COINMACH SERVICE CORP
Form 10-Q
February 05, 2007

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

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

For the quarterly period ended December 31, 2006

OR

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

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

COINMACH SERVICE CORP. AND SUBSIDIARIES

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COINMACH SERVICE CORP. AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands of dollars, except share data)

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

March 31, 2006				
Class B Common Stock $0.01 par value; 100,000,000 shares authorized; 23,374,450 shares issued and outstanding		234		234
Capital in excess of par value		389,801		389,616
Carryover basis adjustment		(7,988)		(7,988)
Accumulated other comprehensive income, net of tax		439		1,547
Accumulated deficit		(274,898)		(245,034)
Total stockholders equity		107,880		138,666
Total liabilities and stockholders equity	$	894,792	$	922,166

See accompanying notes.

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

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

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

Basic and diluted net income (loss) per share:								
Class A Common Stock	$	0.11	$	0.06	$	0.05	$	0.22
Class B Common Stock	$	(0.10)	$	(0.15)	$	(0.04)	$	(0.40)
Weighted average common stock outstanding:								
Class A Common Stock		29,060,305		18,911,532		29,052,500		18,911,532
Class B Common Stock		23,374,450		24,980,445		23,374,450		24,980,445
Cash dividends per share:								
Class A Common Stock	$	0.21	$	0.21	$	0.62	$	0.62
Class B Common Stock	$		$		$	0.53	$	

See accompanying notes.

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

	Class A 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)
Issuance of common stock	1						1
Comprehensive loss:							
Net income						652	652
Loss on derivative instruments					(1,108)		(1,108)
Total comprehensive loss							(456)
Dividends						(30,516)	(30,516)
Stock-based compensation			194				194
Balance, December 31, 2006	$ 292	$ 234	$ 389,801	$ (7,988)	$ 439	$ (274,898)	$ 107,880

See accompanying notes.

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

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

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

See accompanying notes.

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

1. Basis of Presentation

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

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

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

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

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

The IDS Transactions and Class A Common Stock Offering

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

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

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

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

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

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

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

Dividends

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

2. Inventories

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

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

3. Goodwill and Contract Rights

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

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

	December 31, 2006	March 31, 2006
Route	$ 197,015	$ 195,026
Rental	8,564	8,253
Distribution	2,917	2,917
	$ 208,496	$ 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)	$ 3.6
2008	13.6
2009	13.3
2010	12.9
2011	12.6
2012	12.3

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

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

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

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

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

4. Long-Term Debt

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

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

11% Senior Secured Notes

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

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

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

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

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

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

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

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

Senior Credit Facility

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

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

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

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

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

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

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

Intercompany Loan

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

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

Interest Rate Swaps

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

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

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

5. Guarantor Subsidiaries

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

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

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

Condensed Consolidating Balance Sheets

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

Total stockholders equity (deficit)										
Total liabilities and stockholders equity (deficit)	$	185,146	$	(946)	$	887,666	$	(177,074)	$	894,792

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

Condensed Consolidating Balance Sheets (continued)

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

Total stockholders equity (deficit)					
Total liabilities and stockholders equity (deficit)	$ 230,188	$ 26,180	$ 914,352	$ (248,554)	$ 922,166

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

Condensed Consolidating Statements of Operations

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

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

Net loss	$ (2,666)	$ (3,192)	$ (962)	$ 4,154	$ (2,666)

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

Condensed Consolidating Statements of Operations

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

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

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

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

Condensed Consolidating Statements of Cash Flows

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

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

Condensed Consolidating Statements of Cash Flows (continued)

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

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

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

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

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

The computation of EBITDA for the three and nine months ended

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

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

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

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

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

approximately
$0.2 million
relating to the
IPO.

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COINMACH SERVICE CORP. AND SUBSIDIARIES
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):

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

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

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

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

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

	Three months ended December 31,	Nine months ended December 31,

	2006	2005	2006	2005
Expected tax provision (benefit)	$ 629	$ (1,429)	$ 670	$ (3,323)
State tax provision (benefit), net of federal taxes	294	(272)	535	(580)
Permanent book/tax differences	23	27	66	80
Tax provision (benefit)	$ 946	$ (1,674)	$ 1,271	$ (3,823)

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

8. Income (Loss) per Common Share

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

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

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

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

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

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

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

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

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

9. 2004 Long-Term Incentive Plan

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

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

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

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

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

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

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

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

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

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

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

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