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Coinmach purposely omits $17.8 million deduction from its own fraudulent cash flow formula.

Coinmach Laundry Corporation (NASDAQ: WDRY) (Price: $23.8125) claims it groups the purchase and installation cost of its washers and dryers into two separate capitalized expense categories, which it calls "renewal" and "growth" capital expenditures. Coinmach then excludes from its free cash flow available to shareholders ("FCF") calculation all expenses labeled growth capital expenditures. As shown below in detail, Coinmach has no legitimate reason for allocating capital expenditures between renewal and growth or for failing to deduct growth designated cost from its FCF calculation. Even using its overstated EBITDA, which wrongly includes amortization of Advance Location Payments and other operating costs, Coinmach's own FCF calculation changes from positive $12.1 million to negative $5.7 million simply by reversing the inappropriate exclusion of this deduction. We believe that Coinmach's sole purpose for concocting these false Cap-Ex and FCF reports is to defraud investors.

Coinmach's leases have an average life to maturity of approximately 50 months. On average approximately 13% of its leases expire each year. To renew the expiring leases Coinmach must install new machines and, if applicable, repay advance location payments. Coinmach fails to renew approximately 25% of its expiring leases. So in order to maintain the same number of machines Coinmach must sign new leases in new locations to replace expiring leases that are not renewed. As a result, Coinmach incurs purchasing, delivery, installation and construction costs to renew expiring leases and to replace the lost leases. None of these expenditures increase machine count or necessarily results in any FCF growth.

New leases for new locations can either replace leases lost to competitors, or can result in a net increase in machines. Coinmach claims that it separates its capital expenditures for new leases that are attributable to replacement of lost leases from those that result in a claimed net increase in machines. This simply can not be true. Any such claim is irresponsible and misleading. Coinmach's selection of which new leases to report as growth and which new leases to report as renewal is arbitrary and fictitious. Coinmach simply decides to classify one new lease as growth and another as new lease renewal. This arbitrary allocation of capital expenditures is only one of several ways management manipulates its misleading cash flow reports. Furthermore, there is no evidence that its so-called "growth" expenditures add to FCF. In fact, a comparison of actual versus pro forma nine month results shows Coinmach's supposedly large growth expenditures failed to create any internal growth.

Coinmach reported EBITDA of $71.7 million for the nine months ended December 26, 1997. This is approximately $2.3 million less than Coinmach's pro forma EBITDA of $74.0 million for the same period last fiscal year. This decline in EBITDA is very significant considering that Coinmach claims to have spent $45 million in capital expenditures, including $17.8 million on growth capital expenditures, during the last nine months. Furthermore, in its earnings release Coinmach claimed that EBITDA for its base business improved by approximately 7%. This does not reconcile with Coinmach's earlier statements.

Coinmach has provided pro forma statements for both Fiscal 1997 and the six-months ended September 26, 1997, which include all of the acquisitions that occurred during the most recent nine months. Coinmach spent approximately $66.3 million to acquire 24,200 machines in this period. The pro formas assume that the acquisitions occurred at the beginning of the period. The actual results only include these acquisitions since their closing date. However, the timing difference is offset by the 16,700 claimed machine increase plus the claimed 7% EBITDA improvement that are not included in the pro formas. With more machines and an improved EBITDA there should have been an increase in actual versus pro forma EBITDA. Yet EBITDA fell as compared to either pro forma.

The amount of capital expenditures Coinmach has reported as growth on a per claimed growth machine basis varies widely from quarter to quarter. In fact during the last year's fourth quarter Coinmach claimed it spent $5.8 million in growth cap-ex on 2,100 machines. This equals approximately $2,762 per machine, or $1,962 more than its analysts stated $800 average. This clearly illustrates that the period expenses Coinmach elects to capitalize instead of expense are far greater than its competitors. As shown above, there is no legitimate basis to categorize an individually selected new lease as growth versus renewal. By selecting the machines and cost to include in its growth capital expenditure group Coinmach fraudulently manipulates FCF as calculated by its formula.

For example, according to Coinmach's FCF formula it can spend over $1,500 for a new, low income producing machine to replace a lost $250 fully depreciated, high income producing machine and completely exclude the impact of the expenditure on its FCF. The event is clearly negative to earnings and cash flow. Yet by capitalizing the entire expense and declaring the $1,500 expenditure as growth, Coinmach avoids any loss in reported earnings or in its fraudulently reported cash flow.

Coinmach has failed to give any breakdown of its growth by region, domestic and commercial machines, laundromat, multi-unit housing, military, college or any other type. Vending prices, usage, advance payments and route operating costs vary widely from one region to the next. Each of these types of machines and locations has very different values to investors. Without this information and a complete analysis of the new machines selected to be growth versus renewal, Coinmach's growth capital expenditure disclosures are meaningless. In any case, no net EBITDA growth has occurred. As a result, there is no justification to add Coinmach's bogus growth expenditures to FCF.

Coinmach's FCF is not a correct or useful measure of liquidity or its ability to service debt. The exclusion of growth capital expenditures is only one of many important and major flaws contained in Coinmach's reported EBITDA and FCF. These expenditures have not resulted in more profits or cash flow. In fact the opposite has occurred.

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