COINMACH SERVICE CORP
Form 10-Q
November 08, 2006

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

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

For the quarterly period ended September 30, 2006

OR

o **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	**20-0809839**
(State or other jurisdiction of incorporation or organization)	(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 þ No o

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 o Accelerated filer þ Non-accelerated filer o

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

Yes o No þ

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 October 31, 2006
Class A common stock, $0.01 par value per share	29,113,641 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 October 31, 2006, there were 13,003,511 IDSs outstanding.

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COINMACH SERVICE CORP. AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands of dollars, except share data)

	September 30, 2006 (Unaudited)	March 31, 2006[1]
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 35,019	$ 62,008
Receivables, net	7,250	5,635
Inventories	13,299	11,458
Prepaid expenses	4,406	4,375
Interest rate swap asset	779	2,615
Other current assets	2,229	1,796
Total current assets	62,982	87,887
Advance location payments	65,014	67,242
Property, equipment and leasehold improvements, net of accumulated depreciation and amortization of $439,289 and $403,204	250,069	252,398
Contract rights, net of accumulated amortization of $121,438 and $114,535	301,540	296,912
Goodwill	208,109	206,196
Other assets	10,379	11,531
Total assets	$ 898,093	$ 922,166
LIABILITIES AND STOCKHOLDERS EQUITY:		
Current liabilities:		
Accounts payable and accrued expenses	$ 38,155	$ 32,656
Accrued rental payments	33,003	33,044
Accrued interest	6,788	3,563
Current portion of long-term debt	4,296	11,151
Total current liabilities	82,242	80,414
Deferred income taxes	49,297	49,984
Long-term debt	653,737	653,102
Total liabilities	785,276	783,500
Stockholders equity:		
Class A Common Stock $0.01 par value; 100,000,000 shares authorized; 29,113,641 shares issued and outstanding	291	291
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	389,682	389,616

Carryover basis adjustment		(7,988)		(7,988)
Accumulated other comprehensive income, net of tax		344		1,547
Accumulated deficit		(269,746)		(245,034)
Total stockholders equity		112,817		138,666
Total liabilities and stockholders equity	$	898,093	$	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)

	Three Months Ended		Six Months Ended	
	September 30, 2006	**September 30, 2005**	**September 30, 2006**	**September 30, 2005**
REVENUES	$ 136,310	$ 132,320	$ 275,595	$ 266,150
COSTS AND EXPENSES:				
Laundry operating expenses (exclusive of depreciation and amortization and amortization of advance location payments)	92,803	90,117	187,202	181,032
General and administrative (including stock-based compensation expense of $38, $0, $76 and $12, respectively)	3,102	3,047	6,136	5,570
Depreciation and amortization	18,389	18,929	37,013	37,861
Amortization of advance location payments	4,901	5,038	9,801	9,173
Amortization of intangibles	3,560	3,485	7,120	6,970
Other items, net		310		310
	122,755	120,926	247,272	240,916
OPERATING INCOME	13,555	11,394	28,323	25,234
INTEREST EXPENSE	13,931	15,315	27,361	30,646
TRANSACTION COSTS			845	
(LOSS) INCOME BEFORE INCOME TAXES	(376)	(3,921)	117	(5,412)
PROVISION (BENEFIT) FOR INCOME TAXES:				
Current	214		382	
Deferred	(189)	(1,633)	(56)	(2,149)
	25	(1,633)	326	(2,149)
NET LOSS	$ (401)	$ (2,288)	$ (209)	$ (3,263)
Distributed earnings per share:				
Class A Common Stock	$ 0.21	$ 0.21	$ 0.41	$ 0.41
Class B Common Stock	$	$	$ 0.53	$

Basic and diluted net income (loss) per share:								
Class A Common Stock	$	0.09	$	0.07	$	(0.06)	$	0.16
Class B Common Stock	$	(0.12)	$	(0.14)	$	0.06	$	(0.25)
Weighted average common stock outstanding:								
Class A Common Stock		29,050,722		18,911,532		29,048,625		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	$	0.41	$	0.41
Class B Common Stock	$		$		$	0.53	$	

See accompanying notes.

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COINMACH SERVICE CORP. AND SUBSIDIARIES
Condensed Consolidated Statement of Stockholders Equity
For the Six Months Ended September 30, 2006
(UNAUDITED)
(in thousands of dollars)

	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Carryover Basis Adjustment	Accumulated Other Comprehensive Income, net of tax	Accumulated Deficit	Stockholders Equity
Balance, March 31, 2006	$ 291	$ 234	$ 389,616	$ (7,988)	$ 1,547	$ (245,034)	$ 138,666
Issuance costs			(9)				(9)
Comprehensive Income:							
Net loss						(209)	(209)
Loss on derivative instruments					(1,203)		(1,203)
Total comprehensive loss							(1,412)
Dividends						(24,503)	(24,503)
Stock based compensation			75				75
Balance, September 30, 2006	$ 291	$ 234	$ 389,682	$ (7,988)	$ 344	$ (269,746)	$ 112,817

See accompanying notes.

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

	Six Months Ended	
	September 30, 2006	**September 30, 2005**
OPERATING ACTIVITIES:		
Net loss	$ (209)	$ (3,263)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	37,013	37,861
Amortization of advance location payments	9,801	9,173
Amortization of intangibles	7,120	6,970
Deferred income taxes	(56)	(2,149)
Amortization of deferred issue costs	396	1,063
Write off of deferred issue costs	414	
Premium on redemption of 11% senior secured notes due 2024	417	
(Gain) loss on sale of equipment	(183)	27
Stock based compensation	76	12
Change in operating assets and liabilities, net of businesses acquired:		
Other assets	(481)	(1,190)
Receivables, net	(1,444)	784
Inventories and prepaid expenses	(1,445)	946
Accounts payable and accrued expenses, net	4,764	2,052
Accrued interest	3,225	(278)
Net cash provided by operating activities	59,408	52,008
INVESTING ACTIVITIES:		
Additions to property, equipment and leasehold improvements	(29,855)	(29,944)
Advance location payments to location owners	(6,361)	(7,130)
Acquisition of net assets related to acquisitions of businesses, net of cash acquired	(17,136)	(1,210)
Proceeds from sale of property and equipment	710	498
Net cash used in investing activities	(52,642)	(37,786)
FINANCING ACTIVITIES:		
Repayments under credit facility	(1,150)	(11,223)
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	(1,898)	(2,660)
Repayments from bank and other borrowings	(129)	(121)
Debt issuance costs	(9)	
Cash dividends paid	(24,503)	(7,797)
Net cash used in financing activities	(33,755)	(21,801)

Net decrease in cash and cash equivalents		(26,989)		(7,579)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		62,008		57,271
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	35,019	$	49,692
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Interest paid	$	23,740	$	29,861
Income taxes paid	$	144	$	85
NON CASH FINANCING ACTIVITIES:				
Acquisition of fixed assets through capital leases	$	2,606	$	3,958
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. 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 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 share of Class A common stock, par value $0.01 per share (the Class A Common Stock) and an 11%

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

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 Amended and Restated 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

CSC currently 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):

	September 30, 2006	March 31, 2006
Laundry equipment	$ 9,463	$ 7,884
Machine repair parts	3,836	3,574
	$ 13,299	$ 11,458

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

	September 30, 2006	March 31, 2006
Route	$ 196,939	$ 195,026
Rental	8,253	8,253
Distribution	2,917	2,917
	$ 208,109	$ 206,196

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)	$ 7.0
2008	13.6
2009	13.2
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

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. 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. 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.

During the quarter ended September 30, 2006, the Company completed an acquisition for a purchase price of approximately $2.6 million. The Company allocated approximately $0.2 to goodwill, approximately $1.6 million to contract rights and approximately $0.8 million to working capital assets.

4. Long-Term Debt

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

	September 30, 2006	March 31, 2006
Credit facility indebtedness	$ 568,275	$ 569,425
11% Senior Secured Notes	82,067	87,716
Obligations under capital leases	7,429	6,721
Other long-term debt with varying terms and maturities	262	391
	658,033	664,253
Less current portion	4,296	11,151
	$ 653,737	$ 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.

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

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.

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. At September 30, 2006, there was approximately $82.1 million aggregate principal amount of 11% Senior Secured Notes outstanding.

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 September 30, 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.

Amended and Restated Credit Facility

On December 19, 2005, Coinmach, Laundry Corp. and certain subsidiary guarantors entered into an amendment and restatement of Coinmach s then-existing senior secured credit facility (the Old Senior Secured Credit Facility , and such amendment and restatement, the Amended and Restated Credit Facility). The Amended and Restated 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 Amended and Restated

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

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 repaid by December 19, 2012, and the revolving credit facility is scheduled to expire on December 19, 2010. At September 30, 2006, the monthly variable Eurodollar rate was 5.375%.

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

At September 30, 2006, the $568.3 million of term loan borrowings under the Amended and Restated Credit Facility had an interest rate of approximately 7.875% and the amount available under the revolving credit portion of the Amended and Restated Credit Facility was approximately $68.2 million. Letters of credit under the revolver portion of the Amended and Restated Credit Facility outstanding at September 30, 2006 were approximately $6.8 million.

At September 30, 2006, Coinmach was in compliance with the covenants under the Amended and Restated 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 September 30, 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.

If we were to consummate the Merger Event, the Intercompany Loan would no longer be outstanding.

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

At September 30, 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 Amended and Restated 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. The Company recognized accumulated other comprehensive loss of approximately $1.2 million, net of tax, in the stockholders equity section for the six months ended September 30, 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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COINMACH SERVICE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) (continued)

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

Condensed Consolidating Balance Sheets

	September 30, 2006				
	Coinmach Service Corp.	Coinmach Laundry Corporation	Coinmach Corporation And Subsidiaries	Adjustments and Eliminations	Consolidated
Assets					
Current assets, consisting of cash, receivables, inventory, prepaid expenses and other current assets	$ 929	$	$ 62,121	$ (68)	$ 62,982
Advance location payments			65,014		65,014
Property, equipment and leasehold improvements, net			250,069		250,069
Intangible assets, net			509,649		509,649
Deferred income taxes		773		(773)	
Intercompany loans and advances	(7,630)			7,630	
Due from Parent		49,075		(49,075)	
Investment in subsidiaries	(162,602)	(47,238)		209,840	
Investment in preferred stock	164,756			(164,756)	
Other assets	194,992		4,037	(188,650)	10,379
Total assets	$ 190,445	$ 2,610	$ 890,890	$ (185,852)	$ 898,093
Liabilities and Stockholders Equity (Deficit)					
Current liabilities:					
Accounts payable and accrued expenses	$ 4,074	$ 66	$ 78,960	$ (5,154)	$ 77,946
Current portion of long-term debt			4,296		4,296
Total current liabilities	4,074	66	83,256	(5,154)	82,242
Deferred income taxes	(8,123)		58,193	(773)	49,297
Long-term debt, less current portion	82,067		571,670		653,737
Loan Payable to Parent			183,564	(183,564)	
Due to parent/subsidiary			41,445	(41,445)	
Preferred stock and dividends payable		164,756		(164,756)	
Total stockholders equity (deficit)	112,427	(162,212)	(47,238)	209,840	112,817
Total liabilities and stockholders equity (deficit)	$ 190,445	$ 2,610	$ 890,890	$ (185,852)	$ 898,093

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

Condensed Consolidating Balance Sheets (continued)

	March 31, 2006				
	Coinmach Service Corp.	Coinmach Laundry Corporation	Coinmach Corporation and Subsidiaries	Adjustments and Eliminations	Consolidated
Assets					
Current assets, consisting of cash, receivables, inventory, 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
Total assets	$ 230,188	$ 26,180	$ 914,352	$ (248,554)	$ 922,166
Liabilities and Stockholders Equity (Deficit)					
Current liabilities:					
Accounts payable and accrued expenses	$ 4,196	$ 36	$ 68,927	$ (3,896)	$ 69,263
Current portion of long-term debt	5,649		5,502		11,151
Total current liabilities	9,845	36	74,429	(3,896)	80,414
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)	
Total stockholders equity (deficit)	138,276	(152,072)	(23,762)	176,224	138,666
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

	Three Months Ended September 30, 2006				
	Coinmach Service Corp.	Coinmach Laundry Corporation	Coinmach Corporation and Subsidiaries	Eliminations	Consolidated
Revenues	$	$	$ 136,310	$	$ 136,310
Costs and expenses	778	104	121,873		122,755
Operating (loss) income	(778)	(104)	14,437		13,555
Interest expense, net	(5,996)	3,314	16,613		13,931
Income (loss) before taxes	5,218	(3,418)	(2,176)		(376)
Income tax provision (benefit)	777	(42)	(710)		25
	4,441	(3,376)	(1,466)		(401)
Equity in loss (income) of subsidiaries	4,842	1,466		(6,308)	
Net loss	$ (401)	$ (4,842)	$ (1,466)	$ 6,308	$ (401)

	Three Months Ended September 30, 2005				
	Coinmach Service Corp.	Coinmach Laundry Corporation	Coinmach Corporation and Subsidiaries	Eliminations	Consolidated
Revenues	$	$	$ 132,320	$	$ 132,320
Costs and expenses	618	104	120,204		120,926
Operating (loss) income	(618)	(104)	12,116		11,394
Interest expense non cash preferred stock dividend	(3,699)	3,699			
Interest expense, net	1,641		13,674		15,315
Income (loss) before taxes	1,440	(3,803)	(1,558)		(3,921)
Income tax provision (benefit)	587	(1,615)	(605)		(1,633)
	853	(2,188)	(953)		(2,288)
Equity in loss (income) of subsidiaries	3,141	953		(4,094)	
Net loss	$ (2,288)	$ (3,141)	$ (953)	$ 4,094	$ (2,288)

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

Condensed Consolidating Statements of Operations

	Six Months Ended September 30, 2006				
	Coinmach Service Corp.	Coinmach Laundry Corporation	Coinmach Corporation and Subsidiaries	Eliminations	Consolidated
Revenues	$	$	$ 275,595	$	$ 275,595
Costs and expenses	1,169	209	245,894		247,272
Operating (loss) income	(1,169)	(209)	29,701		28,323
Transaction costs	845				845
Interest expense, net	(12,090)	6,776	32,675		27,361
Income (loss) before taxes	10,076	(6,985)	(2,974)		117
Income tax provision (benefit)	1,348	(85)	(937)		326
	8,728	(6,900)	(2,037)		(209)
Equity in loss (income) of subsidiaries	8,937	2,037		(10,974)	
Net loss	$ (209)	$ (8,937)	$ (2,037)	$ 10,974	$ (209)

	Six Months Ended September 30, 2005				
	Coinmach Service Corp.	Coinmach Laundry Corporation	Coinmach Corporation and Subsidiaries	Eliminations	Consolidated
Revenues	$	$	$ 266,150	$	$ 266,150
Costs and expenses	905	218	239,793		240,916
Operating (loss) income	(905)	(218)	26,357		25,234
Interest expense non cash preferred stock dividend	(7,391)	7,391			
Interest expense, net	3,282		27,364		30,646
Income (loss) before taxes	3,204	(7,609)	(1,007)		(5,412)
Income tax provision (benefit)	1,308	(3,108)	(349)		(2,149)
	1,896	(4,501)	(658)		(3,263)
Equity in loss (income) of subsidiaries	5,159	658		(5,817)	

Net loss	$	(3,263)	$	(5,159)	$	(658)	$	5,817	$	(3,263)

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

Condensed Consolidating Statements of Cash Flows

	Six Months Ended September 30, 2006				
	Coinmach Service Corp.	Coinmach Laundry Corporation	Coinmach Corporation And Subsidiaries	Eliminations	Consolidated
Operating Activities					
Net income (loss)	$ 8,728	$ (6,900)	$ (2,037)	$	$ (209)
Noncash adjustments	(4,413)	6,692	52,719		54,998
Change in operating assets and liabilities	(1,329)	30	5,918		4,619
Net cash provided by (used in) operating activities	2,986	(178)	56,600		59,408
Investing Activities					
Capital expenditures			(36,216)		(36,216)
Acquisition of assets			(17,136)		(17,136)
Proceeds from sale of property and equipment			710		710
Net cash used in investing activities			(52,642)		(52,642)
Financing Activities					
Repayment of debt	(5,649)		(1,150)		(6,799)
Other financing items	2,691	178	(29,825)		(26,956)
Net cash (used in) provided by financing activities	(2,958)	178	(30,975)		(33,755)
Net increase (decrease) in cash and cash equivalents	28		(27,017)		(26,989)
Cash and cash equivalents, beginning of period	880		61,128		62,008
Cash and cash equivalents, end of period	$ 908	$	$ 34,111	$	$ 35,019

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

Condensed Consolidating Statements of Cash Flows (continued)

	Six Months Ended September 30, 2005				
	Coinmach Service Corporation	Coinmach Laundry Corporation	Coinmach Corporation and Subsidiaries	Elimination	Consolidated
Operating Activities					
Net income (loss)	$ 1,896	$ (4,501)	$ (658)	$	$ (3,263)
Noncash adjustments	(5,814)	4,294	54,477		52,957
Change in operating assets and liabilities	(684)	8	2,990		2,314
Net cash (used in) provided by operating activities	(4,602)	(199)	56,809		52,008
Investing Activities					
Capital expenditures			(37,074)		(37,074)
Acquisition of assets			(1,210)		(1,210)
Proceeds from sale of property and equipment			498		498
Net cash used in investing activities			(37,786)		(37,786)
Financing Activities					
Repayment of debt			(11,223)		(11,223)
Other financing items	4,602	199	(15,379)		(10,578)
Net cash provided by (used in) financing activities	4,602	199	(26,602)		(21,801)
Net decrease in cash and cash equivalents			(7,579)		(7,579)
Cash and cash equivalents, beginning of period	431		56,840		57,271
Cash and cash equivalents, end of period	$ 431	$	$ 49,261	$	$ 49,692

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

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
(UNAUDITED) (continued)

The table below presents information about the Company s segments (in thousands):

	Three months ended September 30,		Six months ended September 30,	
	2006	2005	2006	2005
Revenue:				
Route	$ 119,930	$ 116,747	$ 243,908	$ 236,516
All other:				
Rental	9,724	8,848	19,268	17,496
Distribution	6,656	6,725	12,419	12,138
Subtotal	16,380	15,573	31,687	29,634
Total Revenue	$ 136,310	$ 132,320	$ 275,595	$ 266,150
EBITDA (1):				
Route	$ 38,606	$ 38,122	$ 79,106	$ 77,493
All other:				
Rental	4,292	3,695	8,414	7,212
Distribution	609	386	873	413
Subtotal	4,901	4,081	9,287	7,625
Other items, net		(310)		(310)
Transaction costs (2)			(845)	
Corporate expenses	(3,102)	(3,047)	(6,136)	(5,570)
Total EBITDA	40,405	38,846	81,412	79,238
Reconciling items:				
Depreciation and amortization expense, amortization of advance location payments and amortization of intangibles:				
Route	(23,778)	(24,507)	(47,745)	(48,099)
All other	(2,069)	(2,128)	(4,183)	(4,271)
Corporate	(1,003)	(817)	(2,006)	(1,634)
Total depreciation	(26,850)	(27,452)	(53,934)	(54,004)
Interest expense	(13,931)	(15,315)	(27,361)	(30,646)
Consolidated (loss) income before income taxes	$ (376)	$ (3,921)	$ 117	$ (5,412)

(1)

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

(2) The computation of EBITDA for the six months ended September 30, 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.

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

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 loss to EBITDA for each period presented (in millions):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Net loss	$ (0.4)	$ (2.3)	$ (0.2)	$ (3.3)
Provision (benefit) for income taxes		(1.6)	0.3	(2.1)
Interest expense	13.9	15.3	27.4	30.6
Depreciation and amortization	26.9	27.4	53.9	54.0
EBITDA *	$ 40.4	$ 38.8	$ 81.4	$ 79.2

* The computation of EBITDA for the six months ended September 30, 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.

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COINMACH SERVICE CORP. AND SUBSIDIARIES
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):

	September 30, 2006	March 31,2006
Deferred tax liabilities:		
Accelerated tax depreciation and contract rights	$ 92,301	$ 97,084
Interest rate swap	318	1,063
Other	2,333	2,123
Total deferred tax liabilities	94,952	100,270
Deferred tax assets:		
Net operating loss carryforwards	50,399	55,430
Covenant not to compete	1,316	1,267
Transaction costs	3,071	2,726
Other	1,599	1,593
Total deferred tax asset	56,385	61,016
Valuation allowance	(10,730)	(10,730)
Net deferred tax assets	45,655	50,286
Net deferred tax liability	$ 49,297	$ 49,984

The net operating loss carryforwards of approximately $124 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 six months ended September 30, 2006, the Company generated taxable income of approximately $12.5 million primarily due to the reversal of temporary differences related to depreciation. The Company utilized $12.5 million of its net operating loss carryforwards to offset the entire amount of its taxable income.

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

	Three months ended September 30,		Six months ended September 30,	
	2006	2005	2006	2005
Federal	$ (147)	$ (1,273)	$ (43)	$ (1,676)
State	172	(360)	369	(473)
	$ 25	$ (1,633)	$ 326	$ (2,149)

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):

	Three months ended September 30,	Six months ended September 30,

	2006	2005	2006	2005
Expected tax (benefit) provision	$ (132)	$ (1,373)	$ 41	$ (1,896)
State tax provision (benefit), net of federal taxes	113	(233)	241	(308)
Permanent book/tax differences	44	(27)	44	55
Tax provision (benefit)	$ 25	$ (1,633)	$ 326	$ (2,149)

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

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):

	Three months ended September 30,		Six months ended September 30,	
	2006	2005	2006	2005
Net loss attributable to common stockholders	$ (401)	$ (2,288)	$ (209)	$ (3,263)
Add: Dividends paid on Class A common stock	(6,002)	(3,899)	(24,503)	(7,797)
Undistributed loss available to Class A and Class B common stock	$ (6,403)	$ (6,187)	$ (24,712)	$ (11,060)
Basic and diluted allocation of undistributed loss:				
Class A Common Stock	$ (3,548)	$ (2,666)	$ (13,693)	$ (4,765)
Class B Common Stock	(2,855)	(3,521)	(11,019)	(6,295)
Total	$ (6,403)	$ (6,187)	$ (24,712)	$ (11,060)
Weighted average common stock outstanding:				
Class A Common Stock	29,050,722	18,911,532	29,048,625	18,911,532
Class B Common Stock	23,374,450	24,980,445	23,374,450	24,980,445
Total	52,425,172	43,891,977	52,423,075	43,891,977
Distributed earnings per share:				

Class A Common Stock	$	0.21	$	0.21	$	0.41	$	0.41
Class B Common Stock	$		$		$	0.53	$	
Undistributed loss per share:								
Class A Common Stock	$	(0.12)	$	(0.14)	$	(0.47)	$	(0.25)
Class B Common Stock	$	(0.12)	$	(0.14)	$	(0.47)	$	(0.25)
Basic and diluted income (loss) per share								
Class A Common Stock	$	0.09	$	0.07	$	(0.06)	$	0.16
Class B Common Stock	$	(0.12)	$	(0.14)	$	0.06	$	(0.25)

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

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 is payable on December 1, 2006 to holders of record as of the close of business on November 27, 2006.

9. 2004 Long-Term Incentive Plan

In connection with the IPO, On November 24, 2004, the board of directors of CSC adopted the CSC Long-Term Incentive Plan (the 2004 LTIP). 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 September 30, 2006, the board of directors of CSC had authorized up to 2,836,729 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 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 Restricted Stock Awards) other than executive officers.

The 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 Restricted Stock Awards to the executive officers and the 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. Compensation expense of less than $0.1 million

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

has been recorded for the six months ended September 30, 2006. The Company has estimated the forfeiture rate to be zero.

A summary of the status of the Company s restricted shares as of September 30, 2006 is presented below.

	Shares Outstanding	Weighted Average Fair Value at Date of Contract
Restricted shares unvested at April 1, 2006	67,113	$ 9.01
Vested	8,388	9.01
Restricted shares unvested at September 30, 2006	58,725	$ 9.01

As of September 30, 2006, there was approximately $0.5 million of unrecognized compensation costs related to restricted share compensation arrangements. That cost is expected to be recognized over a weighted average period of 3.5 years.

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 certain of our executive officers of the Company, consist 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 the 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 restricted stock issued of $10.00 per share will be recorded as compensation expense over the vesting periods. We have estimated the forfeiture rate to be zero.

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 are currently evaluating the impact, if any, the adoption of SFAS No. 157 will have on our operating income or net earnings.

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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 88% 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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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.

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 six-month periods ended September 30, 2006 and September 30, 2005.

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

	Three months ended September 30,			Six months ended September 30,		
	2006	**2005**	**Change**	**2006**	**2005**	**Change**
Route	$ 119.9	$ 116.7	$ 3.2	$ 243.9	$ 236.5	$ 7.4
Rental	9.7	8.9	0.8	19.3	17.5	1.8
Distribution	6.7	6.7		12.4	12.1	0.3
	$ 136.3	$ 132.3	$ 4.0	$ 275.6	$ 266.1	$ 9.5

Revenue increased by approximately $4.0 million, or 3%, for the three-month period ended September 30, 2006, as compared to the prior year s corresponding period. Revenue increased by approximately $9.5 million, or 4%, for the six-month period ended September 30, 2006, as compared to the prior year s corresponding period.

Route revenue for the three months ended September 30, 2006 increased by approximately $3.2 million, or 3%, over the prior year s corresponding period. Route revenue for the six months ended September 30, 2006 increased by approximately $7.4 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

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

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 September 30, 2006 increased by approximately $0.8 million, or 9%, over the prior year s corresponding period. Rental revenue for the six months ended September 30, 2006 increased by approximately $1.8 million, or 10%, 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 September 30, 2006 remained unchanged as compared to the prior year s corresponding period. Distribution revenue for the six months ended September 30, 2006 increased by approximately $0.3 million, or 2%, from the prior year s corresponding period. The increase was primarily due to increased equipment sales. Sales from the distribution business unit are sensitive to general market conditions and economic conditions.

Laundry operating expenses, exclusive of depreciation and amortization, increased by approximately $2.7 million, or 3%, for the three-month period ended September 30, 2006, as compared to the prior year s corresponding period. Laundry operating expenses, exclusive of depreciation and amortization, increased by approximately $6.2 million, or 3%, for the six-month period ended September 30, 2006, as compared to the prior year s corresponding period As a percentage of revenues, laundry operating expenses were approximately 68% for the three-month and six-month periods ended September 30, 2006 and September 30, 2005.

The increase in laundry operating expenses for the three-month period was due primarily to (i) an increase in commissions paid of approximately $1.6 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 $0.4 million, (iii) an increase in costs related to medical insurance coverage of approximately $0.3 million, (iv) an increase in energy costs for vehicle fuel as well as utilities in our laundromats of approximately $0.3 million and (v) other miscellaneous operating costs and expenses that are not material, individually or in the aggregate.

The increase in laundry operating expenses for the six-month period was due primarily to (i) an increase in commissions paid of approximately $3.5 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 energy costs for vehicle fuel as well as utilities in our laundromats of approximately $0.7 million, (iv) an increase in costs related to medical insurance coverage of approximately $0.6 million and (v) other miscellaneous operating costs and expenses that are not material, individually or in the aggregate.

General and administrative expenses increased by less than $0.1 million for the three-month period ended September 30, 2006, as compared to the prior year s corresponding period.

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

General and administrative expenses increased by approximately $0.6 million for the six-month period ended September 30, 2006, as compared to the prior year s corresponding period. The increase in general and administrative expenses was primarily due to additional professional fees such as audit and legal fees associated with being a public company, as well as related to continued procedures in order to comply with Section 404 of the Sarbanes-Oxley Act of 2002. As a percentage of revenues, general and administrative expenses were approximately 2% for the three-month and the six-month periods ended September 30, 2006 and September 30, 2005.

In conjunction with our 2006 Restricted Stock Awards, we adopted SFAS 123R as of January 1, 2006. SFAS 123R 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 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 the six-month period ended September 30, 2006, we recognized less than $0.1 million to compensation 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.

Other items for the three-month and six-month periods ended September 30, 2005 of approximately $0.3 million was primarily due to an asset sale write down of the asset value by approximately $0.2 million, relating to the sale of one of the laundromats on October 19, 2005.

Depreciation and amortization expense decreased by approximately $0.5 million, or 3%, for the three-month period ended September 30, 2006, as compared to the prior year s corresponding period. Depreciation and amortization expense decreased by approximately $0.8 million, or 2%, for the six-month period ended September 30, 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 3%, for the three-month period ended September 30, 2006, as compared to the prior year s corresponding period. Amortization of advance location payments increased by approximately $0.6 million, or 7%, for the six-month period ended September 30, 2006, as compared to the prior year s corresponding period. The increase in amortization expense for the six 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 2%, for the three-month period ended September 30, 2006, as compared to the prior year s corresponding period. Amortization of intangibles increased by approximately $0.2 million, or 2%, for the six-month period ended September 30, 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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Operating income margins were approximately 9.9% for the three-month period ended September 30, 2006, as compared to approximately 8.6% for the prior year s corresponding period. Operating income margins were approximately 10.3% for the six-month period ended September 30, 2006, as compared to approximately 9.5% 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 six-month period ended September 30, 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.

Interest expense decreased by approximately $1.4 million, or 9%, for the three-month period ended September 30, 2006 as compared to the prior year s corresponding period. Interest expense decreased by approximately $3.3 million, or 11%, for the six-month period ended September 30, 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 September 30, 2006 was less than $0.1 million as compared to a benefit for income taxes of approximately $1.6 million for the prior year s corresponding period. The change of approximately $1.7 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 six-month period ended September 30, 2006 was approximately $0.3 million as compared to a benefit for income taxes of approximately $2.1 million for the prior year s corresponding period. The change of approximately $2.5 million for the six-month period is primarily due to an increase in operating income and state taxes. The effective tax rate for the six-month period ended September 30, 2006 was approximately 278% as compared to 40% 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 loss was approximately $0.2 million for the six-month period ended September 30, 2006, as compared to net loss of approximately $3.3 million for the prior year s 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.

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

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

	Three months ended September 30,			Six months ended September 30,		
	2006	**2005**	**Change**	**2006**	**2005**	**Change**
Route	$ 38.6	$ 38.1	$ 0.5	$ 79.1	$ 77.5	$ 1.6
Rental	4.3	3.7	0.6	8.4	7.2	1.2
Distribution	0.6	0.4	0.2	0.9	0.4	0.5
Other items, net		(0.3)	0.3		(0.3)	0.3
Corporate expenses	(3.1)	(3.1)		(6.1)	(5.6)	(0.5)
Transaction costs				(0.9)		(0.9)
Total EBITDA	$ 40.4	$ 38.8	$ 1.6	$ 81.4	$ 79.2	$ 2.2

(1) The computation of EBITDA for the six-months ended September 30, 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.

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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 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 loss to EBITDA for the periods indicated in the table immediately above.

EBITDA was approximately $40.4 million for the three months ended September 30, 2006, as compared to approximately $38.8 million for the three months ended September 30, 2005. EBITDA margin was approximately 29.6% for the three months ended September 30, 2006, as compared to 29.4% for the prior year s corresponding period. EBITDA was approximately $81.4 million for the six months ended September 30, 2006, as compared to approximately $79.2 million for the six months ended September 30, 2005. EBITDA margin was approximately 29.5% (or approximately 29.8% if the EBITDA margin was calculated to exclude transaction costs) for the six months ended September 30, 2006, as compared to 29.8% for the prior year s corresponding period. The increase in EBITDA for the six month period is primarily attributable to an increase in revenue primarily in the route and rental businesses. The decrease for the six month period in EBITDA margin is primarily attributable to transaction costs as discussed above, as compared to the prior year s corresponding period.

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 Amended and Restated

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

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 Amended and Restated Credit Facility. As of September 30, 2006, we had cash and cash equivalents of approximately $35.0 million and available borrowings under the revolver portion of the Amended and Restated Credit Facility of approximately $68.2 million. Letters of credit under the revolver portion of the Amended and Restated Credit Facility outstanding at September 30, 2006 were approximately $6.8 million.

Our stockholders equity was approximately $112.8 million as of September 30, 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 and growth. 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.

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 Amended and Restated 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

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

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 is payable on December 1, 2006 to holders of record as of the close of business on November 27, 2006.

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 September 30, 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

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

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 September 30, 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.

Amended and Restated Credit Facility

At September 30, 2006, approximately $568.3 million aggregate principal amount of term loan borrowings under the Amended and Restated Credit Facility were outstanding and had an interest rate of approximately 7.875% and the amount available under the revolving credit portion of the Amended and Restated Credit Facility was approximately $68.2 million. Letters of credit under the revolver portion of the Amended and Restated Credit Facility outstanding at September 30, 2006 were approximately $6.8 million.

The Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated Credit Facility also requires that Coinmach satisfy certain financial ratios, including a maximum leverage ratio and a minimum consolidated interest coverage ratio.

COINMACH SERVICE CORP. AND SUBSIDIARIES

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

At September 30, 2006, Coinmach was in compliance with the covenants under the Amended and Restated 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 September 30, 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 Amended and Restated 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 September 30, 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.

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 September 30, 2006 were approximately $17.9 million. Capital expenditures (net of proceeds from the sale of equipment) for the six months ending September 30, 2006 were approximately $35.5 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 six months ending September 30, 2006 include approximately $2.2 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.

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

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

	Three months ended September 30,			Six months ended September 30,		
	2006	2005	Change	2006	2005	Change
Route	$ 15.7	$ 15.7	$	$ 31.6	$ 30.4	$ 1.2
Rental	1.2	2.5	(1.3)	1.7	3.5	(1.8)
Distribution		0.1	(0.1)		0.2	(0.2)
Corporate	1.0	1.0		2.2	2.5	(0.3)
	$ 17.9	$ 19.3	$ (1.4)	$ 35.5	$ 36.6	$ (1.1)

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 September 30, 2006:

	Payments Due in Fiscal Year						
	Total	2007	2008	2009	2010	2011	After
Long-Term Debt Obligations	$ 650.6	$ 1.2	$ 2.4	$ 3.2	$ 5.7	$ 5.7	$ 632.4
Interest on Long-Term Debt (1)	433.7	29.3	54.0	53.8	53.4	53.0	190.2
Capital Lease Obligations (2)	8.6	2.0	3.2	2.1	0.9	0.4	
Operating Lease Obligations	33.6	4.3	7.4	6.2	5.2	3.5	7.0
	$ 1,126.5	$ 36.8	$ 67.0	$ 65.3	$ 65.2	$ 62.6	$ 829.6

(1) As of September 30, 2006, $568.3 million of our long-term debt outstanding under the Amended and Restated 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 September 30, 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 Amended and Restated 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 Amended and Restated 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

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COINMACH SERVICE CORP. AND SUBSIDIARIES

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

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 Amended and Restated 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.

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 Amended and Restated 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

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COINMACH SERVICE CORP. AND SUBSIDIARIES

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

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 Amended and Restated Credit Facility, will be sufficient to fund our operating needs and to service our indebtedness even if the interest expense deduction is not allowed.

Pursuant to recently enacted federal law, commercial clothes washers manufactured after January 1, 2007 will be 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 Amended and Restated 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

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COINMACH SERVICE CORP. AND SUBSIDIARIES

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

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-looking statements are usually accompanied by words such as may, will, expect, intend, project, estimate, anticipate, believe, continue and similar expressions. The forward looking information is based 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:

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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 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;

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,

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COINMACH SERVICE CORP. AND SUBSIDIARIES

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

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 September 30, 2006, we had approximately $338.3 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 $338.3 million, the balance as of September 30, 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 Amended and Restated 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 foreign currency.

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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 September 30, 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 September 30, 2006.

For the fiscal year ended March 31, 2006, we reported a material weakness because we did not maintain effective control over the franchise and income tax process. Specifically, we did not adequately identify, quantify and account for such taxes; reconcile certain tax accounts on a timely basis; and we did not adequately review the difference between the income tax basis and financial reporting basis of assets and liabilities and reconcile the difference to recorded deferred income tax assets and liabilities. These deficiencies resulted in a $2.0 million reclassification between the deferred tax liability and current tax payable accounts as well as deferred income tax expense and operating expense for the fiscal year ended March 31, 2006. These errors were corrected by management in the consolidated financial statements for the fiscal year ended March 31, 2006. Had these errors not been detected, these control deficiencies could have resulted in more than a remote likelihood that a material misstatement of annual or interim financial statements would not be prevented or detected. Accordingly, management determined that these control deficiencies constituted a material weakness. For the quarter and six months ended September 30, 2006, the amount related to the deferred tax liability, current tax payable accounts, deferred income tax expense and operating expense were recorded in a consistent manner as reflected in the consolidated financial statements for the fiscal year ended March 31, 2006.

The material weakness described above has been remediated as of September 30, 2006. Management has implemented additional policies and procedures relating to our accounting for franchise and income taxes. In this regard, we implemented enhanced control procedures over the accounting and the reconciliation process for franchise and income taxes including monthly reconciliations of all tax related accounts. In addition, we have expanded the role of our tax consultant to assist us in formalizing processes, procedures and documentation standards relating to franchise and income tax accounting resulting in a more timely reconciliation of related account balances and identification of differences between the income tax basis and financial reporting basis of assets and liabilities.

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 September 30, 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 other then the change described above relating to the enhanced control procedures and remediation of the material weakness regarding our accounting and reconciliation process for income and franchise taxes, during the quarter ended September 30, 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

Our annual meeting of stockholders was held on July 27, 2006 in Plainview, New York (Annual Meeting). The holders of Class A Common Stock and Class B Common Stock voted together as a single class in person or by proxy on all matters presented at the Annual Meeting. Pursuant to our certificate of incorporation, each share of Class A Common Stock was entitled to one vote per share, and each share of Class B Common Stock was entitled to two votes per share. The stockholders took the following actions:

1. Elected the persons named below to our board of directors, each for a term of one year or until their successors have been elected and qualified, by the following vote:

	Votes For	Votes Withheld
1. Stephen R. Kerrigan	69,020,128	5,216,544
2. James N. Chapman	67,724,285	6,512,387
3. David A. Donnini	63,266,918	10,969,754
4. Woody M. McGee	74,048,055	188,617
5. Bruce V. Rauner	63,946,261	10,290,411
6. John R. Scheessele	73,830,043	406,629
7. William M. Kelly	74,058,462	178,210

2. Ratified the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2007 by the following vote:

Votes For	Votes Against	Abstain/Non-Vote
73,560,509	656,751	19,412

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COINMACH SERVICE CORP. AND SUBSIDIARIES

ITEM 5. Other Information

None.

ITEM 6. Exhibits

Exhibit Number	Description
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: November 8, 2006

/s/ Robert M. Doyle
Robert M. Doyle
Chief Financial Officer
(on behalf of registrant and as Principal Financial Officer)

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* Filed herewith

Furnished herewith

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