COINMACH SERVICE CORP
Form 10-Q
February 14, 2006

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

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

For the quarterly period ended December 31, 2005

or

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

For the transition period from __________ to __________

Commission File Number: 001-32359
Coinmach Service Corp.
(Exact name of registrant as specified in its charter)

Delaware	**20-0809839**
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)
303 Sunnyside Blvd., Suite 70, Plainview, New York	**11803**
(Address of principal executive offices)	(zip code)

Registrant s telephone number, including area code: (516) 349-8555

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

Yes þ No o**.**

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

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. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes o No o

As of the close of business on February 13, 2006, Coinmach Service Corp. had outstanding (i) 27,418,757 shares of Class A common stock, par value $0.01 per share (the Class A Common Stock), (ii) 13,485,811 Income Deposit Securities (the IDSs), (iii) and 24,980,445 shares of Class B common stock, par value $0.01 per share (the Class B Common Stock).

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COINMACH SERVICE CORP. AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands of dollars, except share data)

	December 31, 2005 (Unaudited)	March 31, 2005[1]
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 56,885	$ 57,271
Receivables, net	6,124	6,486
Inventories	12,354	12,432
Assets held for sale		2,475
Prepaid expenses	4,543	4,994
Interest rate swap asset		832
Other current assets	1,820	2,625
Total current assets	81,726	87,115
Advance location payments	67,840	72,222
Property, equipment and leasehold improvements, net of accumulated depreciation and amortization of $385,142 and $329,130	257,793	264,264
Contract rights, net of accumulated amortization of $111,142 and $100,975	300,323	309,698
Goodwill	206,196	204,780
Other assets	19,762	18,597
Total assets	$ 933,640	$ 956,676
LIABILITIES AND STOCKHOLDERS EQUITY:		
Current liabilities:		
Accounts payable and accrued expenses	$ 32,815	$ 33,983
Accrued rental payments	33,763	30,029
Accrued interest	15,816	9,512
Interest rate swap liability	635	
Current portion of long-term debt	54,136	17,704
Total current liabilities	137,165	91,228
Deferred income taxes	61,124	65,546
Long-term debt, less current portion	644,444	690,687
Total liabilities	842,733	847,461
Stockholders equity:		
Class A Common Stock $0.01 par value; 100,000,000 shares authorized; 18,911,532 shares issued and outstanding	189	189
Class B Common Stock $0.01 par value; 100,000,000 shares authorized; 24,980,445 shares issued and outstanding	250	250

Capital in excess of par value	319,211	319,038
Carryover basis adjustment	(7,988)	(7,988)
Accumulated other comprehensive (loss) income, net of tax	(376)	492
Accumulated deficit	(220,379)	(202,754)
Deferred compensation		(12)
Total stockholders equity	90,907	109,215
Total liabilities and stockholders equity	$ 933,640	$ 956,676

See accompanying notes.

1. The March 31, 2005 balance sheet has been derived from the audited consolidated financial statements as of that date.

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COINMACH SERVICE CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(in thousands of dollars, except share data)

	Three Months Ended		Nine Months Ended	
	December 31, 2005	**December 31, 2004**	**December 31, 2005**	**December 31, 2004**
REVENUES	$ 138,744	$ 135,627	$ 404,894	$ 402,076
COSTS AND EXPENSES:				
Laundry operating expenses (exclusive of depreciation and amortization and amortization of advance location payments)	93,767	92,270	274,799	274,902
General and administrative (including stock-based compensation expense of $0, $19, $12 and $56, respectively)	3,571	2,502	9,141	7,229
Depreciation and amortization	19,027	19,029	56,887	57,087
Amortization of advance location payments	5,015	4,928	14,188	14,780
Amortization of intangibles	3,514	3,580	10,485	10,840
Other items, net			310	500
	124,894	122,309	365,810	365,338
OPERATING INCOME	13,850	13,318	39,084	36,738
INTEREST EXPENSE	15,570	14,781	46,216	43,406
INTEREST EXPENSE preferred stock		4,862		18,230
INTEREST EXPENSE escrow interest		941		941
TRANSACTION COSTS	2,620	17,135	2,620	17,135
LOSS BEFORE INCOME TAXES	(4,340)	(24,401)	(9,752)	(42,974)
PROVISION (BENEFIT) FOR INCOME TAXES:				
Current		160		195
Deferred	(1,674)	(8,260)	(3,823)	(10,216)
	(1,674)	(8,100)	(3,823)	(10,021)
NET LOSS	$ (2,666)	$ (16,301)	$ (5,929)	$ (32,953)
Basic and diluted distributed earnings:				
Class A Common Stock	$ 0.21	$	$ 0.62	$
Class B Common Stock	$	$	$	$
Basic and diluted net income (loss):				
Class A Common Stock	$ 0.06	$ (0.52)	$ 0.22	$ (1.22)

Class B Common Stock	$ (0.15)	$ (0.52)	$ (0.40)	$ (1.22)
Weighted average common stock outstanding:				
Class A Common Stock	18,911,532	6,111,111	18,911,532	2,037,037
Class B Common Stock	24,980,445	24,980,445	24,980,445	24,980,445
Cash dividends per Share:				
Class A Common Stock	$ 0.21	$	$ 0.62	$
Class B Common Stock	$	$	$	$

See accompanying notes.

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COINMACH SERVICE CORP. AND SUBSIDIARIES
Condensed Consolidated Statement of Stockholders Equity
For the Nine Months Ended December 31, 2005
(UNAUDITED)
(in thousands of dollars)

	Class A Common Stock	Class B Common Stock	Capital in Excess of Par	Carryover Basis Adjustment	Accumulated Other Comprehensive Income (Loss), net of tax	Accumulated Deficit	Deferred Compensation	Total Stockholders Equity
Balance, March 31, 2005	$ 189	$ 250	$ 319,038	$ (7,988)	$ 492	$ (202,754)	$ (12)	$ 109,215
Comprehensive loss:								
Net loss						(5,929)		(5,929)
Loss on derivative instruments					(868)			(868)
Total comprehensive loss								(6,797)
Dividends						(11,696)		(11,696)
Adjustment to IDS Transaction costs			173					173
Stock based compensation							12	12
Balance, December 31, 2005	$ 189	$ 250	$ 319,211	$ (7,988)	$ (376)	$ (220,379)		$ 90,907

See accompanying notes.

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

	Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2004
OPERATING ACTIVITIES:		
Net loss	$ (5,929)	$ (32,953)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	56,887	57,087
Amortization of advance location payments	14,188	14,780
Amortization of intangibles	10,485	10,840
Deferred income taxes	(3,823)	(10,216)
Interest expense preferred stock		18,230
Premium on redemption of 9% senior notes		11,295
Write-off of deferred financing costs	1,700	3,475
Amortization of deferred issue costs	1,603	1,795
Gain on sale of equipment	(46)	(472)
Stock compensation	12	56
Change in operating assets and liabilities, net of businesses acquired:		
Other assets	(567)	470
Receivables, net	391	(911)
Inventories and prepaid expenses	529	(573)
Accounts payable and accrued expenses, net	2,739	3,104
Accrued interest	6,304	7,108
Net cash provided by operating activities	84,473	83,115
INVESTING ACTIVITIES:		
Additions to property and equipment	(43,431)	(41,019)
Advance location payments to location owners	(9,806)	(13,250)
Acquisition of net assets related to acquisitions of businesses	(3,436)	(613)
Proceeds from sale of investment		277
Proceeds from sale of property and equipment	1,077	653
Net cash used in investing activities	(55,596)	(53,952)
FINANCING ACTIVITIES:		
Proceeds from issuance of IDS		257,983
Proceeds from issuance of third party senior secured notes		20,000
Redemption of preferred stock		(99,208)
Cash dividends paid	(11,696)	
Repayments under credit facility	(240,507)	(19,830)
Proceeds from credit facility	230,000	

Principal payments on capitalized lease obligations		(3,652)		(3,249)
(Repayments to) borrowings from bank and other borrowings		(183)		159
Credit facility issuance costs		(3,225)		
Redemption of 9% Senior Notes				(125,500)
Payment on premium on 9% Senior Notes				(11,295)
IDS and third party senior secured notes issuance costs				(23,597)
Receivables from shareholders				(1)
Net cash used in financing activities		(29,263)		(4,538)
Net (decrease) increase in cash and cash equivalents		(386)		24,625
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		57,271		31,620
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	56,885	$	56,245
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Interest paid	$	38,309	$	35,608
Income taxes paid	$	738	$	199
NON-CASH FINANCING ACTIVITIES:				
Acquisition of fixed assets through capital leases	$	4,531	$	3,770
Transfer of assets held for sale to fixed assets	$	1,936	$	

See accompanying notes.

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

1. Basis of Presentation

The condensed consolidated financial statements include the accounts of Coinmach Service Corp., a Delaware corporation (CSC), and all of its subsidiaries, including Coinmach Corporation, a Delaware corporation (Coinmach). All significant intercompany profits, transactions and balances have been eliminated in consolidation. CSC was incorporated on December 23, 2003 as a wholly-owned subsidiary of Coinmach Holdings, LLC (Holdings). Holdings, a Delaware limited liability company, was formed on November 15, 2002. Unless otherwise specified herein, references to the Company, we, us and our shall 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. (AWA), a Delaware corporation jointly-owned by CSC and Coinmach, the Company rents laundry machines and other household appliances to property owners, managers of multi-family housing properties, and to a lesser extent, individuals and corporate relocation entities. Super Laundry Equipment Corp., a Delaware corporation and a direct wholly-owned subsidiary of Coinmach (Super Laundry), constructs, designs and retrofits laundromats and distributes laundromat equipment.

The IDS Transactions

CSC had no operating activity from the date of its incorporation through November 24, 2004. On November 24, 2004, CSC completed its initial public offerings (collectively, the IPO) of (i) 18,911,532 Income Deposit Securities (IDSs) (including a partial exercise of the underwriters overallotment option on December 21, 2004), at a price to the public of $13.64 per IDS (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 exchanged its capital stock of Coinmach Laundry Corporation, a Delaware corporation (CLC or Laundry Corp.) and all of its shares of common stock of AWA for 24,980,445 shares of the Company s Class B common stock, par value $0.01 per share (the Class B Common Stock), representing all of the Class B Common Stock outstanding, and (ii) CLC, at the time a direct wholly-owned subsidiary of Holdings, became a direct wholly-owned subsidiary of CSC.

The IPO and related transactions and use of proceeds therefrom are referred to herein collectively as the IDS Transactions. The corporate reorganization transactions were recorded by CSC at carryover basis. Accordingly, the accompanying financial statements include the accounts of CLC and its subsidiaries as if they had been wholly-owned by CSC as of the beginning of the earliest period reported. All significant intercompany accounts and transactions have been eliminated.

The proceeds of the IPO were allocated to the Class A Common Stock and the underlying 11% Senior Secured Notes based on their respective relative fair values. The price paid for the IDSs was equivalent to the fair value of $7.50 per share of Class A Common Stock and $6.14 in a principal amount of an 11% Senior Secured Note underlying the IDS, and the fair value of the separate notes was equivalent to their face value.

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

Net proceeds from the IPO were approximately $254.7 million after expenses including underwriting discounts and commissions. CSC used a portion of the proceeds from the IPO to make an intercompany loan (the Intercompany Loan) to Coinmach in the aggregate principal amount of approximately $81.7 million and a capital contribution to CLC aggregating approximately $170.8 million, of which approximately $165.6 million was contributed by CLC to Coinmach. The Intercompany Loan is represented by an intercompany note from Coinmach for the benefit of CSC (the Intercompany Note). The net proceeds were used to (i) redeem a portion of Coinmach s 9% senior notes due 2010 (the 9% Senior Notes) in an aggregate principal amount of $125.5 million (plus approximately $4.5 million of accrued interest and approximately $11.3 million of related redemption premium), which notes were redeemed on December 24, 2004, (ii) repay approximately $15.5 million of outstanding term loans under Coinmach s senior secured credit facility (the Senior Secured Credit Facility) and (iii) redeem approximately $91.8 million of CLC s outstanding Class A Preferred Stock (as defined below) (representing all of its then outstanding Class A Preferred Stock) and approximately $7.4 million of CLC s outstanding Class B Preferred Stock (representing a portion of its then outstanding Class B Preferred Stock).

As a result of the IPO, the Company incurred approximately $23.3 million in issuance costs, including underwriting discounts and commissions, of which approximately $12.3 million was recorded as a reduction of the proceeds from the sale of the equity component of the IDS equity and approximately $11.0 million related to the 11% Senior Secured Notes was capitalized as deferred financing costs to be amortized using the effective interest method through November 24, 2024. The issuance costs were allocated between equity and debt based on the ratio of the respective relative fair values of the components of the IDSs issued. In addition to the issuance costs, CSC incurred certain expenses that were classified as transaction costs on the Consolidated Statements of Operations for the fiscal year ended March 31, 2005, which included (1) the $11.3 million redemption premium on the portion of 9% Senior Notes redeemed, (2) the write-off of the unamortized deferred financing costs related to the redemption of 9% Senior Notes and the repayment of the term loans aggregating approximately $3.5 million, (3) expenses aggregating approximately $1.8 million ($1.5 million was incurred through December 31, 2004) relating to an amendment to the Senior Secured Credit Facility effected on November 15, 2004 to, among other things, permit the IDS Transactions, and (4) special bonuses to senior management related to the IDS Transactions aggregating approximately $0.8 million. CSC incurred additional expenses that were classified as transaction costs on the Consolidated Statements of Operations for the three and nine months ended December 31, 2005 of approximately $0.2 million relating to the IDS Transactions.

The Class A Common Stock Offering

On February 8, 2006, CSC completed a public offering of 10,706,638 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 $88.1 million after deducting underwriting discounts, commissions and other estimated expenses. To the extent required by the indenture governing the 11% Senior Secured Notes, all net proceeds from the Class A Offering were loaned to Coinmach in the form of additional indebtedness under the Intercompany Loan (such additional indebtedness is referred to as the Additional Intercompany Loan). Coinmach distributed the net proceeds from the Class A Offering to CLC who in turn distributed them to the Company.

The net proceeds, upon their distribution to CSC, were used (i) to purchase approximately $48.4 million aggregate principal amount outstanding of the 11% Senior Secured Notes pursuant to the Tender Offer described in Note 5, 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 at a repurchase price of $8.505 per share or approximately $18.7 million, and (iii) for general corporate purposes.

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

Provided CSC is permitted to do so under the terms of its and its subsidiaries outstanding indebtedness, we would be able to merge Laundry Corp. and Coinmach into CSC. We refer to such potential mergers collectively as the Merger Event. If we complete the Merger Event, CSC would become an operating company as well as the direct borrower under the Amended and Restated Credit Facility (as defined below) and sole owner of the capital stock of Coinmach s subsidiaries.

Voting Rights of Common Stock

Pursuant to CSC s amended and restated certificate of incorporation, (i) on all matters for which a vote of CSC stockholders is required, each holder of shares of Class A Common Stock is entitled to one vote per share and (ii) only Class A common stockholders may vote, as a single class, to amend provisions of the certificate of incorporation relating to any change that materially adversely affects voting and dividend rights or restrictions solely to which shares of Class A Common Stock are entitled or subject and does not materially adversely affect the voting, dividend or redemption rights or restrictions solely to which shares of Class B Common Stock are entitled or subject, and any such amendment will require the affirmative vote of the holders of a majority of such class.

In addition, on all matters for which a vote of CSC stockholders is required, each holder of Class B Common Stock is initially entitled to two votes per share. However, if at any time Holdings and certain permitted transferees collectively own less than 25% in the aggregate of our then outstanding shares of Class A Common Stock and Class B Common Stock (subject to adjustment in the event of any split, reclassification, combination or similar adjustments in shares of CSC common stock), at such time, and at all times thereafter, all holders of Class B Common Stock shall only be entitled to one vote per share on all matters for which a vote of CSC stockholders is required. The dividend and redemption rights of Class B common stockholders and their exclusive right to vote on the amendment of certain provisions of CSC s certificate of incorporation would not be affected by such event. Only the Class B stockholders may vote, as a single class, to amend provisions of the certificate of incorporation relating to (i) an increase or decrease in the number of authorized shares of Class B Common Stock or (ii) changes that affect voting, dividend or redemption rights or restrictions solely to which shares of Class B Common Stock are entitled or subject and do not materially adversely affect the dividend or voting rights or restrictions to which the shares of Class A Common Stock are entitled or subject. Any such amendment will require the affirmative vote of the holders of a majority of all the outstanding shares of Class B Common Stock.

On all matters on which all holders of the Company s common stock are entitled to vote, such holders will vote together as a single class, and the a majority of the votes of such class will be required for the approval of any such matter.

Dividends

CSC currently intends to continue paying 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 (beginning with the fiscal year ending March 31, 2006), subject to certain limitations and exceptions with respect to such dividends, if any, payable on June 1, 2006. 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 SERVICE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) (continued)

Coinmach, and applicable law. Payment of dividends on all classes of CSC common stock will not be cumulative.

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

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

In the opinion of management of the Company, these unaudited condensed consolidated financial statements contain all adjustments of a normal recurring nature necessary for a fair presentation of the financial statements for the interim periods presented. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2005.

2. Inventories

Inventory costs for Super Laundry are valued at the lower of cost (first-in, first-out) or market. Inventory costs for AWA and the route business are determined principally by using the average cost method and are stated at the lower of cost or net realizable value. 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):

	December 31, 2005	March 31, 2005
Laundry equipment	$ 8,757	$ 8,882
Machine repair parts	3,597	3,550
	$ 12,354	$ 12,432

3. Assets Held for Sale

During the year ended March 31, 2004, the Company constructed five laundromats that were expected to be sold no later than the end of fiscal 2005. Although the laundromats were not sold, the Company continued to market them through September 30, 2005. The Company had determined that the plan of sale criteria in FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, had been met. At September 30, 2005, the Company had accepted an offer to sell one of the laundromats for a purchase price of approximately $350,000, which closed on October 19, 2005 and which resulted in a write down of the related asset value by approximately $190,000. This write down is reflected in Other Items, net on the Statement of Operations for the nine months ended December 2005. In addition, the Company reclassified the balance of the remaining laundromats from Assets Held for Sale to Fixed Assets because the Company has ceased all marketing efforts and has decided to operate these facilities as part of its retail operations. The amount transferred was approximately $1,936,000 as of

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

December 31, 2005, which represents their historical cost. The Company believes the fair value of these laundromats exceeds the historical cost.

4. Goodwill and Contract Rights

The Company accounts for goodwill in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 142 *Goodwill and Other Intangible Assets* (SFAS 142). 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. SFAS 142 requires a two-step process in evaluating goodwill. In performing the annual goodwill assessment, the first step requires comparing the fair value of the reporting unit to its carrying value. To the extent that the carrying value of the reporting unit exceeds the fair value, the Company would need to perform the second step in the impairment test to measure the amount of goodwill write-off. 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. In step two, the fair value of the reporting unit is allocated to the reporting units assets and liabilities (a hypothetical purchase price allocation as if the reporting unit had been acquired on that date). The implied fair value of goodwill is calculated by deducting the allocated fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit as determined in step one. The remaining fair value, after assigning fair value to all of the reporting units assets and liabilities, represents the implied fair value of goodwill for the reporting unit. If the implied fair value is less than the carrying value of goodwill, an impairment loss equal to the difference would be recognized. 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):

	December 31, 2005	March 31, 2005
Route	$195,026	$195,026
Rental (AWA)	8,253	6,837
Distribution (Super Laundry)	2,917	2,917
	$206,196	$204,780

The Company made an acquisition during the three months ended December 31, 2005, in the rental business unit of approximately $2.2 million, of which approximately $1.4 million was recorded as goodwill.

The Company performed its annual assessment of goodwill as of January 1, 2005 and determined that no impairment existed. The annual impairment test for the 2006 fiscal year will be completed by the Company s fiscal year end. 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, 2006 and each of the next five years is estimated to be as follows (in millions of dollars):

Years ending March 31,	
2006 (remainder of year)	$ 3.4
2007	13.3
2008	13.0
2009	12.6
2010	12.3
2011	12.0

The Company assesses the recoverability of contract rights in accordance with the provisions of SFAS No. 144 *Accounting for the Impairment and Disposal of Long-Lived Assets* (SFAS 144). 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.

5. Long-Term Debt

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

	December 31, 2005	March 31, 2005
IDS 11% Senior Secured Notes	$ 116,117	$ 116,117
Third party 11% Senior Secured Notes	20,000	20,000
9% Senior Notes due 2010	324,500	324,500
Credit facility indebtedness	230,000	240,507
Obligations under capital leases	7,509	6,630
Other long-term debt with varying terms and maturities	454	637
	698,580	708,391
Less current portion	54,136	17,704
	$ 644,444	$ 690,687

11% Senior Secured Notes

The 11% Senior Secured Notes were issued on November 24, 2004 and December 21, 2004 as part of the IPO. At December 31, 2005, there was approximately $136.1 million aggregate principal

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

amount of 11% Senior Secured Notes outstanding, including $20.0 million aggregate principal amount of 11% Senior Secured Notes initially issued separate and apart from IDSs.

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.

On February 8, 2006, the Company completed an offer (which offer commenced on January 5, 2006 and was amended and supplemented on January 17, 2006) to purchase for cash (the Tender Offer) approximately $48.4 million aggregate principal amount of its outstanding 11% Senior Secured Notes. The total consideration offered for each $6.14 principal amount of 11% Senior Secured Notes tendered was $6.754 plus accrued and unpaid interest thereon to, but excluding, the payment date for the 11% Senior Secured Notes. Such consideration consisted of (1) $6.6926 per $6.14 principal amount of 11% Senior Secured Notes and (2) an additional $0.0614 (the Early Tender Payment) per $6.14 principal amount of 11% Senior Secured Notes, which was paid only to such notes which were validly tendered (and not withdrawn) on or prior to 9:00 A.M. New York time on January 25, 2006. The total aggregate amount paid by the Company in order to purchase 11% Senior Secured Notes tendered in the Tender Offer was approximately $53.2 million. On February 13, 2006, as a result of the Tender Offer, there was approximately $87.7 million aggregate principal amount of 11% Senior Secured Notes outstanding.

The Company expects to record a charge to operations of approximately $9.0 million in fiscal quarter ending March 31, 2006, consisting of (i) the premium paid to redeem such 11% Senior Secured Notes, (ii) the Early Tender Payment, (iii) the write-off of a proportionate amount of unamortized deferred financing costs, and (iv) certain direct expenses related to the Tender Offer.

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.

The 11% Senior Secured Notes are secured by a first-priority perfected lien, subject to certain permitted liens, on substantially all of the Company s existing and future assets, including the common stock of AWA, the capital stock of CLC and the Intercompany Note and the related guaranty. The 11% Senior Secured Notes are guaranteed on a senior secured basis by CLC. If the Merger Event were completed, the only lien providing security for the 11% Senior Secured Notes would be a second priority perfected lien (subject to an intercreditor agreement (the Intercreditor Agreement) that was entered into by the trustee under the indenture governing the 11% Senior Secured Notes with the collateral agent under the Amended and Restated Credit Facility (as defined below)) on the capital stock of CSC s direct domestic subsidiaries and 65% of each class of capital stock of CSC s direct foreign subsidiaries, which lien will be contractually subordinated to the liens of the collateral agent under the Amended and Restated Credit Facility pursuant to the Intercreditor Agreement. Consequently, a second priority perfected lien on such capital stock would constitute the only security for the 11% Senior Secured Notes, and the 11% Senior Secured Notes would be effectively subordinated to the obligations outstanding under the Amended and Restated Credit Facility to the extent of the value of such capital stock. If the Merger Event were completed, the subsidiaries of CSC would guarantee the 11% Senior Secured Notes on a senior unsecured basis.

COINMACH SERVICE CORP. AND SUBSIDIARIES
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(UNAUDITED) (continued)

The indenture governing the 11% Senior Secured Notes contains a number of restrictive covenants and agreements applicable to the Company and its 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 the Company s capital stock, the purchase, redemption or other acquisition of any of the Company s 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 the Company s assets.

At December 31, 2005, 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.

9% Senior Notes

On January 25, 2002, Coinmach issued $450 million aggregate principal amount of the 9% Senior Notes. On December 24, 2004, Coinmach used a portion of the proceeds of the IPO to redeem a portion of the 9% Senior Notes in an aggregate principal amount of $125.5 million (plus approximately $4.5 million of accrued interest and approximately $11.3 million of related redemption premium). At December 31, 2005 there was $324.5 million aggregate principal amount of 9% Senior Notes outstanding.

On December 30, 2005, Coinmach delivered notice to the holders of the 9% Senior Notes that, pursuant to the indenture governing such notes, it would retire all of the outstanding 9% Senior Notes on February 1, 2006 at a redemption price equal to 104.5% of the principal amount thereof, plus accrued and unpaid interest thereon. On February 1, 2006, Coinmach used the delayed draw term loans available under the term loan portion of the Amended and Restated Credit Facility (as defined below) to retire all of the $324.5 million outstanding aggregate principal amount of 9% Senior Notes, plus pay approximately $14.6 million of related redemption premium. Coinmach used available cash to pay the approximately $14.6 million regularly scheduled semi-annual aggregate interest payment due on such date. As a result, effective February 1, 2006, no 9% Senior Notes were outstanding.

The retirement of the 9% Senior Notes will result in a charge to operations in the fourth fiscal quarter of approximately $19.1 million consisting of (a) the redemption premium, (b) the write-off of unamortized deferred financing costs, and (c) related fees and expenses.

At December 31, 2005, Coinmach was in compliance with the covenants under the indenture governing the 9% Senior Notes and was not aware of any events of default pursuant to the terms of such indebtedness.

Amended and Restated Credit Facility

On January 25, 2002, Coinmach entered into the Senior Secured Credit Facility, which was comprised of: (i) a revolving credit facility with a maximum borrowing limit of $75 million and (ii) $280 million in aggregate principal amount of term loans.

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COINMACH SERVICE CORP. AND SUBSIDIARIES
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(UNAUDITED) (continued)

On December 19, 2005, Coinmach entered into an amendment and restatement of the Senior Secured Credit Facility (such amendment and restatement, the Amended and Restated Credit Facility). The Amended and Restated Credit Facility is comprised of a $570.0 million term loan facility and a $75.0 million revolving credit facility (subject to outstanding letters of credit). The revolver portion of the Amended and Restated Credit Facility also provides a $15.0 million letter of credit facility and short-term borrowings under a swing line facility of up to $7.5 million. The Amended and Restated Credit Facility is secured by a first priority security interest in all of Coinmach s real and personal property and is guaranteed by each of Coinmach s domestic subsidiaries. CLC has pledged the capital stock of Coinmach as collateral under the Amended and Restated Credit Facility for the benefit of the lenders thereunder.

On December 19, 2005, Coinmach borrowed $230.0 million under the term loan facility to refinance approximately $229.3 million aggregate principal amount of then outstanding term debt under the Senior Secured Credit Facility and pay related expenses (the Credit Facility Refinancing). On February 1, 2006, Coinmach used $340.0 million of delayed draw term loans to retire all of the then outstanding $324.5 million aggregate principal amount of 9% Senior Notes (plus approximately $14.6 million of related redemption premium) and to pay related fees and expenses.

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 December 31, 2005, the monthly variable Eurodollar rate was 4.375%.

As a result of the Credit Facility Refinancing, Coinmach incurred approximately $3.2 in issuance costs related to the Amended and Restated Credit Facility, which was capitalized as deferred financing costs to be amortized using the effective interest method through December 19, 2012. In addition to the issuance costs, Coinmach incurred certain expenses that were classified as transaction costs on the Consolidated Statement of Operations for the three and nine months ended December 31, 2005 which included (1) the write-off of the unamortized deferred financing costs related to the Senior Secured Credit Facility term loans repaid aggregating approximately $1.7 million and (2) expenses aggregating approximately $0.7 million related to the Senior Secured Credit Facility that was amended.

The Amended and Restated Credit Facility requires the Company to make certain mandatory repayments, including from (a) 100% of net proceeds from asset sales by the Company and its subsidiaries, (b) 100% of the net proceeds from the issuance of debt (with an exception for proceeds from intercompany loans made by the Company to CSC), (c) 50% of annual excess cash flow of the Company and its subsidiaries, and (d) 100% of the net proceeds from insurance recovery and condemnation events of the Company and its subsidiaries, in each case subject to reinvestment rights, as applicable, and other exceptions generally consistent with the Senior Secured Credit Facility.

The Amended and Restated Credit Facility contains a number of restrictive covenants and agreements applicable to Coinmach which, if the Merger Event were completed, would apply directly to us as borrower under such credit facility, including covenants with respect to limitations on (i) indebtedness; (ii) certain payments (in the form of the declaration or payment of certain dividends or distributions on Coinmach s capital stock or its subsidiaries or the purchase, redemption or other acquisition of any of its or its subsidiaries capital stock); (iii) voluntary prepayments of previously existing indebtedness; (iv) Investments (as defined in the Amended and Restated Credit Facility); (v)

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COINMACH SERVICE CORP. AND SUBSIDIARIES
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(UNAUDITED) (continued)

transactions with affiliates; (vi) liens; (vii) sales or purchases of assets; (viii) conduct of business; (ix) dividends and other payment restrictions affecting subsidiaries; (x) consolidations and mergers; (xi) capital expenditures; (xii) issuances of certain of Coinmach s equity securities; and (xiii) creation of subsidiaries. The Amended and Restated Credit Facility also requires that Coinmach satisfy certain financial ratios, including a maximum leverage ratio and a minimum consolidated interest coverage ratio.

If the Merger Event were completed, CSC would replace Coinmach as the borrower under the Amended and Restated Credit Facility. As a result of the Merger Event, the Amended and Restated Credit Facility would be secured by a first priority security interest in all of CSC s real and personal property and would be guaranteed by each of CSC s domestic subsidiaries.

At December 31, 2005, the $230.0 million of term loan borrowings under the Amended and Restated Credit Facility had an interest rate of approximately 7.81% and the amount available under the revolving credit portion of the Amended and Restated Credit Facility was approximately $68.2 million. Letters of credit under the revolver portion of the Amended and Restated Credit Facility outstanding at December 31, 2005 were approximately $6.8 million.

At December 31, 2005, Coinmach was in compliance with the covenants under the Amended and Restated Credit Facility and was not aware of any events of default pursuant to the terms of such indebtedness.

Intercompany Loan

In connection with the IDS Transactions, CSC made the Intercompany Loan to Coinmach in an initial principal amount of approximately $81.7 million which is eliminated in consolidation. The Intercompany Loan is represented by the Intercompany Note. As a result of the Additional Intercompany Loan on February 8, 2008, the principal amount of indebtedness represented by the Intercompany Note increased to $172.7 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 is a senior unsecured obligation of Coinmach, ranks equally in right of payment with all existing and future senior indebtedness of Coinmach (including indebtedness under the Amended and Restated Credit Facility) and ranks senior in right of payment to all existing and future subordinated indebtedness of Coinmach. Certain of Coinmach s domestic restricted subsidiaries guarantee the Intercompany Loan on a senior unsecured basis. As a result of the retirement on February 1, 2006 of all the outstanding 9% Senior Notes, the Intercompany Loan contains covenants that are substantially the same as those provided in the terms of the Amended and Restated Credit Facility. The Intercompany Loan and the guaranty of the Intercompany Loan by certain subsidiaries of the Company were pledged by CSC to secure the repayment of the 11% Senior Secured Notes.

If at any time Coinmach is not prohibited from doing so under the terms of its then outstanding indebtedness, in the event that CSC undertakes an offering of IDSs or Class A Common Stock, a portion of the net proceeds of such offering, subject to certain limitations, will be loaned to Coinmach and increase the principal amount of the Intercompany Loan and the guaranty of the Intercompany Loan.

If the Merger Event were completed, the Intercompany Loan would no longer be outstanding.

At December 31, 2005, 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.

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Interest Rate Swaps

On September 23, 2002, Coinmach entered into three separate interest rate swap agreements totaling $150 million in aggregate notional amount that effectively converts a portion of its floating-rate term loans pursuant to the Senior Secured Credit Facility to a fixed rate basis thus reducing the impact of interest rate changes on future interest expense. The three swap agreements consist of: (i) a $50 million notional amount interest rate swap transaction with a financial institution effectively fixing the three-month LIBOR interest rate (as determined therein) at 2.91% and expiring on February 1, 2006; (ii) a $50 million notional amount interest rate swap transaction with a financial institution effectively fixing the three-month LIBOR interest rate (as determined therein) at 2.91% and expiring on February 1, 2006; and (iii) a $50 million notional amount interest rate swap transaction with a financial institution effectively fixing the three-month LIBOR interest rate (as determined therein) at 2.90% and expiring on February 1, 2006. These interest rate swaps used to hedge the variability of forecasted cash flows attributable to interest rate risk were designated as cash flow hedges. The Company recognized an accumulated other comprehensive loss of approximately $0.2 million in the stockholders equity section for the nine months ended December 31, 2005, relating to the interest rate swaps that qualify as cash flow hedges.

On November 17, 2005, Coinmach entered into two separate interest rate swap agreements, effective February 1, 2006, totaling $230.0 million in aggregate notional amount that effectively convert a portion of its floating-rate term loans pursuant to the amended and restated credit facility to a fixed rate basis, thereby reducing the impact of interest rate changes on future interest expense. These two new swap agreements replaced the existing three swap agreements that expired on February 1, 2006. The two swap agreements consist of: (i) a $115.0 million notional amount interest rate swap transaction with a financial institution effectively fixing the three-month LIBOR interest rate (as determined therein) at 4.90% and expiring on November 1, 2010, and (ii) a $115.0 million notional amount interest rate swap transaction with a financial institution effectively fixing the three-month LIBOR interest rate (as determined therein) at 4.89% and expiring on November 1, 2010. These interest rate swaps used to hedge the variability of forecasted cash flows attributable to interest rate risk were designated as cash flow hedges. The Company recognized an accumulated other comprehensive loss of approximately $0.7 million in the stockholders equity section for the nine months ended December 31, 2005, relating to the interest rate swaps that qualify as cash flow hedges.

6. Guarantor Subsidiaries

CLC has guaranteed the 11% Senior Secured Notes referred to in Note 5 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 as of December 31, 2005 and March 31, 2005, the condensed consolidating statement of operations for the three and nine months ended December 31, 2005, and the condensed consolidating statement of cash flows for the nine months ended December 31, 2005 include the condensed consolidating financial information for CSC, CLC and CSC s other indirect subsidiaries. Prior corresponding periods present the condensed consolidating financial information for CLC and CSC s other indirect subsidiaries as if they had been wholly-owned by CSC as of the beginning of the earliest period reported.

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

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

Condensed Consolidating Balance Sheets

	December 31, 2005				
	Coinmach Service Corp.	Coinmach Laundry Corporation	Coinmach Corporation and Subsidiaries	Adjustments and Eliminations	Consolidated
Assets					
Current assets, consisting of cash, receivables, inventory, assets held for sale, prepaid expenses and other current assets	$ 446	$	$ 81,331	$ (51)	$ 81,726
Advance location payments			67,840		67,840
Property, equipment and leasehold improvements, net			257,793		257,793
Intangible assets, net			506,519		506,519
Deferred income taxes		6,955		(6,955)	
Intercompany loans and advances	(294)	49,174		(48,880)	
Investment in subsidiaries	(43,120)	81,843		(38,723)	
Investment in preferred stock	180,851			(180,851)	
Other assets	94,843	149	8,823	(84,053)	19,762
Total assets	$ 232,726	$ 138,121	$ 922,306	$ (359,513)	$ 933,640
Liabilities and Stockholders Equity (Deficit)					
Current liabilities:					
Accounts payable and accrued expenses	$ 4,570	$	$ 80,893	$ (2,434)	$ 83,029
Current portion of long-term debt			54,136		54,136
Total current liabilities	4,570		135,029	(2,434)	137,165
Deferred income taxes	654		67,425	(6,955)	61,124
Long-term debt, less current portion	136,117		508,327		644,444
Loan Payable to Parent			81,670	(81,670)	
Due to parent/subsidiary			48,880	(48,880)	
Preferred stock and dividends payable		180,851		(180,851)	
Total stockholders equity (deficit)	91,385	(42,730)	80,975	(38,723)	90,907
Total liabilities and stockholders equity (deficit)	$ 232,726	$ 138,121	$ 922,306	$ (359,513)	$ 933,640

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

	March 31, 2005				
	Coinmach Service Corp.	Coinmach Laundry Corporation	Coinmach Corporation and Subsidiaries	Adjustments and Eliminations	Consolidated
Assets					
Current assets, consisting of cash, receivables, inventory, assets held for sale, prepaid expenses and other current assets	$ 474	$	$ 86,678	$ (37)	$ 87,115
Advance location payments			72,222		72,222
Property, equipment and leasehold improvements, net			264,264		264,264
Intangible assets, net			514,478		514,478
Deferred income taxes	1,087	2,307		(3,394)	
Intercompany loans and advances	2,060	49,475		(51,535)	
Investment in subsidiaries	(34,770)	99,698		(64,928)	
Investment in preferred stock	186,034			(186,034)	
Other assets	94,866	162	7,619	(84,050)	18,597
Total assets	$ 249,751	$ 151,642	$ 945,261	$ (389,978)	$ 956,676
Liabilities and Stockholders Equity (Deficit)					
Current liabilities:					
Accounts payable and accrued expenses	$ 4,797	$	$ 71,145	$ (2,418)	$ 73,524
Current portion of long-term debt			17,704		17,704
Total current liabilities	4,797		88,849	(2,418)	91,228
Deferred income taxes			68,940	(3,394)	65,546
Long-term debt, less current portion	136,117		554,570		690,687
Loan payable to Parent			81,670	(81,670)	
Due to parent/subsidiary			51,534	(51,534)	
Preferred stock and dividends payable		186,034		(186,034)	
Total stockholders equity (deficit)	108,837	(34,392)	99,698	(64,928)	109,215
Total liabilities and stockholders equity (deficit)	$ 249,751	$ 151,642	$ 945,261	$ (389,978)	$ 956,676

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COINMACH SERVICE CORP. AND SUBSIDIARIES
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(UNAUDITED) (continued)

Condensed Consolidating Statements of Operations

	Three Months Ended December 31, 2005				
	Coinmach Service Corp.	Coinmach Laundry Corporation	Coinmach Corporation and Subsidiaries	Eliminations	Consolidated
Revenues	$	$	$ 138,744	$	$ 138,744
Costs and expenses	859	106	123,929		124,894
Operating (loss) income	(859)	(106)	14,815		13,850
Transaction costs	206		2,414		2,620
Interest expense, net	1,641		13,929		15,570
Interest expense preferred stock	(3,663)	3,663			
Income (loss) before taxes	957	(3,769)	(1528)		(4,340)
Income tax provision (benefit)	431	(1,539)	(566)		(1,674)
	526	(2,230)	(962)		(2,666)
Equity in loss (income) of subsidiaries	3,191	962		(4,153)	
Net loss	$ (2,665)	$ (3,192)	$ (962)	$ 4,153	$ (2,666)

	Three Months Ended December 31, 2004				
	Coinmach Service Corp.	Coinmach Laundry Corporation	Coinmach Corporation and Subsidiaries	Eliminations	Consolidated
Revenues	$	$	$ 135,627	$	$ 135,627
Costs and expenses	111	126	122,072		122,309
Operating (loss) income	(111)	(126)	13,555		13,318
Transaction costs			17,135		17,135
Interest expense, net	644		14,137		14,781
Interest expense preferred stock		4,862			4,862
Interest expense escrow interest			941		941
Loss before taxes	(755)	(4,988)	(18,658)		(24,401)
Income tax benefit	(1,274)	(185)	(6,641)		(8,100)
	519	(4,803)	(12,017)		(16,301)
Equity in loss of subsidiaries	16,820	12,017	(391)	(28,446)	

		(16,301)		(16,820)		(11,626)		28,446		(16,301)
Dividend income						(411)		411		
Net loss	$	(16,301)	$	(16,820)	$	(11,215)	$	28,035	$	(16,301)

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(UNAUDITED) (continued)

Condensed Consolidating Statements of Operations

	Nine Months Ended December 31, 2005				
	Coinmach Service Corp.	Coinmach Laundry Corporation	Coinmach Corporation and Subsidiaries	Eliminations	Consolidated
Revenues	$	$	$ 404,894	$	$ 404,894
Costs and expenses	1,764	324	363,722		365,810
Operating (loss) income	(1,764)	(324)	41,172		39,084
Transaction costs	206		2,414		2,620
Interest expense, net	4,923		41,293		46,216
Interest expense preferred stock	(11,053)	11,053			
Income (loss) before taxes	4,160	(11,377)	(2,535)		(9,752)
Income tax provision (benefit)	1,739	(4,647)	(915)		(3,823)
	2,421	(6,730)	(1,620)		(5,929)
Equity in loss (income) of subsidiaries	8,350	1,620		(9,970)	
Net loss	$ (5,929)	$ (8,350)	$ (1,620)	$ 9,970	$ (5,929)

	Nine Months Ended December 31, 2004				
	Coinmach Service Corp.	Coinmach Laundry Corporation	Coinmach Corporation and Subsidiaries	Eliminations	Consolidated
Revenues	$	$	$ 402,076	$	$ 402,076
Costs and expenses	111	376	364,851		365,338
Operating (loss) income	(111)	(376)	37,225		36,738
Transaction costs			17,135		17,135
Interest expense, net	644		42,762		43,406
Interest expense preferred stock		18,230			18,230
Interest expense escrow interest			941		941
Loss before taxes	(755)	(18,606)	(23,613)		(42,974)
Income tax benefit	(1,274)	(175)	(8,572)		(10,021)
	519	(18,431)	(15,041)		(32,953)
Equity in loss of subsidiaries	33,472	15,041	(851)	(47,662)	

	(32,953)	(33,472)	(14,190)	47,662	(32,953)
Dividend income			(1,227)	1,227	
Net loss	$ (32,953)	$ (33,472)	$ (12,963)	$ 46,435	$ (32,953)

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COINMACH SERVICE CORP. AND SUBSIDIARIES
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(UNAUDITED) (continued)

Condensed Consolidating Statements of Cash Flows

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

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

Condensed Consolidating Statements of Cash Flows (continued)

	Nine Months Ended December 31, 2004				
	Coinmach Service Corp.	Coinmach Laundry Corporation	Coinmach Corporation and Subsidiaries	Eliminations	Consolidated
Operating Activities					
Net income (loss)	$ 519	$ (18,431)	$ (15,041)	$	$ (32,953)
Noncash adjustments	(1,221)	18,147	89,944		106,870
Change in operating assets and liabilities	2,473	(8)	6,733		9,198
Net cash provided by (used in) operating activities	1,771	(292)	81,636		83,115
Investing Activities					
Capital expenditures			(54,269)		(54,269)
Acquisition of assets			(613)		(613)
Proceeds from sale of investment			277		277
Proceeds from sale of property and equipment			653		653
Net cash used in investing activities			(53,952)		(53,952)
Financing Activities					
Repayment of debt			(145,330)		(145,330)
Other financing items	(753)	292	59,583	81,670	140,792
Loan from parent			81,670	(81,670)	
Net cash (used in) provided by financing activities	(753)	292	(4,077)		(4,538)
Net increase in cash and cash equivalents	1,018		23,607		24,625
Cash and cash equivalents, beginning of period			31,620		31,620
Cash and cash equivalents, end of period	$ 1,018	$	$ 55,227	$	$ 56,245

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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. 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, 2005.

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

	Three Months ended December 31,		Nine Months ended December 31,	
	2005	**2004**	**2005**	**2004**
Revenue:				
Route	$ 122,102	$ 119,489	$ 358,618	$ 353,727
All other:				
Rental	9,255	8,617	26,751	25,497
Distribution	7,387	7,521	19,525	22,852
Subtotal	16,642	16,138	46,276	48,349
Total revenue	$ 138,744	$ 135,627	$ 404,894	$ 402,076
EBITDA (1):				
Route	$ 40,734	$ 39,459	$ 118,227	$ 116,188
All other:				
Rental	4,031	3,742	11,243	10,388
Distribution	212	156	625	598
Subtotal	4,243	3,898	11,868	10,986
Other items, net			(310)	(500)
Transaction costs (2)	(2,620)	(17,135)	(2,620)	(17,135)
Corporate expenses	(3,571)	(2,502)	(9,141)	(7,229)
Total EBITDA	38,786	23,720	118,024	102,310
Reconciling items:				
Depreciation and amortization expense, amortization of advance location payments and amortization of intangibles:				
Route	(24,586)	(24,608)	(72,685)	(73,986)
All other	(2,150)	(2,216)	(6,421)	(6,487)
Corporate	(820)	(713)	(2,454)	(2,234)
Total depreciation	(27,556)	(27,537)	(81,560)	(82,707)
Interest expense	(15,570)	(14,781)	(46,216)	(43,406)
Interest expense preferred stock		(4,862)		(18,230)
Interest expense escrow interest		(941)		(941)
Consolidated loss before income taxes	$ (4,340)	$ (24,401)	$ (9,752)	$ (42,974)

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

(2) Amounts have not been added back to EBITDA for the three and nine months ended December 31, 2004 relating to (i) approximately $11.3 million redemption premium on the 9% Senior Notes redeemed, (ii) the write-off of the unamortized deferred financing costs relating to the 9% Senior Notes redeemed and term loans repaid aggregating approximately $3.5 million, (iii) expenses aggregating approximately $1.5 million relating to an amendment to the Senior Secured Credit Facility effected on November 15, 2004 to, among other things, permit the IDS Transactions, and (iv) special bonuses related to the IDS Transactions aggregating approximately $0.8 million. Amounts have not been added back to EBITDA for the three and nine months ended December 31, 2005 relating to (i) the write-off of the unamortized deferred financing costs relating to the Senior Secured Credit Facility term loans repaid aggregating approximately $1.7 million, (ii) expenses aggregating approximately $0.7 million relating to an amendment to the Senior Secured Credit Facility and (iii) additional expenses aggregating approximately $0.2 million relating to the IDS Transactions.

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

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

	Three Months ended December 31,		Nine Months ended December 31,	
	2005	**2004**	**2005**	**2004**
Net loss	$ (2.7)	$ (16.3)	$ (5.9)	$ (32.9)
Benefit for income taxes	(1.7)	(8.1)	(3.8)	(10.0)
Interest expense	15.6	14.8	46.2	43.4
Interest expense preferred stock		4.9		18.2
Interest expense escrow interest		0.9		0.9
Depreciation and amortization	27.6	27.5	81.5	82.7
EBITDA*	$ 38.8	$ 23.7	$ 118.0	$ 102.3

* Amounts have not been added back to EBITDA for the three and nine months ended December 31, 2004 relating to (1) approximately $11.3 million redemption premium on the 9% Senior Notes redeemed, (2) the write-off of the unamortized deferred financing costs relating to the 9% Senior Notes redeemed and term loans repaid aggregating approximately $3.5 million, (3) expenses aggregating approximately $1.5 million relating to an amendment to the Senior Secured Credit Facility effected on November 15, 2004 to, among other things, permit the IDS Transactions, and (4) special bonuses related to the IDS Transactions aggregating approximately $0.8 million. Amounts have not been added back to EBITDA for the three and nine months ended December 31, 2005 relating to (1) the write-off of the unamortized deferred financing costs relating to the Senior Secured Credit Facility term loans repaid aggregating approximately $1.7 million, (2) expenses aggregating approximately $0.7 million relating to an amendment to the Senior Secured Credit Facility and (3) additional expenses aggregating approximately $0.2 million relating to the IDS Transactions.

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8. Income Taxes

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

	December 31, 2005	March 31, 2005
Deferred tax liabilities:		
Accelerated tax depreciation and contract rights	$ 105,375	$ 108,058
Interest rate swap		340
Other	2,058	1,798
	107,433	110,196
Deferred tax assets:		
Net operating loss carryforwards	42,591	41,464
Covenant not to compete	978	1,073
Interest rate swap	259	
Other	2,481	2,113
	46,309	44,650
Net deferred tax liability	$ 61,124	$ 65,546

The net operating loss carryforwards of approximately $102 million expire between fiscal years 2006 through 2025. In addition, the net operating losses are subject to annual limitations imposed under the provisions of the Internal Revenue Code regarding changes in ownership.

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

	Three Months ended December 31,		Nine Months ended December 31,	
	2005	2004	2005	2004
Federal	$ (1,256)	$ (6,440)	$ (2,868)	$ (7,965)
State	(418)	(1,660)	(955)	(2,056)
	$ (1,674)	$ (8,100)	$ (3,823)	$ (10,021)

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

	Three Months ended December 31,		Nine Months ended December 31,	
	2005	2004	2005	2004
Expected tax benefit	$ (1,429)	$ (8,644)	$ (3,323)	$ (15,145)
State tax benefit, net of federal taxes	(272)	(1,078)	(580)	(1,336)
Non deductible interest - Preferred Stock		1,702		6,381
Permanent book/tax differences	27	(80)	80	79

Tax benefit	$ (1,674)	$ (8,100)	$ (3,823)	$ (10,021)

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9. Loss per Common Share

Basic loss per share for the two classes of common stock is calculated by dividing net loss, adjusted for dividends, 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 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. In computing the weighted average number of shares of Class B Common Stock outstanding for the three and nine months ended December 31, 2004, the calculation assumes that the Class B Common Stock was outstanding for the entire three and nine months. Loss per share for each class of common stock under the two class method is presented below (dollars in thousands, except share and per share data):

	Three Months ended December 31,		Nine Months ended December 31,	
	2005	2004	2005	2004
Net loss attributable to				