COINMACH SERVICE CORP
Form 10-K
June 05, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 10-K

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

For the fiscal year ended March 31, 2007

or

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

For the transition period from to

Commission File Number 001-32359

Coinmach Service Corp.

(Exact name of registrant as specified in its charter)

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

(516) 349-8555

(Registrant s telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Income Deposit Securities, each representing one share of Class A common stock, $0.01 par value per share, and an 11% Senior Secured Note due 2024 in a principal amount of $6.14	American Stock Exchange
Class A common stock, $0.01 par value 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 o No þ

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 o No þ

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 þ No o

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. o

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

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

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

As of September 30, 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 $251,512,323.

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 $9.93 closing price per share of separately held Class A Common Stock, as quoted on the American Stock Exchange on September 30, 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.

As of the close of business on April 30, 2007, the registrant had outstanding (i) 13,365,966 Income Deposit Securities (IDSs), (ii) 29,260,030 shares of Cl ass A common stock, $0.01 par value per share (the Class A Common Stock) (of which 15,673,841 were held separate and apart from IDSs) and (iii) 23,374,450 shares of Class B common stock, $0.01 par value per share (the Class B Common Stock).

DOCUMENTS INCORPORATED BY REFERENCE

Selected designated portions of the registrant s definitive proxy statement to be delivered to stockholders on or before July 12, 2007 in connection with the registrant s 2007 annual meeting of stockholders scheduled to be held July 23, 2007 are incorporated by reference into Part III of this annual report.

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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, 2007, 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 96% 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 $555.3 million for the fiscal year ended March 31, 2007.

We had experienced net losses in each fiscal year since 2000 through March 31, 2006, and as of March 31, 2007, we had an accumulated deficit of approximately $281.4 million and total stockholders equity of approximately $100.7 million. We generated net income of approximately $0.2 million for the fiscal year ended March 31, 2007 (2007 Fiscal Year) and as of March 31, 2007, we had approximately $657.3 million in long-term debt.

In addition to our route business, we rent laundry machines and other household appliances and electronic items to corporate relocation entities, property owners, managers of multi-family housing properties and individuals 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. Coinmach is in turn a wholly-owned subsidiary of our direct wholly-owned subsidiary Coinmach Laundry Corporation, a Delaware corporation which we refer to as 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 continue to grow the route operation, as well as utilize our substantial sales, service,

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collections and security infrastructure throughout the United States to offer related services to businesses outside our existing laundry business.

We maintain our corporate headquarters in Plainview, New York, a corporate office in Charlotte, North Carolina, a national call center in Irving, Texas 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 value contribution to the Company. 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, our integrated computer systems

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monitor performance, repairs and maintenance, as well as the profitability of locations on a 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, 2007, based on number of machines, our leases had an average remaining life to maturity of approximately 50 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.

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. 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.

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, 2007, we have organically grown AWA s operations across 28 states. For the fiscal year ended March 31, 2007, 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

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location identification, construction, plumbing, electrical wiring and all required permits. For the fiscal year ended March 31, 2007, revenue generated by Super Laundry represented approximately 4% 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 maintain a 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, 2007, we employed approximately 1,950 employees. In the Northeast region, approximately 100 hourly workers are represented by Local 966, affiliated with the International Brotherhood of Teamsters scheduled to expire September 20, 2008. 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.

CLC, our 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, our primary operating subsidiary. In November 1995, The Coinmach Corporation, a Delaware corporation and predecessor of Coinmach, merged with and into Solon Automated Services, Inc., which we refer to as Solon. In connection with the merger with Solon, CLC 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 Class A Common Stock Offering

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 which resulted in Coinmach Holdings, LLC (Holdings) becoming our controlling stockholder through its 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 CLC and its subsidiaries (including Coinmach) became our subsidiaries.

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)

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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 the remaining proceeds for general corporate purposes.

Acquisition of American Sales, Inc.

On April 3, 2006, we completed the acquisition of American Sales, Inc. (ASI) for a purchase price of $15.0 million, subject to 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 various factors and was derived using numerous assumptions.

Forward-looking statements necessarily involve risks and uncertainties, and our actual results could differ materially from those anticipated in the forward-looking statements due to a number of factors, including those set forth below and in this report. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct. We caution readers not to place undue reliance on such statements and undertake no obligation to update publicly any 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 and contractual and legal restrictions on the ability of our subsidiaries to make dividends and distributions to us;

the risk of adverse tax consequences should the 11% Senior Secured Notes not be respected as debt for U.S. federal income tax purposes;

risks associated with changes in accounting standards promulgated by the Financial Accounting Standards Board, the 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.

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 through 2006. 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 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. However, even though we generated net income of approximately $0.2 million for the 2007 Fiscal Year, we may not generate net income from operations in the future. Continuing net losses limit our ability to service our debt and fund our operations.

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 expanding our machine base for the 2007 Fiscal Year were approximately $69.6 million (excluding approximately $17.9 million relating to acquisition capital expenditures and payments of approximately $4.0 million relating to capital lease obligations) and for the 2006 Fiscal Year were approximately $69.3 million (excluding approximately $3.4 million relating to acquisitions and approximately $4.7 million relating to capital lease payments). We may have unanticipated capital expenditure requirements in the future. If we cannot obtain sufficient capital to meet such requirements 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 at our locations 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

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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.

Pursuant 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.

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.

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 are subject to certain federal energy and water efficiency standards. While we have

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been informed by certain manufacturers that washers not compliant with such standards will be able to be modified without a material increase in cost in order to meet such standards, there can be no assurance that any such affected washers in our installed base will be able to be modified without a material increase in cost or that the costs of purchasing compliant washers will not increase by a material amount.

In addition, new federal standards could be enacted in the future which could result in a significant increase in our capital expenditures and consequently reduce our profit margins. If manufacturers are unable to make such modifications without material cost increases or at all, implementing machines compliant with such new laws could result in increased capital costs (including material and equipment costs), labor and installation costs, and in some cases, operation and maintenance costs. Our capital expenditures, as well as those of other industry participants, may significantly increase in order to comply with such new standards. 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.

Any failure or inadequacy of our information technology infrastructure could harm our business.

The capacity, reliability and security of our information technology hardware and software infrastructure and our ability to expand and update this infrastructure in response to our changing needs are important to the continued operation of our businesses. To avoid technology obsolescence and enable future cost savings and customer service enhancements, we are continually updating our information technology infrastructure. In addition, we intend to add new features and functionality to our products, services and systems that could result in the need to develop, license or integrate additional technologies. Our inability to add additional software and hardware or to upgrade our technology infrastructure could have adverse consequences, which could include the delayed implementation of related services and impaired quality. We may not be able to effectively upgrade and expand our systems, or add new systems, in a timely and cost effective manner and we may not be able to smoothly integrate any newly developed or purchased technologies with our existing systems. These difficulties could harm or limit our ability to improve our business. In addition, any failure of our existing information technology infrastructure could result in significant additional costs to us.

Our financial results have been and could further be negatively impacted by impairments of goodwill or other intangible assets required by SFAS 142 and the application of future accounting policies or interpretations of existing accounting policies.

In accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* referred to as SFAS 142, we perform an annual assessment on goodwill and other intangible assets for impairment and also test between annual tests if an event occurs or circumstances change that would more likely than not reduce then fair value of a reporting unit below it s carrying amount. See Note 2 to the consolidated financial statements and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates in this Form 10-K.

A downward revision in the fair value of one of our reporting units could result in additional impairments of goodwill under SFAS 142 and additional non-cash charges. Any charge resulting from the application of SFAS 142 could have a significant negative effect on our reported net loss. In addition, our financial results could be negatively impacted by the application of existing and future accounting policies or interpretations of existing accounting policies, any continuing impact of SFAS 142 or any negative impact relating to the application of Statement of Financial Accounting Standards No. 144, *Accounting for the Improvement and Disposal of Long-Lived Assets*.

Any acquisitions we make involve a degree of risk.

We have in the past, and may in the future, engage in acquisitions to expand our presence in the route or other businesses. If any future acquisitions are not successfully integrated with our business, our ongoing operations could be adversely affected. Additionally, acquisitions may not achieve desired profitability objectives or result in any anticipated successful expansion of the acquired businesses or concepts. Although we review and analyze assets or companies we acquire, such reviews are subject to uncertainties and may not reveal all potential risks. Additionally, although we attempt to obtain protective contractual provisions, such as representations, warranties and indemnities, in connection with acquisitions, we cannot assure you that we can obtain such provisions in our

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acquisitions or that they will fully protect us from unforeseen costs of the acquisition. We may also incur significant costs in connection with pursuing possible acquisitions, even if the acquisition is not ultimately consummated.

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, 2007, we had total indebtedness of approximately $657.3 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 (as defined herein).

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;
- 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.

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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.

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. 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.

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 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.

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

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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 rate set forth in our dividend policy. In February 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. On November 3, 2006, 132,500 performance contingent and time-based vesting restricted shares of Class A Common Stock were awarded to certain executive officers and directors under our benefit plans. On March 6, 2007, 15,000 performance contingent and time-based vesting restricted shares of Class A Common Stock were awarded to certain 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 thereafter 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 s ability to pay dividends. In addition, any financing arrangements we may enter into in the future, may contain further limitations on payment of dividends. 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.

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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) 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;

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 s ability to pay dividends contained in the indenture governing the Amended and Restated Credit Facility are different, and in certain cases 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 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 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.

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, 2007, 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

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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, 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.

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.

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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. On 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. On November 3, 2006, 132,500 performance contingent and time-based vesting restricted shares of Class A Common Stock were awarded to certain executive officers and directors under our benefit plans. On March 6, 2007, 15,000 performance contingent and time-based vesting restricted shares of Class A Common Stock were awarded to certain 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.

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.