\$ 3.3	\$ 369.3	\$ 358.6	\$ 10.7
Rental	9.6	9.2	0.4	28.9	26.8	2.1
Distribution	6.0	7.4	(1.4)	18.4	19.5	(1.1)
	\$ 141.0	\$ 138.7	\$ 2.3	\$ 416.6	\$ 404.9	\$ 11.7

Revenue increased by approximately \$2.3 million, or 2%, for the three-month period ended December 31, 2006, as compared to the prior year's corresponding period. Revenue increased by approximately \$11.7 million, or 3%, for the nine-month period ended December 31, 2006, as compared to the prior year's corresponding period.

Route revenue for the three months ended December 31, 2006 increased by approximately \$3.3 million, or 3%, over the prior year's corresponding period. Route revenue for the nine months ended December 31, 2006 increased by approximately \$10.7 million, or 3%, over the prior year's corresponding period. The increase was primarily due to an improvement in same store sales driven by the Company's pricing strategies and the general recovery in occupancy rates throughout our operating regions, as well as additional revenue generated from the ASI acquisition. On April 3, 2006, we completed the acquisition of substantially all of the assets of ASI for a purchase price of \$15.0 million, subject to the outcome of certain purchase price adjustments. ASI was a leading laundry service provider to colleges and universities in the mid-west, with 40 years of experience and more than 45 partner schools.

Rental revenue for the three months ended December 31, 2006 increased by approximately \$0.4 million, or 4%, over the prior year's corresponding period. Rental revenue for the nine months ended December 31, 2006 increased by approximately \$2.1 million, or 8%, over the prior year's corresponding period. This increase was primarily the result of our continuing internal growth of the machine base in existing areas of operations during the current and prior years, as well as the result of a tuck-in acquisition during the prior year.

Distribution revenue for the three months ended December 31, 2006 decreased by approximately \$1.4 million, or 19%, over the prior year's corresponding period as compared to

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)**

the prior year's corresponding period. Distribution revenue for the nine months ended December 31, 2006 decreased by approximately \$1.1 million, or 6%, from the prior year's corresponding period. The decrease was primarily due to decreased equipment sales. Sales from the distribution business unit are sensitive to general market and economic conditions.

Laundry operating expenses, exclusive of depreciation and amortization, increased by approximately \$1.0 million, or 1%, for the three-month period ended December 31, 2006, as compared to the prior year's corresponding period. Laundry operating expenses, exclusive of depreciation and amortization, increased by approximately \$7.1 million, or 3%, for the nine-month period ended December 31, 2006, as compared to the prior year's corresponding period. As a percentage of revenues, laundry operating expenses were approximately 67% for the three-month period ended December 31, 2006 as compared to approximately 68% for the prior year's corresponding period and 68% for both nine-month periods ended December 31, 2006 and December 31, 2005.

The increase in laundry operating expenses for the three-month period was due primarily to (i) an increase in commissions paid of approximately \$1.8 million related to increased route revenue, (ii) various laundry operating expenses incurred as a result of the ASI acquisition in the route business of approximately \$0.8 million, (iii) an increase in franchise and property taxes due primarily to timing of approximately \$0.4 million, (iv) partially offset by decreased cost of goods sold of approximately \$1.7 million due to decreased equipment sales in the distribution business, (v) a decrease in energy costs for vehicle fuel as well as utilities in our laundromats of approximately \$0.6 million and (vi) other miscellaneous operating costs and expenses that are not material, individually or in the aggregate.

The increase in laundry operating expenses for the nine-month period was due primarily to (i) an increase in commissions paid of approximately \$5.3 million related to increased route revenue, (ii) various laundry operating expenses incurred as a result of the ASI acquisition in the route business of approximately \$1.6 million, (iii) an increase in franchise and property taxes due primarily to timing of approximately \$0.5 million, (iv) an increase in costs related to medical insurance coverage of approximately \$0.7 million, (v) partially offset by a decrease in cost of goods sold of approximately \$1.8 million due to decreased equipment sales in the distribution business and (vi) other miscellaneous operating costs and expenses that are not material, individually or in the aggregate.

General and administrative expenses decreased by approximately \$0.5 million for the three-month period ended December 31, 2006, as compared to the prior year's corresponding period. General and administrative expenses increased by less than \$0.1 million for the nine-month period ended December 31, 2006, as compared to the prior year's corresponding period. The decrease in general and administrative expenses was primarily due to the timing of employee benefit costs, professional fees, audit and legal fees associated with being a public company, as well as costs related to continued procedures in order to comply with the Sarbanes-Oxley Act of 2002. As a percentage of revenues, general and administrative expenses were



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**COINMACH SERVICE CORP. AND SUBSIDIARIES**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)**

approximately 2% for the three-month and the nine-month periods ended December 31, 2006 and December 31, 2005.

In conjunction with our 2006 Restricted Stock Awards, we adopted SFAS 123(R) as of January 1, 2006. SFAS 123(R) requires us to recognize compensation expense for all share-based payments made to employees based on their fair value of share-based payment at the date of grant. For share-based payments relating to the Time Vesting Shares granted subsequent to January 1, 2006, compensation expense, based on their fair value on the date of grant, will be recognized in the Consolidated Statements of Operations from the date of grant. For share-based payments relating to the Performance Vesting Shares granted subsequent to January 1, 2006, compensation expense will be recorded to the Consolidated Statements of Operations only for those shares of which the attainment of the applicable performance conditions is probable, based on their fair value on the date of grant. For the nine-month period ended December 31, 2006, we recognized approximately \$0.2 million to compensation expense which is included in general and administrative expense in the Consolidated Statements of Operations for share-based payments to employees, which is discussed further in Note 9 to our consolidated financial statements.

Depreciation and amortization expense decreased by approximately \$0.2 million, or less than 1%, for the three-month period ended December 31, 2006, as compared to the prior year's corresponding period. Depreciation and amortization expense decreased by approximately \$1.0 million, or 2%, for the nine-month period ended December 31, 2006, as compared to the prior year's corresponding period. The decrease in depreciation and amortization expense was primarily due to a reduction in depreciation expense relating to reduced capital expenditures made in prior years.

Amortization of advance location payments decreased by approximately \$0.1 million, or 2%, for the three-month period ended December 31, 2006, as compared to the prior year's corresponding period. Amortization of advance location payments increased by approximately \$0.5 million, or 4%, for the nine-month period ended December 31, 2006, as compared to the prior year's corresponding period. The increase in amortization expense for the nine-month period is primarily due to the timing of leases signed or renewed, as such related advance location payments are capitalized and amortized over the life of the applicable leases.

Amortization of intangibles increased by less than \$0.1 million, or 1%, for the three-month period ended December 31, 2006, as compared to the prior year's corresponding period. Amortization of intangibles increased by approximately \$0.2 million, or 2%, for the nine-month period ended December 31, 2006, as compared to the prior year's corresponding period. The increase was primarily due to additional amortization expense relating to the acquisitions.

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)**

Operating income margins were approximately 11.2% for the three-month period ended December 31, 2006, as compared to approximately 10.0% for the prior year's corresponding period. Operating income margins were approximately 10.6% for the nine-month period ended December 31, 2006, as compared to approximately 9.7% for the prior year's corresponding period. The increase in operating income margin was primarily due to an increase in revenue offset partially by an increase in laundry operating expenses.

Transaction costs for the nine-month period ended December 31, 2006 of approximately \$0.8 million consisted of costs related to the redemption of a portion of the 11% Senior Secured Notes in April 2006. Transaction costs of approximately \$2.6 million for both the three-month and nine-month periods ended December 31, 2005 were primarily due to (1) the write-off of the unamortized deferred financing costs relating to the repayment of term loans under the Company's then existing senior credit facility, aggregating approximately \$1.7 million, (2) expenses aggregating approximately \$0.7 million relating to an amendment and restatement of the Company's then existing senior credit facility and (3) additional costs of approximately \$0.2 million related to the IPO.

Interest expense decreased by approximately \$1.6 million, or 10%, for the three-month period ended December 31, 2006 as compared to the prior year's corresponding period. Interest expense decreased by approximately \$4.9 million, or 11%, for the nine-month period ended December 31, 2006 as compared to the prior year's corresponding period. The decrease in interest expense was due primarily to the redemption of the 9% Senior Notes in February 2006, which were financed with additional borrowings under our credit facility at a lower rate and the redemption of a portion of the 11% Senior Secured Notes in February 2006. This decrease was partially offset by additional interest expense due to an increase in variable interest rates on such credit facility.

The provision for income taxes for the three-month period ended December 31, 2006 was \$0.9 million as compared to a benefit for income taxes of approximately \$1.7 million for the prior year's corresponding period. The change of approximately \$2.6 million is primarily due to an increase in operating income and a change in the state of Texas franchise tax statutes, as discussed below. The provision for income taxes for the nine-month period ended December 31, 2006 was approximately \$1.3 million as compared to a benefit for income taxes of approximately \$3.8 million for the prior year's corresponding period. The change of approximately \$5.1 million for the nine-month period is primarily due to an increase in operating income and state taxes. The effective tax rate for the nine-month period ended December 31, 2006 was approximately 66% as compared to 39% for the prior year's corresponding period. The increased effective tax rate is primarily due to changes in the state of Texas franchise tax statute pursuant to the Texas Franchise Tax Reform Bill (HB 3) which is effective for fiscal years ending in 2007.

Net income was approximately \$0.7 million for the nine-month period ended December 31, 2006, as compared to net loss of approximately \$5.9 million for the prior year's

**Table of Contents****COINMACH SERVICE CORP. AND SUBSIDIARIES****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)**

corresponding period. The change is primarily due to increased revenue and a decrease in interest expense, partially offset by increased laundry operating expenses and income taxes.

The following table sets forth EBITDA for each of our route, rental and distribution segments for the periods indicated (in millions of dollars):

	<b>Three months ended December 31,</b>			<b>Nine months ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>Change</b>	<b>2006</b>	<b>2005</b>	<b>Change</b>
Route	\$ 41.2	\$ 40.7	\$ 0.5	\$ 120.3	\$ 118.2	\$ 2.1
Rental	4.4	4.0	0.4	12.8	11.2	1.6
Distribution	0.6	0.2	0.4	1.5	0.6	0.9
Other items, net					(0.3)	0.3
Corporate expenses	(3.1)	(3.5)	0.4	(9.2)	(9.1)	(0.1)
Transaction costs(1)		(2.6)	2.6	(0.9)	(2.6)	1.7
<b>Total EBITDA</b>	<b>\$ 43.1</b>	<b>\$ 38.8</b>	<b>\$ 4.3</b>	<b>\$ 124.5</b>	<b>\$ 118.0</b>	<b>\$ 6.5</b>

- (1) The computation of EBITDA for the nine-months ended December 31, 2006 has not been adjusted to exclude transaction costs consisting of:
- (i) the premium paid to purchase certain 11% Senior Secured Notes of approximately \$0.4 million and
  - (ii) the write-off of a proportionate amount of unamortized deferred financing costs of approximately \$0.4 million.
- The

computation of EBITDA for the three and nine months ended December 31, 2005 has not been adjusted to exclude transaction costs consisting of: (i) the write-off of the unamortized deferred financing costs relating to the previous senior secured credit facility term loans repaid aggregating approximately \$1.7 million, (ii) expenses aggregating approximately \$0.7 million relating to an amendment to the previous senior secured credit facility and (iii) additional expenses aggregating approximately \$0.2 million relating to the IPO.

EBITDA represents earnings from continuing operations before deductions for interest, income taxes and depreciation and amortization. Management believes that EBITDA is useful as a means to evaluate our ability to service existing debt, to sustain potential future increases in debt and to satisfy capital requirements. EBITDA is also used by management as a measure of evaluating the performance of our three operating segments. Management further believes that EBITDA is useful to investors as a measure of comparative operating performance as it is less susceptible to variances in actual performance resulting from depreciation, amortization and other non-cash charges and more reflective of changes in pricing decisions, cost controls and other factors that affect operating performance. Management uses EBITDA to develop compensation plans, to measure sales force performance and to allocate capital assets. Additionally, because we have historically provided EBITDA to investors, we believe that presenting this non-GAAP financial measure provides consistency in financial reporting. Our use of EBITDA, however, is not intended to represent cash flows for the period, nor has it been presented as an alternative to either (a) operating

income (as determined by GAAP) as an indicator of operating performance or (b) cash flows from operating, investing and financing activities (as determined by GAAP) as a measure of liquidity. Given that EBITDA is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, EBITDA may not be comparable to other similarly titled measures of other companies. See Note 6 to the Condensed Consolidated Financial Statements for a reconciliation of net income (loss) to EBITDA for the periods indicated in the table immediately above.

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)**

EBITDA was approximately \$43.1 million for the three months ended December 31, 2006, as compared to approximately \$38.8 million for the three months ended December 31, 2005. EBITDA margin was approximately 30.6% for the three months ended December 31, 2006, as compared to 28.0% for the prior year's corresponding period. EBITDA was approximately \$124.5 million for the nine months ended December 31, 2006, as compared to approximately \$118.0 million for the nine months ended December 31, 2005. EBITDA margin was approximately 29.9% for the nine months ended December 31, 2006, as compared to 29.2% for the prior year's corresponding period. The increase in EBITDA and EBITDA margin for the nine-month period is primarily attributable to an increase in revenue primarily in the route business and a decrease in interest expense.

**Liquidity and Capital Resources**

We are a holding company with no material assets other than the capital stock of our subsidiaries, the Intercompany Note and the guaranty of such Intercompany Note by certain subsidiaries of Coinmach. Our operating income is generated by our subsidiaries. The Intercompany Note and related guarantees are described below under Financing Activities - The Intercompany Loan. Our liquidity requirements, on a consolidated basis, primarily consist of (i) interest payments on the 11% Senior Secured Notes, (ii) interest and regularly scheduled amortization payments with respect to borrowings under the Senior Credit Facility, (iii) dividend payments, if any, on our common stock and (iv) capital expenditures and other working capital requirements.

We have met these requirements for the past three fiscal years. Our ability to make such payments and expenditures will depend on the earnings and cash flows of our subsidiaries and the ability of our subsidiaries to distribute amounts to us, including by way of payments on the Intercompany Note. Our principal sources of liquidity are cash flows from operating activities and borrowings available under the revolver portion of Senior Credit Facility. As of December 31, 2006, we had cash and cash equivalents of approximately \$38.4 million and available borrowings under the revolver portion of the Senior Credit Facility of approximately \$68.2 million. Letters of credit under the revolver portion of the Senior Credit Facility outstanding at December 31, 2006 were approximately \$6.8 million.

Our stockholders' equity was approximately \$107.9 million as of December 31, 2006.

As we have focused on increasing our cash flow from operating activities, we have made significant capital investments, primarily consisting of capital expenditures related to acquisitions, renewals, growth and software. We anticipate that we will continue to utilize cash flows from operations to finance our capital expenditures and working capital needs, including interest and principal payments on our outstanding indebtedness, and to pay dividends on our common stock.

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)**

**Dividend Policy**

Our dividend policy reflects a basic judgment that our stockholders would be better served if we distributed our available cash to them instead of retaining it in our business. Pursuant to this policy, we expect that cash generated by us in excess of operating needs, interest and principal payments on indebtedness, and capital expenditures sufficient to maintain our properties and other assets would generally be available for distribution as regular cash dividends.

However, there can be no assurance that we will continue to pay dividends at the levels set forth in our dividend policy, or at all. Dividend payments are not mandatory or guaranteed and holders of our common stock do not have any legal right to receive, or require us to declare, dividends. Our board of directors may, in its sole discretion, amend or repeal our dividend policy at any time and decrease or eliminate dividend payments. If we had insufficient cash to pay dividends in the amounts set forth in our dividend policy, we would need either to reduce or eliminate dividends or, to the extent permitted under the indenture governing the 11% Senior Secured Notes and the Senior Credit Facility, fund a portion of our dividends with borrowings or from other sources.

As a result of our dividend policy, we may not retain a sufficient amount of cash to finance growth opportunities or unanticipated capital expenditure needs or to fund our operations in the event of a significant business downturn. We may have to forego growth opportunities or capital expenditures that would otherwise be necessary or desirable if we do not find alternative sources of financing. If we do not have sufficient cash for these purposes, our financial condition and our business will suffer.

On May 10, 2006, the board of directors of CSC declared a quarterly cash dividend of \$0.20615 per share of Class A Common Stock (or approximately \$6.0 million in aggregate) and a cash dividend of \$0.53477 per share of Class B Common Stock for its fiscal quarter ended March 31, 2005 and the fiscal year ended March 31, 2006 (or \$12.5 million in aggregate), which cash dividend was paid on June 1, 2006 to holders of record as of the close of business on May 25, 2006.

On August 1, 2006, the board of directors of CSC declared a quarterly cash dividend of \$0.20615 per share of Class A Common Stock (or approximately \$6.0 million in the aggregate), which cash dividend was paid on September 1, 2006 to holders of record as of the close of business on August 25, 2006.

On November 3, 2006, the board of directors of CSC declared a quarterly cash dividend of \$0.20615 per share of Class A Common Stock (or approximately \$6.0 million in the aggregate), which cash dividend was paid on December 1, 2006 to holders of record as of the close of business on November 27, 2006.

On February 1, 2007, the board of directors of CSC declared a quarterly cash dividend of \$0.20615 per share of Class A Common Stock (or approximately \$6.0 million in the aggregate),

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)**

which cash dividend is payable on March 1, 2007 to holders of record as of the close of business on February 26, 2007.

**Financing Activities**

We have from time to time used external financings to meet cash needs for operating expenses, the payment of interest, retirement of debt and acquisitions and capital expenditures. We may use external financings in the future to refinance or fund the retirement of our and our subsidiaries' existing indebtedness. The timing and amount of external financings depend primarily upon economic and financial market conditions, our consolidated cash needs and our future capital structure objectives, as well as contractual limitations on additional financings. Additionally, the availability and cost of external financings will depend upon the financial condition of the entities seeking those funds.

***11% Senior Secured Notes***

As of December 31, 2006, there were approximately \$82.1 million aggregate principal amount of 11% Senior Secured Notes outstanding.

The indenture governing the 11% Senior Secured Notes contains a number of restrictive covenants and agreements applicable to us and our restricted subsidiaries, including covenants with respect to the following matters:

(i) limitation on additional indebtedness; (ii) limitation on certain payments (in the form of the declaration or payment of certain dividends or distributions on our capital stock, the purchase, redemption or other acquisition of any of our capital stock, the voluntary prepayment of subordinated indebtedness, and certain investments); (iii) limitation on transactions with affiliates; (iv) limitation on liens; (v) limitation on sales of assets; (vi) limitation on the issuance of preferred stock by non-guarantor subsidiaries; (vii) limitation on conduct of business; (viii) limitation on dividends and other payment restrictions affecting subsidiaries; (ix) limitations on exercising Class B Common Stock redemption rights and consummating purchases of Class B Common Stock upon exercise of sales rights by holders; and (x) limitation on consolidations, mergers and sales of substantially all of our assets.

At December 31, 2006, we were in compliance with the covenants under the indenture governing the 11% Senior Secured Notes and were not aware of any events of default pursuant to the terms of such indebtedness.

***Senior Credit Facility***

At December 31, 2006, approximately \$567.7 million aggregate principal amount of term loan borrowings under the Senior Credit Facility were outstanding and had an interest rate of approximately 7.875% and the amount available under the revolving credit portion of the Senior Credit Facility was approximately \$68.2 million. Letters of credit under the revolver portion of the Senior Credit Facility outstanding at December 31, 2006 were approximately \$6.8 million.



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**COINMACH SERVICE CORP. AND SUBSIDIARIES**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)**

The Senior Credit Facility requires Coinmach to make certain mandatory repayments, including from (a) 100% of net proceeds from asset sales by Coinmach and its subsidiaries, (b) 100% of the net proceeds from the issuance of debt (with an exception for proceeds from intercompany loans made by Coinmach to us), (c) 50% of annual excess cash flow of Coinmach and its subsidiaries, and (d) 100% of the net proceeds from insurance recovery and condemnation events of Coinmach and its subsidiaries, in each case subject to reinvestment rights, as applicable, and other exceptions generally consistent with the Old Senior Secured Credit Facility. For the fiscal year ended March 31, 2006, there is no required amount that was payable relating to the annual excess cash flows of Coinmach.

The Senior Credit Facility contains a number of restrictive covenants and agreements applicable to Coinmach which, if the Merger Event were completed, would apply directly to us as borrower under such credit facility, including covenants with respect to limitations on (i) indebtedness; (ii) certain payments (in the form of the declaration or payment of certain dividends or distributions on Coinmach's capital stock or its subsidiaries or the purchase, redemption or other acquisition of any of its or its subsidiaries' capital stock); (iii) voluntary prepayments of previously existing indebtedness; (iv) Investments (as defined in the Senior Credit Facility); (v) transactions with affiliates; (vi) liens; (vii) sales or purchases of assets; (viii) conduct of business; (ix) dividends and other payment restrictions affecting subsidiaries; (x) consolidations and mergers; (xi) capital expenditures; (xii) issuances of certain of Coinmach's equity securities; and (xiii) creation of subsidiaries. The Senior Credit Facility also requires that Coinmach satisfy certain financial ratios, including a maximum leverage ratio and a minimum consolidated interest coverage ratio.

At December 31, 2006, Coinmach was in compliance with the covenants under the Senior Credit Facility and was not aware of any events of default pursuant to the terms of such indebtedness.

***The Intercompany Loan***

In connection with the IDS Transactions and the Class A Offering, CSC made the Intercompany Loan to Coinmach, which is eliminated in consolidation. The Intercompany Loan is represented by the Intercompany Note.

As of December 31, 2006, approximately \$183.6 million aggregate principal amount of indebtedness was outstanding under the Intercompany Note. The Intercompany Loan contains covenants that are substantially the same as those provided in the terms of the Senior Credit Facility. The Intercompany Loan and the guaranty of the Intercompany Loan by certain subsidiaries of the Company were pledged by CSC to secure the repayment of the 11% Senior Secured Notes.

At December 31, 2006, Coinmach was in compliance with the covenants under the Intercompany Loan and was not aware of any events of default pursuant to the terms of such indebtedness.

**Table of Contents****COINMACH SERVICE CORP. AND SUBSIDIARIES****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)****Operating and Investing Activities**

We use cash from operating activities to maintain and expand our business. As we have focused on increasing our cash flow from operating activities, we have made significant capital investments, primarily consisting of capital expenditures related to acquisitions, renewals and growth. We anticipate that we will continue to utilize cash flows from operations to finance our capital expenditures and working capital needs.

***Capital Expenditures***

Capital expenditures (net of proceeds from the sale of equipment) for the three months ending December 31, 2006 were approximately \$16.5 million. Capital expenditures (net of proceeds from the sale of equipment) for the nine months ending December 31, 2006 were approximately \$52.0 million. The primary components of our capital expenditures are (i) machine expenditures, (ii) advance location payments, and (iii) laundry room improvements. Additionally, capital expenditures for the nine months ending December 31, 2006 include approximately \$3.4 million attributable to technology upgrades. The full impact on revenues and cash flow generated from capital expended on the net increase in the installed base of machines is not expected to be reflected in our financial results until subsequent reporting periods, depending on certain factors, including the timing of the capital expended. While we estimate that we will generate sufficient cash flows from operations to finance anticipated capital expenditures, there can be no assurances that we will be able to do so.

The following table sets forth our capital expenditures (excluding payments for capital business acquisitions) for the periods indicated (in millions of dollars):

	<b>Three months ended December 31,</b>			<b>Nine months ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>Change</b>	<b>2006</b>	<b>2005</b>	<b>Change</b>
Route	\$ 14.9	\$ 13.1	\$ 1.8	\$ 46.5	\$ 43.4	\$ 3.1
Rental	0.5	0.8	(0.3)	2.2	4.4	(2.2)
Distribution		0.1	(0.1)		0.2	(0.2)
Corporate	1.1	1.6	(0.5)	3.3	4.2	(0.9)
	\$ 16.5	\$ 15.6	\$ 0.9	\$ 52.0	\$ 52.2	\$ (0.2)

Management of our working capital, including timing of collections and payments and levels of inventory, affects operating results indirectly. However, our working capital requirements are, and are expected to continue to be, minimal since a significant portion of our operating expenses are commission payments based on a percentage of collections, and are not paid until after cash is collected from the installed machines.

**Summary of Contractual Obligations**

The following table sets forth information with regard to disclosures about our contractual obligations and commitments as of December 31, 2006:

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	Total	2007	Payments Due in Fiscal Year				After
			2008	2009	2010	2011	
Long-Term Debt Obligations	\$ 650.0	\$ 0.6	\$ 2.4	\$ 3.2	\$ 5.7	\$ 5.7	\$ 632.4
Interest on Long-Term Debt (1)	420.3	18.0	53.6	53.4	53.1	52.6	189.6
Capital Lease Obligations (2)	9.5	1.1	3.6	2.6	1.3	0.8	0.1
Operating Lease Obligations	31.6	2.2	7.4	6.2	5.3	3.5	7.0
	\$ 1,111.4	\$ 21.9	\$ 67.0	\$ 65.4	\$ 65.4	\$ 62.6	\$ 829.1

(1) As of December 31, 2006, \$567.7 million of our long-term debt outstanding under the Senior Credit Facility term loans was subject to variable rates of interest. Interest expense on these variable rate borrowings for future years was calculated using a weighted average interest rate of approximately 7.875% based on the Eurodollar rate in effect at December 31, 2006. In addition, approximately \$82.1 million of

our long-term debt outstanding was subject to a fixed interest rate of 11.0%. In connection with the Senior Credit Facility, Coinmach is a party to two separate interest rate swap agreements totaling \$230.0 million in aggregate notional amount that effectively convert a portion of its floating-rate term loans pursuant to the Senior Credit Facility to a fixed interest rate of approximately 7.40%, thereby reducing the impact of interest rate changes on future interest expense.

- (2) Includes both principal and interest.

#### **Future Capital Needs and Resources**

Our near-term cash requirements are primarily related to payment of interest on our existing consolidated indebtedness, capital expenditures, working capital and, if and when declared by our board of directors, dividend payments on our common stock. Substantially all of our consolidated long-term debt is scheduled to mature on or after December 19, 2012, the date on which the remaining balances under the Senior Credit Facility's term loans become due. However, our consolidated level of indebtedness will have several important effects on our future operations including, but not limited to, the following: (i) a significant portion of our cash flow from operations will be required to pay interest on our indebtedness and the indebtedness of our subsidiaries, (ii) the financial covenants contained in certain of the agreements governing such indebtedness will require us and/or our subsidiaries to meet certain financial tests and may limit our respective abilities to borrow additional funds, (iii) our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions or general corporate purposes may be impaired and (iv) our ability to adapt to changes in the laundry equipment services industry could be limited.

We continuously evaluate our capital structure objectives and the most efficient uses of our capital, including investment in our lines of business, potential acquisitions, and purchasing, refinancing, exchanging or retiring certain of our and our subsidiaries' outstanding debt securities and other instruments in privately negotiated or open market transactions or by other means, to the extent permitted by our existing covenant restrictions. To pursue such transactions we may use external financings, cash flow from operations, or any combination thereof, which in turn will depend on our consolidated cash needs, liquidity, leverage and prevailing economic and financial market conditions. However, should we determine to pursue any one or more of such transactions, there can be no assurance that any such transaction would not adversely affect our liquidity or our ability to satisfy our capital requirements in the near term.

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)**

The most significant factors affecting our near-term cash flow requirements are our ability to generate cash from operations, which is dependent on our ability to attract new and retain existing customers, and our ability to satisfy our debt service and capital expenditure requirements. Considering our anticipated level of capital expenditures, our scheduled interest payments on our consolidated indebtedness, existing contractual obligations, our anticipated dividend payments on our capital stock and subject to the factors described below, we estimate that over the next twelve months cash flow from operations, along with available cash and cash equivalents and borrowings under the Senior Credit Facility, will be sufficient to fund our operating needs, to service our outstanding consolidated indebtedness, and to pay dividends anticipated to be declared by our board of directors.

Other factors, including but not limited to any significant acquisition transactions, the pursuit of any significant new business opportunities, potential material increases in the cost of compliance with regulatory mandates (including state laws imposing heightened energy and water efficiency standards on clothes washers), tax treatment of our debt, unforeseen reductions in occupancy levels, changes in our competitive environment, or unexpected costs associated with lease renewals, may affect our ability to fund our liquidity needs in the future. In addition, subject to certain limitations contained in the indenture governing the 11% Senior Secured Notes, we may redeem all or part of the then outstanding Class B Common Stock on a pro rata basis. Any exercise by us of such redemption rights will further reduce cash available to fund our liquidity needs.

We intend to annually deduct interest expense on the 11% Senior Secured Notes from taxable income for U.S. federal and state and local income tax purposes. However, if the IRS were successfully to challenge our position that the 11% Senior Secured Notes are debt for U.S. federal income tax purposes, the cumulative interest expense associated with the 11% Senior Secured Notes would not be deductible from taxable income, and we would be required to recognize additional tax expense and establish a related income tax liability. To the extent that any portion of the interest expense is determined not to be deductible, we would be required to recognize additional tax expense and establish a related income tax liability. The additional tax due to federal, state and local authorities would be based on our taxable income or loss for each of the respective years that we take the interest expense deduction and would reduce our after-tax cash flow.

Any disallowance of our ability to deduct interest expense could adversely affect our ability to make interest payments on the 11% Senior Secured Notes and dividend payments on the shares of Class A Common Stock as well as dividend payments on the Class B Common Stock. Based on our anticipated level of cash requirements, including capital expenditures, scheduled interest and dividend payments, and existing contractual obligations, we estimate that over the next twelve months cash flow from operations, along with the available cash and cash equivalents and borrowing capacity under the Senior Credit Facility, will be sufficient to fund our operating needs and to service our indebtedness even if the interest expense deduction is not allowed.

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)**

Pursuant to recently enacted federal law, commercial clothes washers manufactured after January 1, 2007 are subject to certain federal energy and water efficiency standards. Implementing machines compliant with such law could result in increased capital costs (including material and equipment costs), labor and installation costs, and in some cases, operation and maintenance costs. Our capital expenditures, as well as those of other industry participants, may significantly increase in order to comply with such standards.

We continuously monitor our debt position and coordinate our capital expenditure program with expected cash flows and projected interest and dividend payments. However, our actual cash requirements may exceed our current expectations. In the event cash flow is lower than anticipated, we expect to either: (i) reduce capital expenditures, (ii) supplement cash flow from operations with borrowings under the Senior Credit Facility, or (iii) evaluate other cost-effective funding alternatives. We expect that substantially all of the cash generated by our business in excess of operating needs, debt service obligations and reserves will be distributed to the holders of our common stock. As a result, we may not retain a sufficient amount of cash to finance growth opportunities or unanticipated capital expenditure needs or to fund our operations in the event of a significant business downturn. In addition, we may have to forego growth opportunities or capital expenditures that would otherwise be necessary or desirable if we do not find alternative sources of financing. If sources of liquidity are not available or if we cannot generate sufficient cash flow from operations, we might also be required to reduce or eliminate dividends to the extent previously paid or obtain additional sources of funds through capital market transactions, reducing or delaying capital expenditures, refinancing or restructuring our indebtedness, asset sales or financing from third parties, or a combination thereof. Additional sources of funds may not be available or allowed under the terms of our outstanding indebtedness or that of our subsidiaries or, if available, may not have commercially reasonable terms.

**Inflation and Seasonality**

In general, our laundry operating expenses and general and administrative expenses are affected by inflation and the effects of inflation may be experienced by us in future periods. We believe that such effects will not be material. Our business generally is not seasonal.

**Special Note Concerning Forward Looking Statements**

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward looking statements, including, without limitation, the statements under Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations, to be covered by the safe harbor provisions for forward-looking statements in these provisions. These forward-looking statements include, without limitation, statements about our future financial position, adequacy of available cash resources, common stock dividend policy and anticipated payments, business strategy, competition, budgets, projected costs and plans and objectives of management for future operations. These forward-

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)**

looking statements are usually accompanied by words such as may, will, expect, intend, project, estimate, believe, continue and similar expressions. The forward looking information is based on various factors and was derived using numerous assumptions.

Forward-looking statements necessarily involve risks and uncertainties, and our actual results could differ materially from those anticipated in the forward-looking statements due to a number of factors, including those set forth below and in this report. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct. We caution readers not to place undue reliance on such statements and undertake no obligation to update publicly and forward-looking statements for any reason, even if new information becomes available or other events occur in the future. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements contained in this report.

Certain factors, including but not limited to those listed below, may cause actual results to differ materially from current expectations, estimates, projections, forecasts and from past results:

the restrictive debt covenants and other requirements related to our substantial leverage that could restrict our operating flexibility;

our ability to continue to renew our lease contracts with property owners and management companies;

extended periods of reduced occupancy which could result in reduced revenues and cash flow from operations in certain areas;

our ability to compete effectively in a highly competitive and capital intensive industry which is fragmented nationally, with many small, private and family-owned businesses operating throughout all major metropolitan areas;

compliance obligations and liabilities under regulatory, judicial and environmental laws and regulations, including, but not limited to, governmental action imposing heightened energy and water efficiency standards or other requirements with respect to commercial clothes washers;

our ability to maintain borrowing flexibility and to meet our projected and future cash needs, including capital expenditure requirements with respect to maintaining our machine base, given our substantial level of indebtedness, history of net losses and cash dividends on our common stock pursuant to our dividend policy;

risks associated with expansion of our business through tuck-ins and other acquisitions and integration of acquired operations into our existing business;



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**COINMACH SERVICE CORP. AND SUBSIDIARIES**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)**

as a holding company, our dependence on cash flow from our operating subsidiaries to make payments under the 11% Senior Secured Notes, and contractual and legal restrictions on the ability of our subsidiaries to make dividends and distributions to us;

the risk of adverse tax consequences should the 11% Senior Secured Notes not be respected as debt for U.S. federal income tax purposes;

risks associated with changes in accounting standards promulgated by the Financial Accounting Standards Board, the SEC or the American Institute of Certified Public Accountants; and

other factors discussed elsewhere in this report and in our other public filings with the SEC.

Several important factors, in addition to the specific factors discussed in connection with each forward-looking statement individually, could affect our future results or expectations and could cause those results and expectations to differ materially from those expressed in the forward-looking statements contained in this report. These additional factors include, among other things, future economic, industry, social, competitive and regulatory conditions, demographic trends, financial market conditions, future business decisions and actions of our competitors, suppliers, customers and stockholders and legislative, judicial and other governmental authorities, all of which are difficult or impossible to predict accurately and many of which are beyond our control. These factors, in some cases, have affected, and in the future, together with other factors, could affect, our ability to implement our business strategy and may cause our future performance and actual results of operations to vary significantly from those contemplated by the statements expressed in this report.

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our principal exposure to market risk relates to changes in interest rates on our long term borrowings. Our operating results and cash flow would be adversely affected by an increase in interest rates. As of December 31, 2006, we had approximately \$337.7 million outstanding relating to our variable rate debt portfolio.

Our future earnings, cash flow and fair values relevant to financial instruments are dependent upon prevalent market rates. Market risk is the risk of loss from adverse changes in market prices and interest rates. If market rates of interest on our variable interest rate debt increased by 2.0% (or 200 basis points), our annual interest expense on such variable interest rate debt would increase by approximately \$6.8 million, assuming the total amount of variable interest rate debt outstanding was \$337.7 million, the balance as of December 31, 2006.

On November 17, 2005, Coinmach entered into two separate interest rate swap agreements totaling \$230.0 million in aggregate notional amount that effectively convert a portion of its floating-rate term loans pursuant to the Senior Credit Facility to a fixed rate basis, thereby reducing the impact of interest rate changes on future interest expense. The two swap agreements consist of: (i) a \$115.0 million notional amount interest rate swap transaction with a financial institution effectively fixing the three-month LIBOR interest rate (as determined therein) at 4.90% and expiring on November 1, 2010, and (ii) a \$115.0 million notional amount interest rate swap transaction with a financial institution effectively fixing the three-month LIBOR interest rate (as determined therein) at 4.89% and expiring on November 1, 2010. These interest rate swaps used to hedge the variability of forecasted cash flows attributable to interest rate risk were designated as cash flow hedges.

Our fixed debt instruments are not generally affected by a change in the market rates of interest, and therefore, such instruments generally do not have an impact on future earnings. However, as fixed rate debt matures, future earnings and cash flows may be impacted by changes in interest rates related to debt acquired to fund repayments under maturing facilities.

We do not use derivative financial instruments for trading purposes and are not exposed to material foreign currency translation.

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, we evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2006. Based on that evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2006.

**Changes in Internal Control over Financial Reporting**

Additionally, our management, including our chief executive officer and our chief financial officer, also conducted an evaluation of our internal control over financial reporting to determine whether any change occurred during the quarter ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, our chief executive officer and our chief financial officer concluded that there has been no change during the quarter ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**

**PART II. OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

We are party to various legal proceedings arising in the ordinary course of business. Although the ultimate disposition of such proceedings is not presently determinable, management does not believe that adverse determinations in any or all such proceedings would have a material adverse effect upon our financial condition, results of operations or cash flows.

**ITEM 1A. Risk Factors**

There has been no material change to the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2006.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not applicable.

**ITEM 3. Defaults Upon Senior Securities**

Not applicable.

**ITEM 4. Submission of Matters to a Vote of Security Holders**

None

**ITEM 5. Other Information**

None.

**ITEM 6. Exhibits**

**Exhibit**

**Number**

**Description**

10.1*	Restricted Stock Award Agreement, dated November 3, 2006, by and between Stephen R. Kerrigan and CSC
10.2*	Restricted Stock Award Agreement, dated November 3, 2006, by and between Robert M. Doyle and CSC
10.3*	Restricted Stock Award Agreement, dated November 3, 2006, by and between Mitchell Blatt and CSC
10.4*	Restricted Stock Award Agreement, dated November 3, 2006, by and between Michael E. Stanky and CSC
10.5*	Restricted Stock Award Agreement, dated November 3, 2006, by and between Ramon Norniella and CSC

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**

<b>Exhibit Number</b>	<b>Description</b>
10.6*	Restricted Stock Award Agreement, dated November 3, 2006, by and between James N. Chapman and CSC
31.1*	Certificate of Chief Executive Officer pursuant to Exchange Act Rules 13a-14 and 15d-14, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certificate of Chief Financial Officer pursuant to Exchange Act Rules 13a-14 and 15d-14, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certificate of Chief Executive Officer pursuant to 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certificate of Chief Financial Officer pursuant to 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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**COINMACH SERVICE CORP. AND SUBSIDIARIES  
SIGNATURES**

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

**COINMACH SERVICE CORP.**

Date: February 5, 2007

/s/ Robert M. Doyle  
Robert M. Doyle  
Chief Financial Officer  
(on behalf of registrant and as  
Principal Financial Officer)  
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**COINMACH SERVICE CORP. AND SUBSIDIARIES  
INDEX TO EXHIBITS**

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\* Filed herewith

Furnished  
herewith