

COINMACH SERVICE CORP

Form 10-Q

August 09, 2007

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

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

**For the quarterly period ended June 30, 2007**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 001-32359  
Coinmach Service Corp.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**20-0809839**

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

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

(Address of principal executive offices)

**11803**

(Zip Code)

**(516) 349-8555**

(Registrant's telephone number, including area code)

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

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Yes  No

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

| Class  | Outstanding at July 31, 2007 |
|--|------------------------------|
| Class A common stock, \$0.01 par value per share | 29,263,595 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 July 31, 2007, there were 13,365,966 IDSs outstanding.

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

|   | <b>June 30,<br/>2007<br/>(Unaudited)</b> | <b>March 31,<br/>2007<sup>1</sup></b> |
|---|--|---------------------------------------|
| <b>ASSETS:</b>  |  |                                       |
| Current assets:   |  |                                       |
| Cash and cash equivalents   | \$ 31,168                                | \$ 39,030                             |
| Receivables, net  | 6,484                                    | 6,755                                 |
| Inventories   | 14,940                                   | 14,575                                |
| Prepaid expenses  | 4,798                                    | 4,997                                 |
| Interest rate swap asset  | 3,043                                    |                                       |
| Other current assets  | 2,999                                    | 2,377                                 |
| Total current assets  | 63,432                                   | 67,734                                |
| Advance location payments   | 62,618                                   | 64,371                                |
| Property, equipment and leasehold improvements, net of accumulated depreciation and amortization of \$493,578 and \$475,926 | 236,881                                  | 239,740                               |
| Contract rights, net of accumulated amortization of \$131,863 and \$128,466   | 291,403                                  | 294,800                               |
| Goodwill  | 208,737                                  | 208,590                               |
| Other assets  | 8,882                                    | 8,608                                 |
| Total assets  | \$ 871,953                               | \$ 883,843                            |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY:</b>   |  |                                       |
| Current liabilities:  |  |                                       |
| Accounts payable and accrued expenses   | \$ 39,494                                | \$ 35,796                             |
| Accrued rental payments   | 34,476                                   | 33,019                                |
| Accrued interest  | 6,902                                    | 6,847                                 |
| Interest rate swap liability  |  | 155                                   |
| Current portion of long-term debt   | 5,968                                    | 5,527                                 |
| Total current liabilities   | 86,840                                   | 81,344                                |
| Deferred income taxes   | 49,986                                   | 50,005                                |
| Long-term debt, less current portion  | 650,310                                  | 651,768                               |
| Total liabilities   | 787,136                                  | 783,117                               |
| Stockholders equity:  |  |                                       |
| Class A Common Stock \$0.01 par value; 100,000,000 shares authorized;<br>29,263,595 shares issued and outstanding           | 292                                      | 292                                   |
|   | 234                                      | 234                                   |

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Class B Common Stock \$0.01 par value; 100,000,000 shares authorized;  
23,374,450 shares issued and outstanding

|   |                |                |
|---|----------------|----------------|
| Capital in excess of par value                            | 389,965        | 389,862        |
| Carryover basis adjustment                                | (7,988)        | (7,988)        |
| Accumulated other comprehensive income (loss), net of tax | 1,735          | (231)          |
| Accumulated deficit                                       | (299,421)      | (281,443)      |
| <br>Total stockholders' equity                            | <br>84,817     | <br>100,726    |
| <br>Total liabilities and stockholders' equity            | <br>\$ 871,953 | <br>\$ 883,843 |

See accompanying notes.

1 The March 31, 2007 balance sheet has been derived from the audited consolidated financial statements as of that date.

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

(in thousands of dollars, except share data)

|   | <b>Three Months Ended</b> |                      |
|---|---------------------------|----------------------|
|   | <b>June 30,<br/>2007</b>  | <b>June 30, 2006</b> |
| <b>REVENUES</b>   | \$ 137,094                | \$ 139,285           |
| <b>COSTS AND EXPENSES:</b>  |                           |                      |
| Laundry operating expenses (exclusive of depreciation and amortization and amortization of advance location payments) | 92,986                    | 94,399               |
| General and administrative (including stock-based compensation expense of \$103 and \$38, respectively)               | 3,826                     | 3,034                |
| Depreciation and amortization   | 18,130                    | 18,624               |
| Amortization of advance location payments   | 4,900                     | 4,900                |
| Amortization of intangibles   | 3,492                     | 3,560                |
|   | 123,334                   | 124,517              |
| <b>OPERATING INCOME</b>   | 13,760                    | 14,768               |
| <b>INTEREST EXPENSE</b>   | 13,714                    | 13,430               |
| <b>TRANSACTION COSTS</b>  | 3,000                     | 845                  |
| <b>(LOSS) INCOME BEFORE INCOME TAXES</b>  | (2,954)                   | 493                  |
| <b>(BENEFIT) PROVISION FOR INCOME TAXES:</b>  |                           |                      |
| Current   | 246                       | 168                  |
| Deferred  | (1,253)                   | 133                  |
|   | (1,007)                   | 301                  |
| <b>NET (LOSS) INCOME</b>  | \$ (1,947)                | \$ 192               |
| <b>Distributed earnings per share:</b>  |                           |                      |
| Class A Common Stock  | \$ 0.21                   | \$ 0.21              |
| Class B Common Stock  | \$ 0.43                   | \$ 0.53              |
| <b>Basic and diluted net (loss) income per share:</b>   |                           |                      |
| Class A Common Stock  | \$ (0.13)                 | \$ (0.14)            |
| Class B Common Stock  | \$ 0.09                   | \$ 0.18              |

**Weighted average common stock outstanding:**

|                      |            |            |
|----------------------|------------|------------|
| Class A Common Stock | 29,080,247 | 29,046,528 |
| Class B Common Stock | 23,374,450 | 23,374,450 |

**Cash dividends per share:**

|                      |         |         |
|----------------------|---------|---------|
| Class A Common Stock | \$ 0.21 | \$ 0.21 |
| Class B Common Stock | \$ 0.43 | \$ 0.53 |

See accompanying notes.



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**COINMACH SERVICE CORP. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**  
**THREE MONTHS ENDED JUNE 30, 2007**  
**(UNAUDITED)**  
(in thousands of dollars)

|                                   | Class<br>A      | Class<br>B      | Capital<br>in Excess<br>of Par<br>Value | Carryover<br>Basis<br>Adjustment | Accumulated<br>Other<br>Comprehensive<br>Income,<br>net of<br>tax | Accumulated<br>Deficit | Stockholders<br>Equity |
|-----------------------------------|-----------------|-----------------|---|----------------------------------|---|------------------------|------------------------|
|                                   | Common<br>Stock | Common<br>Stock |   |                                  |   |                        |                        |
| Balance, March 31,<br>2007        | \$ 292          | \$ 234          | \$ 389,862                              | \$ (7,988)                       | \$ (231)  | \$ (281,443)           | \$ 100,726             |
| Comprehensive loss:               |                 |                 |   |                                  |   |                        |                        |
| Net loss                          |                 |                 |   |                                  |   | (1,947)                | (1,947)                |
| Gain on derivative<br>instruments |                 |                 |   |                                  | 1,966   |                        | 1,966                  |
| Total comprehensive<br>income     |                 |                 |   |                                  |   |                        | 19                     |
| Dividends                         |                 |                 |   |                                  |   | (16,031)               | (16,031)               |
| Stock based<br>compensation       |                 |                 | 103                                     |                                  |   |                        | 103                    |
| Balance, June 30,<br>2007         | \$ 292          | \$ 234          | \$ 389,965                              | \$ (7,988)                       | \$ 1,735  | \$ (299,421)           | \$ 84,817              |

See accompanying notes.

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

(In thousands of dollars)

|  | <b>Three Months Ended</b> |                 |
|--|---------------------------|-----------------|
|  | <b>June 30,</b>           | <b>June 30,</b> |
|  | <b>2007</b>               | <b>2006</b>     |
| <b>OPERATING ACTIVITIES:</b>   |                           |                 |
| Net (loss) income  | \$ (1,947)                | \$ 192          |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: |                           |                 |
| Depreciation and amortization  | 18,130                    | 18,624          |
| Amortization of advance location payments  | 4,900                     | 4,900           |
| Amortization of intangibles  | 3,492                     | 3,560           |
| Deferred income taxes  | (1,253)                   | 133             |
| Amortization of deferred issue costs   | 198                       | 200             |
| Write-off of deferred issue costs  |                           | 414             |
| Premium on redemption of 11% senior secured notes due 2024                               |                           | 417             |
| Gain on sale of equipment  | (196)                     | (77)            |
| Stock-based compensation   | 103                       | 38              |
| Change in operating assets and liabilities, net of businesses acquired:                  |                           |                 |
| Other assets   | (1,212)                   | 311             |
| Receivables, net   | 840                       | (751)           |
| Inventories and prepaid expenses   | (166)                     | (2,177)         |
| Accounts payable and accrued expenses, net   | 4,591                     | 1,635           |
| Accrued interest   | 55                        | 3,169           |
| Net cash provided by operating activities  | 27,535                    | 30,588          |
| <b>INVESTING ACTIVITIES:</b>   |                           |                 |
| Additions to property, equipment and leasehold improvements                              | (15,230)                  | (14,534)        |
| Advance location payments to location owners   | (3,147)                   | (3,346)         |
| Acquisition of net assets related to acquisitions of businesses, net of cash acquired    | (196)                     | (14,541)        |
| Proceeds from sale of property and equipment   | 774                       | 293             |
| Net cash used in investing activities  | (17,799)                  | (32,128)        |
| <b>FINANCING ACTIVITIES:</b>   |                           |                 |
| Repayments under credit facility   | (8,575)                   | (575)           |
| Proceeds from credit facility  | 8,000                     |                 |
| Principal payments on capitalized lease obligations                                      | (980)                     | (945)           |
| Repayments to bank and other borrowings  | (12)                      | (70)            |
| Redemption of 11% senior secured notes due 2024  |                           | (5,649)         |
| Payment of premium on 11% senior secured notes due 2024                                  |                           | (417)           |
| Issuance costs   |                           | (9)             |

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|   |           |           |
|---|-----------|-----------|
| Cash dividends paid                                   | (16,031)  | (18,502)  |
| Net cash used in financing activities                 | (17,598)  | (26,167)  |
| Net decrease in cash and cash equivalents             | (7,862)   | (27,707)  |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b> | 39,030    | 62,008    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>       | \$ 31,168 | \$ 34,301 |

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

|                   |           |           |
|-------------------|-----------|-----------|
| Interest paid     | \$ 13,461 | \$ 10,061 |
| Income taxes paid | \$ 107    | \$ 90     |

**NON CASH FINANCING ACTIVITIES:**

|  |        |        |
|--|--------|--------|
| Acquisition of fixed assets through capital leases | \$ 550 | \$ 674 |
|--|--------|--------|

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 wholly-owned subsidiary of Coinmach ( Super Laundry ), constructs designs and retrofits laundromats and distributes laundromat equipment.

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

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

Certain reclassifications were made to the prior year s unaudited condensed consolidated financial statements to conform to the prior year presentation.

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, 2007 (references to the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2007 shall also include the Company s Form 10-K/A filed on July 27, 2007).

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

**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% 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. The net proceeds of the Class A Offering, upon their distribution to CSC, were used (i) to purchase pursuant to a tender offer, approximately \$48.4 million aggregate principal amount outstanding of 11% Senior Secured Notes 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.

**Dividends**

Pursuant to CSC's current dividend policy, CSC intends to pay dividends on its Class A Common Stock on each March 1, June 1, September 1 and December 1 to holders of record as of the preceding February 25, May 25, August 25 and November 25, respectively, in each case with respect to the immediately preceding fiscal quarter. CSC also 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.

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

**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) or market. Machine repair parts inventory is valued using a formula based on total purchases and the annual inventory turnover. Inventory consists of the following (in thousands):

|                      | <b>June 30,<br/>2007</b> | <b>March 31,<br/>2007</b> |
|----------------------|--------------------------|---------------------------|
| Laundry equipment    | \$ 10,983                | \$ 10,825                 |
| Machine repair parts | 3,957                    | 3,750                     |
|                      | <b>\$ 14,940</b>         | <b>\$ 14,575</b>          |

**3. Goodwill and Contract Rights**

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

|              | <b>June 30,<br/>2007</b> | <b>March 31,<br/>2007</b> |
|--------------|--------------------------|---------------------------|
| Route        | \$ 197,158               | \$ 197,158                |
| Rental       | 8,662                    | 8,515                     |
| Distribution | 2,917                    | 2,917                     |
|              | <b>\$ 208,737</b>        | <b>\$ 208,590</b>         |

The Company performed its annual assessment of goodwill as of January 1, 2007 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.

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

Amortization expense for contract rights for the remainder of the fiscal year ending March 31, 2008 and each of the next five years is estimated to be as follows (in millions of dollars):

|                          |         |
|--------------------------|---------|
| Years ending March 31,   |         |
| 2008 (remainder of year) | \$ 10.2 |
| 2009                     | 13.3    |
| 2010                     | 12.9    |
| 2011                     | 12.6    |
| 2012                     | 12.3    |
| 2013                     | 12.0    |

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 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 price of \$15.0 million subject to the outcome of certain purchase price adjustments. The Company allocated approximately \$1.9 million to goodwill, approximately \$9.7 million to contract rights and approximately \$3.4 million to working capital assets for the year ended March 31, 2007.

During the quarter ended June 30, 2007, the Company completed an acquisition included in the rental business for a purchase price aggregating approximately \$0.2 million of which the Company allocated approximately \$0.1 million to goodwill and approximately \$0.1 million to working capital assets.

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

**4. Long-Term Debt**

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

|  | <b>June 30,<br/>2007</b> | <b>March 31,<br/>2007</b> |
|--|--------------------------|---------------------------|
| Credit facility indebtedness                           | \$ 566,550               | \$ 567,125                |
| 11% Senior Secured Notes                               | 82,067                   | 82,067                    |
| Obligations under capital leases                       | 7,435                    | 7,865                     |
| Other long-term debt with varying terms and maturities | 226                      | 238                       |
|  | 656,278                  | 657,295                   |
| Less current portion                                   | 5,968                    | 5,527                     |
|  | \$ 650,310               | \$ 651,768                |

**11% Senior Secured Notes**

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

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

On April 28, 2006, the Company purchased approximately \$5.6 million aggregate principal amount of its outstanding 11% Senior Secured Notes in open market purchases. The total aggregate amount paid by the Company in order to purchase the 11% Senior Secured Notes was approximately \$6.3 million, including accrued and unpaid interest thereon. The Company recorded a charge to operations of approximately \$0.8 million in the quarter ended June 30, 2006, which represented 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 June 30, 2007, there was approximately \$82.1 million aggregate principal amount of 11% Senior Secured Notes outstanding.

At June 30, 2007, 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.



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

**Senior Credit Facility**

The Company's senior credit facility (the Senior Credit Facility) is comprised of a \$570.0 million term loan facility and a \$75.0 million revolving credit facility (subject to outstanding letters of credit). The revolver portion of the Senior Credit Facility also provides a \$15.0 million letter of credit facility and short-term borrowings under a swing line facility of up to \$7.5 million each subject to the overall cap of \$75.0 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 June 30, 2007, the base rate was 7.875% and the monthly variable Eurodollar rate was 5.375%.

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

At June 30, 2007, the \$566.6 million of term loan borrowings under the Senior Credit Facility had an interest rate of approximately 7.875% and the amount available under the revolving credit portion of the Senior Credit Facility was approximately \$68.2 million. Letters of credit under the revolver portion of the Senior Credit Facility outstanding at June 30, 2007 were approximately \$6.8 million.

At June 30, 2007, Coinmach was in compliance with the covenants under the Senior Credit Facility and was not aware of any events of default pursuant to the terms of such indebtedness.

**Interest Rate Swaps**

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

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

Company recognized accumulated other comprehensive income of approximately \$2.0 million, net of tax, in the stockholders' equity section for the quarter ended June 30, 2007, relating to the interest rate swaps that qualify as cash flow hedges.

**5. 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 June 30, 2007, 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.

In the event that CSC undertakes an offer or sale of IDSs or Class A Common Stock, a portion of the net proceeds of such offering, subject to certain limitations (including, but not limited to, Coinmach's ability to assume more debt under the terms of its then existing indebtedness), will be loaned to Coinmach and increase the principal amount of the Intercompany Loan and the related guaranty of the Intercompany Loan.

At June 30, 2007, 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.

**6. 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.

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

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

**Condensed Consolidating Balance Sheets**

|   | <b>Coinmach<br/>Service<br/>Corp.</b> | <b>Coinmach<br/>Laundry<br/>Corporation</b> | <b>June 30, 2007<br/>Coinmach<br/>Corporation<br/>And<br/>Subsidiaries</b> | <b>Adjustments<br/>and<br/>Eliminations</b> | <b>Consolidated</b> |
|---|---------------------------------------|---|--|---|---------------------|
| <b>Assets</b>   |                                       |   |  |   |                     |
| Current assets, consisting of cash, receivables, inventories, prepaid expenses and other current assets | \$ 76                                 | \$  | \$ 63,439  | \$ (83)                                     | \$ 63,432           |
| Advance location payments   |                                       |   | 62,618   |   | 62,618              |
| Property, equipment and leasehold improvements, net   |                                       |   | 236,881  |   | 236,881             |
| Intangible assets, net  |                                       |   | 500,140  |   | 500,140             |
| Deferred income taxes   | 6,946                                 | 927   |  | (7,873)                                     |                     |
| Due from parent   |                                       | 48,712                                      |  | (48,712)                                    |                     |
| Investment in preferred stock   | 154,747                               |   |  | (154,747)                                   |                     |
| Other assets  | 192,337                               |   | 5,194  | (188,649)                                   | 8,882               |
| <b>Total assets</b>   | <b>\$ 354,106</b>                     | <b>\$ 49,639</b>                            | <b>\$ 868,272</b>  | <b>\$ (400,064)</b>                         | <b>\$ 871,953</b>   |
| <b>Liabilities and Stockholders Equity (Deficit)</b>  |                                       |   |  |   |                     |
| Current liabilities:  |                                       |   |  |   |                     |
| Accounts payable, accrued expenses and accrued rental payments  | \$ 3,358                              | \$ 80                                       | \$ 82,604  | \$ (5,170)                                  | \$ 80,872           |
| Current portion of long-term debt   |                                       |   | 5,968  |   | 5,968               |
| <b>Total current liabilities</b>  | <b>3,358</b>                          | <b>80</b>                                   | <b>88,572</b>  | <b>(5,170)</b>                              | <b>86,840</b>       |
| Deferred income taxes   |                                       |   | 57,859   | (7,873)                                     | 49,986              |
| Intercompany loans and advances   | 9,197                                 |   |  | (9,197)                                     |                     |
| Long-term debt, less current portion  | 82,067                                |   | 568,243  |   | 650,310             |
| Loan payable to parent  |                                       |   | 183,564  | (183,564)                                   |                     |
| Investment in subsidiaries  | 175,057                               | 69,479                                      |  | (244,536)                                   |                     |
| Due to parent/subsidiary  |                                       |   | 39,513   | (39,513)                                    |                     |
| Preferred stock and dividends payable   |                                       | 154,747                                     |  | (154,747)                                   |                     |
| <b>Total stockholders equity (deficit)</b>  | <b>84,427</b>                         | <b>(174,667)</b>                            | <b>(69,479)</b>  | <b>244,536</b>                              | <b>84,817</b>       |
| <b>Total liabilities and stockholders equity (deficit)</b>  | <b>\$ 354,106</b>                     | <b>\$ 49,639</b>                            | <b>\$ 868,272</b>  | <b>\$ (400,064)</b>                         | <b>\$ 871,953</b>   |



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

**Condensed Consolidating Balance Sheets (continued)**

|   | <b>March 31, 2007</b> |                    |                     |                     |                     |
|---|-----------------------|--------------------|---------------------|---------------------|---------------------|
|   | <b>Coinmach</b>       | <b>Coinmach</b>    | <b>Coinmach</b>     | <b>Adjustments</b>  |                     |
|   | <b>Service</b>        | <b>Laundry</b>     | <b>Corporation</b>  | <b>and</b>          | <b>Consolidated</b> |
|   | <b>Corp.</b>          | <b>Corporation</b> | <b>And</b>          | <b>Eliminations</b> |                     |
|   |                       |                    | <b>Subsidiaries</b> |                     |                     |
| <b>Assets</b>   |                       |                    |                     |                     |                     |
| Current assets, consisting of cash, receivables, inventories, prepaid expenses and other current assets | \$ 1,003              | \$                 | \$ 66,810           | \$ (79)             | \$ 67,734           |
| Advance location payments   |                       |                    | 64,371              |                     | 64,371              |
| Property, equipment and leasehold improvements, net   |                       |                    | 239,740             |                     | 239,740             |
| Intangible assets, net  |                       |                    | 503,390             |                     | 503,390             |
| Deferred income taxes   | 6,634                 | 888                |                     | (7,522)             |                     |
| Due from parent   |                       | 48,808             |                     | (48,808)            |                     |
| Investment in preferred stock   | 164,794               |                    |                     | (164,794)           |                     |
| Other assets  | 194,823               |                    | 2,436               | (188,651)           | 8,608               |
| <b>Total assets</b>   | <b>\$ 367,254</b>     | <b>\$ 49,696</b>   | <b>\$ 876,747</b>   | <b>\$ (409,854)</b> | <b>\$ 883,843</b>   |
| <b>Liabilities and Stockholders Equity (Deficit)</b>  |                       |                    |                     |                     |                     |
| Current liabilities:  |                       |                    |                     |                     |                     |
| Accounts payable, accrued expenses and accrued rental payments  | \$ 2,976              | \$ 78              | \$ 77,929           | \$ (5,166)          | \$ 75,817           |
| Current portion of long-term debt   |                       |                    | 5,527               |                     | 5,527               |
| <b>Total current liabilities</b>  | <b>2,976</b>          | <b>78</b>          | <b>83,456</b>       | <b>(5,166)</b>      | <b>81,344</b>       |
| Deferred income taxes   |                       |                    | 57,527              | (7,522)             | 50,005              |
| Intercompany loans and advances   | 9,566                 |                    |                     | (9,566)             |                     |
| Long-term debt, less current portion  | 82,067                |                    | 569,701             |                     | 651,768             |
| Loan payable to parent  |                       |                    | 183,564             | (183,564)           |                     |
| Investment in subsidiaries  | 172,310               | 56,743             |                     | (229,053)           |                     |
| Due to parent/subsidiary  |                       |                    | 39,242              | (39,242)            |                     |
| Preferred stock and dividends payable   |                       | 164,794            |                     | (164,794)           |                     |
| <b>Total stockholders equity (deficit)</b>  | <b>100,335</b>        | <b>(171,919)</b>   | <b>(56,743)</b>     | <b>229,053</b>      | <b>100,726</b>      |
| <b>Total liabilities and stockholders equity (deficit)</b>  | <b>\$ 367,254</b>     | <b>\$ 49,696</b>   | <b>\$ 876,747</b>   | <b>\$ (409,854)</b> | <b>\$ 883,843</b>   |



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

**Condensed Consolidating Statements of Operations**

|  | <b>Three Months Ended June 30, 2007</b> |   |  |                     |                     |
|--|---|---|--|---------------------|---------------------|
|  | <b>Coinmach<br/>Service<br/>Corp.</b>   | <b>Coinmach<br/>Laundry<br/>Corporation</b> | <b>Coinmach<br/>Corporation<br/>and<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| Revenues   | \$                                      | \$  | \$ 137,094   | \$                  | \$ 137,094          |
| Costs and expenses   | 442                                     | 98  | 122,794  |                     | 123,334             |
| Operating (loss) income  | (442)                                   | (98)  | 14,300   |                     | 13,760              |
| Interest (income) expense, net                                   | (2,681)                                 |   | 16,395   |                     | 13,714              |
| Interest (income) expense - non cash<br>preferred stock dividend | (3,217)                                 | 3,217                                       |  |                     |                     |
| Transaction costs  | 3,000                                   |   |  |                     | 3,000               |
| Income (loss) before taxes                                       | 2,456                                   | (3,315)                                     | (2,095)  |                     | (2,954)             |
| Income tax benefit   | (310)                                   | (40)  | (657)  |                     | (1,007)             |
|  | 2,766                                   | (3,275)                                     | (1,438)  |                     | (1,947)             |
| Equity in loss (income) of<br>subsidiaries                       | 4,713                                   | 1,438                                       |  | (6,151)             |                     |
| Net loss   | \$ (1,947)                              | \$ (4,713)                                  | \$ (1,438)   | \$ 6,151            | \$ (1,947)          |

|  | <b>Three Months Ended June 30, 2006</b> |   |  |                     |                     |
|--|---|---|--|---------------------|---------------------|
|  | <b>Coinmach<br/>Service<br/>Corp.</b>   | <b>Coinmach<br/>Laundry<br/>Corporation</b> | <b>Coinmach<br/>Corporation<br/>and<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| Revenues   | \$                                      | \$  | \$ 139,285   | \$                  | \$ 139,285          |
| Costs and expenses   | 391                                     | 105   | 124,021  |                     | 124,517             |
| Operating (loss) income  | (391)                                   | (105)                                       | 15,264   |                     | 14,768              |
| Interest (income) expense, net                                   | (2,632)                                 |   | 16,062   |                     | 13,430              |
| Interest (income) expense - non cash<br>preferred stock dividend | (3,462)                                 | 3,462                                       |  |                     |                     |
| Transaction costs  | 845                                     |   |  |                     | 845                 |
| Income (loss) before taxes                                       | 4,858                                   | (3,567)                                     | (798)  |                     | 493                 |
| Income tax provision (benefit)                                   | 570                                     | (43)  | (226)  |                     | 301                 |
|  | 4,288                                   | (3,524)                                     | (572)  |                     | 192                 |

|   |        |            |          |          |        |
|---|--------|------------|----------|----------|--------|
| Equity in loss (income) of subsidiaries | 4,096  | 572        | (4,668)  |          |        |
| Net income (loss)                       | \$ 192 | \$ (4,096) | \$ (572) | \$ 4,668 | \$ 192 |



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

**Condensed Consolidating Statements of Cash Flows**

|   | <b>Three Months Ended June 30, 2007</b> |   |  |                     |                     |
|---|---|---|--|---------------------|---------------------|
|   | <b>Coinmach<br/>Service<br/>Corp.</b>   | <b>Coinmach<br/>Laundry<br/>Corporation</b> | <b>Coinmach<br/>Corporation<br/>And<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| <b>Operating Activities:</b>                        |   |   |  |                     |                     |
| Net income (loss)                                   | \$ 2,766                                | \$ (3,275)                                  | \$ (1,438)   | \$                  | \$ (1,947)          |
| Noncash adjustments                                 | (3,416)                                 | 3,177                                       | 25,613   |                     | 25,374              |
| Change in operating assets and liabilities          | 2,784                                   |   | 1,324  |                     | 4,108               |
| Net cash provided by (used in) operating activities | 2,134                                   | (98)  | 25,499   |                     | 27,535              |
| <b>Investing Activities:</b>                        |   |   |  |                     |                     |
| Capital expenditures and advance location payments  |   |   | (18,377)   |                     | (18,377)            |
| Acquisition of net assets                           |   |   | (196)  |                     | (196)               |
| Proceeds from sale of property and equipment        |   |   | 774  |                     | 774                 |
| Net cash used in investing activities               |   |   | (17,799)   |                     | (17,799)            |
| <b>Financing Activities:</b>                        |   |   |  |                     |                     |
| Repayment of debt                                   |   |   | (8,575)  |                     | (8,575)             |
| Other financing items                               | (3,059)                                 | 98  | (6,062)  |                     | (9,023)             |
| Net cash (used in) provided by financing activities | (3,059)                                 | 98  | (14,637)   |                     | (17,598)            |
| Net decrease in cash and cash equivalents           | (925)                                   |   | (6,937)  |                     | (7,862)             |
| Cash and cash equivalents, beginning of period      | 925                                     |   | 38,105   |                     | 39,030              |
| Cash and cash equivalents, end of period            | \$                                      | \$  | \$ 31,168  | \$                  | \$ 31,168           |

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

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

|  | <b>Three Months Ended June 30, 2006</b>     |   |  |                    |                     |
|--|---|---|--|--------------------|---------------------|
|  | <b>Coinmach<br/>Service<br/>Corporation</b> | <b>Coinmach<br/>Laundry<br/>Corporation</b> | <b>Coinmach<br/>Corporation<br/>and<br/>Subsidiaries</b> | <b>Elimination</b> | <b>Consolidated</b> |
| <b>Operating Activities:</b>                         |   |   |  |                    |                     |
| Net income (loss)                                    | \$ 4,288                                    | \$ (3,524)                                  | \$ (572)   | \$                 | \$ 192              |
| Noncash adjustments                                  | (1,967)                                     | 3,420                                       | 26,756   |                    | 28,209              |
| Change in operating assets and liabilities           | (1,497)                                     | 5   | 3,679  |                    | 2,187               |
| Net cash provided by (used in) operating activities  | 824   | (99)  | 29,863   |                    | 30,588              |
| <b>Investing Activities:</b>                         |   |   |  |                    |                     |
| Capital expenditures and advance location payments   |   |   | (17,880)   |                    | (17,880)            |
| Acquisition of net assets                            |   |   | (14,541)   |                    | (14,541)            |
| Proceeds from sale of property and equipment         |   |   | 293  |                    | 293                 |
| Net cash used in investing activities                |   |   | (32,128)   |                    | (32,128)            |
| <b>Financing Activities:</b>                         |   |   |  |                    |                     |
| Repayment of debt                                    | (5,649)                                     |   | (575)  |                    | (6,224)             |
| Other financing items                                | 4,853                                       | 99  | (24,895)   |                    | (19,943)            |
| Net cash (used in) provided by financing activities  | (796)                                       | 99  | (25,470)   |                    | (26,167)            |
| Net increase (decrease) in cash and cash equivalents | 28  |   | (27,735)   |                    | (27,707)            |
| Cash and cash equivalents, beginning of period       | 880   |   | 61,128   |                    | 62,008              |
| Cash and cash equivalents, end of period             | \$ 908                                      | \$  | \$ 33,393  | \$                 | \$ 34,301           |

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

**7. 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, 2007.

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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):

|   | <b>Three months ended June</b> |             |
|---|--------------------------------|-------------|
|   | <b>30,</b>                     |             |
|   | <b>2007</b>                    | <b>2006</b> |
| Revenue:  |                                |             |
| Route   | \$ 121,952                     | \$ 123,978  |
| All other:  |                                |             |
| Rental  | 9,690                          | 9,545       |
| Distribution  | 5,452                          | 5,762       |
| Subtotal  | 15,142                         | 15,307      |
| Total revenue   | \$ 137,094                     | \$ 139,285  |
| EBITDA (1):   |                                |             |
| Route   | \$ 39,483                      | \$ 40,500   |
| All other:  |                                |             |
| Rental  | 4,316                          | 4,122       |
| Distribution  | 309                            | 264         |
| Subtotal  | 4,625                          | 4,386       |
| Transaction costs (2)(3)  | (3,000)                        | (845)       |
| Corporate expenses  | (3,826)                        | (3,034)     |
| Total EBITDA  | 37,282                         | 41,007      |
| Reconciling items:  |                                |             |
| Depreciation and amortization expense, amortization of advance location payments and amortization of intangibles: |                                |             |
| Route   | (23,168)                       | (23,967)    |
| All other   | (1,998)                        | (2,114)     |
| Corporate   | (1,356)                        | (1,003)     |
| Total depreciation  | (26,522)                       | (27,084)    |
| Interest expense  | (13,714)                       | (13,430)    |
| Consolidated (loss) income before income taxes  | \$ (2,954)                     | \$ 493      |

(1) See description  
of Non-GAAP  
Financial

Measures immediately following this table for more information regarding EBITDA and a reconciliation of net (loss) income to EBITDA for the periods indicated above.

- (2) The computation of EBITDA for the three months ended June 30, 2007 has not been adjusted to exclude certain transaction costs, including legal costs, incurred by the Company relating to the Merger Agreement and the transactions contemplated thereby as described in Note 12.
- (3) The computation of EBITDA for the three months ended June 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) income to EBITDA for each period presented (in millions):

|                                      | <b>Three months ended June<br/>30,</b> |             |
|--------------------------------------|--|-------------|
|                                      | <b>2007</b>                            | <b>2006</b> |
| Net (loss) income                    | \$ (2.0)                               | \$ 0.2      |
| (Benefit) provision for income taxes | (1.0)                                  | 0.3         |
| Interest expense                     | 13.7                                   | 13.4        |
| Depreciation and amortization        | 26.6                                   | 27.1        |
| <br>EBITDA(1)(2)                     | <br>\$ 37.3                            | <br>\$ 41.0 |

(1) The computation of EBITDA for the three months ended June 30, 2007 has not been adjusted to exclude certain transaction costs, including legal costs, incurred by the Company relating to the Merger

Agreement and the transactions contemplated thereby as described in Note 12.

- (2) The computation of EBITDA for the three months ended June 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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**(UNAUDITED) (continued)**

**8. Income Taxes**

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

|  | <b>June 30,<br/>2007</b> | <b>March 31,<br/>2007</b> |
|--|--------------------------|---------------------------|
| Deferred tax liabilities:                        |                          |                           |
| Accelerated tax depreciation and contract rights | \$ 98,836                | \$ 99,222                 |
| Interest rate swap                               | 1,243                    |                           |
| Other  | 2,375                    | 2,419                     |
| <b>Total deferred tax liabilities</b>            | <b>102,454</b>           | <b>101,641</b>            |
| Deferred tax assets:                             |                          |                           |
| Net operating loss carryforwards                 | 50,433                   | 49,696                    |
| Covenant not to compete                          | 1,107                    | 1,124                     |
| Interest rate swap                               |                          | 63                        |
| Other  | 928                      | 753                       |
| <b>Total deferred tax asset</b>                  | <b>52,468</b>            | <b>51,636</b>             |
| <b>Net deferred tax liability</b>                | <b>\$ 49,986</b>         | <b>\$ 50,005</b>          |

The net operating loss carryforwards of approximately \$150 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 quarter ended June 30, 2007, the Company generated a taxable loss of approximately \$1.8 million primarily due to a one time charge for transaction costs which increased its net operating loss carry-forwards by \$1.8 million.

On July 13, 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, *Accounting for Income Taxes*. 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.

The Company adopted FIN No. 48 as of April 1, 2007. The adoption of FIN No. 48 did not have a material effect on our consolidated financial statements. The Company does not have any unrecognized tax benefits and has not recognized any interest or penalties on the statement of operations for the periods presented. The Company's continuing practice is to record interest and penalties related to tax positions in general and administrative expense in its consolidated statement of operations.

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The Company filed income tax returns in the U.S. and various states. With a few exceptions, the statute of limitations has expired for all years ending before March 31, 2004 and all related tax returns of the Company are no longer subject to income tax examinations by tax authorities.

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

|         | <b>Three months ended June<br/>30,</b> |             |
|---------|--|-------------|
|         | <b>2007</b>                            | <b>2006</b> |
| Federal | \$ (976)                               | \$ 104      |
| State   | (31)                                   | 197         |
|         | \$ (1,007)                             | \$ 301      |

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

|   | <b>Three months ended June<br/>30,</b> |             |
|---|--|-------------|
|   | <b>2007</b>                            | <b>2006</b> |
| Expected tax (benefit) provision                    | \$ (1,034)                             | \$ 173      |
| State tax (benefit) provision, net of federal taxes | (20)                                   | 128         |
| Permanent book/tax differences                      | 47                                     |             |
| Tax (benefit) provision                             | \$ (1,007)                             | \$ 301      |

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

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

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

|  | <b>Three Months Ended June<br/>30,</b> |             |
|--|--|-------------|
|  | <b>2007</b>                            | <b>2006</b> |
| Net (loss) income attributable to common stockholders            | \$ (1,947)                             | \$ 192      |
| Add: Dividends paid on common stock                              | (16,031)                               | (18,502)    |
| Undistributed loss available to Class A and Class B common stock | \$ (17,978)                            | \$ (18,310) |

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|   | <b>Three Months Ended June 30,</b> |             |
|---|------------------------------------|-------------|
|   | <b>2007</b>                        | <b>2006</b> |
| Basic and diluted allocation of undistributed loss: |                                    |             |
| Class A Common Stock                                | \$ (9,967)                         | \$ (10,146) |
| Class B Common Stock                                | (8,011)                            | (8,164)     |
| Total   | \$ (17,978)                        | \$ (18,310) |
| Weighted average common stock outstanding:          |                                    |             |
| Class A Common Stock                                | 29,080,247                         | 29,046,528  |
| Class B Common Stock                                | 23,374,450                         | 23,374,450  |
| Total   | 52,454,697                         | 52,420,978  |
| Distributed earnings per share:                     |                                    |             |
| Class A Common Stock                                | \$ 0.21                            | \$ 0.21     |
| Class B Common Stock                                | \$ 0.43                            | \$ 0.53     |
| Undistributed loss per share:                       |                                    |             |
| Class A Common Stock                                | \$ (0.34)                          | \$ (0.35)   |
| Class B Common Stock                                | \$ (0.34)                          | \$ (0.35)   |
| Basic and diluted (loss) income per share:          |                                    |             |
| Class A Common Stock                                | \$ (0.13)                          | \$ (0.14)   |
| Class B Common Stock                                | \$ 0.09                            | \$ 0.18     |

On May 9, 2007, the board of directors of CSC declared a quarterly cash dividend of \$0.20615 per share of Class A Common Stock (or approximately \$6.0 million in aggregate) and a cash dividend of \$0.42782 per share of Class B Common Stock for the fiscal year ended March 31, 2007 (or \$10.0 million in aggregate), which cash dividend was paid on June 1, 2007 to holders of record as of the close of business on May 25, 2007.

On August 1, 2007, the board of directors of CSC declared a quarterly cash dividend of \$0.20615 per share of Class A Common Stock (or approximately \$6.0 million in aggregate), which cash dividend is payable on September 4, 2007 to holders of record as of the close of business on August 27, 2007.

#### **10. 2004 Long-Term Incentive Plan**

The Company's Long-Term Incentive Plan (the "2004 LTIP") provides for the grant of non-qualified options, incentive stock options, stock appreciation rights, full value awards and cash incentive awards. The maximum number of securities available for awards under the 2004 LTIP is 15% of the aggregate number of outstanding shares of Class A Common Stock and Class B Common Stock immediately following consummation of the IDS Transactions, which equals 6,583,796 shares. As of June 30, 2007, the Company had granted 238,843 shares of Class A Common Stock under the 2004 LTIP.

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During the 2006 fiscal year, the Company awarded restricted shares of Class A Common Stock as follows: (i) with respect to executive officers, \$460,000 (or 51,111 shares in the aggregate) (ii) with respect to our independent directors, \$45,000 (or 5,001 shares in the aggregate) and (iii) with respect to a director, \$100,000 (or 11,111 shares). In addition, \$200,000 worth of restricted shares of Class A Common Stock (or 21,666 shares) were designated for an employee pool, awarded to employees (such award together with the restricted stock awards approved by the board of directors of CSC, the 2006 Restricted Stock Awards ) other than executive officers at the discretion of the Company's chief executive officer.

The 2006 Restricted Stock Awards to the independent directors and the non-independent director were fully vested on the date of grant, and those to the executive officers and the employees vested 20% on the date of grant and the balance at 20% per year over a consecutive four-year period thereafter. In addition, the 2006 Restricted Stock Awards to the executive officers vest upon a change of control of CSC or upon the death or disability of the award recipient and contain all of the rights and are subject to all of the restrictions of Class A Common Stock prior to becoming fully vested, including voting and dividend rights. The fair value of the restricted stock issued of \$9.01 per share will be recorded as compensation expense over the vesting periods.

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

On March 6, 2007, approximately \$158,000 worth of restricted stock of Class A Common Stock (or 15,000 shares) were awarded by our Chief Executive Officer from the employee pool to certain employees which includes performance contingent and time-based vesting restricted shares of Class A Common Stock with a grant date of March 6, 2007 (collectively, the March 2007 Restricted Stock Awards ).

On June 14, 2007, approximately \$42,000 worth of restricted stock (or 3,565 shares) of Class A Common Stock were awarded by our Chief Executive Officer from the employee pool to a certain employee which includes performance contingent and time-based vesting restricted shares of Class A Common Stock with a grant date of June 14, 2007 (the June 2007 Restricted Stock Award ).

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

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Performance Vesting Shares. The 2007 Restricted Stock Award to our non-independent director consisted solely of Time Vesting Shares.

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

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

The fair value of the Time Vesting Shares issued as part of the 2007 Restricted Stock Award of \$10.00 per share, the fair value of the March 2007 Restricted Stock Awards of \$10.55 and the fair value of the June 2007 Restricted Stock Award of \$11.71 will be recorded as compensation expense over the vesting periods. In addition, since the Performance Vesting Shares vest upon the attainment of certain performance criteria, the Company will record compensation expense only for those Performance Vesting Shares of which the attainment of applicable performance conditions is probable.

Compensation expense of approximately \$0.1 million for the quarter ended June 30, 2007, as compared to less than \$0.1 million for the quarter ended June 30, 2006 has been recorded to the statement of operations. The Company has estimated the forfeiture rate to be zero.

A summary of the status of the Company's restricted shares as of June 30, 2007 is presented below.

|   | <b>Shares<br/>Outstanding</b> | <b>Weighted<br/>Average<br/>Fair Value at<br/>Date<br/>of Contract</b> |
|---|-------------------------------|--|
| Restricted shares unvested at April 1, 2007 | 179,778                       | \$ 9.81  |
| Granted                                     | 3,565                         | 11.71  |
| Vested                                      | 10,057                        | 9.69   |
| Restricted shares unvested at June 30, 2007 | 173,286                       | \$ 9.86  |

As of June 30, 2007, there was approximately \$0.9 million of unrecognized compensation costs related to restricted share compensation arrangements pertaining to the 2006 Restricted Stock Awards and the Time Vesting Shares from the 2007 Restricted Stock Awards, the March 2007 Restricted Stock Awards and the June 2007 Restricted Stock Award. In addition, as of June 30, 2007, there was approximately \$0.2 million of unrecognized compensation costs related to restricted share compensation arrangements pertaining only to those Performance Vesting Shares that the Company has determined will relate to the probable

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outcome for the attainment of certain performance conditions. At June 30, 2007, there was also approximately \$0.6 million of unrecognized compensation costs related to restricted share compensation arrangements pertaining only to those Performance Vesting Shares that the Company has determined are not probable for the attainment of certain performance conditions.

As discussed in Note 12, if the Merger is consummated, all of our outstanding restricted shares of Class A Common Stock granted under the 2004 LTIP will vest and accordingly, compensation expense of approximately \$1.7 million would be recognized.

**11. New Accounting Pronouncements**

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 enhances 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 April 1, 2008. We have not determined the impact, if any, the adoption of SFAS No. 157 will have on our financial statements.

On February 15, 2007, the Financial Accounting Standards Board, or FASB, issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB Statement No. 115*. This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. This option is available to all entities. Most of the provisions in SFAS No. 159 are elective; however, an amendment to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* applies to all entities with available for sale or trading securities. Some requirements apply differently to entities that do not report net income. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of SFAS No. 157. We will adopt SFAS No. 159 beginning April 1, 2008 and we are currently evaluating the potential impact the adoption of this pronouncement will have on our financial statements.

**12. Merger Agreement**

On June 14, 2007, the Company entered into an Agreement and Plan of Merger (the *Merger Agreement*) with Spin Holdco Inc., a Delaware corporation ( *Parent* ), and Spin Acquisition Co., a Delaware corporation and wholly owned subsidiary of Parent ( *Merger Sub* ), pursuant to which Merger Sub will be merged with and into the Company (the *Merger* ), with the Company continuing as the surviving corporation. Parent and Merger Sub are affiliates of Babcock & Brown Limited.

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Subject to the terms and conditions of the Merger Agreement, which has been approved by the Board of Directors of the Company, each share of (a) Class A Common Stock, including the shares of Class A Common Stock underlying the units of IDS of the Company, and (b) Class B Common Stock (together with the Class A Common Stock, collectively, the Shares ) issued and outstanding immediately prior to the effective time of the Merger (other than Shares owned by Parent, the Company or their respective subsidiaries or Shares with respect to which appraisal rights have been properly exercised), will be converted into the right to receive \$13.55 in cash (the Merger Consideration ).

At the effective time of the Merger, each award of restricted Class A Common Stock granted under the Company's incentive plans will no longer be restricted and, unless otherwise agreed between Parent and the holder of such restricted Class A Common Stock, will be converted into the right to receive the Merger Consideration.

The consummation of the Merger, as provided in the Merger Agreement, is not conditioned upon Parent's or Merger Subs's ability to obtain financing. Parent has obtained equity and debt financing commitments for the transactions contemplated by the Merger Agreement, the aggregate proceeds of which are expected to be sufficient for Parent to pay all amounts required to consummate the Merger and the other transactions contemplated by the Merger Agreement.

The Company has made customary representations, warranties and covenants in the Merger Agreement, including, among others, covenants not to take certain actions during the period between the execution of the Merger Agreement and the consummation of the Merger. The Company has also agreed not to (a) solicit or facilitate proposals that constitute, or could reasonably be expected to lead to, an alternative proposal to acquire the Company, or (b) engage in any discussions regarding, or provide any confidential information in connection with, any alternative proposal to acquire the Company, in each case except as otherwise provided in the Merger Agreement. The Merger Agreement allows, under certain specified circumstances, the Board of Directors of the Company to change its recommendation in respect of the Merger, to enter into an agreement in respect of an alternative transaction and to recommend or approve an alternative transaction.

Consummation of the Merger is subject to certain conditions, including, among others, (a) approval of the Merger Agreement by the Company's stockholders, (b) absence of any law or order prohibiting the consummation of the Merger, (c) expiration or termination of any applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, (d) each party's respective representations and warranties in the Merger Agreement being true and correct, subject to specified materiality standards contained in the Merger Agreement and (e) material compliance by each party with its respective covenants.

The Merger Agreement contains certain termination rights for each of the Company and Parent. Upon termination of the Merger Agreement, under specified circumstances (including, among other things, upon termination of the Merger Agreement by the Company if its board of

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directors authorizes the Company to enter into any letter of intent or agreement relating to an alternative proposal to acquire the Company), the Company will be required to pay Parent a termination fee of \$15 million, plus up to \$2 million in fees and expenses. If the Merger Agreement is terminated by the Company due to the failure of Parent or Merger Sub to perform their respective obligations necessary to consummate the Merger and certain other conditions are met, Parent and Merger Sub will be required to pay the Company a cash fee of \$15 million, plus up to \$2 million in fees and expenses and any outstanding amounts required to be reimbursed to the Company by Parent or Merger Sub under the Merger Agreement. The obligation of Parent and Merger Sub to pay the \$15 million termination fee and up to \$2 million in fees and expenses is supported by an equity commitment letter from Babcock & Brown Investment Holdings Pty Ltd., an affiliate of Parent, in favor of Parent.

On June 14, 2007, Parent entered into a Voting Agreement with Holdings, GTCR-CLC, LLC and certain members of the Company's senior management and a non-management director, pursuant to which, among other things, such parties agreed to vote their respective shares of capital stock of the Company in favor of adoption and approval of the Merger Agreement. The Voting Agreement will terminate upon the earlier to occur of (a) the effective time of the Merger, (b) the date on which the Board of Directors of the Company effects a change of recommendation in accordance with the Merger Agreement, (c) the date on which the Merger Agreement is terminated, and (d) December 30, 2007.

On June 14, 2007, Parent entered into an Exchange Agreement with certain members of senior management of the Company, a non-management director, CLC and the secretary of CLC, pursuant to which, among other things, immediately prior to the effective time of the Merger, such members of senior management and such director will exchange a portion of their shares of the Company for common stock of Parent. As contemplated by the Voting Agreement and the Exchange Agreement, the remainder of their shares of capital stock of the Company which has not been exchanged will be purchased, immediately prior to the effective time of the Merger, by a person or persons designated by Babcock & Brown Spinco LLC, an affiliate of Parent.

The Company incurred costs of approximately \$3.0 million consisting of certain expenses including legal costs incurred by the Company relating to the Merger Agreement that were classified as transaction costs on the Consolidated Statements of Operation for the quarter ended June 30, 2007. If the Merger is consummated, certain members of senior management of the Company and a non-management director will be entitled to receive transaction bonus payments aggregating approximately \$8.6 million to be paid by the Company and approximately \$3.5 million to be paid by Holdings.



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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION 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, 2007 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. Prior to the fiscal year ended March 31, 2007, we had experienced net losses in each fiscal year. 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.

In addition to our route business, 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

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electronic items to property owners, managers of multi-family housing properties, and to a lesser extent, individuals and corporate relocation entities.

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

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

**Critical Accounting Policies; Use of Estimates**

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

*Income Taxes*

We currently have significant deferred tax assets, which are subject to periodic recoverability assessments. Realization of our deferred tax assets is principally dependent upon our achievement of projected future taxable income. Management s judgments regarding future profitability may change due to future market conditions and other factors. These changes, if any, may require possible material adjustments to these deferred tax asset balances.

On July 13, 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. The Company has evaluated the potential effects of FIN No. 48 on our consolidated financial statements and determined that there is no effect on the financial statements.

The Company adopted FIN No. 48 as of April 1, 2007. The adoption of FIN No. 48 did not have a material effect on our consolidated financial statements. The Company does not have any unrecognized tax benefits, and has not recognized any interest or penalties on the statement of operations for the periods presented. The Company s continuing practice is to record interest

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and penalties related to tax positions in general and administrative expense in its consolidated statement of operations.

*New Accounting Pronouncements*

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 enhances 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 April 1, 2008. We have not determined the impact, if any, the adoption of SFAS No. 157 will have on our financial statements.

On February 15, 2007, the Financial Accounting Standards Board, or FASB, issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB Statement No. 115*. This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. This option is available to all entities. Most of the provisions in SFAS No. 159 are elective; however, an amendment to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* applies to all entities with available for sale or trading securities. Some requirements apply differently to entities that do not report net income. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of SFAS No. 157. We will adopt SFAS No. 159 beginning April 1, 2008 and we are currently evaluating the potential impact the adoption of this pronouncement will have on our financial statements.

**Table of Contents****COINMACH SERVICE CORP. AND SUBSIDIARIES****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-month periods ended June 30, 2007 and June 30, 2006.***

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

|              | <b>Three months ended June 30,</b> |                 |                 |
|--------------|------------------------------------|-----------------|-----------------|
|              | <b>2007</b>                        | <b>2006</b>     | <b>Change</b>   |
| Route        | \$ 122.0                           | \$ 124.0        | \$ (2.0)        |
| Rental       | 9.7                                | 9.5             | 0.2             |
| Distribution | 5.4                                | 5.8             | (0.4)           |
|              | <b>\$ 137.1</b>                    | <b>\$ 139.3</b> | <b>\$ (2.2)</b> |

Revenue decreased by approximately \$2.2 million, or 2%, for the three-month period ended June 30, 2007, as compared to the prior year's corresponding period.

Route revenue for the three months ended June 30, 2007 decreased by approximately \$2.0 million, or 2%, over the prior year's corresponding period. The decrease was primarily due to a decline in same store sales attributed to increased vacancy rates in certain geographical areas.

Rental revenue for the three months ended June 30, 2007 increased by approximately \$0.2 million, or 2%, over the prior year's corresponding period. This increase was primarily the result of our internal growth of the machine base in existing areas of operations during the current and prior year periods, as well as an increase in our replacement business, selling new laundry equipment on a repetitive basis to apartment communities.

Distribution revenue for the three months ended June 30, 2007 decreased by approximately \$0.4 million, or 7%, from the prior year's corresponding period. The decrease was primarily due to decreased equipment sales. Sales from the distribution business unit are sensitive to general market conditions and economic conditions.

Laundry operating expenses, exclusive of depreciation and amortization, decreased by approximately \$1.4 million, or 2%, for the three-month period ended June 30, 2007, as compared to the prior year's corresponding period. As a percentage of revenues, laundry operating expenses were approximately 68% for both the three-month period ended June 30, 2007 and the three-month period ended June 30, 2006.

The decrease in laundry operating expenses was due primarily to (i) a decrease in business insurance of approximately \$1.1 million and (ii) a decrease in commissions paid of approximately \$0.6 million related to decreased route revenue, partially offset by other miscellaneous costs and expenses that are not material individually or in the aggregate.

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General and administrative expenses increased by approximately \$0.8 million for the three-month period ended June 30, 2007, as compared to the prior year's corresponding period. The increase in general and administrative expenses was primarily due to an increase in legal fees and stock compensation expenses related to the issuance of restricted stock awards by us, as well as the timing of miscellaneous costs. As a percentage of revenue, general and administrative expense is approximately 3% for the three-month period ended June 30, 2007 as compared to 2% for the three-month period ended June 30, 2006.

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 relating to the Time Vesting Shares granted subsequent to January 1, 2006, compensation expense, based on their fair value on the date of grant, is recognized in the Condensed Consolidated Statements of Operations from the date of grant. For share-based payments relating to the Performance Vesting Shares granted subsequent to January 1, 2006, compensation expense will be recorded to the Condensed Consolidated Statements of Operations only for those shares of which the attainment of the applicable performance conditions is probable, based on their fair value on the date of grant. For the three-month period ended June 30, 2007, we recognized expenses of approximately \$0.1 million as compared to less than \$0.1 million for the three-month period ended June 30, 2006 to compensation expense in the Condensed Consolidated Statements of Operations for share-based payments to employees. If the Merger is consummated, all of our outstanding restricted shares of Class A Common stock granted under the 2004 LTIP will vest and accordingly, compensation expense of approximately \$1.7 million would be recognized.

Depreciation and amortization expense decreased by approximately \$0.5 million, or 3%, for the three-month period ended June 30, 2007, 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 remained unchanged for the three-month period ended June 30, 2007, as compared to the prior year's corresponding period.

Amortization of intangibles decreased by less than \$0.1 million, or 2%, for the three-month period ended June 30, 2007, as compared to the prior year's corresponding period. The decrease was primarily the result of prior year acquisitions being fully amortized.

Operating income margins were approximately 10.0% for the three-month period ended June 30, 2007, as compared to approximately 10.6% for the prior year's corresponding period. The decrease in operating income margin was primarily due to a decrease in revenue offset partially by a decrease in laundry operating expenses.

Transaction costs for the three-month period ended June 30, 2007 of approximately \$3.0 million consisted of certain expenses including legal costs incurred by the Company relating to the Merger Agreement. Transaction costs for the three-month period ended June 30, 2006 of approximately \$0.8 million consisted of (i) the premium paid to purchase certain 11% Senior Secured Notes of

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

Interest expense increased by approximately \$0.3 million, or 2%, for the three-month period ended June 30, 2007 as compared to the prior year's corresponding period. The increase in interest expense was due primarily to a slight increase in variable interest rates on the Senior Credit Facility.

The benefit for income taxes for the three-month period ended June 30, 2007 was approximately \$1.0 million as compared to a provision for income taxes of approximately \$0.3 million for the prior year's corresponding period. The change of \$1.3 million is primarily due to a decrease in operating income resulting from a one time charge for transaction costs of \$3.0 million. The effective tax rate for the three-month period ended June 30, 2007 was approximately 34% as compared to a provision of 61% for the prior year's corresponding period. The change in the tax rate during the quarter ended June 30, 2007 was primarily due to certain state tax computations which do not relate directly with book income since some state taxes are based on additional factors such as gross receipts.

Net loss was approximately \$1.9 million for the three-month period ended June 30, 2007, as compared to net income of approximately \$0.2 million for the prior year's corresponding period. The change is primarily due (i) to higher transaction costs incurred due to the Merger Agreement, (ii) a decrease in revenue, partially offset by decreased operating expenses and reduced tax expense of approximately \$1.3 million over the prior year.

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

|                            | <b>Three months ended June 30,</b> |                |                 |
|----------------------------|------------------------------------|----------------|-----------------|
|                            | <b>2007</b>                        | <b>2006</b>    | <b>Change</b>   |
| Route                      | \$ 39.5                            | \$ 40.5        | \$ (1.0)        |
| Rental                     | 4.3                                | 4.1            | 0.2             |
| Distribution               | 0.3                                | 0.3            |                 |
| Corporate expenses         | (3.8)                              | (3.0)          | (0.8)           |
| Transaction costs          | (3.0)                              | (0.9)          | (2.1)           |
| <b>Total EBITDA (1)(2)</b> | <b>\$ 37.3</b>                     | <b>\$ 41.0</b> | <b>\$ (3.7)</b> |

(1) The computation of EBITDA for the three months ended June 30 2007 has not been adjusted to exclude certain transaction costs, including legal costs, incurred by the Company relating to the Merger Agreement and the transactions contemplated

thereby as  
described in  
Note 12.

- (2) The computation of EBITDA for the three months ended June 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.

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

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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 7 to the Condensed Consolidated Financial Statements for a reconciliation of net (loss) income to EBITDA for the periods indicated in the table immediately above.

EBITDA was approximately \$37.3 million for the three months ended June 30, 2007, as compared to approximately \$41.0 million for the three months ended June 30, 2006. EBITDA margin was approximately 27.2% for the three months ended June 30, 2007 and approximately 29.4% for the three months ended June 30, 2006. The decrease in EBITDA is primarily attributable to (i) higher transaction costs attributable to the Merger Agreement, (ii) a decrease in revenue primarily in the route businesses, and (iii) increased general and administrative expenses.

**Liquidity and Capital Resources**

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

We have met these requirements for the past three fiscal years. Our ability to make such payments and expenditures will depend on the earnings and cash flows of our subsidiaries and the ability of our subsidiaries to distribute amounts to us, including by way of payments on the Intercompany Note. Our principal sources of liquidity are cash flows from operating activities and borrowings available under the revolver portion of Senior Credit Facility. As of June 30, 2007, we had cash and cash equivalents of approximately \$31.2 million and available borrowings under the revolver portion of the Senior Credit Facility of approximately \$68.2 million. Letters of credit under the revolver portion of the Senior Credit Facility outstanding at June 30, 2007 were approximately \$6.8 million.



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**COINMACH SERVICE CORP. AND SUBSIDIARIES**

Our stockholders' equity was approximately \$84.8 million as of June 30, 2007.

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 Senior Credit Facility, fund a portion of our dividends with borrowings or from other sources.

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

On May 9, 2007, our board of directors declared a quarterly cash dividend of \$0.20615 per share of Class A Common Stock (or approximately \$6.0 million in the aggregate), and a cash dividend of \$0.42781 per share of Class B Common Stock (or \$10.0 million in the aggregate) for the fiscal quarter ended March 31, 2007, which was paid on June 1, 2007 to holders of record as of the close of business on May 25, 2007.

On August 1, 2007, the board of directors of CSC declared a quarterly cash dividend of \$0.20615 per share of Class A Common Stock (or approximately \$6.0 million in aggregate), which cash dividend is payable on September 4, 2007 to holders of record as of the close of business on August 27, 2007.

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**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*

The 11% Senior Secured Notes, which are scheduled to mature on December 1, 2024, are our senior secured obligations and are redeemable, at our 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.

As of June 30, 2007, there were approximately \$82.1 million aggregate principal amount of 11% Senior Secured Notes outstanding.

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

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

At June 30, 2007, we were in compliance with the covenants under the indenture governing the 11% Senior Secured Notes and were not aware of any events of default pursuant to the terms of such indebtedness.

*Senior Credit Facility*

At June 30, 2007, approximately \$566.6 million aggregate principal amount of term loan borrowings under the Senior Credit Facility were outstanding and had an interest rate of approximately 7.875% and the amount available under the revolving credit portion of the Senior Credit Facility was approximately \$68.2 million. Letters of credit under the revolver portion of the Senior Credit Facility outstanding at June 30, 2007 were approximately \$6.8 million.

The Senior Credit Facility requires Coinmach to make certain mandatory repayments, including from (a) 100% of net proceeds from asset sales by Coinmach and its subsidiaries, (b)

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**

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 Secured Credit Facility. For the fiscal year ended March 31, 2007, there was no required amount that was payable relating to the annual excess cash flows of Coinmach.

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

At June 30, 2007, Coinmach was in compliance with the covenants under the Senior Credit Facility and was not aware of any events of default pursuant to the terms of such indebtedness.

*The Intercompany Loan*

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

As of June 30, 2007, approximately \$183.6 million aggregate principal amount of indebtedness was outstanding under the Intercompany Note. The Intercompany Loan contains covenants that are substantially the same as those provided in the terms of the Senior Credit Facility. The Intercompany Loan and the guaranty of the Intercompany Loan by certain subsidiaries of the Company were pledged by CSC to secure the repayment of the 11% Senior Secured Notes.

At June 30, 2007, 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.

**Merger Agreement**

On June 14, 2007, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Spin Holdco Inc., a Delaware corporation ("Parent"), and Spin Acquisition Co., a Delaware corporation and wholly owned subsidiary of Parent ("Merger Sub"),

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pursuant to which Merger Sub will be merged with and into the Company (the Merger ), with the Company continuing as the surviving corporation. Parent and Merger Sub are affiliates of Babcock & Brown Limited.

Subject to the terms and conditions of the Merger Agreement, which has been approved by the Board of Directors of the Company, each share of (a) Class A Common Stock, including the shares of Class A Common Stock underlying the units of IDS of the Company, and (b) Class B Common Stock (together with the Class A Common Stock, collectively, the Shares ) issued and outstanding immediately prior to the effective time of the Merger (other than Shares owned by Parent, the Company or their respective subsidiaries or Shares with respect to which appraisal rights have been properly exercised), will be converted into the right to receive \$13.55 in cash (the Merger Consideration ).

At the effective time of the Merger, each award of restricted Class A Common Stock granted under the Company s incentive plans will no longer be restricted and, unless otherwise agreed between Parent and the holder of such restricted Class A Common Stock, will be converted into the right to receive the Merger Consideration.

The consummation of the Merger, as provided in the Merger Agreement, is not conditioned upon Parent s or Merger Sub s ability to obtain financing. Parent has obtained equity and debt financing commitments for the transactions contemplated by the Merger Agreement, the aggregate proceeds of which are expected to be sufficient for Parent to pay all amounts required to consummate the Merger and the other transactions contemplated by the Merger Agreement.

The Company has made customary representations, warranties and covenants in the Merger Agreement, including, among others, covenants not to take certain actions during the period between the execution of the Merger Agreement and the consummation of the Merger. The Company has also agreed not to (a) solicit or facilitate proposals that constitute, or could reasonably be expected to lead to, an alternative proposal to acquire the Company, or (b) engage in any discussions regarding, or provide any confidential information in connection with, any alternative proposal to acquire the Company, in each case except as otherwise provided in the Merger Agreement. The Merger Agreement allows, under certain specified circumstances, the Board of Directors of the Company to change its recommendation in respect of the Merger, to enter into an agreement in respect of an alternative transaction and to recommend or approve an alternative transaction.

Consummation of the Merger is subject to certain conditions, including, among others, (a) approval of the Merger Agreement by the Company s stockholders, (b) absence of any law or order prohibiting the consummation of the Merger, (c) expiration or termination of any applicable waiting periods under the Hart Scott Rodino Antitrust Improvements Act of 1976, (d) each party s respective representations and warranties in the Merger Agreement being true and correct, subject to specified materiality standards contained in the Merger Agreement and (e) material compliance by each party with its respective covenants.

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The Merger Agreement contains certain termination rights for each of the Company and Parent. Upon termination of the Merger Agreement, under specified circumstances (including, among other things, upon termination of the Merger Agreement by the Company if its board of directors authorizes the Company to enter into any letter of intent or agreement relating to an alternative proposal to acquire the Company), the Company will be required to pay Parent a termination fee of \$15 million, plus up to \$2 million in fees and expenses. If the Merger Agreement is terminated by the Company due to the failure of Parent or Merger Sub to perform their respective obligations necessary to consummate the Merger and certain other conditions are met, Parent and Merger Sub will be required to pay the Company a cash fee of \$15 million, plus up to \$2 million in fees and expenses and any outstanding amounts required to be reimbursed to the Company by Parent or Merger Sub under the Merger Agreement. The obligation of Parent and Merger Sub to pay the \$15 million termination fee and up to \$2 million in fees and expenses is supported by an equity commitment letter from Babcock & Brown Investment Holdings Pty Ltd., an affiliate of Parent, in favor of Parent.

On June 14, 2007, Parent entered into a Voting Agreement with Holdings, GTCR-CLC, LLC and certain members of the Company's senior management and a non-management director, pursuant to which, among other things, such parties agreed to vote their respective shares of capital stock of the Company in favor of adoption and approval of the Merger Agreement. The Voting Agreement will terminate upon the earlier to occur of (a) the effective time of the Merger, (b) the date on which the Board of Directors of the Company effects a change of recommendation in accordance with the Merger Agreement, (c) the date on which the Merger Agreement is terminated, and (d) December 30, 2007.

On June 14, 2007, Parent entered into an Exchange Agreement with certain members of senior management of the Company, a non-management director, CLC and the secretary of CLC, pursuant to which, among other things, immediately prior to the effective time of the Merger, such members of senior management and such director will exchange a portion of their shares of the Company for common stock of Parent. As contemplated by the Voting Agreement and the Exchange Agreement, the remainder of their shares of capital stock of the Company which has not been exchanged will be purchased, immediately prior to the effective time of the Merger, by a person or persons designated by Babcock & Brown Spinco LLC, an affiliate of Parent.

**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 June 30, 2007 were approximately \$17.6 million. The primary components of our capital expenditures are (i) machine expenditures, (ii) advance location payments, and (iii) laundry room

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improvements. Additionally, capital expenditures for the three months ending June 30, 2007 include approximately \$0.6 million attributable to technology upgrades. The full impact on revenues and cash flow generated from capital expended on the net increase in the installed base of machines is not expected to be reflected in our financial results until subsequent reporting periods, depending on certain factors, including the timing of the capital expended. While we estimate that we will generate sufficient cash flows from operations to finance anticipated capital expenditures, there can be no assurances that we will be able to do so.

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

|              | <b>Three months ended June 30,</b> |             |               |
|--------------|------------------------------------|-------------|---------------|
|              | <b>2007</b>                        | <b>2006</b> | <b>Change</b> |
| Route        | \$ 16.2                            | \$ 16.0     | \$ 0.2        |
| Rental       | 0.8                                | 0.4         | 0.4           |
| Distribution |                                    |             |               |
| Corporate    | 0.6                                | 1.2         | (0.6)         |
|              | \$ 17.6                            | \$ 17.6     | \$            |

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 June 30, 2007 (in millions of dollars):

|                           | <b>Total</b> | <b>2008</b> | <b>Payments Due in Fiscal Year</b> |             |             |             | <b>After</b> |
|---------------------------|--------------|-------------|------------------------------------|-------------|-------------|-------------|--------------|
|                           |              |             | <b>2009</b>                        | <b>2010</b> | <b>2011</b> | <b>2012</b> |              |
| Long-Term Debt            |              |             |                                    |             |             |             |              |
| Obligations               | \$ 648.8     | \$ 1.8      | \$ 3.2                             | \$ 5.7      | \$ 5.8      | \$ 5.7      | \$ 626.6     |
| Interest on Long-Term     |              |             |                                    |             |             |             |              |
| Debt (1)                  | 389.0        | 40.2        | 53.5                               | 53.1        | 52.6        | 52.2        | 137.4        |
| Capital Lease Obligations |              |             |                                    |             |             |             |              |
| (2)                       | 8.5          | 2.8         | 2.9                                | 1.6         | 1.0         | 0.2         |              |
| Operating Lease           |              |             |                                    |             |             |             |              |
| Obligations               | 34.9         | 6.5         | 7.4                                | 6.3         | 4.6         | 2.8         | 7.3          |
|                           | \$ 1,081.2   | \$ 51.3     | \$ 67.0                            | \$ 66.7     | \$ 64.0     | \$ 60.9     | \$ 771.3     |

(1) As of June 30, 2007, \$566.6 million of our long-term debt outstanding under the Senior Credit Facility term loans was

subject to variable rates of interest. Interest expense on these variable rate borrowings for future years was calculated using a weighted average interest rate of approximately 7.875% based on the Eurodollar rate in effect at June 30, 2007.

In addition, approximately \$82.1 million of our long-term debt outstanding was subject to a fixed interest rate of 11.0%.

In connection with the Senior Credit Facility, Coinmach is a party to two separate interest rate swap agreements totaling \$230.0 million in aggregate notional amount that effectively convert a portion of its floating-rate term loans pursuant to the Senior Credit Facility to a fixed interest rate of approximately 7.40%, thereby





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reducing the impact of interest rate changes on future interest expense.

- (2) Includes both principal and interest.

**Future Capital Needs and Resources**

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

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

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

Other factors, including but not limited to any significant acquisition transactions, the pursuit of any significant new business opportunities, potential material increases in the cost of compliance with regulatory mandates (including state laws imposing heightened energy and water efficiency standards on clothes washers), tax treatment of our debt, unforeseen reductions in occupancy levels, changes in our competitive environment, or unexpected costs associated

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**

with lease renewals, may affect our ability to fund our liquidity needs in the future. In addition, subject to certain limitations contained in the indenture governing the 11% Senior Secured Notes, we may redeem all or part of the then outstanding Class B Common Stock on a pro rata basis. Any exercise by us of such redemption rights will further reduce cash available to fund our liquidity needs.

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

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

Pursuant to recently enacted federal law, commercial clothes washers manufactured after January 1, 2007 is subject to certain federal energy and water efficiency standards. While we have been informed by certain manufacturers that washers not compliant with said standards will be able to be modified without a material increase in cost in order to meet such standards, there can be no assurance that any such affected washers in our installed base will be able to be modified without a material increase in cost or that costs purchasing compliant washers will not increase by a material amount. In addition, new federal standards could be enacted in the future which could result in a significant increase in our capital expenditures and consequently reduce our profit margin. Implementing machines compliant with new laws 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 new standards.

We continuously monitor our debt position and coordinate our capital expenditure program with expected cash flows and projected interest and dividend payments. However, our actual cash requirements may exceed our current expectations. In the event cash flow is lower than anticipated, we expect to either: (i) reduce capital expenditures, (ii) supplement cash flow from operations with borrowings under the Senior Credit Facility, or (iii) evaluate other cost-effective funding alternatives. We expect that substantially all of the cash generated by our

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**

business in excess of operating needs, debt service obligations and reserves will be distributed to the holders of our common stock. As a result, we may not retain a sufficient amount of cash to finance growth opportunities or unanticipated capital expenditure needs or to fund our operations in the event of a significant business downturn. In addition, we may have to forego growth opportunities or capital expenditures that would otherwise be necessary or desirable if we do not find alternative sources of financing. If sources of liquidity are not available or if we cannot generate sufficient cash flow from operations, we might also be required to reduce or eliminate dividends to the extent previously paid or obtain additional sources of funds through capital market transactions, reducing or delaying capital expenditures, refinancing or restructuring our indebtedness, asset sales or financing from third parties, or a combination thereof. Additional sources of funds may not be available or allowed under the terms of our outstanding indebtedness or that of our subsidiaries or, if available, may not have commercially reasonable terms.

**Inflation and Seasonality**

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

**Special Note Concerning Forward Looking Statements**

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

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

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**

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

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

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

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

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

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

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

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

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;

the delay or failure to consummate the proposed Merger, which could negatively impact our business, stock price, financial condition and operations; and

other factors discussed elsewhere in this report and in our other public filings with the SEC, including the Company's Annual Report on Form 10-K/A filed on July 27, 2007.

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**COINMACH SERVICE CORP. AND SUBSIDIARIES**

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

**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 June 30, 2007, we had approximately \$336.6 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 \$6.7 million, assuming the total amount of variable interest rate debt outstanding was \$336.6 million, the balance as of June 30, 2007.

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

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

We do not use derivative financial instruments for trading purposes and are not exposed to 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 June 30, 2007. Based on that evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2007.

**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 June 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, our chief executive officer and our chief financial officer concluded that there has been no change during the quarter ended June 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****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 either our (i) Annual Report on Form 10-K for the fiscal year ended March 31, 2007 or (ii) Annual Report on Form 10-K/A for the fiscal year ended March 31, 2007.

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

Not applicable.

**ITEM 3. Defaults Upon Senior Securities**

Not applicable.

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

None.

**ITEM 5. Other Information**

None.

**ITEM 6. Exhibits****Exhibit****Number****Description**

|       |   |
|-------|---|
| 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: August 9, 2007

/s/ Robert M. Doyle

Robert M. Doyle  
Chief Financial Officer  
(On behalf of registrant and as  
Principal Financial Officer)

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INDEX TO EXHIBITS**

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\* Filed herewith

Furnished  
herewith