COINMACH SERVICE CORP
Form 10-Q
August 04, 2006

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

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

For the quarterly period ended June 30, 2006

OR

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

For the transition period from __________ to __________

Commission file number: 001-32359

Coinmach Service Corp.

(Exact name of registrant as specified in its charter)

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

(516) 349-8555

(Registrant s telephone number, including area code)

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

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

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

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

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

Class	Outstanding at July 31, 2006
Class A common stock, $0.01 par value per share	29,113,641 shares
Class B common stock, $0.01 par value per share	23,374,450 shares

The registrant publicly trades Income Deposit Securities (IDSs) and shares of Class A common stock separately 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, 2006, there were 13,003,511 IDSs outstanding.

COINMACH SERVICE CORP. AND SUBSIDIARIES
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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)

	June 30, 2006 (Unaudited)	March 31, 2006[1]
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 34,301	$ 62,008
Receivables, net	6,557	5,635
Inventories	13,630	11,458
Prepaid expenses	4,807	4,375
Interest rate swap asset	5,598	2,615
Other current assets	2,093	1,796
Total current assets	66,986	87,887
Advance location payments	66,574	67,242
Property, equipment and leasehold improvements, net of accumulated depreciation and amortization of $421,254 and $403,024	251,188	252,398
Contract rights, net of accumulated amortization of $117,986 and $114,535	303,367	296,912
Goodwill	207,997	206,196
Other assets	9,822	11,531
Total assets	$ 905,934	$ 922,166
LIABILITIES AND STOCKHOLDERS EQUITY:		
Current liabilities:		
Accounts payable and accrued expenses	$ 36,247	$ 32,656
Accrued rental payments	31,782	33,044
Accrued interest	6,732	3,563
Current portion of long-term debt	4,770	11,151
Total current liabilities	79,531	80,414
Deferred income taxes	51,337	49,984
Long-term debt	652,918	653,102
Total liabilities	783,786	783,500
Stockholders equity:		
Class A Common Stock $0.01 par value; 100,000,000 shares authorized; 29,113,641 shares issued and outstanding	291	291
Class B Common Stock $0.01 par value; 100,000,000 shares authorized; 23,374,450 shares issued and outstanding	234	234
Capital in excess of par value	389,644	389,616
Carryover basis adjustment	(7,988)	(7,988)

Accumulated other comprehensive income, net of tax		3,311		1,547
Accumulated deficit		(263,344)		(245,034)
Total stockholders equity		122,148		138,666
Total liabilities and stockholders equity	$	905,934	$	922,166

See accompanying notes.

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

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

	Three Months Ended June 30, 2006	June 30, 2005
REVENUES	$ 139,285	$ 133,830
COSTS AND EXPENSES:		
Laundry operating expenses (exclusive of depreciation and amortization and amortization of advance location payments)	94,399	90,915
General and administrative (including stock-based compensation expense of $38 and $12, respectively)	3,034	2,523
Depreciation and amortization	18,624	18,932
Amortization of advance location payments	4,900	4,135
Amortization of intangibles	3,560	3,485
	124,517	119,990
OPERATING INCOME	14,768	13,840
INTEREST EXPENSE	13,430	15,331
TRANSACTION COSTS	845	
INCOME (LOSS) BEFORE INCOME TAXES	493	(1,491)
PROVISION (BENEFIT) FOR INCOME TAXES:		
Current	168	
Deferred	133	(516)
	301	(516)
NET INCOME (LOSS)	$ 192	$ (975)
Distributed earnings per share:		
Class A Common Stock	$ 0.21	$ 0.21
Class B Common Stock	$ 0.53	$
Basic and diluted net (loss) income per share:		
Class A Common Stock	$ (0.14)	$ 0.10
Class B Common Stock	$ 0.18	$ (0.11)
Weighted average common stock outstanding:		
Class A Common Stock	29,046,528	18,911,532

Class B Common Stock		23,374,450		24,980,445
Cash dividends per share:				
Class A Common Stock	$	0.21	$	0.21
Class B Common Stock	$	0.53	$	

See accompanying notes.

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

	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Carryover Basis Adjustment	Accumulated Other Comprehensive Income, net of tax	Accumulated Deficit	Stockholders Equity
Balance, March 31, 2006	$ 291	$ 234	$ 389,616	$ (7,988)	$ 1,547	$ (245,034)	$ 138,666
Issuance costs			(9)				(9)
Comprehensive Income:							
Net income						192	192
Gain on derivative instruments					1,764		1,764
Total comprehensive income							1,956
Dividends						(18,502)	(18,502)
Stock-based compensation			37				37
Balance, June 30, 2006	$ 291	$ 234	$ 389,644	$ (7,988)	$ 3,311	$ (263,344)	$ 122,148

See accompanying notes.

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

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005
OPERATING ACTIVITIES:		
Net income (loss)	$ 192	$ (975)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	18,624	18,932
Amortization of advance location payments	4,900	4,135
Amortization of intangibles	3,560	3,485
Deferred income taxes	133	(516)
Amortization of deferred issue costs	200	531
Write off of deferred issue costs	414	
Premium on redemption of 11% senior secured notes due 2024	417	
Gain on sale of equipment	(77)	(112)
Stock based compensation	38	12
Change in operating assets and liabilities, net of businesses acquired:		
Other assets	311	(1,693)
Receivables, net	(751)	295
Inventories and prepaid expenses	(2,177)	853
Accounts payable and accrued expenses, net	1,635	1,479
Accrued interest	3,169	7,094
Net cash provided by operating activities	30,588	33,520
INVESTING ACTIVITIES:		
Additions to property, equipment and leasehold improvements	(14,534)	(15,008)
Advance location payments to location owners	(3,346)	(2,904)
Acquisition of net assets related to acquisitions of businesses, net of cash acquired	(14,541)	
Proceeds from sale of property and equipment	293	299
Net cash used in investing activities	(32,128)	(17,613)
FINANCING ACTIVITIES:		
Repayments under credit facility	(575)	(1,240)
Redemption of 11% senior secured notes due 2024	(5,649)	
Payment of premium on 11% senior secured notes due 2024	(417)	
Principal payments on capitalized lease obligations	(945)	(1,438)
Repayments from bank and other borrowings	(70)	(60)
Debt issuance costs	(9)	
Cash dividends paid	(18,502)	(3,898)

Net cash used in financing activities	(26,167)	(6,636)
Net (decrease) increase in cash and cash equivalents	(27,707)	9,271
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	62,008	57,271
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 34,301	$ 66,542
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 10,061	$ 7,706
Income taxes paid	$ 90	$ 58
NON CASH FINANCING ACTIVITIES:		
Acquisition of fixed assets through capital leases	$ 674	$ 2,664

See accompanying notes.

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

1. Basis of Presentation

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

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

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

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

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

The IDS Transactions

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

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

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. As a result, the Class B Common Stock became owned entirely by Holdings.

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 condensed 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.

Net proceeds from the IPO were approximately $254.5 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, along with available cash, were used to (i) redeem a portion of Coinmach s then outstanding 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 old senior secured credit facility (the Old 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 (as defined below) (representing a portion of its then outstanding Class B Preferred Stock).

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

As a result of the IDS Transactions, the Company incurred approximately $23.5 million in issuance costs, including underwriting discounts and commissions, of which approximately $12.4 million was recorded as a reduction of the proceeds from the sale of the equity component of the IDS equity and approximately $11.1 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 the 9% Senior Notes and the repayment of the term loans aggregating approximately $3.5 million, (3) expenses aggregating approximately $1.8 million relating to an amendment to the Old 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 fiscal year ended March 31, 2006 of approximately $0.3 million relating to the IDS Transactions.

The Class A Common Stock Offering

On February 8, 2006, CSC completed a public offering of 12,312,633 shares of Class A Common Stock (including a full overallotment exercise by the underwriters on February 17, 2006) at a price to the public of $9.00 per share (the Class A Offering). Net proceeds from the Class A Offering, including net proceeds from the exercise of the overallotment option, were approximately $102.7 million after deducting underwriting discounts, commissions and other estimated expenses. To the extent required by the indenture governing the 11% Senior Secured Notes, 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. As a result of the Class A Offering, the Company incurred approximately $8.2 million in issuance costs, including underwriting discounts and commissions, which was recorded as a reduction of the proceeds from its sale of the Class A Common Stock. In addition to the issuance costs, CSC incurred certain expenses that were classified as transaction costs on the Consolidated Statements of Operations for the fiscal year ended March 31, 2006, which included (i) the premium (including an early tender payment of approximately $0.5 million) paid to redeem the 11% Senior Secured Notes of approximately $4.8 million, (ii) the write-off of a proportionate amount of unamortized deferred financing costs of approximately $3.4 million and (iii) certain direct expenses related to the Tender Offer (as defined below) of approximately $1.0 million which included approximately $0.5 million relating to special bonuses.

The net proceeds of the Class A Offering, upon their distribution to CSC, were used (i) to purchase approximately $48.4 million aggregate principal amount outstanding of 11% Senior

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

Secured Notes pursuant to the Tender Offer further described in Note 4, and related fees and expenses, (ii) to repurchase 2,199,413 shares of Class A Common Stock owned by an affiliate of GTCR CLC, LLC (the controlling equity investor in Holdings) at a repurchase price of $8.505 per share or approximately $18.7 million in the aggregate, (iii) to repurchase 1,605,995 shares of Class B Common Stock that had been distributed to equity investors of Holdings (including certain CSC officers and directors) at a repurchase price of $8.505 per share or approximately $13.7 million in the aggregate and (iv) for general corporate purposes.

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

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 common 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 common 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

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

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 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 paid and 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 ended March 31, 2006), subject to certain limitations and exceptions with respect to such dividends, if any. The payment of dividends by CSC on its common stock is subject to the sole discretion of the board of directors of CSC, various limitations imposed by the certificate of incorporation of CSC, the terms of outstanding indebtedness of CSC and Coinmach, and applicable law. Payment of dividends on all classes of CSC common stock will not be cumulative.

2. Inventories

Inventory costs for 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):

	June 30, 2006	March 31, 2006
Laundry equipment	$ 9,743	$ 7,884
Machine repair parts	3,887	3,574
	$ 13,630	$ 11,458

3. Goodwill and Contract Rights

The Company accounts for goodwill in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 142 (SFAS 142) Goodwill and Other Intangible Assets . SFAS 142 requires an annual impairment test of goodwill. Goodwill is further tested between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. 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

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

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):

	June 30, 2006	March 31, 2006
Route	$ 196,827	$ 195,026
Rental	8,253	8,253
Distribution	2,917	2,917
	$ 207,997	$ 206,196

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

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

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

Years ending March 31,	
2007 (remainder of year)	$ 10.5
2008	13.6
2009	13.2
2010	12.9
2011	12.6
2012	12.3

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

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. ASI was a leading laundry service provider to colleges and universities in the mid-west, with 40 years of experience and more than 45 partner schools. Based on a preliminary price allocation, the Company allocated approximately $1.8 million to goodwill, approximately $9.7 million to contract rights and approximately $3.5 million to working capital assets.

4. Long-Term Debt

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

	June 30, 2006	March 31, 2006
Credit facility indebtedness	$ 568,850	$ 569,425
11% Senior Secured Notes	82,067	87,716
Obligations under capital leases	6,450	6,721
Other long-term debt with varying terms and maturities	321	391
	657,688	664,253
Less current portion	4,770	11,151
	$ 652,918	$ 653,102

11% Senior Secured Notes

The 11% Senior Secured Notes were issued on November 24, 2004 and December 21, 2004 as part of the IPO. The 11% Senior Secured Notes, which are scheduled to mature on December 1, 2024, are senior secured obligations of the Company and are redeemable, at the Company s option, in whole or in part, at any time or from time to time, upon not less than 30

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

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, CSC 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 January 25, 2006. The total aggregate amount paid by the Company in order to purchase the 11% Senior Secured Notes tendered in the Tender Offer was approximately $55.1 million, including accrued and unpaid interest thereon of approximately $1.8 million.

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

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, the Intercompany Note and the related guaranty. The 11% Senior Secured Notes are guaranteed on a senior secured basis by CLC. While we presently do not intend to effect the Merger Event, if we were to consummate the Merger Event, 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) 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

COINMACH SERVICE CORP. AND SUBSIDIARIES
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Restated Credit Facility to the extent of the value of such capital stock. If we were to consummate the Merger Event, the subsidiaries of CSC would guarantee the 11% Senior Secured Notes on a senior unsecured basis.

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.

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 at a slight premium. The total aggregate amount paid by the Company in order to purchase the 11% Senior Secured Notes was approximately $6.3 million, including accrued and unpaid interest thereon. At June 30, 2006, there was approximately $82.1 million aggregate principal amount of 11% Senior Secured Notes outstanding.

The Company recorded a charge to operations of approximately $0.8 million in the quarter ended June 30, 2006 which represents the premium paid to purchase such 11% Senior Secured Notes of approximately $0.4 million and the write-off of a proportionate amount of unamortized deferred financing costs of approximately $0.4 million.

At June 30, 2006, the Company was in compliance with the covenants under the indenture governing the 11% Senior Secured Notes and was not aware of any events of default pursuant to the terms of such indebtedness.

Amended and Restated Credit Facility

On December 19, 2005, Coinmach, Laundry Corp. and certain subsidiary guarantors entered into an amendment and restatement of the Old 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

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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 Old 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 June 30, 2006, the monthly variable Eurodollar rate was 5.25%.

As a result of the Credit Facility Refinancing, Coinmach incurred approximately $3.1 million in issuance costs related to the Amended and Restated Credit Facility, which were capitalized as deferred financing costs to be amortized using the effective interest method through December 19, 2012. In addition to the issuance costs, Coinmach incurred certain expenses that were classified as transaction costs on the Consolidated Statement of Operations for the fiscal year ended March 31, 2006, which included (1) the write-off of the unamortized deferred financing costs related to the Old Senior Secured Credit Facility term loans repaid aggregating approximately $1.7 million and (2) expenses aggregating approximately $1.0 million related to the Old Senior Secured Credit Facility that was amended.

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

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)

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(UNAUDITED) (continued)

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

If we were to consummate the Merger Event, 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 June 30, 2006, the $568.9 million of term loan borrowings under the Amended and Restated Credit Facility had an interest rate of approximately 7.75% 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 June 30, 2006 were approximately $6.8 million.

At June 30, 2006, Coinmach was in compliance with the covenants under the Amended and Restated Credit Facility and was not aware of any events of default pursuant to the terms of such indebtedness.

Intercompany Loan

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, 2006 and February 17, 2006, the principal amount of indebtedness represented by the Intercompany Note increased to $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 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.

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

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

At June 30, 2006, Coinmach was in compliance with the covenants under the Intercompany Loan and was not aware of any events of default pursuant to the terms of such indebtedness.

Interest Rate Swaps

On November 17, 2005, Coinmach entered into two separate interest rate swap agreements, effective February 1, 2006, totaling $230.0 million in aggregate notional amount that effectively convert a portion of its floating-rate term loans pursuant to the Amended and Restated Credit Facility to a fixed rate basis, thereby reducing the impact of interest rate changes on future interest expense. The two swap agreements consist of: (i) a $115.0 million notional amount interest rate swap transaction with a financial institution effectively fixing the three-month LIBOR interest rate (as determined therein) at 4.90% and expiring on November 1, 2010, and (ii) a $115.0 million notional amount interest rate swap transaction with a financial institution effectively fixing the three-month LIBOR interest rate (as determined therein) at 4.89% and expiring on November 1, 2010. These interest rate swaps used to hedge the variability of forecasted cash flows attributable to interest rate risk were designated as cash flow hedges. The Company recognized accumulated other comprehensive income of approximately $1.8 million, net of tax, in the stockholders equity section for the quarter ended June 30, 2006, relating to the interest rate swaps that qualify as cash flow hedges.

5. Guarantor Subsidiaries

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

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

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

Condensed Consolidating Balance Sheets

	June 30, 2006				
	Coinmach Service Corp.	Coinmach Laundry Corporation	Coinmach Corporation And Subsidiaries	Adjustments and Eliminations	Consolidated
Assets					
Current assets, consisting of cash, receivables, inventory, prepaid expenses and other current assets	$ 948	$	$ 66,099	$ (61)	$ 66,986
Advance location payments			66,574		66,574
Property, equipment and leasehold improvements, net			251,188		251,188
Intangible assets, net			511,364		511,364
Deferred income taxes		731		(731)	
Intercompany loans and advances	(7,057)			7,057	
Due from Parent		49,154		(49,154)	
Investment in subsidiaries	(154,794)	(39,572)		194,366	
Investment in preferred stock	164,675			(164,675)	
Other assets	195,077		3,398	(188,653)	9,822
Total assets	$ 198,849	$ 10,313	$ 898,623	$ (201,851)	$ 905,934
Liabilities and Stockholders Equity (Deficit)					
Current liabilities:					
Accounts payable and accrued expenses	$ 3,925	$ 42	$ 75,944	$ (5,150)	$ 74,761
Current portion of long-term debt			4,770		4,770
Total current liabilities	3,925	42	80,714	(5,150)	79,531
Deferred income taxes	(8,901)		60,969	(731)	51,337
Long-term debt, less current portion	82,067		570,851		652,918
Loan Payable to Parent			183,564	(183,564)	
Due to parent/subsidiary			42,097	(42,097)	
Preferred stock and dividends payable		164,675		(164,675)	
Total stockholders equity (deficit)	121,758	(154,404)	(39,572)	194,366	122,148
Total liabilities and stockholders equity (deficit)	$ 198,849	$ 10,313	$ 898,623	$ (201,851)	$ 905,934

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

Condensed Consolidating Balance Sheets (continued)

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

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

Condensed Consolidating Statements of Operations

	Three Months Ended June 30, 2006				
	Coinmach Service Corp.	Coinmach Laundry Corporation	Coinmach Corporation and Subsidiaries	Eliminations	Consolidated
Revenues	$	$	$ 139,285	$	$ 139,285
Costs and expenses	391	105	124,021		124,517
Operating (loss) income	(391)	(105)	15,264		14,768
Transaction costs	845				845
Interest expense, net	(6,094)	3,462	16,062		13,430
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

	Three Months Ended June 30, 2005				
	Coinmach Service Corp.	Coinmach Laundry Corporation	Coinmach Corporation and Subsidiaries	Eliminations	Consolidated
Revenues	$	$	$ 133,830	$	$ 133,830
Costs and expenses	287	114	119,589		119,990
Operating (loss) income	(287)	(114)	14,241		13,840
Interest expense non cash preferred stock dividend	(3,692)	3,692			
Interest expense, net	1,641		13,690		15,331
Income (loss) before taxes	1,764	(3,806)	551		(1,491)
Income tax provision (benefit)	721	(1,493)	256		(516)
	1,043	(2,313)	295		(975)
Equity in loss (income) of subsidiaries	2,018	(295)		(1,723)	
Net (loss) income	$ (975)	$ (2,018)	$ 295	$ 1,723	$ (975)

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

Condensed Consolidating Statements of Cash Flows

	Three Months Ended June 30, 2006				
	Coinmach Service Corp.	Coinmach Laundry Corporation	Coinmach Corporation And Subsidiaries	Eliminations	Consolidated
Operating Activities					
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
Investing Activities					
Capital expenditures			(17,880)		(17,880)
Acquisition of assets			(14,541)		(14,541)
Proceeds from sale of property and equipment			293		293
Net cash used in investing activities			(32,128)		(32,128)
Financing Activities					
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)

Condensed Consolidating Statements of Cash Flows (continued)

	Three Months Ended June 30, 2005				
	Coinmach Service Corporation	Coinmach Laundry Corporation	Coinmach Corporation and Subsidiaries	Elimination	Consolidated
Operating Activities					
Net income (loss)	$ 1,043	$ (2,313)	$ 295	$	$ (975)
Noncash adjustments	(2,837)	2,211	27,093		26,467
Change in operating assets and liabilities	(8)	5	8,031		8,028
Net cash (used in) provided by operating activities	(1,802)	(97)	35,419		33,520
Investing Activities					
Capital expenditures			(17,912)		(17,912)
Proceeds from sale of property and equipment			299		299
Net cash used in investing activities			(17,613)		(17,613)
Financing Activities					
Repayment of debt			(1,240)		(1,240)
Other financing items	1,802	97	(7,295)		(5,396)
Net cash provided by (used in) financing activities	1,802	97	(8,535)		(6,636)
Net increase in cash and cash equivalents			9,271		9,271
Cash and cash equivalents, beginning of period	431		56,840		57,271
Cash and cash equivalents, end of period	$ 431	$	$ 66,111	$	$ 66,542

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COINMACH SERVICE CORP. AND SUBSIDIARIES
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6. Segment Information

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

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

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

	Three months ended June 30,	
	2006	**2005**
Revenue:		
Route	$ 123,978	$ 119,769
All other:		
Rental	9,545	8,648
Distribution	5,762	5,413
Subtotal	15,307	14,061
Total revenue	$ 139,285	$ 133,830
EBITDA (1):		
Route	$ 40,500	$ 39,371
All other:		
Rental	4,122	3,517
Distribution	264	27
Subtotal	4,386	3,544
Transaction costs (2)	(845)	
Corporate expenses	(3,034)	(2,523)
Total EBITDA	41,007	40,392
Reconciling items:		
Depreciation and amortization expense, amortization of advance location payments and amortization of intangibles:		
Route	(23,967)	(23,592)
All other	(2,114)	(2,143)
Corporate	(1,003)	(817)
Total depreciation	(27,084)	(26,552)
Interest expense	(13,430)	(15,331)
Consolidated income (loss) before income taxes	$ 493	$ (1,491)

(1) See description of Non-GAAP Financial Measures

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

(2) The computation of EBITDA for the 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.

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

	Three months ended June 30,	
	2006	**2005**
Net income (loss)	$ 0.2	$ (1.0)
Provision (benefit) for income taxes	0.3	(0.5)
Interest expense	13.4	15.3
Depreciation and amortization	27.1	26.6
EBITDA*	$ 41.0	$ 40.4

* 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)

7. Income Taxes

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

	June 30, 2006	March 31, 2006
Deferred tax liabilities:		
Accelerated tax depreciation and contract rights	$ 94,693	$ 97,084
Interest rate swap	2,288	1,063
Other	2,229	2,123
Total deferred tax liabilities	99,210	100,270
Deferred tax assets:		
Net operating loss carryforwards	52,593	55,430
Covenant not to compete	1,290	1,267
Transaction costs	3,071	2,726
Other	1,649	1,593
Total deferred tax asset	58,603	61,016
Valuation allowance	(10,730)	(10,730)
Net deferred tax assets	47,873	50,286
Net deferred tax liability	$ 51,337	$ 49,984

The net operating loss carryforwards of approximately $129 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.

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

	Three months ended June 30, 2006	Three months ended June 30, 2005
Federal	$ 104	$ (403)
State	197	(113)
	$ 301	$ (516)

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

	Three months ended June 30, 2006	Three months ended June 30, 2005
Expected tax provision (benefit)	$ 173	$ (522)
State tax provision (benefit), net of federal taxes	128	(74)

Permanent book/tax differences				80
Tax provision (benefit)	$	301	$	(516)

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(UNAUDITED) (continued)

8. (Loss) Income per Common Share

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

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

	Three Months Ended June 30, 2006	2005
Net income (loss)	$ 192	$ (975)
Add: Dividends paid on common stock	(18,502)	(3,898)
Undistributed loss available to Class A and Class B common stock	$ (18,310)	$ (4,873)
Basic and diluted allocation of undistributed loss:		
Class A Common Stock	$ (10,146)	$ (2,100)
Class B Common Stock	(8,164)	(2,773)
Total	$ (18,310)	$ (4,873)
Weighted average common stock outstanding:		
Class A Common Stock	29,046,528	18,911,532
Class B Common Stock	23,374,450	24,980,445
Total	52,420,978	43,891,977
Distributed earnings per share:		
Class A Common Stock	$ 0.21	$ 0.21
Class B Common Stock	$ 0.53	$
Undistributed loss per share:		
Class A Common Stock	$ (0.35)	$ (0.11)
Class B Common Stock	$ (0.35)	$ (0.11)
Basic and diluted (loss) income per share:		
Class A Common Stock	$ (0.14)	$ 0.10
Class B Common Stock	$ 0.18	$ (0.11)

On May 10, 2006, the board of directors of CSC declared a quarterly cash dividend of $0.20615 per share of Class A Common Stock (or approximately $6.0 million in aggregate) and a cash dividend of $0.53477 per share of

Class B Common Stock for its fiscal quarter ended March 31, 2005 and the fiscal year ended March 31, 2006 (or $12.5 million in aggregate), which

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cash dividend was paid on June 1, 2006 to holders of record as of the close of business on May 25, 2006.

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

9. Redeemable Preferred Stock and Stockholders Deficit

In July 2000, CLC issued (i) 20.77 shares of Class A preferred stock accruing cash dividends on a quarterly basis at an annual rate of 12.5% (which increased to 14% on November 15, 2002) on the sum of the liquidation value thereof plus accumulated and unpaid dividends thereon (the Class A Preferred Stock), (ii) 53.84 shares of Class B preferred stock accruing cash dividends on a quarterly basis at an annual rate of 8% on the sum of the liquidation value thereof plus accumulated and unpaid dividends thereon (the Class B Preferred Stock and, together with the Class A Preferred Stock, (the Preferred Stock) and (iii) 59,823.30 shares of common stock, par value $2.50 per share (the Common Stock). The Preferred Stock did not have voting rights, had a liquidation value of $2.5 million per share and was mandatory redeemable on July 5, 2010.

On May 15, 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equities. This standard requires, among other things, that any of various financial instruments that are issued in the form of shares that are mandatorily redeemable on a fixed or determinable date be classified as liabilities, any dividends paid on the underlying shares be treated as interest expense, and issuance costs should be deferred and amortized using the interest method. SFAS No. 150 is effective for all financial instruments created or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003 (July 1, 2003 for CLC). As required by SFAS No. 150, accrued and unpaid dividends in fiscal years prior to adoption of SFAS No. 150 were not reclassified to interest expense. Effective April 1, 2003, dividends on the Preferred Stock have been classified as interest expense.

In November 2004 and December 2004, in connection with the IDS Transactions, a portion of the net proceeds from the IPO were used to redeem approximately $91.8 million of CLC s Class A Preferred Stock (representing all of its outstanding Class A Preferred Stock) and approximately $7.4 million of CLC s Class B Preferred Stock. All unredeemed preferred stock of CLC was exchanged by Holdings with CSC for additional shares of Class B Common Stock.

Under CLC s equity participation plan (the Equity Participation Plan), in July 2000, loans were extended by CLC (the EPP Loans) to certain employees for the purchase of CLC common stock at a fixed price per share equal to the fair market value of such common stock at the time of issuance as determined by the board of directors of CLC. Additionally, certain members of senior management of the Company also acquired Class B Preferred Stock at such time. Pursuant to the terms of the Equity Participation Plan, the Preferred Stock was fully vested

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at the time of purchase, and the CLC common stock vested over a specified period, typically over four years.

In March 2003, through a series of transactions, all of the outstanding capital stock of CLC was contributed to Holdings in exchange for substantially equivalent equity interests in the form of common membership units (the Common Units) and preferred membership units (the Preferred Units) in Holdings.

The EPP Loans are payable in installments over ten years and accrue interest at a rate of 7% per annum. There are no shares reserved for future issuance. The Equity Participation Plan contains certain restrictions on the transfer of the Common and Preferred Units.

At June 30, 2006, there were 26,913,222 Common Units and 667 Preferred Units outstanding and all were vested under the Equity Participation Plan.

Previously due installments on the EPP Loans have been forgiven in the ordinary course by the Company on or prior to their respective due dates. As a result, such loans are considered non-recourse and therefore treated as an award of stock requiring the recognition of compensation expense. Such expense is measured at fair value as of the time the stock award vests and is subsequently remeasured for changes in fair value until such time as the measurement date is established (upon forgiveness or repayment of the entire loan). CLC recorded compensation expense of approximately $12,000 for the three month period ended June 30, 2005. There was no amount recorded for the three month period ended June 30, 2006.

10. 2004 Long-Term Incentive Plan

In connection with the IPO, on November 24, 2004, the board of directors of CSC adopted the CSC Long-Term Incentive Plan (the 2004 LTIP). The 2004 LTIP provides for the grant of non-qualified options, incentive stock options, stock appreciation rights, full value awards and cash incentive awards. The maximum number of securities available for awards under the 2004 LTIP is 15% of the aggregate number of outstanding shares of Class A Common Stock and Class B Common Stock immediately following consummation of the IDS Transactions, which equals 6,583,796 shares. As of June 30, 2006, the board of directors of CSC had authorized up to 2,836,729 shares of Class A Common Stock for issuance under the 2004 LTIP.

On January 4, 2006, the compensation committee of the CSC board of directors awarded restricted shares of Class A Common Stock to certain executive officers and resolved to recommend to the board of directors the award of restricted shares of Class A Common Stock to certain board members. On January 26, 2006, the board of directors approved such recommendation. Such awards were granted in aggregate dollar amounts, with the actual number of shares issued determined by dividing the price to the public of the shares of Class A Common Stock issued in the Class A Offering by such dollar amounts, which are described below.

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The restricted stock awards were 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 22,222 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 Restricted Stock Awards) other than executive officers at the discretion of the Company s chief executive officer.

The Restricted Stock Awards to the independent directors were fully vested on the date of grant, and those to the director, the executive officers and the employees vested 20% on the date of grant and the balance at 20% per year over a consecutive four-year period thereafter. In addition, the Restricted Stock Awards to the executive officers and the director vest upon a change of control of CSC or upon the death or disability of the award recipient and contain all of the rights and are subject to all of the restrictions of Class A Common Stock prior to becoming fully vested, including voting and dividend rights.

On February 15, 2006, the Company issued 88,889 restricted shares of Class A Common Stock. The fair value of the restricted stock issued of $9.01 per share will be recorded as compensation expense over the vesting periods. Compensation expense of less than $0.1 million has been recorded for the three months ended June 30, 2006. The Company has estimated the forfeiture rate to be zero.

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

	Shares Outstanding	Weighted Average Fair Value at Date of Contract
Restricted shares unvested at April 1, 2006	67,113	$ 9.01
Vested	4,194	9.01
Restricted shares unvested at June 30, 2006	62,919	$ 9.01

As of June 30, 2006, there was approximately $0.6 million of unrecognized compensation costs related to restricted share compensation arrangements. That cost is expected to be recognized over a weighted average period of 4 years.

COINMACH SERVICE CORP. AND SUBSIDIARIES

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

General

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

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

Overview

We are principally engaged in the business of supplying laundry equipment services to multi-family housing properties. Our most significant revenue source is our route business, which over the last three fiscal years has accounted for approximately 88% of our revenue. Through our route operations, we provide laundry equipment services to locations by leasing laundry rooms from building owners and property management companies, typically on a long-term, renewable basis. In return for the exclusive right to provide these services, most of our contracts provide for commission payments to the location owners. Commission expense (also referred to as rent expense), our single largest expense item, is included in laundry operating expenses and represents payments to location owners. Commissions may be fixed amounts or percentages of revenues and are generally paid monthly. In addition to commission payments, many of our leases require us to make advance location payments to location owners, which are capitalized and amortized over the life of the applicable leases. Advance location payments to location owners are paid, as required by the applicable lease, at the inception or renewal of a lease for the right to operate applicable laundry rooms during the contract period, which generally ranges from 5 to 10 years. The amount of advance location payments varies depending on the size of the location and the term of the lease.

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

COINMACH SERVICE CORP. AND SUBSIDIARIES

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

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

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

Critical Accounting Policies: 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.

Revenue and cash and cash equivalents include an estimate of cash and coin not yet collected at the end of a reporting period, which remain at laundry room locations. We calculate the estimated amount of cash and coin not yet collected at the end of a reporting period, which remain at laundry room locations by multiplying the average daily collection amount applicable to the location with the number of days the location had not been collected. We analytically review the estimated amount of cash and coin not yet collected at the end of a reporting period by comparing such amount with collections subsequent to the reporting period.

We are required to estimate the collectibility of our receivables. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current credit-worthiness of each customer. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Allowance for doubtful accounts at June 30, 2006 was approximately $4.2 million.

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.

We have significant costs in excess of net assets acquired (goodwill), contract rights and long-lived assets. Goodwill is tested for impairment on an annual basis. Additionally, goodwill is 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. We have determined that our reporting units with goodwill consist of our route business, AWA and Super Laundry.

COINMACH SERVICE CORP. AND SUBSIDIARIES

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

Goodwill attributed to the route business, AWA and Super Laundry at June 30, 2006 was approximately $196.8 million, $8.3 million and $2.9 million, respectively. In performing the annual goodwill assessment, the fair value of the reporting unit is compared to its net asset-carrying amount, including goodwill. If the fair value exceeds the carrying amount, then it is determined that goodwill is not impaired. Should the carrying amount exceed the fair value, the second step in the impairment test would be required to be performed to determine the amount of goodwill write-off. The fair value for these tests is based upon a discounted cash flow model. 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 prevailing general economic and market conditions. An annual assessment of goodwill as of January 1, 2006 was performed and it was determined that no impairment existed.

Contract rights represent amounts expended for location contracts arising from the acquisition of laundry machines on location. These amounts arose solely from purchase price allocations pursuant to acquisitions made by us over a number of years based on an analysis of future cash flows. We do not record contract rights relating to new locations signed in the ordinary course of business. We estimate that approximately 90% of our contracts are long-term whereby the average term is approximately 8 years with staggered maturities. Of the remaining locations not subject to long-term agreements, we believe that we have retained a majority of such customers through long-standing relationships and continue to service such customers. Although the contracts have a legal life, there are other factors such as renewals, customer relationships and extensions that contribute to a value greater than the initial contract term. Over 90% of our contracts renew automatically and we have a right of first refusal upon termination in over 60% of our contracts. The automatic renewal clause typically provides that, if the property owner fails to take any action prior to the end of the lease term or any renewal term, the lease will automatically renew on substantially similar terms. In addition, over 85% of our contracts allow for unilateral price increases. Historically, we have demonstrated an ability to renew contracts, retain our customers and build upon those relationships. Since April 1997, we have posted net machine gains, exclusive of acquisitions, and our losses have averaged approximately 3% annually. Therefore, we believe that the cash flows from these contracts continue to be generated beyond the initial legal contract term and subsequent renewal periods. As a result, we believe that the useful lives of contract rights are related to the expected cash flows that are associated with those rights and the amortization periods for contract rights should generally reflect those useful lives and, by extension, the cash flow streams associated with them. The useful lives being used to amortize contract rights range from approximately 30 to 35 years.

We have twenty-eight geographic regions to which contract rights have been allocated, which regions represent the lowest level of identifiable cash flows in grouping contract rights. Each region consists of approximately 1,000 to 8,000 contracts for the various locations/properties that comprise that region. We do not analyze impairment of contract rights on a contract-by-contract basis. Although we have contracts at every location/property and analyze revenue and certain direct costs on a contract-by-contract basis, we do not allocate common region costs and servicing costs to each contract.

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COINMACH SERVICE CORP. AND SUBSIDIARIES

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

We assess the recoverability of location contract rights and long-lived assets on a region-by-region basis. We evaluate the financial performance/cash flows for each region. This evaluation includes analytically comparing the financial results/cash flows and certain statistical performance measures for each region to prior period/year actuals and budgeted amounts. Factors that generally impact cash flows include commission rates paid to property owners, occupancy rates at properties, sensitivity to price increases and the regions general economic conditions. In addition, each year we lose a certain amount of our existing machine base, which essentially equates to loss of contract rights. Such loss has historically averaged approximately 3% annually. The accelerated amortization of contract rights is designed to capture and expense this shrinking machine base. An increase in the historical loss rate would also be a strong indicator of possible impairment of location contract rights and long-lived assets. If based on our initial 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, we reevaluate the carrying value of contract rights and long-lived assets based on future undiscounted cash flows attributed to that region and record 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, we believe that there have not been any indicators of impairment of location contract rights or long-lived assets.

Share-Based Compensation

We adopted SFAS No. 123R as of January 1, 2006 in conjunction with our 2006 Restricted Stock Award discussed in Note 13 of our consolidated financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2006. SFAS 123R requires us to recognize compensation expense for all share-based payments made to employees based on fair value of the share-based payment on the date of grant.

The fair value of all restricted shares is based on the price of our Class A Common Stock on the date of grant.

SFAS 123R also requires that we recognize compensation expense for only the portion of restricted shares that are expected to vest. Therefore, we apply estimated forfeiture rates that are derived from historical employee termination behavior using a stratified model based on the employee s position within the company and the vesting period of the respective restricted shares. If the actual number of forfeitures differs from those estimated by management, additional adjustments to compensation expense may be required in future periods.

Accounting Treatment for IDSs

A portion of the aggregate IDSs outstanding represents 11% Senior Secured Notes recorded as long-term debt. We have concluded that it is appropriate 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. There can be no assurances that the IRS will not seek to challenge the treatment of these notes as debt or the amount of interest expense deducted, although to date we have not been notified that the 11% Senior Secured Notes should be treated as equity rather than debt for U.S. federal and state and local income tax purposes. If the 11% Senior Secured Notes

COINMACH SERVICE CORP. AND SUBSIDIARIES

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

would be required to be treated as equity for income tax purposes, the cumulative interest expense totaling approximately $19.2 million, through June 30, 2006, would not be deductible from taxable income, and 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. We have not and do not currently intend to record a liability for a potential disallowance of this interest expense deduction.

Based on U.S. generally accepted accounting principles, the proceeds of the IDS offering and the proceeds from the offering of the separate 11% Senior Secured Notes were allocated to the shares of Class A Common Stock and the underlying 11% Senior Secured Notes based on their respective relative fair values. The initial public offering price for the IDSs was equivalent to the fair value of $7.50 per share of Class A Common Stock and $6.14 in principal amount of an 11% Senior Secured Notes underlying the IDS and the fair value of the separate 11% Senior Secured Notes was equivalent to their face value.

In addition, we have concluded that there are no embedded derivative features in the IDSs or within the Class B Common Stock which requires separate accounting. The make-whole redemption provision allows us to redeem all or a portion of the 11% Senior Secured Notes prior to the date that is 60 months after November 24, 2004, the closing date of the IPO, at a redemption price that could result in a premium, therefore resulting in an embedded derivative requiring bifurcation. However, the terms of the embedded derivative permit us to redeem the 11% Senior Secured Notes at an amount that will always exceed the fair value of the 11% Senior Secured Notes. As a result, this option will always be out of the money, and, therefore, the value ascribed to the embedded derivative is minimal. Accordingly, we have initially recorded it at a value of zero. The optional redemption provision at scheduled prices allows us to redeem all or part of the 11% Senior Secured Notes at scheduled premium prices. Although the 11% Senior Secured Notes are redeemable at a premium, further analysis under SFAS 133 has led us to conclude that the option is clearly and closely related to the economic characteristics of the 11% Senior Secured Notes and should not be bifurcated. The tax redemption provision allows us to redeem all of the 11% Senior Secured Notes at par if the interest on the 11% Senior Secured Notes is not tax deductible. As a result of the redemption price being at par and the 11% Senior Secured Notes initially recorded without a substantial premium or discount, we have concluded that this option is clearly and closely related to the economic characteristics of the 11% Senior Secured Notes and should not be bifurcated. The change of control put option allows the 11% Senior Secured Notes holders to put the 11% Senior Secured Notes to us at a price equal to 101% of par. Although the 11% Senior Secured Notes are callable at a premium, further analysis under SFAS 133 has led us to conclude that the option is clearly and closely related to the economic characteristics of the 11% Senior Secured Notes and should not be bifurcated, principally because such premium does not cause the investor to double the initial contractual rate of return.

The entire proceeds of the IPO were allocated to the Class A Common Stock and 11% Senior Secured Notes underlying IDSs and the separate 11% Senior Secured Notes, and the allocation of the IDS portion of such proceeds to the Class A Common Stock and the 11% Senior Secured Notes did not result in a substantial premium or discount. Upon subsequent issuances of

COINMACH SERVICE CORP. AND SUBSIDIARIES

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

11% Senior Secured Notes or IDSs, we will evaluate whether there is a substantial discount or premium. We expect that if there is a substantial discount or premium upon a subsequent issuance of notes, certain redemption features of the 11% Senior Secured Notes may be considered not clearly and closely related, and we would separately account for these features as embedded derivates. If the embedded derivates are required to be bifurcated, we will (a) value the derivative, (b) record such value as a reduction of the 11% Senior Secured Notes (discount) with a corresponding derivative liability, (c) accrete the discount on the 11% Senior Secured Notes up to their par value using the effective interest method with a corresponding charge to interest expense, and (d) revalue the derivative liability quarterly with the difference (increase or decrease) recorded to interest expense.

The Class A Common Stock portion of each IDS issued in the IPO and the Class B Common Stock are included in stockholders equity, net of related transaction costs, and dividends paid on the Class A Common Stock and the Class B Common Stock are recorded as a decrease to stockholders equity when declared. The 11% Senior Secured Notes portion of each IDS and the separate 11% Senior Secured Notes are presented as long-term obligations, and the related transaction costs were capitalized as deferred financing fees and amortized to interest expense over the term of these notes. Interest on these notes is charged to interest expense as it is accrued.

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, 2006 and June 30, 2005.

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

	Three months ended June 30,		
	2006	2005	Change
Route	$ 124.0	$ 119.8	$ 4.2
Rental	9.5	8.6	0.9
Distribution	5.8	5.4	0.4
	$ 139.3	$ 133.8	$ 5.5

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

Revenue increased by approximately $5.5 million, or 4%, for the three-month period ended June 30, 2006, as compared to the prior year s corresponding period.

Route revenue for the three months ended June 30, 2006 increased by approximately $4.2 million, or 4%, over the prior year s corresponding period. The increase was primarily due to an improvement in same store sales driven by the Company s pricing strategies and the general recovery in occupancy rates throughout our operating regions, as well as additional revenue generated from the acquisition of substantially all of the assets of ASI. On April 3, 2006, we completed such asset acquisition for a purchase price of $15.0 million subject to the outcome of certain purchase price adjustments. ASI was a leading laundry service provider to colleges and universities in the mid west, with 40 years of experience and more than 45 partner schools.

Rental revenue for the three months ended June 30, 2006 increased by approximately $0.9 million, or 10%, over the prior year s corresponding period. This increase was primarily the result of our continuing internal growth of the machine base in existing areas of operations during the current and prior years, as well as the result of a tuck-in acquisition during the prior year.

Distribution revenue for the three months ended June 30, 2006 increased by approximately $0.4 million, or 7%, from the prior year s corresponding period. The increase was primarily due to increased equipment sales. Sales from the distribution business unit are sensitive to general market conditions and economic conditions.

Laundry operating expenses, exclusive of depreciation and amortization, increased by approximately $3.5 million, or 4%, for the three-month period ended June 30, 2006, 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, 2006 and the three-month period ended June 30, 2005.

The increase in laundry operating expenses was due primarily to (i) an increase in commissions paid of approximately $1.9 million related to increased route revenue, (ii) an increase in energy costs for vehicle fuel and utilities in our laundromats in Texas of approximately $0.5 million primarily due to increased fuel prices, (iii) various laundry operating expenses incurred as a result of the ASI acquisition in the route business of approximately $0.4 million, (iv) an increase in costs related to medical insurance coverage of approximately $0.3 million, (v) increased cost of goods sold of $0.3 million due to increased equipment sales and (vi) other miscellaneous operating costs and expenses that are not material, individually or in the aggregate.

General and administrative expenses increased by approximately $0.5 million for the three-month period ended June 30, 2006, as compared to the prior year s corresponding period. The increase in general and administrative expenses was primarily due to additional professional fees such as audit and legal fees associated with being a public company, as well as related to continued implementation of internal controls and procedures in order to comply with Section 404 of the Sarbanes-Oxley Act of 2002. As a percentage of revenues, general and administrative

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

expenses were both approximately 2% for the three-month periods ended June 30, 2006 and June 30, 2005.

In conjunction with our 2006 Restricted Stock Awards, we adopted SFAS 123R as of January 1, 2006. SFAS 123R requires us to recognize compensation expense for all share-based payments made to employees based on their fair value of share-based payment at the date of grant. For share-based payments granted subsequent to January 1, 2006, compensation expense, based on their fair value on the date of grant, will be recognized in the Consolidated Statements of Operations from the date of grant. For the three month period ended June 30, 2006, we recognized less than $0.1 million to compensation expense in the Consolidated Statements of Operations for share-based payments to employees, which is discussed further in Note 10 to our consolidated financial statements.

Depreciation and amortization expense decreased by approximately $0.3 million, or 2%, for the three-month period ended June 30, 2006, as compared to the prior year s corresponding period. The decrease in depreciation and amortization expense was primarily due to a reduction in depreciation expense relating to reduced capital expenditures made in prior years.

Amortization of advance location payments increased by approximately $0.8 million, or 19%, for the three-month period ended June 30, 2006, as compared to the prior year s corresponding period. The increase in amortization expense is primarily due to the timing of leases signed or renewed as such related advance location payments are capitalized and amortized over the life of the applicable leases.

Amortization of intangibles increased by approximately $0.1 million, or 2%, for the three-month period ended June 30, 2006, as compared to the prior year s corresponding period. The increase was primarily due to additional amortization expense relating to the acquisitions.

Operating income margins were approximately 10.6% for the three-month period ended June 30, 2006, as compared to approximately 10.3% for the prior year s corresponding period. The increase in operating income margin was primarily due to an increase in revenue offset partially by an increase in laundry operating expenses.

Transaction costs for the three month period ended June 30, 2006 of approximately $0.8 million consisted of costs related to the redemption of a portion of the 11% Senior Secured Notes in April 2006.

Interest expense decreased by approximately $1.9 million, or 12%, for the three-month period ended June 30, 2006 as compared to the prior year s corresponding period. The decrease in interest expense was due primarily to the redemption of the 9% Senior Notes in February 2006, which were financed with additional borrowings under the Amended and Restated Credit Facility at a lower rate and the redemption of a portion of the 11% Senior Secured Notes in February 2006. This decrease was partially offset by additional interest expense due to an increase in variable interest rates on the Amended and Restated Credit Facility.

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The provision for income taxes for the three-month period ended June 30, 2006 was approximately $0.3 million as compared to a benefit for income taxes of approximately $0.5 million for the prior year s corresponding period. The change of $0.8 million is primarily due to an increase in operating income. The effective tax rate for the three-month period ended June 30, 2006 was approximately 61% as compared to a benefit of 35% for the prior year s corresponding period. The increased effective tax rate is primarily due the Company reporting operating income in the current period as compared to an operating loss for the corresponding period.

Net income was approximately $0.2 million for the three-month period ended June 30, 2006, as compared to net loss of approximately $1.0 million for the prior year s corresponding period. The change is primarily due to increased revenue and a decrease in interest expense, partially offset by increased operating expenses, amortization of lease bonuses, and income taxes.

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

	Three months ended June 30,		
	2006	**2005**	**Change**
Route	$ 40.5	$ 39.4	$ 1.1
Rental	4.1	3.5	0.6
Distribution	0.3		0.3
Corporate expenses	(3.0)	(2.5)	(0.5)
Transaction costs	(0.9)		(0.9)
Total EBITDA (1)	$ 41.0	$ 40.4	$ 0.6

(1) 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 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

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

EBITDA was approximately $41.0 million for the three months ended June 30, 2006, as compared to approximately $40.4 million for the three months ended June 30, 2005. EBITDA margin was approximately 29.4% for the three months ended June 30, 2006, as compared to 30.2% for the prior year s corresponding period. The increase in EBITDA is primarily attributable to an increase in revenue primarily in the route and rental businesses. The decrease in EBITDA margin is primarily attributable to transaction costs and higher amortization expense of lease bonuses as compared to the prior year s corresponding period.

Liquidity and Capital Resources

We are a holding company with no material assets other than the capital stock of our subsidiaries, the Intercompany Note and the guaranty of such Intercompany Note by certain subsidiaries of Coinmach. Our operating income is generated by our subsidiaries. The Intercompany Note and related guarantees are described below under Financing Activities The Intercompany Loan. Our liquidity requirements, on a consolidated basis, primarily consist of (i) interest payments on the 11% Senior Secured Notes, (ii) interest and regularly scheduled amortization payments with respect to borrowings under the Amended and Restated 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 Amended and Restated Credit Facility. As of June 30, 2006, we had cash and cash equivalents of approximately $34.3 million and available borrowings under the revolver portion of the Amended and Restated Credit Facility of approximately $68.2 million. Letters of credit under the revolver portion of the Amended and Restated Credit Facility outstanding at June 30, 2006 were approximately $6.8 million.

Our stockholders equity was approximately $122.1 million as of June 30, 2006.

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

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Dividend Policy

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

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

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

On May 10, 2006, 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 $0.53477 per share of Class B Common Stock (or $12.5 million in the aggregate) for the fiscal quarter ended March 31, 2005 and the fiscal year ended March 31, 2006 which was paid on June 1, 2006 to holders of record as of the close of business on May 25, 2006.

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

Financing Activities

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

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Additionally, the availability and cost of external financings will depend upon the financial condition of the entities seeking those funds.

The Class A Offering

On February 8, 2006, we completed the Class A Offering of 12,312,633 shares of Class A Common Stock (including a full overallotment exercise by the underwriters on February 17, 2006) at a price to the public of $9.00 per share. Net proceeds from the Class A Offering, including the overallotment option, were approximately $102.7 million, after expenses including underwriting discounts and commissions. The net proceeds were used (i) to complete the purchase of approximately $48.4 million aggregate principal amount outstanding of 11% Senior Secured Notes pursuant to the Tender Offer 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 certain CSC officers and directors) at a repurchase price of $8.505 per share or approximately $13.7 million in the aggregate, and (iv) for general corporate purposes.

The Initial Public Offering

On November 24, 2004, we completed the IPO of 18,333,333 IDSs at a public offering price of $13.64 per IDS and $20 million aggregate principal amount of separate 11% Senior Secured Notes. On December 21, 2004, the underwriters of the IPO purchased an additional 578,199 IDSs pursuant to an overallotment exercise.

Net proceeds from the IPO were approximately $254.5 million, after expenses including underwriting discounts and commissions. The net proceeds (along with available cash) were used to (i) 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), (ii) repay approximately $15.5 million of outstanding term loans under the Old Senior Secured Credit Facility and (iii) redeem approximately $91.8 million of CLC s outstanding Class A Preferred Stock and approximately $7.4 million of CLC s outstanding Class B Preferred Stock.

11% Senior Secured Notes

The 11% Senior Secured Notes were issued on November 24, 2004 and December 21, 2004. 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.

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On February 8, 2006, we completed the Tender Offer, purchasing approximately $48.4 million aggregate principal amount of our 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, which amount included an early tender payment for notes tendered on or prior to a designated early tender payment date. The total aggregate amount paid by us in order to purchase 11% Senior Secured Notes tendered in the Tender Offer was approximately $55.1 million (including accrued and unpaid interest thereon).

On April 28, 2006, we purchased approximately $5.6 million aggregate principal amount of our outstanding 11% Senior Secured Notes in open market purchases, for an aggregate purchase price of approximately $6.3 million (including accrued and unpaid interest thereon).

As of June 30, 2006, there were approximately $82.1 million aggregate principal amount of 11% Senior Secured Notes outstanding.

Interest on the 11% Senior Secured Notes is payable quarterly, in arrears, 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 our existing and future assets, including the common stock of AWA, the capital stock of CLC, the Intercompany Note and the related guaranty. The 11% Senior Secured Notes are guaranteed on a senior secured basis by CLC. If we were to consummate the Merger Event, the only lien providing security for the 11% Senior Secured Notes would be a second priority perfected lien (subject to 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) on the capital stock of our direct domestic subsidiaries and 65% of each class of capital stock of our 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 we were to consummate the Merger Event, our subsidiaries would guarantee the 11% Senior Secured Notes on a senior unsecured basis.

The indenture governing the 11% Senior Secured Notes contains a number of restrictive covenants and agreements applicable to us and our restricted subsidiaries, including covenants with respect to the following matters:
(i) limitation on additional indebtedness; (ii) limitation on certain payments (in the form of the declaration or payment of certain dividends or distributions on our capital stock, the purchase, redemption or other acquisition of any of our capital stock, the voluntary prepayment of subordinated indebtedness, and certain investments); (iii) limitation on transactions with affiliates; (iv) limitation on liens; (v) limitation on sales of assets; (vi) limitation on the issuance of preferred stock by non-guarantor subsidiaries; (vii) limitation on

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

Amended and Restated Credit Facility

On December 19, 2005, Coinmach entered into the Amended and Restated Credit Facility, which amended and restated the Old Senior Secured Credit Facility originally entered into on January 25, 2002. 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 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.

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 Old Senior Secured Credit Facility and pay related expenses. On February 1, 2006, Coinmach used approximately $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 any expenses.

The revolving loans accrue interest, at the borrower 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 the borrower 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. At June 30, 2006, the monthly variable Eurodollar rate was 5.25%.

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

The Amended and Restated Credit Facility contains a number of restrictive covenants and agreements applicable to Coinmach which, if the Merger Event were completed, would apply directly to us as borrower under such credit facility, including covenants with respect to

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limitations on (i) indebtedness; (ii) certain payments (in the form of the declaration or payment of certain dividends or distributions on Coinmach s capital stock or its subsidiaries or the purchase, redemption or other acquisition of any of its or its subsidiaries capital stock); (iii) voluntary prepayments of previously existing indebtedness; (iv) Investments (as defined in the Amended and Restated Credit Facility); (v) transactions with affiliates; (vi) liens; (vii) sales or purchases of assets; (viii) conduct of business; (ix) dividends and other payment restrictions affecting subsidiaries; (x) consolidations and mergers; (xi) capital expenditures; (xii) issuances of certain of Coinmach s equity securities; and (xiii) creation of subsidiaries. The Amended and Restated Credit Facility also requires that Coinmach satisfy certain financial ratios, including a maximum leverage ratio and a minimum consolidated interest coverage ratio.

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.

The Amended and Restated Credit Facility permits, subject to certain conditions, the Merger Event. In particular, the Merger Event is permitted at any time, provided that either (i) after giving effect to the merger event, we had a ratio of consolidated indebtedness less cash and cash equivalents to consolidated EBITDA of no more than 3.9 to 1.0, or (ii) our total consolidated indebtedness at the time of the merger event is at least $50.0 million less than our total consolidated indebtedness on the date the Amended and Restated Credit agreement was entered into, after giving effect to the refinancing of approximately $229.3 million of term debt under the Old Senior Secured Credit Facility (which for such purpose reductions in outstanding revolver loans are disregarded unless accompanied by corresponding permanent commitment reductions). While we presently do not intend to effect the Merger Event, if we were to consummate the Merger Event, we would become the direct borrower under the Amended and Restated Credit Facility and sole owner of the capital stock of Coinmach s subsidiaries. As a result, the Amended and Restated Credit Facility would be secured by a first priority security interest in all of our real and personal property and would be guaranteed by each of our domestic subsidiaries.

At June 30, 2006, the $568.9 million of term loan borrowings under the Amended and Restated Credit Facility had an interest rate of approximately 7.75% 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 June 30, 2006 were approximately $6.8 million.

At June 30, 2006, Coinmach was in compliance with the covenants under the Amended and Restated Credit Facility and was not aware of any events of default pursuant to the terms of such indebtedness.

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The 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, 2006 and February 17, 2006, the principal amount of indebtedness represented by the Intercompany Note increased to $183.6 million. As of June 30, 2006, approximately $183.6 million aggregate principal amount of indebtedness was outstanding under the Intercompany Note. 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 we were to consummate the Merger Event, the Intercompany Loan would no longer be outstanding.

At June 30, 2006, Coinmach was in compliance with the covenants under the Intercompany Loan and was not aware of any events of default pursuant to the terms of such indebtedness.

Operating and Investing Activities

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

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Capital Expenditures

Capital expenditures (net of proceeds from the sale of equipment) for the three months ending June 30, 2006 were approximately $17.6 million. The primary components of our capital expenditures are (i) machine expenditures, (ii) advance location payments, and (iii) laundry room improvements. Additionally, capital expenditures for the three months ending June 30, 2006 include approximately $1.2 million attributable to technology upgrades. The full impact on revenues and cash flow generated from capital expended on the net increase in the installed base of machines is not expected to be reflected in our financial results until subsequent reporting periods, depending on certain factors, including the timing of the capital expended. While we estimate that we will generate sufficient cash flows from operations to finance anticipated capital expenditures, there can be no assurances that we will be able to do so.

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

	Three months ended June 30,		
	2006	**2005**	**Change**
Route	$ 16.0	$ 15.1	$ 0.9
Rental	0.4	0.9	(0.5)
Distribution		0.1	(0.1)
Corporate	1.2	1.5	(0.3)
	$ 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, 2006:

		Payments Due in Fiscal Year					
	Total	**2007**	**2008**	**2009**	**2010**	**2011**	**After**
Long-Term Debt Obligations	$ 651.2	$ 1.8	$ 2.3	$ 3.2	$ 5.8	$ 5.8	$ 632.3
Interest on Long-Term Debt (1)	435.9	39.5	52.6	52.4	52.0	51.6	187.8
Capital Lease Obligations (2)	7.4	2.7	2.6	1.6	0.4	0.1	
Operating Lease Obligations	27.6	6.1	6.3	5.2	4.3	2.5	3.2
	$ 1,122.1	$ 50.1	$ 63.8	$ 62.4	$ 62.5	$ 60.0	$ 823.3

(1) As of June 30, 2006, $568.9 million

of our long-term debt outstanding under the Amended and Restated Credit Facility term loans was subject to variable rates of interest. Interest expense on these variable rate borrowings for future years was calculated using a weighted average interest rate of approximately 7.75% based on the

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Eurodollar rate in effect at June 30, 2006. In addition, approximately $82.1 million of our long-term debt outstanding was subject to a fixed interest rate of 11.0%. In connection with the Amended and Restated Credit Facility, Coinmach is a party to two separate interest rate swap agreements totaling $230.0 million in aggregate notional amount that effectively convert a portion of its floating-rate term loans pursuant to the Amended and Restated Credit Facility to a fixed interest rate of approximately 7.40%, thereby reducing the impact of interest rate changes on future interest expense.

(2) Includes both principal and interest.

Future Capital Needs and Resources

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

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

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

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

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

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

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

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

We continuously monitor our debt position and coordinate our capital expenditure program with expected cash flows and projected interest and dividend payments. However, our actual cash requirements may exceed our current expectations. In the event cash flow is lower than anticipated, we expect to either: (i) reduce capital expenditures, (ii) supplement cash flow from operations with borrowings under the Amended and Restated Credit Facility, or (iii)

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COINMACH SERVICE CORP. AND SUBSIDIARIES

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

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

Inflation and Seasonality

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

Special Note Concerning Forward Looking Statements

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

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

Several important factors, in addition to the specific factors discussed in connection with each forward-looking statement individually, could affect our future results or expectations and

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COINMACH SERVICE CORP. AND SUBSIDIARIES

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

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

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COINMACH SERVICE CORP. AND SUBSIDIARIES

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our principal exposure to market risk relates to changes in interest rates on our long term borrowings. Our operating results and cash flow would be adversely affected by an increase in interest rates. As of June 30, 2006, we had approximately $338.9 million outstanding relating to our variable rate debt portfolio.

Our future earnings, cash flow and fair values relevant to financial instruments are dependent upon prevalent market rates. Market risk is the risk of loss from adverse changes in market prices and interest rates. If market rates of interest on our variable interest rate debt increased by 2.0% (or 200 basis points), our annual interest expense on such variable interest rate debt would increase by approximately $6.8 million, assuming the total amount of variable interest rate debt outstanding was $338.9 million, the balance as of June 30, 2006.

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

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

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

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COINMACH SERVICE CORP. AND SUBSIDIARIES

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, we evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2006. Based on that evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were not effective as of June 30, 2006 due to the continued existence of a material weakness in our internal controls over financial reporting.

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

To remediate the material weakness described above, management has begun to implement additional policies and procedures relating to our accounting for franchise and income taxes. In this regard, we are implementing enhanced control procedures over the accounting and the reconciliation process for franchise and income taxes including instituting monthly reconciliations of all tax related accounts. In addition, we are expanding the role of our tax consultant to assist us in formalizing processes, procedures and documentation standards relating to franchise and income tax accounting resulting in a more timely reconciliation of related account balances and identification of differences between the income tax basis and financial reporting basis of assets and liabilities. We expect to have the remediation completed no later than September 30, 2006.

Changes in Internal Control over Financial Reporting

Additionally, our management, including our chief executive officer and our chief financial officer, also conducted an evaluation of our internal control over financial reporting to determine whether any change occurred during the quarter ended June 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, our chief executive officer and our chief financial officer concluded that there has been no change during the quarter ended June 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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COINMACH SERVICE CORP. AND SUBSIDIARIES

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

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

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

Not applicable.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

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

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 4, 2006

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

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* Filed herewith

Furnished herewith