

COINMACH SERVICE CORP

Form 10-K

June 14, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-K

- 1** ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2006
- or
- 0** TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-32359

Coinmach Service Corp.

(Exact name of registrant as specified in its charter)

Delaware

(State of incorporation)

20-0809839

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

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

(Address of principal executive offices)

11803

(Zip Code)

Registrant's telephone number, including area code:

(516) 349-8555

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Income Deposit Securities, each representing one share of Class A common stock, par value \$0.01 per share, and an 11% Senior Secured Note due 2024 in a principal amount of \$6.14	American Stock Exchange
Class A common stock, par value \$0.01 per share	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer Accelerated filer Non-accelerated filer

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

The registrant has two publicly traded securities listed on the American Stock Exchange: (i) Income Deposit Securities (IDSs) and (ii) Class A common stock, par value \$0.01 per share (the Class A Common Stock). 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 the close of business on May 31, 2006, the registrant had outstanding (i) 12,953,411 IDSs, (ii) 29,113,641 shares of Class A Common Stock (of which 16,160,230 were held separate and apart from IDSs) and (iii) 23,374,450 shares of Class B common stock, par value \$0.01 per share (the Class B Common Stock). As of March 31, 2006, the aggregate market value of the outstanding shares of Class A Common Stock (whether or not underlying IDSs) that were held by non-affiliates of the registrant was approximately \$272,812,995.

In determining the market value of shares of Class A Common Stock, all outstanding shares of Class A Common Stock (whether or not underlying IDSs) were assigned a value equal to the \$9.40 closing price per share of separately held Class A Common Stock, as quoted on the American Stock Exchange on March 31, 2006. In determining the shares of Class A Common Stock held by non-affiliates, securities beneficially owned by directors, officers and holders of more than 10% of the outstanding shares of Class A Common Stock (whether or not underlying IDSs) have been excluded. The determination of the value of the Class A Common Stock and the determination of affiliate status are not necessarily a conclusive determination for other purposes.

DOCUMENTS INCORPORATED BY REFERENCE

Selected designated portions of the registrant's definitive proxy statement to be delivered to stockholders on or before July 16, 2006 in connection with the registrant's 2006 annual meeting of stockholders scheduled to be held July 27, 2006 are incorporated by reference into Part III of this annual report.

COINMACH SERVICE CORP.

FORM 10-K

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(Attached to this Report on Form 10-K)

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PART I

Item 1. BUSINESS

Description of the Business

General

We believe we are the leading provider of outsourced laundry equipment services for multi-family housing properties in North America, based on information provided by the Multi-Housing Laundry Association, a national trade association of multi-housing laundry operators and suppliers. Our core business (which we refer 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. For the fiscal year ended March 31, 2006, our route business represented approximately 89% of our total revenue.

Our long-term contracts with our customers provide us with stable, recurring revenues and consistent cash flows. We estimate that approximately 90% of our locations are subject to long-term contracts with initial terms of five to ten years, most of which have automatic renewal or right of first refusal provisions. In each year since 1997, we have retained on average approximately 97% of our existing machine base.

The existing customer base for our route business is comprised of owners of rental apartment buildings, property management companies, condominiums and cooperatives, universities and other multi-family housing properties. We typically set pricing for the use of laundry machines on location, and the owner or property manager maintains the premises and provides utilities such as natural gas, electricity and water. Our size and scale offer significant advantages over our competitors in terms of operating efficiencies and the quality of service we provide our customers.

We have grown our route business through selective acquisitions in order to expand and geographically diversify our service territories. Since January 1995, we have enhanced our national presence by completing many significant acquisitions (as well as numerous smaller acquisitions that we refer to as tuck ins). As a result of the growth in our washer and dryer machine base, our revenue has increased from approximately \$178.8 million for the twelve months ended March 29, 1996 to approximately \$543.5 million for the fiscal year ended March 31, 2006. We believe this makes us the industry's leading provider, with approximately 19% of the total installed machine base in North America. As a result of this strategy, we have expanded our presence from the northeastern United States to throughout North America.

We have experienced net losses in each fiscal year since 2000, and as of March 31, 2006, we had an accumulated deficit of approximately \$245.0 million and total stockholders' equity of approximately \$138.7 million. As of March 31, 2006, we had approximately \$664.3 million in long-term debt.

In addition to our route business, we rent laundry machines and other household appliances to property owners, managers of multi-family housing properties, individuals and corporate entities through our subsidiary Appliance Warehouse of America, Inc., which we refer to as AWA. AWA is a Delaware corporation that is jointly owned by us and Coinmach Corporation, a Delaware corporation which we refer to as Coinmach Corp. Coinmach Corp. is in turn a wholly-owned subsidiary of our direct wholly-owned subsidiary Coinmach Laundry Corporation, a Delaware corporation which we refer to as Laundry Corp. or CLC. We also operate a laundry equipment distribution business through Super Laundry Equipment Corp., a Delaware corporation and our indirect wholly-owned subsidiary, which

we refer to as Super Laundry.

We believe that our route business represents the industry-leading platform from which to continue the consolidation of the fragmented outsourced laundry equipment industry, as well as potentially develop and offer complementary services to other collections based route businesses such as operators of payphones and parking meters. We intend to grow the route operation, as well as utilize our substantial sales, service, collections and security infrastructure throughout the United States to offer related services to businesses outside our existing laundry business.

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We maintain our headquarters in Plainview, New York, a corporate office in Charlotte, North Carolina, and regional offices throughout the United States through which we conduct operating activities, including sales, service and collections.

Our Industry

The laundry equipment services industry is characterized by stable operating cash flows generated by long-term, renewable lease contracts with multi-family housing property owners and management companies. Based upon industry estimates, we believe there are approximately 3.5 million installed machines in multi-family properties throughout the United States, approximately 2.3 million of which have been outsourced to independent operators such as us and approximately 1.2 million of which continue to be operated by the owners of such locations, which we refer to as owner operators.

We believe the industry's consistent revenue and operating cash flows are primarily due to the long-term nature of location leases and the stable demand for laundry services. When new or renewal leases are signed, industry participants incur initial costs including the cost of washers and dryers, laundry room leasehold improvements and, at times, advance location payments. Property owners and landlords are typically responsible for utilities. Moreover, as the useful life of laundry equipment typically extends throughout the term of the contract pursuant to which it is installed, incremental capital requirements including working capital to service such contracts are not significant. Hence, the industry's operating cash flows and capital requirements are predictable.

Historically, the industry has been characterized by stable demand and has generally been resistant to changing market conditions and economic cycles. While the industry is affected by changes in occupancy rates of residential units, the effect of such changes is limited as laundry services are a necessity for tenants.

The laundry equipment services industry remains highly fragmented, with many small, private and family-owned route businesses operating throughout all major metropolitan areas in the United States. According to information provided by the Multi-housing Laundry Association, the industry consists of over 250 independent operators. We believe that the highly fragmented nature of the industry, combined with the competitive advantages associated with economies of scale, will lead to further consolidation within the industry.

Business Operation

Description of Principal Operations

The primary aspects of our route business operations include: (i) sales and marketing; (ii) location leasing; (iii) service; (iv) information management; (v) remanufacturing and (vi) revenue collection and security.

Sales and Marketing

We market our products and services through a sales staff with an average industry experience of over ten years. The principal responsibility of the sales staff is to solicit customers and negotiate lease arrangements with building owners and managers. Sales personnel are paid commissions that comprise approximately 50% or more of their annual compensation. Selling commissions are based on a percentage of a location's annualized earnings before interest and taxes. Sales personnel must be proficient with the application of sophisticated financial analyses, which calculate minimum returns on investments to achieve our targeted goals in securing location contracts and renewals. We believe that our sales staff is among the most competent and effective in the industry.

Our marketing strategy emphasizes excellent service offered by our experienced, highly-skilled personnel and quality equipment that maximizes efficiency and revenue and minimizes machine downtime. Our sales staff targets potential new and renewal lease locations by utilizing the integrated computer systems extensive database to provide information on our, as well as our competitors locations. Additionally, the integrated computer systems monitor performance, repairs and maintenance, as well as the profitability of locations on a

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daily basis. All sales, service and installation data is recorded and monitored daily on a custom-designed, secured computerized sales planner.

No single customer represents more than 2% of our gross revenue, and our ten largest customers collectively account for less than 10% of our gross revenue.

Location Leasing

Our leases provide us the exclusive right to operate and service the installed laundry machines, including repairs, revenue collection and maintenance. We typically set pricing for the use of the machines on location, and the property owner or property manager maintains the premises and provides utilities such as gas, electricity and water.

In return for the exclusive right to provide laundry equipment services, most of our leases provide for monthly commission payments to the location owners. Under the majority of leases, these commissions are based on a percentage of the cash collected from the laundry machines. Many of our leases require us to make advance location payments to the location owner in addition to commissions. Our leases typically include provisions that allow for unrestricted price increases, a right of first refusal (an opportunity to match competitive bids at the expiration of the lease term) and termination rights if we do not receive minimum net revenues from a lease. We have some flexibility in negotiating our leases and, subject to local and regional competitive factors, may vary the terms and conditions of a lease, including commission rates and advance location payments. We evaluate each lease opportunity through our integrated computer systems to achieve a desired level of return on investments.

We estimate that approximately 90% of our locations are under long-term leases with initial terms of five to ten years. Of the remaining locations not subject to long-term leases, we believe that we have retained a majority of such customers through long-standing relationships and expect to continue to service such customers. Most of our leases renew automatically or have a right of first refusal provision. Our automatic renewal clause typically provides that, if the building owner fails to take any action prior to the end of the original lease term or any renewal term, the lease will automatically renew on substantially similar terms. As of March 31, 2006, based on number of machines, our leases had an average remaining life to maturity of approximately 51 months (without giving effect to automatic renewals).

Service

Our employees deliver, install, service and collect revenue from washers and dryers in laundry facilities at our leased locations.

Our integrated computer systems allow for the quick dispatch of service technicians in response to both computer-generated (for preventive maintenance) and customer-generated service calls. On a daily basis, we receive and respond to approximately 2,500 service calls. We estimate that less than 1% of our machines are out of service on any given day. The ability to reduce machine down-time, especially during peak usage, enhances revenue and improves our reputation with our customers.

In a business that emphasizes prompt and efficient service, we believe that our integrated computer systems provide a significant competitive advantage in terms of responding promptly to customer needs. Computer-generated service calls for preventive maintenance are based on previous service history, repeat service call analysis and monitoring of service areas. These systems coordinate our radio or cellular equipped service vehicles and allow us to address customer needs quickly and efficiently.

In March 2006, we completed the first phase of the implementation of our national call center, service and dispatch system located in Dallas, Texas. In the fiscal year ending March 31, 2007, we expect to substantially complete the roll out of our newly integrated national call center, service and dispatch system to all of our regions. We believe this state of the art system is among the most advanced service and dispatch systems in the industry.

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Information Management

Our integrated computer systems serve three major functions: (i) tracking the service cycle of equipment; (ii) monitoring revenues and costs by location, customer and salesperson; and (iii) providing information on competitors and our lease renewal schedules.

Our integrated computer systems provide speed and accuracy throughout the entire service cycle by integrating the functions of service call entry, dispatching service personnel, parts and equipment purchasing, installation, distribution and collection. In addition to coordinating all aspects of the service cycle, our integrated computer systems track contract performance, which indicate potential machine problems or pilferage and provide data to forecast future equipment servicing requirements. Given the rapid changes in technology, we are constantly working with vendors to upgrade our integrated computer systems to enhance the productivity of our workforce.

Data on machine performance is used by our sales staff to forecast revenue by location. We are able to obtain daily, monthly, quarterly and annual reports on location performance, coin collection, service and sales activity by salesperson.

Our integrated computer systems also provide our sales staff with an extensive secured database essential to our marketing strategy to obtain new business through competitive bidding or owner-operator conversion opportunities.

We also believe that our integrated computer systems enhance our ability to successfully integrate acquired businesses into our existing operations. Regional or certain multi-regional acquisitions have typically been substantially integrated within 90 to 120 days, while a local acquisition can be integrated almost immediately.

During the fiscal quarter ended March 31, 2006, we completed a technology upgrade which we believe will increase efficiency in our customer service, dispatch, field services and collection system.

Remanufacturing

We rebuild and reinstall a portion of our machines at approximately one-third the cost of acquiring new machines. Remanufactured machines are restored to virtually new condition with the same estimated average life and service requirements as new machines. Machines that can no longer be remanufactured are added to our inventory of spare parts.

Revenue Collection and Security

We believe that we provide the highest level of security for revenue collection control in the laundry equipment services industry. We utilize numerous precautionary procedures with respect to cash collection, including frequent alteration of collection patterns and extensive monitoring of collections and personnel. We enforce stringent employee standards and screening procedures for prospective employees. Employees responsible for, or who have access to, the collection of funds are tested randomly and frequently. Additionally, our security department performs trend and variance analyses of daily collections by location. Security personnel monitor locations, conduct investigations, and implement additional security procedures as necessary.

Description of Complementary Operations

Rental Operations

AWA is involved in the business of leasing laundry equipment and other household appliances and electronic items to corporate relocation entities, property owners, managers of multi-family housing properties and individuals. With access to approximately six million individual housing units, we believe this business line represents an opportunity for growth in a new market segment which is complementary to our route business. AWA is the product of two platform acquisitions which were consummated in 1997 and 1998 in Georgia and Texas. As of March 31, 2006, we have organically grown AWA's operations across 27 states. For

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the fiscal year ended March 31, 2006, revenue generated by AWA represented approximately 7% of our total revenue.

Distribution Operations

Super Laundry, an indirect wholly-owned subsidiary, is a laundromat equipment distribution company which was incorporated in 1995. Super Laundry's business consists of constructing complete turnkey retail laundromats, retrofitting existing retail laundromats, distributing exclusive and non-exclusive lines of commercial coin and non-coin operated machines and parts, and selling service contracts. Super Laundry's customers generally enter into sales contracts pursuant to which Super Laundry constructs and equips a complete laundromat operation, including location identification, construction, plumbing, electrical wiring and all required permits. For the fiscal year ended March 31, 2006, revenue generated by Super Laundry represented approximately 5% of our total revenue.

Competition

The laundry equipment services industry is highly competitive, capital intensive and requires reliable and quality service. Despite the overall fragmentation of the industry, we believe there are currently three multi-regional route operators, including us, with significant operations throughout the United States. Our two major multi-regional competitors are Web Service Company, Inc. and Mac-Gray Corp.

We believe our most significant competitive strength is our ability to maximize commissions and/or make advance location payments to location owners while maintaining the highest level of service. We are significantly larger than the next largest competitor, and we are a provider with national presence. As such, we can spread our overhead costs over a larger machine base, allowing us a competitive advantage by offering more attractive pricing terms to our customers. In addition, our national presence enables us to offer large national customers broader coverage in order to service a wider range of their properties.

Employees and Labor Relations

As of March 31, 2006, we employed 1,989 employees. In the Northeast region, 113 hourly workers are represented by Local 966, affiliated with the International Brotherhood of Teamsters. We believe that we maintain a good relationship with our union and non-union employees, and we have never experienced a work stoppage since our inception.

General Development of Business

Our original predecessor entity was founded over 50 years ago as a private, family-run business with operations in New York.

Laundry Corp., our direct wholly-owned subsidiary, was incorporated on March 31, 1995 under the name SAS Acquisitions Inc. in the State of Delaware and is the sole stockholder of all of the common stock of Coinmach Corp., our primary operating subsidiary. In November 1995, The Coinmach Corporation, a Delaware corporation and predecessor of Coinmach Corp., merged with and into Solon Automated Services, Inc., which we refer to as Solon. In connection with the merger with Solon, Laundry Corp. changed its name from SAS Acquisitions Inc., and Solon, the surviving corporation in the merger, changed its name to Coinmach Corporation.

The IDS Offering and Related Transactions

In November and December, 2004, we completed our initial public offering of 18,911,532 IDSs (including a partial overallotment exercise by the underwriters on December 21, 2004) and \$20.0 million aggregate principal amount of

11% senior secured notes due 2024 (the 11% Senior Secured Notes) sold separate and apart from the IDSs, which we refer to as the IPO. In connection with the IPO and the use of proceeds therefrom, we completed certain related transactions, which we refer to collectively as the IDS Transactions. As a result of the IDS Transactions, Holdings, became our controlling stockholder through its

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consolidated ownership of all of our Class B Common Stock, which is entitled to more votes per share than the Class A Common Stock. In addition, AWA became our wholly-owned indirect subsidiary and Laundry Corp. and its subsidiaries (including Coinmach Corp.) became our subsidiaries.

The Class A Common Stock Offering and Related Transactions

On February 8, 2006, we 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 which we refer to as the Class A Offering . In connection with the Class A Offering and the use of proceeds therefrom, we (i) completed the purchase of approximately \$48.4 million aggregate principal amount outstanding of the 11% Senior Secured Notes pursuant to a tender offer (the Tender Offer) described in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Operating and Investing Activities , which amount included payment of related fees and expenses, (ii) repurchased 2,199,413 shares of Class A Common Stock owned by an affiliate of GTCR CLC, LLC at a repurchase price of \$8.505 per share, or approximately \$18.7 million in the aggregate, described in Item 5 Market Price of and Dividends on Our Common Equity and Related Stockholder Matters Issuer Purchases of Equity Securities , (iii) repurchased 1,605,995 shares of Class B Common Stock held by certain directors and officers of CSC at a repurchase price of \$8.505 per share, or approximately \$13.7 million in the aggregate, and (iv) used remaining proceeds for general corporate purposes.

Subject to the satisfaction of certain conditions, the indenture governing the 11% Senior Secured Notes permits us to merge with Laundry Corp. and Coinmach Corp. We refer to such potential mergers collectively as the Merger Event. While we presently do not intend to effect the Merger Event, if we were to satisfy these and other applicable conditions, we would be able to consummate the Merger Event in the future. We would become an operating company as well as the direct borrower under the amended and restated credit facility by and among Coinmach Corp., Laundry Corp., certain subsidiary guarantors, Deutsche Bank Trust Company Americas, as administrative agent and collateral agent, JPMorgan Chase Bank, N.A., as syndication agent, and certain other lending institutions which are a party thereto (the Amended and Restated Credit Facility) and we would become sole owner of the capital stock of Coinmach Corp.'s subsidiaries.

Acquisition of American Sales, Inc.

On April 3, 2006, we completed the acquisition of American Sales, Inc. (ASI) for a purchase price ranging from \$13.7 to \$15.0 million, subject to the outcome of certain purchase price adjustments. ASI is a leading laundry service provider to colleges and universities in the mid-west, with 40 years of experience and more than 45 partner schools. We plan to combine ASI's strength in the college market with our national footprint to develop a national campus laundry solutions platform.

Special Note Regarding 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 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, to be covered by the safe harbor provisions for forward-looking statements in these provisions. These forward-looking statements include, without limitation, statements about our future financial position, adequacy of available cash resources, common stock dividend policy and anticipated payments, business strategy, competition, budgets, projected costs and plans and objectives of management for future operations. These forward-looking statements are usually accompanied by words such as may, will, expect, intend, project, estimate, anticipate, believe, continue and similar expressions. The forward looking information is based on various factors and was derived using numerous assumptions.

Forward-looking statements necessarily involve risks and uncertainties, and our actual results could differ materially from those anticipated in the forward-looking statements due to a number of factors, including those

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

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

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 dividend payments 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;

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 Securities and Exchange Commission (the SEC) or the American Institute of Certified Public Accountants; and

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

Several important factors, in addition to the specific factors discussed in connection with each forward-looking statement individually, could affect our future results or expectations and could cause those results and expectations to differ materially from those expressed in the forward-looking statements contained in this report. These additional

factors include, among other things, future economic, industry, social, competitive and regulatory conditions, 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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Item 1A. RISK FACTORS

Our business faces many risks. The risks described below may not be the only risks we face. Additional risks that we do not yet know of or that we currently believe are immaterial may also impair our business and operations. If any of the events or circumstances described in the following risks actually occur, our business, financial condition or results of operations could suffer, and the trading price of our IDSs or Class A Common Stock could decline.

Risks Relating to Our Business

We have a history of net losses and may not generate profits in the future.

We have experienced net losses in each fiscal year since 2000. We incurred net losses of approximately \$24.6 million and \$35.3 million for the fiscal year ended March 31, 2006 (2006 Fiscal Year) and for the fiscal year ended March 31, 2005 (2005 Fiscal Year), respectively. These losses have resulted from a variety of costs including, but not limited to, non-cash charges such as depreciation and amortization of tangible and intangible assets and debt financing costs resulting from our growth strategy. Continuing net losses limit our ability to service our debt and fund our operations. We may not generate net income from operations in the future.

Our business could suffer if we are unsuccessful in negotiating lease renewals.

Our business is highly dependent upon the renewal of our lease contracts with property owners and management companies. We have historically focused on obtaining long-term, renewable lease contracts, and management estimates that approximately 90% of our locations are subject to long-term leases with initial terms of five to ten years. If we are unable to secure long-term exclusive leases on favorable terms or at all, or if property owners or management companies choose to vacate properties as a result of economic downturns that impact occupancy levels our growth, financial condition and results of operations could be adversely affected.

We may not be able to successfully identify attractive tuck-in acquisitions, successfully integrate acquired operations or realize the intended benefits of acquisitions.

We evaluate from time to time opportunities to acquire local, regional and multi-regional route businesses. This strategy is subject to numerous risks, including:

an inability to obtain sufficient financing to complete our acquisitions;

an inability to negotiate definitive acquisition agreements on satisfactory terms;

difficulty in integrating the operations, systems and management of acquired assets and absorbing the increased demands on our administrative, operational and financial resources;

the diversion of our management's attention from their other responsibilities;

the loss of key employees following completion of our acquisitions;

the failure to realize the intended benefits of our acquisitions; and

our being subject to unknown liabilities.

Our inability to effectively address these risks could force us to revise our business plan, incur unanticipated expenses or forego additional opportunities for expansion.

If our required capital expenditures exceed our projections, we may not have sufficient funding, which could adversely affect our growth, financial condition and results of operations.

We must continue to make capital expenditures relating to our route business to maintain our operating base, including investments in equipment, advance location payments and laundry room improvements. Capital expenditures (net of proceeds from the sale of equipment and investments) in connection with maintaining and

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expanding our machine base for the 2006 Fiscal Year were approximately \$69.3 million (excluding approximately \$3.4 million relating to acquisition capital expenditures and payments of approximately \$4.7 million relating to capital lease obligations) and for the 2005 Fiscal Year were approximately \$70.3 million (excluding approximately \$0.6 million relating to acquisitions and approximately \$4.3 million relating to capital lease payments). We may have unanticipated capital expenditure requirements in the future. If we cannot obtain such capital from increases in our cash flow from operating activities, additional borrowings or other sources, our growth, financial condition and results of operations could suffer materially.

Reduced occupancy levels could adversely affect us.

Extended periods of reduced occupancy can adversely affect our operations. In a period of occupancy decline, we could be faced with reductions in revenues and cash flow from operations in certain areas. In past periods of occupancy decline, we designed incentive programs that were successful in maintaining stable profit margins by offering owners and management companies, financial incentives relating to increased occupancy levels in exchange for certain guaranteed minimum periodic payments. Although we are geographically diversified and our revenue is derived from a large customer base, we may not be able to maintain our revenue levels or cash flow from operations in periods of low occupancy.

Our dividend policy may negatively impact our ability to finance our working capital requirements, capital expenditures or operations.

Further to our dividend policy, since the completion of the IPO, our board of directors has distributed to holders of our common stock substantially all of the cash generated by our business in excess of operating needs and amounts needed to service our indebtedness. If, as expected, we maintain our dividend policy and rate of cash dividend payments, we may not retain a sufficient amount of cash to finance growth opportunities that may arise 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.

Our business could be adversely affected by the loss of one or more of our key personnel.

Continued success will depend largely on the efforts and abilities of our executive officers and certain other key employees. We do not maintain insurance policies with respect to the retention of such employees, and our operations could be affected adversely if, for any reason, such officers or key employees do not remain with us.

Our industry is highly competitive, which could adversely affect our business.

The laundry equipment services industry is highly competitive, capital intensive and requires reliable, quality service. The industry is fragmented nationally, with many small, private and family-owned businesses operating throughout all major metropolitan areas. Notwithstanding the fragmentation of the industry, there are currently three companies, including us, with significant operations in multiple regions throughout the United States. Some of our competitors may possess greater financial and other resources. Furthermore, current and potential competitors may make acquisitions or may establish relationships among themselves or with third parties to increase their ability to compete within the industry. Accordingly, it is possible that new competitors may emerge and rapidly acquire significant market share. If this were to occur, our business, operating results, financial condition and cash flows could be materially adversely affected.

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Our business may be adversely affected by compliance obligations and liabilities under environmental laws and regulations.

Our business and operations are subject to federal, state and local environmental laws and regulations that impose limitations on the discharge of, and establish standards for the handling, generation, emission, release, discharge, treatment, storage and disposal of, certain materials, substances and wastes. To the best of management's knowledge, there are no existing or potential environmental claims against us, nor have we received any notification of responsibility for, or any inquiry or investigation regarding, any disposal, release or threatened release of any hazardous material, substance or waste generated by us that is likely to have a material adverse effect on our business or financial condition. However, we cannot predict with any certainty that we will not in the future incur any liability under environmental laws and regulations that could have a material adverse effect on our business or financial condition.

Recently enacted federal legislation concerning energy and water efficiency standards on commercial clothes washers could require a significant increase in our capital expenditures and consequently reduce our profit margins.

Pursuant to recent amendments to the Energy Policy and Conservation Act, commercial clothes washers manufactured after January 1, 2007 will be subject to certain federal energy and water efficiency standards. We have been informed by certain manufacturers that washers not compliant with such standards may be able to be modified without a material increase in cost in order to meet such standards.

However, if manufacturers are unable to make such modifications without material cost increases or at all, implementing machines compliant with such laws could result in increased capital costs (including material and equipment costs), labor and installation costs, and in some cases, operation and maintenance costs. Our capital expenditures, as well as those of other industry participants, may significantly increase in order to comply with such standards. If we are unable to mitigate such increased capital through price increases, we may be unable to recover such costs and our cash flows from operations would be materially adversely affected.

Risks Relating to Our Securities

We have substantial indebtedness which could restrict our ability to pay interest and principal on the 11% Senior Secured Notes and to pay dividends with respect to the shares of the Class A Common Stock and the shares of Class B Common Stock and could adversely affect our financing options and liquidity position.

We have now, and will continue to have, a substantial amount of indebtedness. As of March 31, 2006, we had total indebtedness of approximately \$664.3 million, and an additional \$75.0 million (or \$68.2 million after letters of credit) available for borrowing under the revolver portion of the Amended and Restated Credit Facility.

Our substantial indebtedness could have important consequences. For example, our substantial indebtedness could:

- make it more difficult for us to pay dividends on our common stock;
- reduce or eliminate your ability to recover any of your investment in any bankruptcy proceedings involving us;
- limit our flexibility to adjust to changing market conditions, reduce our ability to withstand competitive pressures and increase our vulnerability to general adverse economic and industry conditions;

limit our ability to borrow additional amounts for working capital, capital expenditures, future business opportunities, including strategic acquisitions, and other general corporate requirements or hinder us from obtaining such financing on terms favorable to us or at all;

limit our ability to raise cash through the issuance of additional securities;

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require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, future business opportunities and other general corporate purposes;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and

limit our ability to refinance our indebtedness.

We may be able to incur substantially more indebtedness, which could exacerbate the risks described above.

We may be able to incur substantial amounts of additional indebtedness in the future, including indebtedness resulting from issuances of separate 11% Senior Secured Notes or additional IDSs or from borrowings under the Amended and Restated Credit Facility. While the indenture governing the 11% Senior Secured Notes, the Amended and Restated Credit Facility and the terms of the Intercompany Note (as defined herein) will limit our and our subsidiaries' ability to incur additional indebtedness, those limitations are subject to a number of exceptions. Furthermore, we may enter into future financing arrangements. Any additional indebtedness incurred by us could increase the risks associated with our substantial indebtedness.

The holders of IDSs and common stock may not receive the level of dividends provided for in the dividend policy that our board of directors adopted or any dividends at all.

We expect to continue to pay quarterly dividends on our Class A Common Stock at the rate set forth in our current dividend policy. However, our board of directors may, in its discretion, amend or repeal our dividend policy. Our board of directors may decrease the level of dividends provided for in the dividend policy or entirely discontinue the payment of dividends. Dividend payments are not required or guaranteed, and holders of our common stock do not have any legal right to receive or require the payment of dividends. Future dividends, if any, with respect to shares of our capital stock will depend on, among other things, our results of operations, cash requirements, financial condition and contractual restrictions, and our ability to generate cash from our operations, which in turn is dependent on our ability to attract and retain customers and our ability to service our debt obligations and capital expenditures requirements. See Item 5 Market Price of and Dividends on Our Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Dividends Restrictions on Dividend Payments. Other factors, including the pursuit of new business strategies or opportunities, increased regulatory compliance costs or lease renewal costs, changes in our competitive environment and changes in tax treatment of our debt, may also reduce cash available for dividends.

Subject to certain limitations, we may redeem all or part of our outstanding Class B Common Stock. Any purchase by us of shares of Class A Common Stock or Class B Common Stock will reduce cash available for Class A Common Stock dividend payments. In the fourth quarter of the 2006 Fiscal Year, we repurchased 2,199,413 shares of Class A Common Stock and 1,605,995 shares of Class B Common Stock with proceeds from the Class A Offering. See

Item 5 Market Price of and Dividends on Our Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Issuer Purchases of Equity Securities.

Due to our currently contemplated cash uses, including dividend payments, we do not expect to retain enough cash from operations to be able to pay our outstanding indebtedness when it matures or when principal payments (other than regularly scheduled amortization payments under the Amended and Restated Credit Facility) on such indebtedness otherwise becomes due. Therefore, cash available for dividends will be reduced when such payments are required, unless such indebtedness is refinanced prior to such time. See Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Future Capital Needs and

Resources.

In addition, any future issuances of Class A Common Stock, including but not limited to issuances pursuant to our existing benefit plans, will increase the number of outstanding Class A common stock shares and consequently make it more difficult for us to pay dividends on the Class A Common Stock at the dividend

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rate set forth in our dividend policy. As of February 15, 2006, 88,889 restricted shares of Class A Common Stock had been awarded to certain executive officers and directors and employees under our benefit plans. See Item 5 Market Price of and Dividends on Our Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Securities Authorized for Issuance under Equity Compensation Plans.

The earliest that the subordination of payment of any cash dividends on the Class B Common Stock may terminate is the fiscal year ending March 31, 2008, and all shares of Class B Common Stock will then be equally entitled to cash dividend payments with all shares of Class A Common Stock, subject to the Class B Common Stock step up dividend right described below. Therefore, any cash set aside for dividends will have to be shared by the holders of the Class A Common Stock and Class B Common Stock on a pro rata basis. Since under these circumstances less cash will be available to the holders of Class A Common Stock, we may be forced to reduce cash dividends on the Class A Common Stock.

Following the termination of the subordination provisions, each share of Class B Common Stock will be entitled to a step up dividend of 105% of the aggregate amount of dividends declared on each share of Class A Common Stock for the four fiscal quarters occurring during any fiscal year ending after March 31, 2007 (unless, solely with respect to the fiscal years ended March 31, 2008 and March 31, 2009, the Subordination Termination Conditions have not been satisfied with respect to such fiscal year). Any excess payments in cash will reduce cash available for future Class A Common Stock dividend payments, which may force us to reduce such Class A Common Stock dividend payments.

Furthermore, the Amended and Restated Credit Facility, the Intercompany Note and the indenture governing the 11% Senior Secured Notes contain limitations on Coinmach Corp.'s ability to pay dividends. In addition, any financing arrangements we may enter into in the future, may contain further limitations. You may not receive the level of dividends provided for in our dividend policy or any dividends at all.

Delaware law also restricts our ability to pay dividends. Under Delaware law, our board of directors and the boards of directors of our corporate subsidiaries may declare dividends only to the extent of our surplus, which is total assets at current value minus total liabilities at current value (as each may be determined in good faith by our board of directors), minus statutory capital, or if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year.

There is no active trading market for our debt-only securities, which could prevent us from issuing debt-only securities and may limit our ability to obtain future financing.

If we are unable to issue additional IDSs, we may be forced to rely on the sale of debt-only or equity-only securities as an additional source of capital. However, the absence of a liquid market for separate notes may make the issuance by us of separate notes relatively less appealing, limiting our ability to obtain debt-only financing on reasonable terms or at all. If we are unable to raise capital through a debt-only financing, we may be forced to enter into more costly financing arrangements in order to fund working capital and capital expenditures and otherwise service our liquidity needs.

We are a holding company with no direct operations, and therefore our ability to make payments under the 11% Senior Secured Notes or declare and distribute dividends on the Class A Common Stock and Class B Common Stock depends on cash flow from our subsidiaries.

We are a holding company with no operations. Consequently, we will depend on distributions or other intercompany transfers from our subsidiaries (including payments under the intercompany loan from Coinmach Corp.) to make interest and principal payments on the 11% Senior Secured Notes and to pay dividends on the Class A Common Stock and Class B Common Stock. In addition, distributions and intercompany transfers to us from our subsidiaries will

depend on:

their earnings;

covenants contained in our and their debt agreements, including the Amended and Restated Credit Facility and the indenture governing the 11% Senior Secured Notes;

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covenants contained in other agreements to which we or our subsidiaries are or may become subject;

business and tax considerations; and

applicable law, including laws regarding the payment of dividends and distributions.

Restrictions on Coinmach Corp.'s ability to pay dividends contained in the indenture governing the Amended and Restated Credit Facility are different, and potentially more restrictive, than the restrictions on our ability to pay dividends contained in the indenture governing the 11% Senior Secured Notes. Therefore, circumstances may arise where, although we would be permitted to pay dividends under the indenture governing the 11% Senior Secured Notes, Coinmach Corp. would be unable to provide us with the cash to actually pay such dividends as well as interest on the 11% Senior Secured Notes. We cannot give assurance that the operating results of our subsidiaries will be sufficient to make distributions or other payments to us or that any distributions and/or payments will be adequate to pay any amounts due under the 11% Senior Secured Notes or the amounts intended under our dividend policy.

Restrictive covenants in our current and future indebtedness could adversely restrict our operating flexibility.

The indenture governing the 11% Senior Secured Notes contains covenants that restrict our ability, as well as the ability of our restricted subsidiaries, to:

incur additional indebtedness or, in the case of our restricted subsidiaries, issue preferred stock;

create liens;

pay dividends or make other restricted payments;

make certain investments;

sell or make certain dispositions of assets;

engage in sale and leaseback transactions;

engage in transactions with affiliates;

place restrictions on the ability of our restricted subsidiaries to pay dividends, or make other payments, to us; and

engage in mergers or consolidations and transfers of all, or substantially all of our assets.

In addition, the Amended and Restated Credit Facility and the Intercompany Note contain, and the terms of any other indebtedness that we or our subsidiaries may enter into (including any future financing arrangements) may contain, other and more restrictive covenants that limit our and our subsidiaries' ability to incur indebtedness, and make capital expenditures and limit our subsidiaries' ability to make distributions or pay dividends to us. These covenants may also require us and/or our subsidiaries to meet or maintain specified financial ratios and tests. Our ability to comply with the ratios and tests under these covenants may be affected by events beyond our control, including prevailing economic, financial, regulatory or industry conditions. A breach of any of such covenants, ratios or tests could result in a default under such indebtedness. The Amended and Restated Credit Facility (and the Intercompany Note) prohibit Coinmach Corp. and its subsidiaries (including AWA, as a guarantor under such credit facility), from making certain

distributions in respect of its capital stock while a default or an event of default is outstanding thereunder. If we were unable to repay those amounts, the lenders under the Amended and Restated Credit Facility or holders of the 11% Senior Secured Notes, as applicable, could proceed against the security granted to them to secure that indebtedness. If the lenders or holders of the 11% Senior Secured Notes accelerated the payment of their indebtedness, our assets may not be sufficient to repay in full our indebtedness, which could prevent you from recovering some or all of your investment in the Class A Common Stock.

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Lack of a significant amount of cash could adversely affect our growth, financial condition and results of operations.

Our ability to make payments on, refinance or repay our debt, or to fund planned capital expenditures and expand our business, will depend largely upon our future operating performance. Our future operating performance is subject to general economic, financial, competitive, legislative and regulatory factors, as well as other factors that are beyond our control. We cannot give assurance that our business will generate enough cash to enable us to pay our outstanding debt or fund our other liquidity and capital needs. If we are unable to generate sufficient cash to service our debt requirements, we will be required to obtain such capital from additional borrowings or other sources, including:

sales of certain assets to meet our debt service requirements;

sales of equity; and

negotiations with our lenders to restructure the applicable debt.

If we cannot satisfy our cash requirements, our growth, financial condition and results of operations could suffer.

Additionally, our after-tax cash flow available for dividend payments would be reduced if the 11% Senior Secured Notes were treated by the Internal Revenue Service, or the IRS, as equity rather than debt for U.S. federal income tax purposes. In that event, the stated interest on the 11% Senior Secured Notes could be treated as a dividend, and interest on the 11% Senior Secured Notes would not be deductible by us for U.S. federal income tax purposes. Our inability to deduct interest on the 11% Senior Secured Notes could materially increase our taxable income and, thus, our U.S. federal and applicable state income tax liability. This could reduce our after-tax cash flow and materially adversely affect our ability to pay dividends on the Class A Common Stock.

Voting control of us by Holdings may prevent the holders of IDSs from receiving a premium in the event of a change of control and may create conflicts of interest.

As of March 31, 2006, Holdings was in control of approximately 62% of our voting power and therefore exerts substantial control over our business and over matters submitted to our stockholders for approval. Such voting control could have the effect of delaying, deferring or preventing a change in control, merger or tender offer of us, which would deprive our security holders of an opportunity to receive a premium for our securities and may negatively affect the market price of such securities. Moreover, Holdings could effectively receive a premium for transferring ownership to third parties that would not inure to the benefit of the other holders of our securities.

The interests of the equity investors in Holdings (which equity investors include our management and certain of our directors) may conflict with the interests of other holders of our securities. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of these parties as indirect holders of equity might conflict with the interests of a holder of the 11% Senior Secured Notes. These parties also may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investment, even though such transactions might involve risks to the holders of the 11% Senior Secured Notes.

We will not be able to deduct interest on the 11% Senior Secured Notes if the 11% Senior Secured Notes are not respected as debt for U.S. federal income tax purposes.

Our after-tax cash flow available for dividend payments would be reduced if the 11% Senior Secured Notes were treated by the IRS, as equity rather than debt for U.S. federal income tax purposes. In that event, the stated interest on the 11% Senior Secured Notes could be treated as a dividend, and interest on the 11% Senior Secured Notes would not

be deductible by us for U.S. federal income tax purposes. Our inability to deduct interest on the 11% Senior Secured Notes could materially increase our taxable income and, thus,

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our U.S. federal and applicable state income tax liability. This could reduce our after-tax cash flow and materially adversely affect our ability to pay dividends on the Class A Common Stock.

The separate public trading markets for IDSs and shares of Class A Common Stock, and the ability to separate and create IDSs, may diminish the value of your investment in IDSs or separately held shares of Class A Common Stock, as the case may be.

Our IDSs and shares of Class A Common Stock not held in the form of IDSs are separately listed for trading on the American Stock Exchange (AMEX). An IDS holder may separate its IDSs into shares of Class A Common Stock and 11% Senior Secured Notes at any time. In addition, upon the occurrence of certain events IDSs will automatically and, in some cases, permanently, separate. Conversely, subject to limitations, a holder of separate shares of Class A Common Stock and 11% Senior Secured Notes can combine such securities to form IDSs. Separation and creation of IDSs will automatically result in increases and decreases, respectively, in the number of IDSs and shares of Class A Common Stock not in the form of IDSs.

We cannot predict what effect separate trading markets in IDSs and separately held shares of Class A Common Stock, or fluctuations in the number of such securities outstanding, will have on the value of such securities. If the value of separately held shares of Class A Common Stock is deemed to be less than the value of the same security underlying an IDS, creation of IDSs by combining such separate shares with any then available 11% Senior Secured Notes may become more attractive. Conversely, if the value of an IDS is deemed to be less than the value of its components, separation of IDSs may become more attractive.

Any reduction in the number of either IDSs or separately held shares of Class A Common Stock would decrease the liquidity for the remaining outstanding IDSs or shares of Class A Common Stock (as the case may be), which could further diminish the value of such securities. Furthermore, if the number of either of such securities outstanding falls below the minimum required for listing on the American Stock Exchange, such securities may be delisted from such exchange.

If we have insufficient cash flow to cover dividend payments under our dividend policy or to make such payments in compliance with our and our subsidiaries' outstanding indebtedness, we will need to reduce or eliminate dividends or, to the extent permitted under our debt agreements, fund a portion of our dividends with additional borrowings.

Our dividend policy contemplates the payment of a quarterly cash dividend of approximately \$0.20615 per share of Class A Common Stock and subject to certain subordination provisions and other limitations, an annual dividend on shares of our Class B Common Stock. Under the terms of the Amended and Restated Credit Facility we are required to satisfy various financial maintenance covenants in order to pay dividends, including a requirement that our EBITDA equals or exceeds certain specified minimum amounts over specified periods, which amounts may exceed the amounts necessary to pay cash dividends on our common stock pursuant to our dividend policy. In addition, in order to pay dividends on our common stock, we are also required to satisfy certain covenants under the indenture governing the 11% Senior Secured Notes.

If we are not able to satisfy the financial and other covenants in our debt agreements or otherwise generate sufficient funds to pay dividends on our common stock pursuant to our dividend policy, we may be required to do one or more of the following: (i) reduce our capital expenditures, (ii) fund capital expenditures or other costs and expenses with borrowings under the Amended and Restated Credit Facility, (iii) evaluate other funding alternatives, such as capital markets transactions, refinancing or restructuring our consolidated indebtedness, asset sales, or financing from third parties, or (iv) seek an amendment, waiver or other modification from requisite lenders under the Amended and Restated Credit Facility, holders of the 11% Senior Secured Notes and lenders under any financing arrangements

entered into by us to the extent applicable restrictions contained in the terms of such indebtedness precluded us from making such dividends. Additional sources of funds may not be available on commercially reasonable terms or at all or may not be permitted pursuant to the terms of our existing indebtedness.

Furthermore, if we failed to satisfy any financial maintenance or other covenant, we would be required to seek an amendment, waiver or other modification from the requisite lenders under the Amended and Restated

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Credit Facility to waive any resulting default. If we were to use working capital or permanent borrowings to fund dividends, we would have less cash and/or borrowing capacity available for future dividends and other purposes, which could negatively impact our future liquidity, our ability to adapt to changes in our industry and our ability to expand our business. In addition to any of the foregoing options that may be available to us, our board of directors may at any time and in its absolute discretion reduce the level of dividends provided for in our dividend policy or eliminate such dividends entirely.

Future sales or the possibility of future sales of a substantial amount of shares of Class A Common Stock or IDSs may depress the price of IDSs or shares of Class A Common Stock.

Future sales or the availability for sale of substantial amounts of shares of Class A Common Stock or IDSs in the public market could adversely affect the prevailing market price of IDSs or shares of Class A Common Stock and could impair our ability to raise capital through future sales of our securities.

We may issue shares of our Class A Common Stock, which may or may not be in the form of IDSs, or other securities from time to time as consideration for future acquisitions and investments. In the event any such acquisition or investment is significant, the number of shares of our Class A Common Stock, which may be in the form of IDSs, or the number or aggregate principal amount, as the case may be, of other securities that we may issue may in turn be significant. In addition, we may also grant registration rights covering those IDSs, shares of Class A Common Stock, or other securities in connection with any such acquisitions and investments.

From time to time our employees may be granted equity-based performance incentives pursuant to our existing benefit plans, which might include the issuance of new shares of Class A Common Stock or IDSs. New issuances of Class A Common Stock or IDSs under such plans would have a dilutive effect on our earnings per share, and could reduce the fair market value of IDSs or Class A Common Stock. As of February 15, 2006, 88,889 restricted shares of Class A Common Stock had been awarded to certain executive officers and directors and employees under our benefit plans. See Item 5 Market Price of and Dividends on our Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Securities Authorized for Issuance under Equity Compensation Plans.

Any sales or distributions of shares of our Class A Common Stock or IDSs would dilute our earnings per share and the voting power of each share of common stock outstanding prior to such sale or distribution, and could adversely affect the prevailing market price of our IDSs and Class A Common Stock. As a result you could experience a significant loss in the value of your investment.

Available Information

Under the Securities Exchange Act of 1934, as amended, we are required to file annual, quarterly and current reports, proxy and information statements and other information with the SEC. You may read and copy any document we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. The SEC maintains a web site at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. We file electronically with the SEC.

We make available, free of charge, through the investor relations section of our web site, our reports on Forms 10-K, 10-Q and 8-K, and amendments to those reports, as soon as reasonably practicable after they are filed with the SEC. The address for our web site is <http://www.coinmachservicecorp.com>.

We have adopted a Code of Business Conduct and Ethics applicable to all of our and our subsidiaries' employees, officers and directors. We have also adopted a Supplemental Code of Ethics for the CEO and Senior Financial

Officers. The full text of each such code is available at the investor relations section of our web site, <http://www.coinmachservicecorp.com>. We intend to disclose amendments to, or waivers from, each such code in accordance with the rules and regulations of the SEC and make such disclosures available on our web site.

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The information contained on our web site is not part of, and is not incorporated in, this or any other report we file with or furnish to the SEC.

Item 1B. UNRESOLVED STAFF COMMENTS

We have received no written comments regarding our periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of our 2006 fiscal year that remained unresolved.

Item 2. PROPERTIES

As of March 31, 2006, we leased 63 offices throughout our operating regions serving various operational purposes, including sales and service activities, revenue collection and warehousing. A significant portion of our leased properties service our core route operations.

We presently maintain our headquarters in Plainview, New York, leasing approximately 11,600 square feet pursuant to a ten-year lease scheduled to terminate September 30, 2011. Our Plainview facility is used for general and administrative purposes.

We also maintain a corporate office in Charlotte, North Carolina, leasing approximately 3,000 square feet pursuant to a five-year lease scheduled to terminate September 30, 2006.

Item 3. 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

Table of Contents**PART II****Item 5. MARKET PRICE OF AND DIVIDENDS ON OUR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information and Holders***Income Deposit Securities*

Our IDSs are listed on the American Stock Exchange under the trading symbol DRY. The following table sets forth for the periods indicated the high and low sales prices for the IDSs reported on the American Stock Exchange:

Fiscal Quarter Ended	High	Low	IDS Distribution
Fiscal Year ended March 31, 2005:			
December 31, 2004	\$ 13.80	\$ 13.10	\$ 0.15833
March 31, 2005	\$ 13.75	\$ 12.30	\$ 0.37500
Fiscal Year ended March 31, 2006:			
June 30, 2005	\$ 13.56	\$ 12.70	\$ 0.37500
September 30, 2005	\$ 13.99	\$ 13.14	\$ 0.37500
December 31, 2005	\$ 15.85	\$ 13.72	\$ 0.37500
March 31, 2006	\$ 17.00	\$ 14.75	\$ 0.37500

On June 13, 2006, the closing price of our IDSs on AMEX was \$17.19. As of June 13, 2006, Cede & Co. (nominee of DTC) holds our outstanding IDSs on behalf of several participants in the DTC system, which in turn hold on behalf of beneficial owners.

Class A Common Stock

Shares of Class A Common Stock are listed on the American Stock Exchange under the trading symbol DRA. The following table sets forth for the periods indicated the high and low sales prices for the Class A Common Stock reported on the American Stock Exchange:

Fiscal Quarter Ended	High	Low	Cash Dividends Per Share of Class A Common Stock
March 31, 2006	\$ 10.45	\$ 9.00	\$ 0.20615

On February 8, 2006, we completed the Class A Offering of 12,312,633 shares of Class A Common Stock (including an 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 deducting underwriting discounts, commissions and other estimated expenses.

On June 13, 2006, the closing price of our Class A Common Stock on AMEX was \$9.83. As of June 13, 2006, Cede & Co. (nominee of DTC) holds our outstanding shares of Class A Common Stock on behalf of several participants in the DTC system, which in turn hold on behalf of beneficial owners.

Dividends

Pursuant to a dividend policy that was adopted by our board of directors in connection with the public offering of our Class A Common Stock in February 2006, we intend to declare and pay regular quarterly dividends on the Class A Common Stock and dividends no more frequently than annually on the Class B Common Stock, as described below. 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 under this policy generally be available for distribution as regular cash dividends. This policy reflects our judgment that our stockholders would be better served if we distributed our available cash to them instead

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of retaining it in our business. Dividends, however, are payable at the discretion of our board of directors. Even though we adopted a dividend policy, nothing requires us to pay dividends. Holders of the Class A Common Stock and Class B Common Stock may not receive any dividends for a number of reasons, including but not limited to those noted below:

although the dividend policy we adopted contemplates the distribution of our excess cash, this policy can be modified or revoked at any time;

even if our dividend policy is not modified or revoked, the actual amount of dividends distributed under the policy and the decision to make any distribution is entirely at the discretion of our board of directors;

the amount of dividends distributed is subject to state law restrictions;

there is no legal, contractual or other requirement that we pay dividends in the amounts stated, or at all, and the dividends are neither mandatory nor guaranteed;

we may not have enough cash to pay dividends due to changes in our operating income, working capital requirements, anticipated cash needs, and borrowing capacity (including as a result of borrowings to fund prior dividend payments); and

the payment of dividends is subject to covenant restrictions in documents or agreements governing our indebtedness, including (i) the indenture governing the 11% Senior Secured Notes, which contains a restricted payments covenant that limits our ability to pay dividends; and (ii) the Amended and Restated Credit Facility, which requires us to, among other things, meet quarterly financial maintenance tests.

The covenant described above in the indenture governing the 11% Senior Secured Notes relating to restrictions on our ability to pay dividends permits quarterly dividend payments for the life of the notes in an amount equal to the difference between our distributable cash flow and our consolidated interest expense, so long as we satisfy an interest coverage test for the preceding fiscal quarter and no default is continuing. The interest coverage test has the following elements:

our consolidated interest expense must be less than 90% of our distributable cash flow;

we and our restricted subsidiaries must also have cash or borrowings available in excess of reasonably anticipated consolidated interest expense on outstanding indebtedness and on indebtedness we intend to incur for the two subsequent fiscal quarters; and

we must have amounts available or owed to us from our restricted subsidiaries sufficient to make cash interest payments on our indebtedness, including the notes, during the two subsequent fiscal quarters and on indebtedness that we intend to incur during the two subsequent fiscal quarters.

Dividend payments on the Class A Common Stock will be payable in respect of the completed fiscal quarter immediately preceding a payment date.

On February 9, 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), which cash dividend was paid on March 1, 2006 to holders of record as of the close of business on February 27, 2006 (including holders of Class A Common Stock sold in the Class A Offering). On May 10, 2006, our board of directors declared a quarterly cash dividend of \$0.20615 per share on the Class A Common Stock, and a cash dividend of \$0.53477 per share on the Class B Common Stock for

the fiscal quarter ended March 31, 2005 and the fiscal year ended March 31, 2006, in each case payable to holders of record on May 25, 2006. We paid the dividends on June 1, 2006.

We intend to continue to pay dividends on the 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. We also intend to pay dividends on the 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 the limitations described below.

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Prior to the IPO, we did not pay any dividends on the Class A Common Stock or the Class B Common Stock.

Subordination of Class B Common Stock Dividends

Fiscal Years Ending On or Prior to March 31, 2007

Our certificate of incorporation provides that the rights of holders of shares of Class B Common Stock to receive cash dividends for any fiscal year ending on or prior to March 31, 2007 are subordinated to the rights of holders of shares of Class A Common Stock to receive cash dividends for the same period.

We paid on June 1, 2006 cash dividends on each share of Class B Common Stock for the fiscal quarter ended March 31, 2005 and the fiscal year ended March 31, 2006 equal to the cash dividends paid contemporaneously on each share of Class A Common Stock for such fiscal quarter and fiscal year, respectively, aggregating to an amount not to exceed \$12.5 million as set forth in our dividend policy. We intend to pay on June 1, 2007 cash dividends on each share of Class B Common Stock for the fiscal year ending March 31, 2007 equal to the cash dividends paid or to be paid contemporaneously on each share of Class A Common Stock for such fiscal year up to an aggregate amount not exceeding \$10.0 million, so long as cash dividends for such fiscal year have been or will contemporaneously be paid to holders of shares of Class A Common Stock in an aggregate amount at least equal to the dividend rate set forth in our dividend policy.

Fiscal Years Ending After March 31, 2007

Under our certificate of incorporation, the rights of holders of shares of Class B Common Stock to receive cash dividends with respect to the fiscal years ending March 31, 2008 and 2009 will, under the conditions described below, be subordinated to the rights of holders of shares of Class A Common Stock to receive cash dividends. In no event will the subordination requirement apply to any fiscal year thereafter. However, subject to the limitations described below, shares of Class B Common Stock will not be entitled to receive dividends for any such fiscal year unless dividends are also declared and paid on shares of Class A Common Stock for such fiscal year.

If we pay cash dividends on the Class A Common Stock with respect to any fiscal year ending after March 31, 2007, we are required to pay on June 1 immediately following such fiscal year cash dividends on each share of Class B Common Stock for such fiscal year equal to the cash dividends paid or to be contemporaneously paid on each share of Class A Common Stock for such fiscal year, provided that if the Subordination Termination Conditions (as defined below) are not met for such fiscal year, no such cash dividends may be paid on the Class B Common Stock with respect to such fiscal year unless (i) cash dividends for such fiscal year will contemporaneously be paid to holders of shares of Class A Common Stock in an aggregate amount at least equal to the dividend rate set forth in our initial dividend policy and (ii) the aggregate amount of cash dividends paid on all the outstanding shares of Class B Common Stock for such fiscal year does not exceed \$10.0 million.

Notwithstanding anything to the contrary in the immediately preceding paragraph, following the satisfaction of the Subordination Termination Conditions for any fiscal year to which such Subordination Termination Provisions apply, the cash dividends payable on each share of the Class B Common Stock shall be equal to 105% of the aggregate amount of dividends payable on each share of Class A Common Stock for such fiscal year and the Subordination Termination Conditions shall be deemed to have been satisfied for such fiscal year and each fiscal year thereafter.

The Subordination Termination Conditions are only applicable to the fiscal years ending March 31, 2008 and March 31, 2009, and will not be satisfied with respect to such fiscal year if either (i) our consolidated EBITDA (generally defined as earnings from continuing operations before deductions for interest, income taxes and depreciation and amortization) for such fiscal year was less than \$165.0 million or (ii) the ratio of (x) our consolidated

indebtedness on the last day of such fiscal year minus the amount, as of such day, of cash and cash equivalents held by us and our consolidated subsidiaries in excess of \$25.0 million to (y) our

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consolidated EBITDA for such fiscal year was greater than 4.5 to 1.0, provided, that if the Subordination Termination Conditions is satisfied with respect to the fiscal year ending March 31, 2008, then the Subordination Termination Conditions shall be deemed to have been satisfied for the fiscal year ending March 31, 2009 regardless of whether we would satisfy the Subordination Termination Conditions for such year without giving effect to this proviso.

Holders of a majority of our outstanding shares of Class B Common Stock may at any time, voting as a single class, waive the rights of all holders of shares of Class B Common Stock to all or any portion of cash dividends to which they are entitled.

Restrictions on Dividend Payments

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, are within the absolute discretion of our board of directors and will be dependent upon many factors and future developments that could differ materially from our expectations. See Item 1 Business Risk Factors Risks Relating to Our Securities The holders of IDs and common stock may not receive the level of dividends provided for in the dividend policy that our board of directors adopted or any dividends at all.

Our ability to pay dividends on shares of our capital stock depends on, among other things, our results of operations, cash requirements, financial condition and contractual restrictions, including but not limited to the terms of the indenture governing the 11% Senior Secured Notes. Our ability to generate cash from our operations, which in turn is dependent on our ability to attract and retain customers and our ability to service our debt obligations and capital expenditures requirements, is a significant factor affecting the amount of cash available for dividends. Other factors, including the pursuit of new business strategies or opportunities, increased regulatory compliance costs or lease renewal costs, changes in our competitive environment and changes in tax treatment of our debt, may also reduce cash available for dividends.

Capital expenditures related to the maintenance of our operations are intended to sustain the current service capacity and efficiency of our operations and primarily consist of machine expenditures (including machine replacements), advance location payments and laundry room improvements. Our customer contracts typically mature each year at a consistent rate. Therefore, our capital expenditures for maintenance of our machine base have generally been predictable and recurring in nature and without significant fluctuation. On an annual basis, we do not expect capital expenditures requests to vary significantly.

Nevertheless, our anticipated capital expenditures, as well as other currently contemplated uses of available cash, could change based on competitive or other developments (which could, for example, increase our need for capital expenditures or working capital), new growth opportunities or other factors. Our board of directors is free to depart from or change our dividend policy at any time and could reduce dividends, for example, if it were to determine that we had insufficient cash (including borrowing capacity under the Amended and Restated Credit Facility) to both pay dividends at the initial dividend rate and take advantage of growth opportunities. In such a situation, our board could alternatively choose to continue to pay dividends at the initial dividend rate and forego such opportunities. See

Item 1 Business Risk Factors Risks Relating to Our Business Our dividend policy may negatively impact our ability to finance our working capital requirements, capital expenditures or operations.

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 no longer be deductible from taxable income, and we would be required to recognize additional tax expense and establish a related income tax liability. Any disallowance of our ability to deduct interest expense could reduce our after-tax cash flow and materially adversely affect our ability to make cash dividend payments on our common stock. Based on our

anticipated level of cash requirements, including capital expenditures, scheduled interest payments and existing contractual obligations, we estimate that for the fiscal year ended March 31, 2007 cash flow from operations, along with available cash and cash equivalents and borrowing capacity under the Amended and Restated Credit Facility, will be sufficient to fund our operating needs and also to make our intended dividend payments even if the interest expense deduction is disallowed.

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However, if in the future we cannot generate sufficient cash flow to meet our needs, we may be required to reduce or eliminate dividends on our common stock. See Item 1 Business Risk Factors Risks Relating To Our Securities We will not be able to deduct interest on the 11% Senior Secured Notes if the 11% Senior Secured Notes are not respected as debt for U.S. federal income tax purposes and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies: Use of Estimates Accounting Treatment for IDSs. As of March 31, 2006, we had approximately \$136.0 million in net operating loss carryforwards. Such net operating loss carryforwards expire between the fiscal years ending March 31, 2008 and March 31, 2026. Application of such net operating losses in determining our taxable net income is subject to annual limitations regarding changes in ownership that are contained in the Internal Revenue Code.

We may not generate sufficient EBITDA to enable us to pay dividends on our common stock. If our EBITDA is not sufficient, we may be required to do one or more of the following in order to enable us to pay dividends on our common stock: (i) reduce our capital expenditures, (ii) fund capital expenditures or other costs and expenses with borrowings under the Amended and Restated Credit Facility, (iii) evaluate other funding alternatives, such as capital markets transactions, refinancing or restructuring our consolidated indebtedness, asset sales, or financing from third parties, or (iv) seek an amendment, waiver or other modification from requisite lenders under the Amended and Restated Credit Facility, in each case to the extent Coinmach Corp. failed to satisfy the applicable restrictions contained in the Amended and Restated Credit Facility and was limited from making dividends or distribution to us. Additional sources of funds may not be available on commercially reasonable terms or at all or may not be permitted pursuant to the terms of our existing indebtedness. If we were to use working capital or permanent borrowings to fund dividends, we would have less cash and/or borrowing capacity available for future dividends and other purposes, which could negatively impact our future liquidity, our ability to adapt to changes in our industry and our ability to expand our business. In addition to any of the foregoing options that may be available to us, our board of directors may at any time and in its absolute discretion reduce the level of dividends provided for in our dividend policy or eliminate such dividends entirely.

Our payment of dividends also depends on provisions of applicable law and other factors that our board of directors may deem relevant. Under Delaware law, our board of directors may declare dividends only to the extent of our surplus (which is total assets at current value minus total liabilities at current value (as each may be determined in good faith by our board of directors), minus statutory capital), or if there is no surplus, out of our net profits, if any, for the then current and/or immediately preceding fiscal years. Dividend payments are not required or guaranteed, and holders of our capital stock do not have any legal right to receive or require the payment of dividends.

Subject to certain limitations, 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 reduce cash available for Class A Common Stock dividends. In the fourth quarter of the 2006 Fiscal Year we repurchased 2,199,413 shares of Class A Common Stock and 1,605,995 shares of Class B Common Stock with proceeds from the Class A Offering. See Item 5 Market Price of and Dividends on Our Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Issuer Purchases of Equity Securities. Due to our currently contemplated cash uses, including dividend payments, we do not expect to retain enough cash from operations to be able to pay the 11% Senior Secured Notes, or the Amended and Restated Credit Facility when such indebtedness matures or when principal payments (other than regularly scheduled amortization payments under the Amended and Restated Credit Facility) on such indebtedness otherwise becomes due. Therefore, cash available for dividends will be reduced when such payments are required, unless such indebtedness is refinanced prior to such time. There can be no assurance, however, that we will be able to refinance such indebtedness on commercially reasonable terms, on terms as favorable as the refinanced indebtedness or at all. A failure to refinance such indebtedness or pay it when it becomes due would cause a default under the Amended and Restated Credit Facility, and the indenture governing the 11% Senior Secured Notes. See Item 1 Business Risk Factors Risks Relating to Our Securities We have substantial indebtedness which could restrict our ability to pay interest and principal on the 11% Senior Secured Notes and to pay

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dividends with respect to the shares of the Class A Common Stock and the shares of Class B Common Stock and could adversely affect our financing options and liquidity position.

Securities Authorized for Issuance under Equity Compensation Plans

In connection with the IDS Transactions, we adopted the Coinmach Service Corp. 2004 Long Term Incentive Plan (the 2004 LTIP). As of March 31, 2006, the following equity securities were issued under our 2004 LTIP:

Plan Category	Number of Securities to Be Issued Upon Exercise of Rights	Weighted-Average Exercise Price of Outstanding Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by stockholders	88,889(1)	\$ 9.01(2)	2,747,840(3)
Equity compensation plans not approved by stockholders	N/A	N/A	N/A
Total	88,889	\$ 9.01	2,747,840

(1) Represents shares of Class A Common Stock awarded under the 2004 LTIP as of March 31, 2006.

(2) Represents the closing price per share of Class A Common Stock as quoted on AMEX on February 15, 2006, the date of grant of all shares of Class A Common Stock awarded under the 2004 LTIP.

(3) As of March 31, 2006, our board of directors authorized up to 2,836,729 shares of Class A Common Stock for issuance under the 2004 LTIP. The maximum number of shares of Class A Common Stock available for awards under the 2004 LTIP is 6,583,796 shares (equal to 15% of the aggregate number of outstanding shares of Class A Common Stock and Class B Common Stock immediately following consummation of the IPO).

On January 4, 2006, the compensation committee of our board of directors awarded restricted shares of Class A Common Stock to certain executive officers and recommended to the board of directors the award of restricted shares of Class A Common Stock to certain board members (the 2006 Restricted Stock Awards), which recommendation was approved by the board of directors on January 26, 2006.

The restricted stock awards were granted on February 15, 2006, in aggregate dollar amounts, with the actual number of shares issued determined by dividing the \$9.00 price to the public of the shares of Class A Common Stock issued in the Class A Offering by such dollar amounts. The following awards were granted: (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 non-independent 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 and (with the exception of 556 shares) were awarded to employees other than executive officers by our chief executive officer.

The restricted stock awards to the independent directors were fully vested on the date of grant, and those to the non-independent director, the executive officers and the employees will vest 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 grants to the executive officers and the non-independent director vest upon our change of control 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 vested restricted stock issued was recorded as compensation expense and will be recorded as compensation expense over the vesting period of such stock.

Table of Contents**Issuer Purchases of Equity Securities**

The following table summarizes information about certain shares of Class A Common Stock we repurchased during the fourth quarter of the 2006 Fiscal Year.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
January 1, 2006 to January 31, 2006			N/A	N/A
February 1, 2006 to February 28, 2006	2,199,413(1)	\$ 8.505	N/A	N/A
March 1, 2006 to March 31, 2006			N/A	N/A
Total	2,199,413	\$ 8.505	N/A	N/A

(1) In connection with the Class A Offering and the use of proceeds therefrom, we repurchased 2,199,413 shares of Class A Common Stock from an affiliate of GTCR CLC, LLC in a privately negotiated transaction at a repurchase price of \$8.505 per share, or approximately \$18.7 million in the aggregate.

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SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA
(In thousands of dollars, except ratios and per share data)

The following tables present our selected consolidated historical financial data, as of the dates indicated. We derived certain of the historical data as of and for the 2006 Fiscal Year, 2005 Fiscal Year, the fiscal years ended March 31, 2004 (2004 Fiscal Year), March 31, 2003 (2003 Fiscal Year), and March 31, 2002 (2002 Fiscal Year), from our audited consolidated financial statements. The financial data set forth below should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated historical financial statements and the related notes thereto included in Item 8 Financial Statements and Supplementary Data and with the information presented in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Fiscal Year Ended March 31,				
	2006	2005	2004	2003	2002
Operations Data:					
Revenues	\$ 543,485	\$ 538,604	\$ 531,088	\$ 535,179	\$ 538,895
Operating income	51,118	49,641	47,112	55,348	36,270
Transaction costs(1)	(31,486)	(17,389)			(11,402)
Net loss(2)	(24,582)	(35,325)	(31,331)	(3,200)	(42,335)
Basic and diluted net loss attributable to common stockholders per Class A Common Share(3)	(0.11)	(1.13)			
Basic and diluted net loss attributable to common stockholders per Class B Common Share(3)	(0.93)	(1.18)	(1.25)	(0.96)	(2.51)
Balance Sheet Data (at end of period):					
Cash and cash equivalents	\$ 62,008	\$ 57,271	\$ 31,620	\$ 27,428	\$ 27,820
Property and equipment, net	252,398	264,264	283,688	286,686	284,413
Contract rights, net	296,912	309,698	323,152	335,327	348,462
Advance location payments	67,242	72,222	73,253	70,911	69,257
Goodwill	206,196	204,780	204,780	203,860	204,284
Total assets	922,166	956,676	959,508	976,163	992,075
Total long-term debt	664,253	708,391	717,631	718,112	737,555
Preferred stock			265,914	241,200	220,362
Stockholders' equity (deficit)	138,666	109,215	(169,619)	(138,460)	(113,743)
Financial Information and Other Data:					
Cash flow provided by operating activities	\$ 96,138	\$ 104,998	\$ 97,052	\$ 103,900	\$ 77,799
Cash flow used in investing activities	(72,728)	(70,927)	(88,449)	(81,330)	(82,255)

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Cash flow (used in) provided by					
financing activities	(18,673)	(8,420)	(4,411)	(22,962)	6,417
EBITDA(4)(5)	128,525	142,692	155,689	159,526	154,565
EBITDA margin(6)	23.6%	26.5%	29.3%	29.8%	28.7%
EBITDA without transaction					
costs(7)	\$ 160,011	\$ 160,081	\$ 155,689	\$ 159,526	\$ 165,967
Operating margin(8)	9.4%	9.2%	8.9%	10.3%	6.7%
Capital expenditures(9)					
Capital expenditures	\$ 72,176	\$ 71,495	\$ 86,732	\$ 86,685	\$ 79,464
Acquisition capital expenditures	3,436	628	3,615	1,976	3,723

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- (1) Transaction costs in the 2006 Fiscal Year consist of the following costs incurred in connection with the redemption of debt and the refinancing of the Coinmach Corp. credit facility (as defined below):
- (i) approximately \$14.6 million of redemption premium on the 9% senior notes due 2010 of Coinmach Corp. (the 9% Senior Notes) redeemed, (ii) write-off of deferred financing costs related to the redemption of the 9% Senior Notes, the refinancing of the Amended and Restated Credit Facility and the repurchase of a portion of the 11% Senior Secured Notes pursuant to the Tender Offer aggregating approximately \$9.6 million, (iii) costs and expenses related to the retirement of the 9% Senior Notes, the refinancing of the Coinmach Corp. credit facility and the repurchase of a portion of the 11% Senior Secured Notes pursuant to the Tender Offer aggregating approximately \$6.4 million, (iv) special bonuses of approximately \$0.5 million related to the Tender Offer and (v) approximately \$0.4 million of non-recurring transaction fees and expenses.

Transaction costs in the 2005 Fiscal Year consist of the following costs incurred in connection with the IDS Transactions: (a) approximately \$11.3 million of redemption premium on the portion of the 9% Senior Notes redeemed, (b) write-off of deferred financing costs related to the redemption of the 9% Senior Notes and the term loans repaid aggregating approximately \$3.5 million, (c) expenses related to the refinancing of the Coinmach Corp. credit facility aggregating approximately \$1.8 million and (d) special bonuses related to the IDS Transactions aggregating approximately \$0.8 million.

Transaction costs in the 2002 Fiscal Year consist of costs incurred in connection with Coinmach Corp.'s refinancing on January 25, 2002.

- (2) For the 2005 Fiscal Year, net loss includes approximately \$18.2 million of preferred stock dividend recorded as interest expense. For the 2004 Fiscal Year, net loss includes approximately \$24.7 million of preferred stock dividend recorded as interest expense. As required by SFAS No. 150, accrued and unpaid dividends prior to adoption of SFAS No. 150 have not been reclassified to interest expense. Preferred stock dividends for the 2003 Fiscal Year and the 2002 Fiscal Year were approximately \$20.8 million and \$20.4 million, respectively.
- (3) Net loss attributable to common stockholders per share of Class A Common Stock and Class B Common Stock for the 2006 and 2005 Fiscal Years was calculated by dividing the net loss attributable to Class A Common Stock and Class B Common Stock by the respective weighted average number of shares outstanding. For the 2004 Fiscal Year, the 2003 Fiscal Year, and the 2002 Fiscal Year there was no Class A Common Stock outstanding. For these periods, the calculation of net loss attributable to common stockholders per share of Class B Common Stock assumed that 24,980,445 shares of Class B Common Stock were outstanding.
- (4) 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 our 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

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other companies. The following tables reconcile our net loss and cash flow provided by operating activities to EBITDA for each period presented (in thousands).

	Fiscal Year Ended March 31,				
	2006	2005	2004	2003	2002
Net loss	\$ (24,582)	\$ (35,325)	\$ (31,331)	\$ (3,200)	\$ (42,335)
(Benefit) provision for income taxes	(15,885)	(10,166)	(3,648)	381	(5,833)
Interest expense	60,099	58,572	57,377	58,167	73,036
Interest expense non cash preferred stock dividends		18,230	24,714		
Interest expense escrow interest		941			
Depreciation and amortization	108,893	110,440	108,577	104,178	129,697
EBITDA	\$ 128,525	\$ 142,692	\$ 155,689	\$ 159,526	\$ 154,565

	Fiscal Year Ended March 31,				
	2006	2005	2004	2003	2002
Cash flow provided by operating activities	\$ 96,138	\$ 104,998	\$ 97,052	\$ 103,900	\$ 77,799
Interest expense	60,099	58,572	57,377	58,167	73,036
Interest expense-escrow interest		941			
Gain on sale of investment and equipment	327	557	1,232	3,532	147
Loss on redemption of 9% Senior Notes	(19,082)	(14,770)			
Loss on redemption of 11% Senior Secured Notes	(8,221)				
Loss on repayment of the Credit Facility	(1,699)				
Stock based compensation	(210)	(74)	(176)	(338)	(530)
Change in operating assets and liabilities	2,678	(5,206)	2,513	(3,693)	18,100
Deferred taxes	16,285	10,166	3,753	16	4,247
Amortization of debt discount and deferred issue costs	(1,905)	(2,326)	(2,414)	(2,439)	(2,008)
Amortization of premium on 113/4% Senior Notes					1,009
Loss on extinguishment of debt(a)					(11,402)
(Benefit) provision for income taxes	(15,885)	(10,166)	(3,648)	381	(5,833)
EBITDA	\$ 128,525	\$ 142,692	\$ 155,689	\$ 159,526	\$ 154,565

(a) Loss on extinguishment of debt for the fiscal year ended March 31, 2002 consists of costs incurred in connection with Coinmach Corp.'s refinancing on January 25, 2002.

- (5) The computation of EBITDA for the 2006 Fiscal Year has not been adjusted to exclude transaction costs aggregating approximately \$31.5 million consisting of: (i) approximately \$14.6 million of redemption premium related to the redemption of the 9% Senior Notes, (ii) the write-off of deferred financing costs related to the redemption of the 9% Senior Notes, the refinancing of the Coinmach Corp. credit facility and the repurchase of a portion of the 11% Senior Secured Notes pursuant to the Tender Offer aggregating approximately \$9.6 million, (iii) costs and expenses related to the redemption of the 9% Senior Notes, the refinancing of the

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Coinmach Corp. credit facility and the repurchase of a portion of 11% Senior Secured Notes pursuant to the Tender Offer aggregating approximately \$6.4 million, (iv) special bonuses of approximately \$0.5 million related to the Tender Offer and (v) approximately \$0.4 million of non-recurring transaction fees and expenses relating to the foregoing.

The computation of EBITDA for the 2005 Fiscal Year has not been adjusted to exclude transaction costs aggregating approximately \$17.4 million in connection with the IDS Transactions consisting of (a) approximately \$11.3 million of redemption premium on the portion of the 9% Senior Notes redeemed, (b) write-off of deferred financing costs related to the redemption of the 9% Senior Notes and the term loans repaid aggregating approximately \$3.5 million, (c) expenses related to the Coinmach Corp. credit facility amendment aggregating approximately \$1.8 million, and (d) special bonuses related to the IDS Transactions aggregating approximately \$0.8 million.

The computation of EBITDA for the 2002 Fiscal Year has not been adjusted to exclude transaction costs consisting of costs incurred in connection with Coinmach Corp's refinancing on January 25, 2002.

- (6) EBITDA margin represents EBITDA as a percentage of revenues. Management believes that EBITDA margin is a useful measure to evaluate our performance over various sales levels. EBITDA margin should not be considered as an alternative for measurements determined in accordance with U.S. generally accepted accounting principles.
- (7) EBITDA without transaction costs, with respect to the 2006 Fiscal Year and the 2005 Fiscal Year, represents EBITDA (earnings from continuing operations before deductions for interest, income taxes and depreciation and amortization) plus certain transactions costs described in footnote (1) above. Since management believes that substantially all of these costs for such periods are comparable to interest expense, these costs have been added to EBITDA to provide a more useful representation of EBITDA for such periods. For a reconciliation of EBITDA to net loss and cash flow provided by operating activities for such periods, see footnote (4) above.
- (8) Operating margin represents operating income as a percentage of revenues.
- (9) Capital expenditures represent amounts expended for property, equipment and leasehold improvements, as well as for advance location payments to location owners. Acquisition capital expenditures represent the amounts expended to acquire local, regional and multi-regional route operators.

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis pertains to our results of operations and financial position for the years indicated and should be read in conjunction with the consolidated financial statements and related notes thereto referred to in Item 8 Financial Statements and Supplementary Data. 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 under Item 1 Business Special Note Regarding Forward Looking Statements, and the other risks set forth in Item 1 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.

Introduction

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 net losses.

Overview

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

In addition to our route business, we also operate an equipment rental business through AWA. 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 entities.

We also operate an equipment distribution business through Super Laundry. 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.

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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 March 31, 2006 was approximately \$4.3 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. Goodwill attributed to the route business, AWA and Super Laundry at March 31, 2006 was approximately \$195.0 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 exists.

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 90% of our contracts are long-term whereby the average term is approximately 8.5 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 approximately 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

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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 ranges 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.

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.

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 would be required to be treated as equity for income tax purposes, the cumulative interest expense totaling approximately \$16.9 million, through March 31, 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

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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 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 derivatives. If the embedded derivatives 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.

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. 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.

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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.

Results of Operations

The following table sets forth for the periods indicated selected statement of operations data and EBITDA, as percentages of revenue:

	Year Ended March 31,		
	2006	2005	2004
Revenues	100.0%	100.0%	100.0%
Laundry operating expenses	68.3	68.3	68.9
General and administrative expenses	2.3	1.8	1.8
Depreciation and amortization	13.9	14.2	13.6
Amortization of advance location payments	3.5	3.6	3.9
Amortization of intangibles	2.6	2.7	2.9
Other items, net		0.2	
Operating income	9.4	9.2	8.9
Interest expense	11.1	10.9	10.8
Interest expense non cash preferred stock dividends		3.4	4.7
Interest expense escrow interest		0.2	
Transaction costs	5.8	3.2	
Net loss(1)	(4.5)	(6.6)	(5.9)
EBITDA margin	23.6	26.5	29.3

(1) For the 2005 Fiscal Year, net loss includes approximately \$18.2 million of preferred stock dividend recorded as interest expense. For the 2004 Fiscal Year, net loss includes approximately \$24.7 million of preferred stock dividend recorded as interest expense. As required by SFAS No. 150, for fiscal years ending prior to March 31, 2004, accrued and unpaid dividends have not been reclassified to interest expense.

We have experienced net losses in each fiscal year since March 31, 2000. Such net losses are 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 incur a net loss.

EBITDA represents earnings from continuing operations before deductions for interest, income taxes and depreciation and amortization. Management believes that EBITDA is useful as a means to evaluate our ability to service existing debt, to sustain potential future increases in debt and to satisfy capital requirements. EBITDA is also used by management as a measure of evaluating the performance of our three operating segments. Management further believes that EBITDA is useful to investors as a measure of comparative operating performance as it is less susceptible to variances in actual performance resulting from depreciation, amortization and other non-cash charges and more reflective of changes in pricing decisions, cost controls and other factors that affect operating performance. Management uses EBITDA to develop compensation plans, to measure sales force performance and to allocate capital assets. Additionally, because we have historically provided EBITDA to investors, we believe that presenting this non-GAAP financial measure provides consistency in financial reporting. Our use of EBITDA, however, is not

intended to represent cash flows for the period, nor has it been presented as an alternative to either (a) operating income (as determined by GAAP) as an indicator of operating performance or (b) cash flows from operating, investing and financing activities (as determined by GAAP) as a measure of liquidity. Given that EBITDA is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, EBITDA may not be comparable to other similarly titled measures of other companies. See footnote (4) of the table contained under Item 6

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Selected Financial Data Selected Historical Financial Data for a reconciliation of net loss and cash flow provided by operating activities to EBITDA for the periods indicated in the table immediately above.

EBITDA margin represents EBITDA as a percentage of revenues. Management believes that EBITDA margin is a useful measure to evaluate our performance over various sales levels. EBITDA margin should not be considered as an alternative to measurements determined in accordance with U.S. generally accepted accounting principles.

Fiscal Year Ended March 31, 2006 Compared to the Fiscal Year Ended March 31, 2005

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

	Year Ended March 31,		
	2006	2005	Change
Route	\$ 481.7	\$ 472.5	\$ 9.2
Rental	36.1	34.4	1.7
Distribution	25.7	31.7	(6.0)
	\$ 543.5	\$ 538.6	\$ 4.9

Revenue increased by approximately \$4.9 million or approximately 1% for the 2006 Fiscal Year, as compared to the 2005 Fiscal Year.

Route revenue for the 2006 Fiscal Year increased by approximately \$9.2 million or 2% from the 2005 Fiscal Year. We believe that this increase was due to price increases and an increase in third party service income.

Rental revenue for the 2006 Fiscal Year increased by approximately \$1.7 million or 5% over the 2005 Fiscal Year. 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 minor tuck-in acquisition during the current year.

Distribution revenue for the 2006 Fiscal Year decreased by approximately \$6.0 million or 19% from the 2005 Fiscal Year. The decrease was primarily due to decreased equipment sales. Sales from the distribution business unit are sensitive to general market conditions and economic conditions.

Laundry operating expenses, exclusive of depreciation and amortization, increased by approximately \$2.7 million or less than 1% for the 2006 Fiscal Year, as compared to the 2005 Fiscal Year. This increase in laundry operating expenses was due primarily to (i) an increase in commissions paid of \$3.0 million, due to an increase in route revenue, (ii) an increase in taxes of approximately \$2.0 million relating to miscellaneous tax items, consisting primarily of state franchise taxes, (iii) an increase in fuel costs of approximately \$1.1 million primarily due to increased fuel prices, (iv) an increase in utilities of approximately \$0.9 million primarily due to increased utility prices in our laundromats, (v) an increase in salaries of \$0.4 and (vi) other miscellaneous operating costs and expenses that are not material individually, or in the aggregate. This increase in laundry operating expenses was offset primarily by decreased cost of sales of approximately \$5.1 million due to decreased equipment sales. As a percentage of revenues, laundry operating expenses, exclusive of depreciation and amortization, were approximately 68.3% for both the 2006 Fiscal Year and the 2005 Fiscal Year.

General and administrative expenses increased by approximately \$2.8 million or 29% for the 2006 Fiscal Year, as compared to the 2005 Fiscal Year. The increase in general and administrative expenses was primarily due to (i) certain first year costs associated with the initial implementation of compliance procedures related to Section 404 of the Sarbanes-Oxley Act of 2002, (ii) incremental public company administrative fees and expenses including but not limited to incremental director and officer liability insurance, additional directors fees, investor and public relations expenses, and (iii) other miscellaneous costs and additional expenses associated with being a public company, as well as stock compensation expense related to the issuance of restricted stock awards by us in February 2006. As a percentage of revenues, general and administrative

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expenses were approximately 2.3% for the 2006 Fiscal Year and as compared to approximately 1.8% for the 2005 Fiscal Year.

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 the 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 2006 Fiscal Year we recognized approximately \$0.2 million to compensation expense in the Consolidated Statements of Operations for share-based payments to employees, which is discussed further in Note 13 to our consolidated financial statements.

Depreciation and amortization expense decreased by approximately \$0.9 million or 1% for the 2006 Fiscal Year, as compared to the 2005 Fiscal Year. The decrease in depreciation and amortization expense was primarily due to a reduction in depreciation expense relating to reduced capital expenditures made in prior years.

Amortization of advance location payments decreased by approximately \$0.4 million or 2% for the 2006 Fiscal Year, as compared to the 2005 Fiscal Year. The decrease was primarily due to the reduction in the amount of advance location payments made in the prior years.

Amortization of intangibles decreased by approximately \$0.3 million or 2% for the 2006 Fiscal Year, as compared to the 2005 Fiscal Year. The decrease was primarily the result of amortization expense being recorded on an accelerated basis.

Other items, net, for the 2006 Fiscal Year of approximately \$0.3 million was primarily due to a write-down of the asset value of approximately \$0.2 million, relating to the sale of one of the laundromats in October 2005.

Other items, net, for the 2005 Fiscal Year of approximately \$0.9 million primarily relates to additional expenses associated with the closing of California operations in the distribution business.

Operating income margin was approximately 9.4% for the 2006 Fiscal Year, as compared to approximately 9.2% for the 2005 Fiscal Year. The increase in operating income margin was primarily due to an increase in revenue partially offset by an increase in general and administrative expenses.

Transaction costs for the 2006 Fiscal Year of approximately \$31.5 million consisted of (i) approximately \$14.6 million of redemption premium on the 9% Senior Notes redeemed, (ii) write-off of deferred financing costs related to the redemption of the 9% Senior Notes, the refinancing of the Coinmach Corp. credit facility and the repurchase of a portion of the 11% Senior Secured Notes pursuant to the Tender Offer aggregating approximately \$9.6 million, (iii) costs and expenses related to the retirement of the 9% Senior Notes, the refinancing of the Coinmach Corp. credit facility and the repurchase of a portion of the 11% Senior Secured Notes pursuant to the Tender Offer aggregating approximately \$6.4 million, (iv) special bonuses of approximately \$0.5 million related to the Tender Offer and (v) approximately \$0.4 million of non-recurring transaction fees and expenses.

Transaction costs for the 2005 Fiscal Year of approximately \$17.4 million consisted of (1) approximately \$11.3 million redemption premium on the portion of 9% Senior Notes redeemed, (2) write-off of deferred financing costs related to the 9% Senior Notes redeemed and term loans repaid aggregating approximately \$3.5 million, (3) expenses related to the Coinmach Corp. credit facility amendment aggregating approximately \$1.8 million, and (4) special bonuses related to the IDS Transactions aggregating approximately \$0.8 million.

Interest expense increased by approximately \$1.5 million or 3% for the 2006 Fiscal Year, as compared to the 2005 Fiscal Year. In the Class A Offering, we completed the purchase of approximately \$48.4 million aggregate principal amount outstanding of 11% Senior Secured Notes pursuant to the Tender Offer. Additionally, on December 19, 2005, Coinmach Corp. entered into the Amended and Restated Credit Facility comprised of a \$570.0 million term loan facility, of which \$230.0 million was borrowed by Coinmach Corp. on December 19, 2005 to refinance approximately \$229.3 million aggregate principal amount of then

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outstanding term debt under its senior secured credit facility and pay related expenses (the Credit Facility Refinancing). On February 1, 2006, Coinmach Corp. 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. In addition, the increase in interest expense was due to an increase in variable interest rates payable under the Amended and Restated Credit Facility resulting from a market increase in interest rates.

Interest expense-non cash preferred stock dividends were approximately \$18.2 million for the 2005 Fiscal Year. As a result of the IPO in November 2004, a portion of the net proceeds thereof was used to 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. In connection with the IDS Transactions, Holdings exchanged all of the outstanding CLC Class A preferred stock owned by it and all of the outstanding shares of common stock of AWA to us for 24,980,445 shares of Class B Common Stock, representing all of the outstanding Class B Common Stock.

Interest expense-escrow interest for the 2005 Fiscal Year of approximately \$0.9 million relates to interest expense on the portion of the 9% Senior Notes that were redeemed on December 24, 2004. A portion of the net proceeds from the IPO was used to redeem 9% Senior Notes in an aggregate principal amount of \$125.5 million. There was no such amount for the 2006 Fiscal Year.

The benefit for income taxes for the 2006 Fiscal Year was approximately \$15.9 million as compared to a benefit for income taxes of approximately \$10.2 million for the 2005 Fiscal Year. The effective tax rate for the 2006 Fiscal Year was approximately 39% as compared to approximately 22% for the 2005 Fiscal Year. The changes for the year are primarily due to deductible transaction costs incurred during the current year and non cash interest expense on the preferred stock recorded in the prior year that did not occur in the current year.

Net loss was approximately \$24.6 million for the 2006 Fiscal Year, as compared to net loss of approximately \$35.3 million for the 2005 Fiscal Year. The decrease in net loss was primarily the result of the non cash interest expense on the preferred stock recorded in the prior year, offset by the transaction costs relating to the redemption of debt and the refinancing of the Coinmach Corp. credit facility in the 2006 Fiscal Year that were greater than the transaction costs relating to the IDS Transactions in the prior year, as discussed above. We have experienced net losses in each fiscal year since March 31, 2000. Such net losses are 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 following table sets forth our EBITDA for each of the route, distribution and rental businesses for the years indicated (in millions of dollars):

	Year Ended March 31,		
	2006	2005	Change
Route	\$ 156.7	\$ 155.4	\$ 1.3
Rental	15.4	13.8	1.6
Distribution	0.7	1.4	(0.7)
Other items, net	(0.3)	(0.8)	0.5
Corporate expenses	(12.5)	(9.7)	(2.8)
Transaction costs	(31.5)	(17.4)	(14.1)

Total EBITDA(1)	\$ 128.5	\$ 142.7	\$ (14.2)
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- (1) The computation of EBITDA for the 2006 Fiscal Year has not been adjusted to exclude certain transaction costs aggregating approximately \$31.5 million consisting of: (i) approximately \$14.6 million of redemption premium related to the redemption of the 9% Senior Notes, (ii) the write-off of deferred financing costs related to the redemption of the 9% Senior Notes, the refinancing of the Coinmach Corp. credit facility and the repurchase of a portion of 11% Senior

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Secured Notes pursuant to the Tender Offer aggregating approximately \$9.6 million, (iii) costs and expenses related to the redemption of the 9% Senior Notes, the refinancing of the Coinmach Corp. credit facility and the repurchase of a portion of the 11% Senior Secured Notes pursuant to the Tender Offer aggregating approximately \$6.4 million, (iv) special bonuses of approximately \$0.5 million related to the Tender Offer, and (v) approximately \$0.4 million of non-recurring transaction fees and expenses relating to the foregoing. The computation of EBITDA for the 2005 Fiscal Year has not been adjusted to exclude costs related to the IDS Transactions aggregating approximately \$17.4 million consisting of (a) approximately \$11.3 million of redemption premium on the portion of the 9% Senior Notes redeemed, (b) write-off of deferred financing costs related to the 9% Senior Notes redeemed and term loans repaid aggregating approximately \$3.5 million, (c) expenses related to the Coinmach Corp. credit facility amendment aggregating approximately \$1.8 million and (d) special bonuses aggregating approximately \$0.8 million.

EBITDA was approximately \$128.5 million for the 2006 Fiscal Year, as compared to approximately \$142.7 million for the 2005 Fiscal Year. EBITDA margins declined to approximately 23.6% for the 2006 Fiscal Year, as compared to approximately 26.5% for the 2005 Fiscal Year. The decrease in EBITDA and EBITDA margin is primarily attributable to certain transaction costs of approximately \$31.5 million relating to the redemption of debt and the refinancing of the Coinmach Corp. credit facility in the 2006 Fiscal Year offset partially by certain transaction costs of approximately \$17.4 million related to the IDS Transactions in the 2005 Fiscal Year. See footnote 4 of the table contained under Item 6 Selected Financial Data for a reconciliation of net loss and cash flow provided by operating activities to EBITDA for the years indicated in the table immediately above.

Fiscal Year Ended March 31, 2005 Compared to the Fiscal Year Ended March 31, 2004

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

	Year Ended March 31,		
	2005	2004	Change
Route	\$ 472.5	\$ 469.6	\$ 2.9
Rental	34.4	32.6	1.8
Distribution	31.7	28.9	2.8
	\$ 538.6	\$ 531.1	\$ 7.5

Revenue increased by approximately \$7.5 million or approximately 1% for the 2005 Fiscal Year, as compared to the 2004 Fiscal Year.

Route revenue for the 2005 Fiscal Year increased by approximately \$2.9 million or less than 1% from the 2004 Fiscal Year. We believe that the increase was due to the net result of an increase in third party service income and price increases, offset by decreased revenue primarily in the Southwest and Midwest operations caused by higher vacancy rates in these regions.

Rental revenue for the 2005 Fiscal Year increased by approximately \$1.8 million or 6% over the 2004 Fiscal Year. This increase was primarily the result of internal growth of the machine base in existing areas of operations during the current and prior years.

Distribution revenue for the 2005 Fiscal Year increased by approximately \$2.8 million or 10% from the 2004 Fiscal Year. Sales from the distribution business unit are sensitive to general market conditions and economic conditions. The increase was primarily due to increased sales from the Northeast and Midwest operations offset slightly by decreased revenue resulting from the closing of operations in California. Distribution revenue from our California operations was approximately \$1.8 million and \$3.0 million for the 2005 Fiscal Year and the 2004 Fiscal Year, respectively.

Laundry operating expenses, exclusive of depreciation and amortization, increased by approximately \$2.3 million or less than 1% for the 2005 Fiscal Year, as compared to the 2004 Fiscal Year. This increase in laundry operating expenses was due primarily to (i) increased cost of sales of approximately \$3.1 million due to increased sales in the Northeast and Midwest operations in the distribution business, as discussed above,

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(ii) an increase in salary expense of approximately \$1.5 million in the route business associated with collection services and (iii) an increase in fuel costs of approximately \$1.1 million primarily due to increased fuel prices. These increases in laundry operating expenses were offset by (i) a reduction in operating expenses as a result of the closing of California operations in the distribution business of approximately \$2.6 million and (ii) decreased insurance costs related to general business insurance coverage of approximately \$0.8 million. As a percentage of revenues, laundry operating expenses, exclusive of depreciation and amortization, were approximately 68.3% for the 2005 Fiscal Year, as compared to 68.9% for the 2004 Fiscal Year.

General and administrative expenses increased by approximately \$0.2 million or 2% for the 2005 Fiscal Year, as compared to the 2004 Fiscal Year. The increase in general and administrative expenses was primarily due to incremental public company administrative fees and expenses including but not limited to incremental director and officer liability insurance, additional directors' fees, investor and public relations expenses, and other miscellaneous costs and expenses relating to compliance with applicable securities laws. As a percentage of revenues, general and administrative expenses were approximately 1.8% for both the 2005 Fiscal Year and the 2004 Fiscal Year.

Depreciation and amortization expense increased by approximately \$3.9 million or 5% for the 2005 Fiscal Year, as compared to the 2004 Fiscal Year. The increase in depreciation and amortization expense was primarily due to depreciation expense relating to capital expenditures required by historical increases in our installed base of machines.

Amortization of advance location payments decreased by approximately \$1.0 million or 5% for the 2005 Fiscal Year, as compared to the 2004 Fiscal Year. The decrease was primarily due to the reduction in the amount of advance location payments made in the prior years.

Amortization of intangibles decreased by approximately \$1.0 million or 7% for the 2005 Fiscal Year, as compared to the 2004 Fiscal Year. The decrease was primarily the result of the reduction of intangibles related to prior year acquisitions.

Other items, net, for the 2005 Fiscal Year of approximately \$0.9 million primarily relates to additional expenses associated with the closing of California operations in the distribution business.

Other items, net, for the 2004 Fiscal Year of approximately \$0.2 million primarily relates to certain costs associated with the consolidation of certain offices in the distribution business. This consolidation was the result of actions we took to reduce operating costs at Super Laundry including, among other things, the closing of distribution operations in Southern California, the reassignment of responsibilities among Super Laundry's remaining management team and the write-off of inventory due to obsolescence. Offsetting these costs were additional income recognized related to the sale, as described below, of approximately \$1.7 million.

In October 2002, CLC contributed its ownership interest in Resident Data, Inc. (which we refer to as RDI), valued at approximately \$2.7 million, to Coinmach Corp. Subsequently, Coinmach Corp. sold its interest in RDI pursuant to an agreement and plan of merger between RDI and third parties for cash proceeds of approximately \$6.6 million before estimated expenses directly related to such sale, resulting in a gain of approximately \$3.3 million which was recorded in the 2003 Fiscal Year (which sale we refer to as the RDI sale). In connection with the RDI sale, and in addition to the cash proceeds received therefrom, Coinmach Corp. and the other sellers are entitled to their pro rata share (as determined by each seller's previous ownership percentage of RDI) of (i) \$5.0 million placed in escrow by the purchaser, subject to, among other things, the satisfaction of certain working capital adjustments and customary indemnification obligations (which is referred to as the escrow fund), and (ii) approximately \$1.8 million, subject to the continued employment by RDI of certain members of its management (which is referred to as the contingent fund). The portion of such amounts to be paid to Coinmach Corp. was based on its previous ownership percentage of RDI, which was approximately 32%, and was scheduled to be paid in two installments in October 2003 and October

2004.

Amounts to be received from the escrow fund and the contingent fund were recorded as income upon our determination that such amounts were likely to be received and were reasonably estimated. In October 2003, Coinmach Corp. received approximately \$0.7 million related to its share of the escrow fund and approximately

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\$0.3 million related to its share of the contingent fund. Based on the receipt of this first installment and other positive indicators, we determined that there was no longer uncertainty surrounding the collectibility of the portion of the escrow fund due in October 2004 of approximately \$0.7 million and such amount was recorded as income for the 2004 Fiscal Year.

Operating income margins were approximately 9.2% for the 2005 Fiscal Year, as compared to approximately 8.9% for the 2004 Fiscal Year. The slight increase in operating income margin was primarily due to a reduction in operating expenses as a result of the closing of California operations in the distribution business.

Transaction costs for the 2005 Fiscal Year of approximately \$17.4 million represents (1) approximately \$11.3 million redemption premium on the portion of 9% Senior Notes due 2010 redeemed, (2) the write-off of the deferred financing costs related to the 9% Senior Notes redeemed and term loans repaid aggregating approximately \$2.5 million, (3) expenses related to the Coinmach Corp. credit facility amendment aggregating approximately \$1.8 million, and (4) special bonuses related to the IDS Transactions aggregating approximately \$0.8 million.

Interest expense increased by approximately \$1.2 million or 2% for the 2005 Fiscal Year, as compared to the 2004 Fiscal Year. Following consummation of the IPO in November 2004, a portion of the net proceeds thereof was used to redeem \$125.5 million aggregate principal amount of the 9% Senior Notes and approximately \$15.5 million of outstanding term loans under the Coinmach Corp. credit facility. As a consequence of the IPO, we issued approximately \$116.1 million of 11% Senior Secured Notes underlying IDSs and \$20.0 million of additional 11% Senior Secured Notes not underlying IDSs. In addition, there has been an increase in variable interest rates payable under the Coinmach Corp. credit facility resulting from a market increase in interest rates.

Interest expense-non cash preferred stock dividends decreased by approximately \$6.5 million or 26% for the 2005 Fiscal Year, as compared to the 2004 Fiscal Year. As a result of the IPO in November 2004, a portion of the net proceeds thereof was used to 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. In addition, in connection with the IDS Transactions, Holdings exchanged CLC capital stock owned by it and all of the outstanding shares of common stock of AWA to us for 24,980,445 shares of Class B Common Stock, representing all of the outstanding Class B Common Stock. Pursuant to the IDS Transactions, we became controlled by Holdings.

Interest expense-escrow interest for the 2005 Fiscal Year of approximately \$0.9 million relates to interest expense on the portion of the 9% Senior Notes that were redeemed on December 24, 2004. A portion of the net proceeds from the IPO was used to redeem 9% Senior Notes in an aggregate principal amount of \$125.5 million.

The benefit for income taxes for the 2005 Fiscal Year was approximately \$10.2 million as compared to a benefit for income taxes of approximately \$3.6 million for the 2004 Fiscal Year. The change for the year is due to a tax benefit of approximately \$6.0 million related to IDS transaction costs, and a state tax benefit net of Federal taxes of approximately \$0.9 million, offset by tax expense of approximately \$0.9 million related to an increase in operating income. The effective tax rate for the 2005 Fiscal Year was approximately 22% as compared to approximately 10% for the 2004 Fiscal Year.

Net loss was approximately \$35.3 million for the 2005 Fiscal Year, as compared to net loss of approximately \$31.3 million for the 2004 Fiscal Year. The increase in net loss was primarily the result of IDS transaction costs, net of taxes, as discussed above. We have experienced net losses in each fiscal year since March 31, 2000. Such net losses are 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.

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

	Year Ended March 31,		
	2005	2004	Change
Route	\$ 155.4	\$ 154.4	\$ 1.0
Rental	13.8	12.2	1.6
Distribution	1.4	(1.2)	2.6
Other items, net	(0.8)	(0.2)	(0.6)
Corporate expenses	(9.7)	(9.5)	(0.2)
Transaction costs	(17.4)		(17.4)
Total EBITDA(1)	\$ 142.7	\$ 155.7	\$ (13.0)

- (1) The computation of EBITDA for the 2005 Fiscal Year has not been adjusted to exclude costs related to the IDS Transactions aggregating approximately \$17.4 million consisting of (a) approximately \$11.3 million of redemption premium on the portion of the 9% Senior Notes redeemed, (b) write-off of deferred financing costs related to the 9% Senior Notes redeemed and term loans repaid aggregating approximately \$3.5 million, (c) expenses related to the Coinmach Corp. credit facility amendment aggregating approximately \$18 million and (d) special bonuses aggregating approximately \$0.8 million.

EBITDA was approximately \$142.7 million for the 2005 Fiscal Year, as compared to approximately \$155.7 million for the 2004 Fiscal Year. EBITDA margins declined to approximately 26.5% for the 2005 Fiscal Year, as compared to approximately 29.3% for the 2004 Fiscal Year. The decrease in EBITDA and EBITDA margin is primarily attributable to certain transaction costs of approximately \$17.4 million related to the IDS Transactions. See footnote 4 of the table contained under Item 6 Selected Financial Data for a reconciliation of net loss and cash flow provided by operating activities to EBITDA for the years indicated in the table immediately above.

Liquidity and Capital Resources

We are a holding company with no material assets other than the capital stock of our subsidiaries, an intercompany note of Coinmach Corp. and the guarantee of such intercompany note by certain subsidiaries of Coinmach Corp. 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 March 31, 2006, we had cash and cash equivalents of approximately \$62.0 million and available borrowings under the revolver portion of the Amended and Restated Credit Facility of approximately \$68.2 million. Letters of credit under the revolver portion of the Amended and Restated Credit Facility outstanding at March 31, 2006 were

approximately \$6.8 million.

Our stockholders' equity was approximately \$138.7 million as of March 31, 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.

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and working capital needs, including interest and principal payments on our outstanding indebtedness, and to pay dividends on our common stock.

Dividend Policy

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

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

As a result of our dividend policy, we may not retain a sufficient amount of cash to finance growth opportunities or unanticipated capital expenditure needs or to fund our operations in the event of a significant business downturn. We may have to forego growth opportunities or 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 February 9, 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), which cash dividend was paid on March 1, 2006 to holders of record as of the close of business on February 27, 2006 (including holders of Class A Common Stock sold in the Class A Offering).

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.

See Item 5 Market Price of and Dividends on Our Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Dividends and Item 1 Business Risk Factors Risks Relating to Our Securities The holders of IDs and common stock may not receive the level of dividends provided for in the dividend policy that our board of directors adopted or any dividends at all for a more detailed discussion of our dividend policy.

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 or repurchase of our and our subsidiaries existing indebtedness. The timing and amount of external financings depend primarily upon economic and financial market conditions, our consolidated cash needs and our future capital structure objectives, as well as contractual limitations on additional financings. Additionally, the availability and cost of external financings will depend upon the financial condition of the entities seeking those funds.

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 over-allotment exercise by the underwriters on February 17, 2006) at a price to the public of

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\$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 at a repurchase price of \$8.505 per share or approximately \$18.7 million, described in Item 5 Market Price of and Dividends on Our Common Equity and Related Stockholder Matters Issuer Purchases of Equity Securities , (iii) to repurchase 1,605,995 shares of Class B Common Stock held by certain directors and officers of CSC at a repurchase price of \$8.505 per share or approximately \$13.7 million 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 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 Coinmach Corp. 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.

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 the 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 therein.

As of May 31, 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

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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.

The indenture governing the 11% Senior Secured Notes contains a number of restrictive covenants and agreements applicable to us and our restricted subsidiaries, including covenants with respect to the following matters: (i) limitation on additional indebtedness; (ii) limitation on certain payments (in the form of the declaration or payment of certain dividends or distributions on our capital stock, the purchase, redemption or other acquisition of any of our capital stock, the voluntary prepayment of subordinated indebtedness, and certain investments); (iii) limitation on transactions with affiliates; (iv) limitation on liens; (v) limitation on sales of assets; (vi) limitation on the issuance of preferred stock by non-guarantor subsidiaries; (vii) limitation on conduct of business; (viii) limitation on dividends and other payment restrictions affecting subsidiaries; (ix) limitations on exercising Class B Common Stock redemption rights and consummating purchases of Class B Common Stock upon exercise of sales rights by holders; and (x) limitation on consolidations, mergers and sales of substantially all of our assets.

At March 31, 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 Corp. entered into the Amended and Restated Credit Facility, which amended and restated the credit facility originally entered into on January 25, 2002 (the Coinmach Corp. 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 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 Corp. 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 Coinmach Corp. credit facility and pay related expenses. On February 1, 2006, Coinmach Corp. 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 March 31, 2006, the monthly variable Eurodollar rate was 4.8125%.

The Amended and Restated Credit Facility requires Coinmach Corp. to make certain mandatory repayments, including from (a) 100% of net proceeds from asset sales by Coinmach Corp. 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 Corp. and its subsidiaries, and (d) 100% of the net proceeds from insurance recovery and condemnation events of Coinmach Corp. and its subsidiaries, in each case subject to

reinvestment rights, as applicable, and other exceptions generally consistent with the Coinmach Corp. credit facility.

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The Amended and Restated Credit Facility contains a number of restrictive covenants and agreements applicable to Coinmach Corp. 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 Corp. 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 Corp. s equity securities; and (xiii) creation of subsidiaries. The Amended and Restated Credit Facility also requires that Coinmach Corp. 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 Corp. s real and personal property and is guaranteed by each of Coinmach Corp. 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 Coinmach Corp. 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 Corp. 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 March 31, 2006, the \$569.4 million of term loan borrowings under the Amended and Restated Credit Facility had an interest rate of approximately 7.31% 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 March 31, 2006 were approximately \$6.8 million.

At March 31, 2006, Coinmach Corp. 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.

9% Senior Notes

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

On December 30, 2005, Coinmach Corp. delivered notice to the holders of the 9% Senior Notes that, pursuant to the indenture governing such notes, it would retire all of the outstanding 9% Senior Notes on February 1, 2006 at a redemption price equal to 104.5% of the principal amount thereof, plus accrued and unpaid interest thereon. On February 1, 2006, Coinmach Corp. used the delayed draw term loans available under the term loan portion of the

Amended and Restated Credit Facility to retire all of the \$324.5 million outstanding aggregate principal amount of 9% Senior Notes, plus pay approximately \$14.6 million of related redemption premium. Coinmach Corp. used available cash to pay the approximately \$14.6 million regularly

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scheduled semi-annual aggregate interest payment due on such date. As a result, effective February 1, 2006, no 9% Senior Notes were outstanding.

The Intercompany Loan

Pursuant to the IDS Transactions, we made an intercompany loan of approximately \$81.7 million to Coinmach Corp. Pursuant to the Class A Offering, we made additional intercompany loans on February 8, 2006 and February 17, 2006 of approximately \$88.2 million and \$13.7 million, respectively (such loans together, the Intercompany Loan). The Intercompany Loan, which is represented by an intercompany note from Coinmach for the benefit of CSC (the Intercompany Note), is eliminated in consolidation.

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 Corp., ranks equally in right of payment with all existing and future senior indebtedness of Coinmach Corp. (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 Corp. Certain of Coinmach Corp.'s domestic restricted subsidiaries guarantee the Intercompany Loan on a senior unsecured basis. The Intercompany Loan contains covenants that are substantially the same as those provided in 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 us to secure the repayment of the 11% Senior Secured Notes.

If at any time Coinmach Corp. is not prohibited from doing so under the terms of its then outstanding indebtedness, in the event that we undertake 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 Corp. and increase the principal amount of the Intercompany Loan and the guaranty of the Intercompany Loan.

At March 31, 2006, Coinmach Corp. 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. As of May 31, 2006, there was \$183.6 million outstanding under the Intercompany Note.

11% Senior Secured Note Repurchases

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 the 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 therein.

Operating and Investing Activities

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

from operations to finance our capital expenditures and working capital needs.

Capital Expenditures

Capital expenditures excluding approximately \$3.4 million relating to acquisition capital expenditures (net of proceeds from the sale of equipment) for the 2006 Fiscal Year were approximately \$69.3 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 2006 Fiscal Year included

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approximately \$6.9 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 years indicated (in millions of dollars):

	Year Ended March 31,		
	2006	2005	Change
Route	\$ 57.3	\$ 64.2	\$ (6.9)
Rental	5.0	3.8	1.2
Distribution	0.4	0.4	
Corporate	6.6	1.9	4.7
	\$ 69.3	\$ 70.3	\$ (1.0)

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 March 31, 2006 (in millions of dollars):

	Total	Payment Due in Fiscal Year					After
		2007	2008	2009	2010	2011	
Long-Term Debt Obligations	\$ 657.5	\$ 8.1	\$ 2.3	\$ 3.2	\$ 5.7	\$ 5.8	\$ 632.4
Interest on Long-Term Debt(1)	435.0	50.7	50.4	50.3	49.9	49.5	184.2
Capital Lease Obligations(2)	7.7	3.6	2.4	1.4	0.3		
Operating Lease Obligations	28.5	8.2	6.0	4.9	4.0	2.5	2.9
	\$ 1,128.7	\$ 70.6	\$ 61.1	\$ 59.8	\$ 59.9	\$ 57.8	\$ 819.5

- (1) As of March 31, 2006, \$569.4 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 7.31% based on the Eurodollar rate in effect at March 31, 2006. In addition, approximately \$87.7 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 Corp. 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. At March 31, 2006, there were \$87.7 million principal amount of 11% Senior Secured Notes outstanding. On April 28, 2006, we purchased approximately \$5.6 million aggregate principal amount of our outstanding 11% Senior Secured Notes in open market purchases, which has been added to the payments due for the fiscal year ending March 31, 2007.

(2) Includes both principal and interest.

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Off-balance Sheet Arrangements

At March 31, 2006, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

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.

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,

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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 represented by the IDSs as well as dividend payments on the Class B Common Stock. Based on our anticipated level of cash requirements, including capital expenditures, scheduled interest and dividend payments, and existing contractual obligations, we estimate that over the next twelve months cash flow from operations, along with the available cash and cash equivalents and borrowing capacity under the Amended and Restated Credit Facility, will be sufficient to fund our operating needs and to service our indebtedness even if the interest expense deduction is not allowed.

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

We continuously monitor our debt position and coordinate our capital expenditure program with expected cash flows and projected interest and dividend payments. However, our actual cash requirements may exceed our current expectations. In the event cash flow is lower than anticipated, we expect to either: (i) reduce capital expenditures, (ii) supplement cash flow from operations with borrowings under the Amended and Restated Credit Facility, or (iii) evaluate other cost-effective funding alternatives. We expect that substantially all of the cash generated by our business in excess of operating needs, debt service obligations and reserves will be distributed to the holders of our common stock. As a result, we may not retain a sufficient amount of cash to finance growth opportunities or unanticipated capital expenditure needs or to fund our operations in the event of a significant business downturn. In addition, we may have to forego growth opportunities or capital expenditures that would otherwise be necessary or desirable if we do not find alternative sources of financing. If sources of liquidity are not 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.

Certain Accounting Treatment

Our depreciation and amortization expense, amortization of advance location payments and amortization of intangibles which aggregated approximately \$108.9 million for the 2006 Fiscal Year and approximately \$110.4 million for the 2005 Fiscal Year reduces our net income, but not our cash flow from operations. In accordance with GAAP, a significant amount of the purchase price representing the value of location contracts arising from businesses acquired by us is allocated to contract rights. Management evaluates the realizability of contract rights balances (if there are indicators of impairment) based upon our forecasted undiscounted cash flows and operating income. Based upon present operations and strategic plans, we believe that no impairment of contract rights has occurred.

Inflation and Seasonality

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

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Item 7A. 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 March 31, 2006, we had approximately \$339.4 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 \$339.4 million, the balance as of March 31, 2006.

On November 17, 2005, Coinmach Corp. 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.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our audited consolidated financial statements and the notes thereto are contained in pages F-1 through F-39 hereto.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Management's Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act), as amended, our management, including our chief executive officer and our chief financial officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2006. As defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, disclosure controls and procedures are controls and other procedures that we use that are designed to ensure that (i) information required to be disclosed by us in the reports we

file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and (ii) information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, we evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2006. Based specifically on the criteria established in

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Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were not effective as of March 31, 2006 because of the material weakness described below.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Rules 13a-15(f) and 15d-15(f) under the Exchange Act.

Our internal control system is designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published consolidated financial statements for external purposes and in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of the assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management performed an assessment of the effectiveness of our internal controls over financial reporting as of March 31, 2006 using the specific criteria set forth in the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The objective of this assessment is to determine whether our internal control over financial reporting was effective as of March 31, 2006.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As of March 31, 2006, we did not maintain effective control over the franchise and income tax process. Specifically, we did not adequately identify, quantify and account for such taxes; reconcile certain tax accounts on a timely basis; and we did not adequately review the difference between the income tax basis and financial reporting basis of assets and liabilities and reconcile the difference to recorded deferred income tax assets and liabilities. These deficiencies resulted in a \$2.0 million reclassification between the deferred tax liability and current tax payable accounts as well as deferred income tax expense and operating expense. These errors have been corrected by management in the accompanying consolidated financial statements. Had these errors not been detected, these control deficiencies could have resulted in more than a remote likelihood that a material misstatement of annual or interim financial statements would not be prevented or detected. Accordingly, based on the specific criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, management determined that these control deficiencies constitute a material weakness.

Our management's assessment of the effectiveness of our internal control over financial reporting as of March 31, 2006 was audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which expresses an unqualified opinion on management's assessment and an adverse opinion on the effectiveness of our internal control over financial reporting as of March 31, 2006.

Changes in Internal Control over Financial Reporting

As required by Rule 13a-15(d) under the Exchange Act, 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 March 31, 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 March 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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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.

Inherent Limitations on Effectiveness of Controls.

Our management, including the chief executive officer and chief financial officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Coinmach Service Corp.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Coinmach Service Corp. and Subsidiaries (the Company) did not maintain effective internal control over financial reporting as of March 31, 2006, because of the effect of the material weakness identified in management's assessment based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material aspects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management's assessment. At of March 31, 2006, the Company did not maintain effective control over its franchise and income tax process. Specifically, the Company did not adequately identify, quantify and account for such taxes; reconcile certain tax accounts on a timely basis; and it 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. The combination of these control deficiencies results in more than a remote likelihood that a material misstatement of annual or interim financial statements would not be prevented or detected in the annual or interim consolidated financial statements.

This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements and financial statement schedule as of and for the year ended March 31, 2006 of the Company and this report does not affect our report on such consolidated financial statements and financial statement schedule.

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In our opinion, management's assessment that the Company did not maintain effective internal control over financial reporting as of March 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of March 31, 2006, based on the COSO criteria.

/s/ Ernst & Young LLP

New York, New York
June 9, 2006

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Item 9B. OTHER INFORMATION

Effective June 14, 2006 our board of directors amended and restated our bylaws in order to expand the officers authorized to preside at annual meetings or special meetings of stockholders to include the Chief Financial Officer or such other officer as may be designated by our board of directors. Such bylaws, as amended and restated, are attached as an exhibit to this annual report on Form 10-K.

There was no information required to be disclosed in a Current Report on Form 8-K during the fourth quarter of the fiscal year covered by this Annual Report on Form 10-K that was not reported.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS

With the exception of the information relating to our Code of Business Conduct and Ethics that is presented in Part I, Item 1 of this report under the heading Available Information, the information required by this item will appear in the sections entitled Proposal 1 Election of Directors, Our Management, Section 16(a) Beneficial Ownership Reporting Compliance and Information about the Board of Directors and its Committees included in our definitive proxy statement to be filed on or before July 16, 2006, relating to our 2006 annual meeting of stockholders, which information is incorporated herein by reference.

Item 11. EXECUTIVE COMPENSATION

The information required by this item will appear in the section entitled Our Management included in our definitive proxy statement to be filed on or before July 16, 2006, relating to our 2006 annual meeting of stockholders, which information is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item will appear in the sections entitled Stock Ownership of Certain Beneficial Owners and Our Management included in our definitive proxy statement to be filed on or before July 16, 2006, relating to our 2006 annual meeting of stockholders, which information is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item will appear in the section entitled Certain Relationships and Related Transactions included in our definitive proxy statement to be filed on or before July 16, 2006, relating to our 2006 annual meeting of stockholders, which information is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item will appear in the section entitled Proposal 2 Ratification of Appointment of the Independent Registered Public Accounting Firm and Corporate Governance included in our definitive proxy statement to be filed on or before July 16, 2006, relating to our 2006 annual meeting of stockholders, which information is incorporated herein by reference.

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as a part of this report:

(1)(2) Financial Statements and Schedules required to be filed in satisfaction of Item 8 see Index to Consolidated Financial Statements and Schedule appearing on Page F-1. Schedules not required have been omitted.

(3) Exhibits: Those exhibits required to be filed by Item 601 of Regulation S-K under the Securities Act are listed in the Exhibit Index, and such listing is incorporated by reference herein.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Coinmach Service Corp. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the Town of Plainview, State of New York on June 14, 2006.

COINMACH SERVICE CORP.

By: /s/ STEPHEN R. KERRIGAN

Stephen R. Kerrigan
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the dates indicated.

Date: June 14, 2006

By: /s/ STEPHEN R. KERRIGAN

Stephen R. Kerrigan
*Chairman of the Board of Directors, President and
Chief Executive Officer (Principal Executive Officer)*

Date: June 14, 2006

By: /s/ ROBERT M. DOYLE

Robert M. Doyle
*Chief Financial Officer, Senior Vice President
Secretary and Treasurer
(Principal Financial and Accounting Officer)*

Date: June 14, 2006

By: /s/ BRUCE V. RAUNER

Bruce V. Rauner
Director

Date: June 14, 2006

By: /s/ DAVID A. DONNINI

David A. Donnini
Director

Date: June 14, 2006

By: /s/ JAMES N. CHAPMAN

James N. Chapman
Director

Date: June 14, 2006

By: /s/ WOODY M. MCGEE

Woody M. McGee
Director

Date: June 14, 2006

By: /s/ JOHN R. SCHEESSELE

John R. Scheessele
Director

Date: June 14, 2006

By: /s/ WILLIAM M. KELLY

William M. Kelly
Director

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(All other financial schedules have been omitted because they are not applicable, or not required, or because the required information is included in the consolidated financial statements or notes thereto.)

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Report of Independent Registered Public Accounting Firm

To the Board of Directors of Coinmach Service Corp.

We have audited the accompanying consolidated balance sheets of Coinmach Service Corp. and subsidiaries (the Company) as of March 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended March 31, 2006. Our audits also included the financial statement schedule listed in the Index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Coinmach Service Corp. and Subsidiaries at March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 7 to the consolidated financial statements, effective April 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of March 31, 2006, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 9, 2006, expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Ernst & Young LLP

New York, New York
June 9, 2006

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	March 31,	
	2006	2005
	(In thousands except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 62,008	\$ 57,271
Receivables, less allowance of \$4,326 and \$3,794	5,635	6,486
Inventories	11,458	12,432
Assets held for sale		2,475
Prepaid expenses	4,375	4,994
Interest rate swap asset	2,615	832
Other current assets	1,796	2,625
Total current assets	87,887	87,115
Advance location payments	67,242	72,222
Property, equipment and leasehold improvements:		
Laundry equipment and fixtures	578,700	526,158
Land, building and improvements	39,098	34,729
Trucks and other vehicles	37,624	32,507
	655,422	593,394
Less accumulated depreciation and amortization	(403,024)	(329,130)
Net property, equipment and leasehold improvements	252,398	264,264
Contract rights, net of accumulated amortization of \$114,535 and \$100,975	296,912	309,698
Goodwill	206,196	204,780
Other assets	11,531	18,597
Total assets	\$ 922,166	\$ 956,676
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 17,528	\$ 22,536
Accrued expenses	15,128	11,447
Accrued rental payments	33,044	30,029
Accrued interest	3,563	9,512
Current portion of long-term debt	11,151	17,704
Total current liabilities	80,414	91,228
Deferred income taxes	49,984	65,546
Long-term debt	653,102	690,687

Total liabilities	783,500	847,461
Stockholders' equity:		
Class A Common Stock \$0.01 par value; 100,000,000 shares authorized; 29,113,641 shares issued and outstanding at March 31, 2006 and 18,911,532 shares issued and outstanding at March 31, 2005	291	189
Class B Common Stock \$0.01 par value; 100,000,000 shares authorized; 23,374,450 shares issued and outstanding at March 31, 2006 and 24,980,445 shares issued and outstanding at March 31, 2005	234	250
Capital in excess of par value	389,616	319,038
Carryover basis adjustment	(7,988)	(7,988)
Accumulated other comprehensive income, net of tax	1,547	492
Accumulated deficit	(245,034)	(202,754)
Deferred compensation		(12)
Total stockholders' equity	138,666	109,215
Total liabilities and stockholders' equity	\$ 922,166	\$ 956,676

See accompanying notes.

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Table of Contents**Coinmach Service Corp. and Subsidiaries****Consolidated Statements of Operations**

	Year Ended March 31,		
	2006	2005	2004
	(In thousands except share data)		
Revenues	\$ 543,485	\$ 538,604	\$ 531,088
Cost and expenses:			
Laundry operating expenses (exclusive of depreciation and amortization and amortization of advance location payments)	370,647	367,974	365,709
General and administrative (including stock-based compensation expense of \$210, \$74 and \$176, respectively)	12,517	9,694	9,460
Depreciation and amortization	75,556	76,431	72,529
Amortization of advance location payments	19,219	19,578	20,576
Amortization of intangibles	14,118	14,431	15,472
Other items, net	310	855	230
	492,367	488,963	483,976
Operating income	51,118	49,641	47,112
Interest expense	60,099	58,572	57,377
Interest expense non cash preferred stock dividends		18,230	24,714
Interest expense escrow interest		941	
Transaction costs	31,486	17,389	
Loss before income taxes	(40,467)	(45,491)	(34,979)
(Benefit) provision for income taxes:			
Current	400		105
Deferred	(16,285)	(10,166)	(3,753)
	(15,885)	(10,166)	(3,648)
Net loss	\$ (24,582)	\$ (35,325)	\$ (31,331)
Distributed earnings per share:			
Class A Common Stock	\$ 0.82	\$ 0.09	\$
Class B Common Stock	\$	\$ 0.04	\$
Basic and diluted net loss per share:			
Class A Common Stock	\$ (0.11)	\$ (1.13)	\$
Class B Common Stock	\$ (0.93)	\$ (1.18)	\$ (1.25)
Weighted average common stock outstanding:			
Class A Common Stock	20,465,051	6,255,661	
Class B Common Stock	24,846,612	24,980,445	24,980,445
Cash dividends per share:			
Class A Common Stock	\$ 0.82	\$ 0.09	

Class B Common Stock	\$	\$	0.04
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See accompanying notes.

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Coinmach Service Corp. and Subsidiaries**Consolidated Statements of Stockholders (Deficit) Equity**

	Class A	Class B	Capital in	Carryover	Accumulated	Other	Accumulated	Deferred	Total
	Common	Common	Excess	Basis	Comprehensive	Income	Deficit	Compensation	Stockholder
	Stock	Stock	of Par	Adjustment	(Loss)	Net of	Deficit	Compensation	(Deficit)
				(In thousands)	Tax				Equity
Balance March 31, 2003	\$	\$	\$ 167	\$ 5,027	\$ (7,988)	\$ (2,007)	\$ (133,397)	\$ (262)	\$ (138,460)
Common stock retired				(5)					(5)
Comprehensive loss:									
Net loss							(31,331)		(31,331)
Gain on derivative instruments						1			1
Total comprehensive loss									(31,330)
Stock-based compensation								176	176
Balance, March 31, 2004			167	5,022	(7,988)	(2,006)	(164,728)	(86)	(169,619)
Issuance of common stock net of issuance costs of (\$12,479)	189			129,169					129,358
Exchange of preferred and common stock for Class B Common Stock		250	(167)	184,847					184,930
Comprehensive loss:									
Net loss							(35,325)		(35,325)
Gain on derivative instruments, net of income tax of \$1,931						2,498			2,498
Total comprehensive loss									(32,827)
Dividends							(2,701)		(2,701)
Stock-based compensation								74	74
Balance, March 31, 2005	189	250		319,038	(7,988)	492	(202,754)	(12)	109,215
Issuance of common stock net of issuance costs of (\$3,155)	123			102,536					102,659
	(22)	(16)		(32,327)					(32,365)

urchase and retirement of lass A and Class B ommon stock									
omprehensive loss:									
et loss							(24,582)		(24,582)
ain on derivative struments, net of income x of \$723						1,055			1,055
otal comprehensive loss									(23,527)
djustment to IDS									
ansaction costs			172						172
ividends							(17,698)		(17,698)
tock-based compensation	1		197					12	210
alance, March 31, 2006	\$ 291	\$ 234	\$	\$ 389,616	\$ (7,988)	\$ 1,547	\$ (245,034)	\$	\$ 138,666

See accompanying notes.

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Table of Contents**Coinmach Service Corp. and Subsidiaries****Consolidated Statements of Cash Flows**

	Year Ended March 31		
	2006	2005	2004
	(In thousands)		
Operating activities			
Net loss	\$ (24,582)	\$ (35,325)	\$ (31,331)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	75,556	76,431	72,529
Amortization of advance location payments	19,219	19,578	20,576
Amortization of intangibles	14,118	14,431	15,472
Interest expense non cash preferred stock dividend		18,230	24,714
Gain on sale of investment and equipment	(327)	(557)	(1,232)
Deferred income taxes	(16,285)	(10,166)	(3,753)
Amortization of deferred issue costs	1,905	2,326	2,414
Premium on redemption of 9% senior notes due 2010	14,603	11,295	
Premium on redemption of 11% senior secured notes due 2024	4,833		
Write-off of deferred issue costs	9,566	3,475	
Stock based compensation	210	74	176
Change in operating assets and liabilities, net of businesses acquired:			
Other assets	(805)	968	(1,384)
Receivables, net	880	(279)	4,246
Inventories and prepaid expenses	1,593	(702)	2,247
Accounts payable and accrued expenses	1,603	3,256	(7,077)
Accrued interest	(5,949)	1,963	(545)
Net cash provided by operating activities	96,138	104,998	97,052
Investing activities			
Additions to property, equipment and leasehold improvements	(57,937)	(53,444)	(65,460)
Advance location payments to location owners	(14,239)	(18,051)	(21,272)
Additions to net assets related to acquisitions of businesses	(3,436)	(628)	(3,615)
Proceeds from sale of investment		277	1,022
Proceeds from sale of property and equipment	2,884	919	876