

ALLIANCE LAUNDRY HOLDINGS LLC

Quarterly Report for the Period Ended September 30, 2011

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Table of Contents

	<u>Page No.</u>
Financial Statements (Unaudited)	
Condensed Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010	2
Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2011 and September 30, 2010	3
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and September 30, 2010	4
Notes to Unaudited Condensed Consolidated Financial Statements	5
Management’s Discussion and Analysis of Financial Condition and Results of Operations	23
Quantitative and Qualitative Disclosures About Market Risk	33

Throughout this quarterly report, we refer to Alliance Laundry Holdings LLC, a Delaware limited liability company, as “Alliance Holdings,” and, together with its consolidated operations, as the “Company,” “Alliance,” “we,” “our,” and “us,” unless otherwise indicated. Any reference to “Alliance Laundry” refers to our wholly-owned subsidiary, Alliance Laundry Systems LLC, a Delaware limited liability company, and its consolidated operations, unless otherwise indicated. Any reference to “ALH” refers to ALH Holding Inc., a Delaware corporation and Alliance Holdings’ ultimate parent entity.

PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ALLIANCE LAUNDRY HOLDINGS LLC
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(in thousands)

	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Assets		
Current assets:		
Cash and cash equivalents.....	\$ 42,454	\$ 37,743
Restricted cash - for securitization investors.....	14,479	17,528
Accounts receivable, net.....	21,381	24,830
Inventories, net.....	43,067	40,562
Accounts receivable - restricted for securitization investors.....	66,545	61,113
Loans receivable, net - restricted for securitization investors.....	42,014	43,408
Deferred income tax asset, net.....	9,113	8,968
Prepaid expenses and other assets.....	4,346	4,868
Total current assets.....	<u>243,399</u>	<u>239,020</u>
Loans receivable, net.....	6,619	4,136
Property, plant and equipment, net.....	54,617	56,075
Goodwill.....	181,494	181,377
Loans receivable, net - restricted for securitization investors.....	208,872	217,871
Debt issuance costs, net.....	9,994	7,442
Intangible assets, net.....	134,536	137,347
Total assets.....	<u>\$ 839,531</u>	<u>\$ 843,268</u>
Liabilities and Member(s)' Equity		
Current liabilities:		
Current portion of long-term debt and capital lease obligations.....	\$ -	\$ 4
Revolving credit facility.....	-	-
Accounts payable.....	41,559	38,542
Asset backed borrowings - owed to securitization investors.....	78,420	75,152
Other current liabilities.....	37,938	33,466
Total current liabilities.....	<u>157,917</u>	<u>147,164</u>
Long-term debt and capital lease obligations.....	251,565	276,253
Asset backed borrowings - owed to securitization investors.....	182,961	189,035
Deferred income tax liability, net.....	19,271	11,673
Other long-term liabilities.....	20,845	22,082
Total liabilities.....	<u>632,559</u>	<u>646,207</u>
Commitments and contingencies (See Note 15)		
Member(s)' equity.....	<u>206,972</u>	<u>197,061</u>
Total liabilities and member(s)' equity.....	<u>\$ 839,531</u>	<u>\$ 843,268</u>

The accompanying notes are an integral part of the financial statements.

ALLIANCE LAUNDRY HOLDINGS LLC
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)
(in thousands)

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net revenues:				
Equipment and service parts.....	\$ 112,038	\$ 102,349	\$ 330,629	\$ 305,545
Equipment financing, net.....	2,030	1,272	5,567	4,090
Net revenues.....	<u>114,068</u>	<u>103,621</u>	<u>336,196</u>	<u>309,635</u>
Cost of sales.....	<u>84,650</u>	<u>71,168</u>	<u>243,474</u>	<u>219,224</u>
Gross profit.....	<u>29,418</u>	<u>32,453</u>	<u>92,722</u>	<u>90,411</u>
Selling, general and administrative expense.....	17,286	14,505	47,752	44,388
Other costs.....	<u>452</u>	<u>-</u>	<u>1,565</u>	<u>-</u>
Total operating expenses.....	<u>17,738</u>	<u>14,505</u>	<u>49,317</u>	<u>44,388</u>
Operating income.....	11,680	17,948	43,405	46,023
Interest expense.....	6,905	5,736	20,722	16,808
Loss from early extinguishment of debt.....	<u>-</u>	<u>7,680</u>	<u>-</u>	<u>7,680</u>
Income before taxes.....	4,775	4,532	22,683	21,535
Provision for income taxes.....	<u>1,382</u>	<u>2,063</u>	<u>8,735</u>	<u>7,916</u>
Net income.....	<u>\$ 3,393</u>	<u>\$ 2,469</u>	<u>\$ 13,948</u>	<u>\$ 13,619</u>

The accompanying notes are an integral part of the financial statements.

ALLIANCE LAUNDRY HOLDINGS LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Nine Months Ended	
	September 30, 2011	September 30, 2010
Cash flows from operating activities:		
Net income.....	\$ 13,948	\$ 13,619
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	13,904	13,024
Non-cash interest expense.....	312	70
Non-cash loss on commodity & foreign exchange contracts, net.....	3,325	345
Non-cash executive unit compensation.....	1,764	2,572
Non-cash income from loan forgiveness.....	(33)	(39)
Non-cash debt issuance cost write-off.....	-	2,944
Non-cash write-off of original issue discount on Senior Subordinated Notes.....	-	218
Deferred income taxes.....	6,987	5,813
Loss on sale of fixed assets.....	225	192
Changes in assets and liabilities:		
Accounts and notes receivable.....	116	192
Accounts receivable - restricted for securitization investors.....	(5,432)	5,281
Inventories.....	(2,503)	292
Loans receivable, net - restricted for securitization investors.....	10,393	(1,714)
Other assets.....	(253)	(375)
Accounts payable.....	2,976	4,815
Other liabilities.....	(170)	(5,427)
Net cash provided by operating activities.....	45,559	41,822
Cash flows from investing activities:		
Capital expenditures.....	(7,507)	(6,439)
Restricted cash - for securitization investors.....	3,049	2,852
Net cash used in investing activities.....	(4,458)	(3,587)
Cash flows from financing activities:		
Principal payments on long-term debt.....	(25,000)	(29,000)
Change in other long-term debt, net.....	(4)	(498)
Net increase in revolving line of credit borrowings.....	-	-
Debt financing costs.....	(4,100)	(9,409)
Net increase in asset backed borrowings owed to securitization investors.....	(2,806)	(7,407)
Member distributions.....	(4,500)	(19,208)
Purchase of treasury stock.....	-	(621)
Redemption of Senior Subordinated Notes.....	-	(149,315)
Retirement of old credit agreement.....	-	(102,000)
Proceeds from new credit agreement.....	-	282,150
Net cash used in financing activities.....	(36,410)	(35,308)
Effect of exchange rate changes on cash and cash equivalents.....	20	18
Increase in cash and cash equivalents.....	4,711	2,945
Cash and cash equivalents at beginning of period.....	37,743	24,615
Cash and cash equivalents at end of period.....	\$ 42,454	\$ 27,560
Supplemental disclosure of cash flow information:		
Cash paid for interest.....	\$ 16,107	\$ 20,300
Cash paid for income taxes.....	\$ 1,369	\$ 1,190

The accompanying notes are an integral part of the financial statements.

Notes to Unaudited Condensed Consolidated Financial Statements

(Dollar amounts in thousands unless otherwise indicated)

NOTE 1. BASIS OF PRESENTATION

Our interim condensed consolidated financial statements are unaudited. A number of footnotes or other financial information that are normally required by accounting principles generally accepted in the United States of America have been condensed or omitted. It is management's opinion that these financial statements include all normal and recurring adjustments necessary for a fair statement of our financial position and operating results. Net revenues and net earnings for any interim period are not necessarily indicative of future or annual results. These financial statements for the quarter ended September 30, 2011 should be read in conjunction with our consolidated financial statements presented in our Annual Report for the Year Ended December 31, 2010.

Alliance Holdings is a holding company with no material assets other than its ownership of the common stock of its wholly-owned subsidiary, Alliance Laundry Systems LLC ("Alliance Laundry"). All of Alliance Holding's business operations are conducted by Alliance Laundry and its subsidiaries.

NOTE 2. INVENTORIES

Inventories are stated at cost using the first-in, first-out method, but not in excess of net realizable value, and consist of the following:

	September 30, 2011	December 31, 2010
Materials and purchased parts.....	\$ 22,514	\$ 18,774
Work in process.....	3,595	7,236
Finished goods.....	21,750	18,563
Inventory reserves.....	(4,792)	(4,011)
	<u>\$ 43,067</u>	<u>\$ 40,562</u>

NOTE 3. GOODWILL AND OTHER INTANGIBLES

The changes in the carrying value of goodwill by reporting segment for the nine months ended September 30, 2011 are summarized below (in millions):

	United States and Canada	Europe	Latin America	Asia	Middle East & Africa	Consolidated
Balance, December 31, 2010.....	\$ 150.4	\$ 25.9	\$ 0.6	\$ 2.8	\$ 1.7	\$ 181.4
Currency translation.....	-	0.1	-	-	-	0.1
Balance, September 30, 2011.....	<u>\$ 150.4</u>	<u>\$ 26.0</u>	<u>\$ 0.6</u>	<u>\$ 2.8</u>	<u>\$ 1.7</u>	<u>\$ 181.5</u>

Identifiable intangible assets, which are subject to amortization, consist primarily of customer agreements and distributor networks, engineering drawings, product designs and manufacturing processes, noncompete agreements, patents and computer software. These intangible assets are amortized over the assets' estimated useful lives which range from two to twenty years. Intangible assets also include certain trademarks and trade names, which have an indefinite life. Such assets are not amortized, but are subject to an annual impairment test pursuant to current accounting guidance.

Amortization expense associated with identifiable intangible assets was as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Amortization expense.....	<u>\$ 1,634</u>	<u>\$ 1,208</u>	<u>\$ 4,596</u>	<u>\$ 3,881</u>

The following is a summary of identifiable intangible assets as of September 30, 2011 and December 31, 2010:

	September 30, 2011			December 31, 2010		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Amortizable intangible assets.....	\$ 58,806	\$ 37,162	\$ 21,644	\$ 57,105	\$ 32,566	\$ 24,539
Non-amortizable intangible assets.....	112,892	-	112,892	112,808	-	112,808
	<u>\$ 171,698</u>	<u>\$ 37,162</u>	<u>\$ 134,536</u>	<u>\$ 169,913</u>	<u>\$ 32,566</u>	<u>\$ 137,347</u>

NOTE 4. ASSET BACKED FACILITY

On June 26, 2009, Alliance Laundry, through a special-purpose bankruptcy remote subsidiary, Alliance Laundry Equipment Receivables 2009 LLC (“ALER 2009”), and a trust (a qualified special purpose entity), Alliance Laundry Equipment Receivables Trust 2009-A (“ALERT 2009A”), entered into a one year \$330.0 million revolving credit facility (the “Asset Backed Facility”), backed by equipment loans and trade receivables originated by the Company. During the revolving period of the Asset Backed Facility (the “Revolving Period”), Alliance Laundry is permitted, from time to time, to sell its trade receivables and certain equipment loans to the special-purpose subsidiary, which in turn transfers them to the trust. Effective June 17, 2011, the administrative agent and noteholders under the Asset Backed Facility amended the agreement to extend the termination date of the Revolving Period through June 16, 2013 based on a request by ALERT 2009A. The trust finances the acquisition of the trade receivables and equipment loans through borrowings under the Asset Backed Facility in the form of funding notes, which are limited to an advance rate of approximately 85% for equipment loans and approximately 70% for trade receivables. Funding availability for trade receivables is limited to a maximum of \$60.0 million, while funding for equipment loans is limited to \$330.0 million, less the amount of funding outstanding for trade receivables. Funding for the trade receivables and equipment loans is subject to certain eligibility criteria, including concentration and other limits, which are standard for transactions of this type. Provided no event of default or rapid amortization event has occurred and is continuing, the administrative agent and noteholders under the New Asset Backed Facility have the right to extend the termination date of the Revolving Period through June 16, 2014 upon a request by ALERT 2009A and will inform ALERT 2009A at least thirty (30) days prior to the termination date whether such date is extended. An inability to extend the Revolving Period or replace this facility could have a material adverse effect on business, financial condition and results of operations, including the Company’s revenue, EBITDA, liquidity and leverage. After the Revolving Period, or June 16, 2014 if the Revolving Period is extended (or earlier in the event of a rapid amortization event or an event of default), the trust will not be permitted to request new borrowings under the facility and the outstanding borrowings will amortize over a period of up to nine years. As of September 30, 2011, the balance of variable funding notes due to lenders under the Asset Backed Facility for equipment loans and trade receivables was \$220.0 million and \$41.3 million, respectively.

Additional advances under the Asset Backed Facility are subject to certain continuing conditions, including but not limited to: (i) covenant restrictions relating to the weighted average life, weighted average interest rate and the amount of fixed rate equipment loans held by the trust; (ii) the absence of a rapid amortization event or

event of default, as defined; (iii) our compliance, as servicer, with certain financial covenants; and (iv) no event having occurred which materially and adversely affects our operations. In addition to performance measures associated with the transferred trade receivables and equipment note receivables, there are other events or conditions which could trigger a rapid amortization event. As of September 30, 2011 no rapid amortization events have occurred.

The variable funding notes issued under the Asset Backed Facility will commence amortization, and borrowings under the Asset Backed Facility will cease prior to June 16, 2013 upon the occurrence of certain “rapid amortization events” which include: (i) a borrowing base shortfall exists and remains uncured; (ii) delinquency, dilution or default ratios on pledged receivables and equipment loans exceeding certain specified ratios in any given month; (iii) the days sales outstanding on receivables exceed a specified number of days; (iv) the occurrence and continuance of an event of default or servicer default under the Asset Backed Facility, including but not limited to, as servicer, a material adverse change in our business or financial condition and our compliance with certain required financial covenants; and (v) a number of other specified events.

The risk of loss to the note purchasers under the Asset Backed Facility resulting from default or dilution on the trade receivables and equipment loans is mitigated by credit enhancement, provided by us in the form of cash reserves, letters of credit (\$34.3 million as of September 30, 2011) and over-collateralization. Upon transfer of the trade receivables and equipment loan receivables to the trust, the receivables and certain cash flows derived from them become restricted for use in meeting obligations to the trusts’ noteholders and the Company. Noteholders are allocated cash flows derived from the activities of the securitized pools of trade receivables and equipment loan receivables. Any remaining monies in the trust and cash flows remaining from the pool of receivables and loans after payment of all obligations under the Asset Backed Facility will accrue to the benefit of Alliance Laundry. Except for Alliance Laundry’s retained interests and amounts of the letters of credit outstanding from time to time as credit enhancement, the Company provides no support or recourse for the risk of loss relating to default on the assets transferred to the trust. Alliance Laundry also retains the servicing rights and receives a servicing fee for the trade receivables and equipment loans sold, and is paid an annual servicing fee equal to 1.0% of the aggregate balance of such trade receivables and equipment loans.

NOTE 5. SECURITIZATION ACTIVITIES

Beginning on January 1, 2010 the Company’s securitization is accounted for as a secured borrowing and the trust is treated as a consolidated subsidiary of the Company. The following lines of the Company’s Condensed Consolidated Balance Sheets are specific to the Company’s securitization and are restricted for securitization investors only:

- Restricted cash – for securitization investors
- Accounts receivable – restricted for securitization investors
- Loans receivable, net – restricted for securitization investors (current and long-term)
- Asset backed borrowings – owed to securitization investors (current and long-term)

Certain aspects of the Company’s retained interest in the assets of the trust now constitute intercompany positions, which are eliminated in the preparation of the Company’s Condensed Consolidated Balance Sheets. Trust receivables underlying the Company’s retained interest are recorded in accounts receivable – restricted for securitization investors and loans receivable, net – restricted for securitization investors.

Restricted Cash – for securitization investors

To protect the noteholders of the trust, additional collateral in the form of a cash reserve equal to 1% of the trade receivable and equipment note receivable balances is maintained, as well as a yield account for lower interest rate loans. Additionally, collection accounts to facilitate the collection and disbursement of funds are maintained separately for trade receivables and equipment note receivables. The components of restricted cash are shown below.

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Cash reserve accounts.....	\$ 3,225	\$ 3,321
Collection accounts - trade receivables.....	3,176	3,989
Collection accounts - equipment loans.....	<u>8,078</u>	<u>10,218</u>
Restricted cash -for securitization investors.....	<u>\$ 14,479</u>	<u>\$ 17,528</u>

Securitization Activities

The Company transfers accounts receivable and equipment loans to our special-purpose bankruptcy remote subsidiary in the ordinary course of business as part of our ongoing securitization activities. In our securitization transactions, Alliance Laundry receives a combination of cash and residual interests in the assets transferred. Residual interests in accounts receivable as of the dates indicated were:

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Accounts receivables - restricted for securitization investors.....	\$ 66,545	\$ 61,113
Less: asset backed borrowings - owed to securitization investors.....	<u>(41,342)</u>	<u>(37,669)</u>
Company's residual interest in securitized accounts receivable.....	<u>\$ 25,203</u>	<u>\$ 23,444</u>

At September 30, 2011, the residual interest in securitized loans receivable were:

	<u>Current</u>	<u>Long term</u>
Loans receivable - restricted for securitization investors.....	\$ 45,124	\$ 215,651
Less: bad debt reserve on loans receivable.....	<u>(3,110)</u>	<u>(6,779)</u>
Loans receivable, net - restricted for securitization investors	42,014	208,872
Less: asset backed borrowings - owed to securitization investors.....	<u>(37,078)</u>	<u>(182,961)</u>
Company's residual interest in securitized loans receivables.....	<u>\$ 4,936</u>	<u>\$ 25,911</u>

At December 31, 2010, the residual interest in securitized loans receivable were:

	<u>Current</u>	<u>Long term</u>
Loans receivable - restricted for securitization investors.....	\$ 46,450	\$ 224,629
Less: bad debt reserve on loans receivable.....	<u>(3,042)</u>	<u>(6,758)</u>
Loans receivable, net - restricted for securitization investors	43,408	217,871
Less: asset backed borrowings - owed to securitization investors.....	<u>(37,483)</u>	<u>(189,035)</u>
Company's residual interest in securitized loans receivables.....	<u>\$ 5,925</u>	<u>\$ 28,836</u>

Asset backed borrowings – owed to securitization investors

The current portion of the asset backed borrowings owed to securitization investors in the Company's Condensed Consolidated Balance Sheets represents the third party noteholders' interest in trade receivables and the current portion of equipment notes receivable. The long-term portion of the asset backed borrowings owed to securitization investors in the Company's Condensed Consolidated Balance Sheets represents the third party noteholders' interest in equipment notes receivable. Amounts owed to securitization investors as of September 30, 2011 for their interest in equipment loans and trade receivables were \$220.0 million and \$41.3 million, respectively.

Credit Quality of Financing Receivables

Past due balances of loans receivable represent the principal balance of loans held with any payment amounts between 30 and 89 days past the contractual payment due date. Non-performing loans receivable represent loans that are generally more than 90 days delinquent and the estimated uncollectible amount has been written off to the allowance for doubtful accounts. The Company does not accrue interest income on non-performing loans. Finance income for non-performing loans receivable is recognized on a cash basis.

An aging analysis of past due and non-performing loans receivable as of September 30, 2011 is shown below:

	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>Total 30-89 Days Past Due</u>	<u>Over 90 Days Non- Performing</u>	<u>Current</u>	<u>Allowance for Doubtful Accounts</u>	<u>Total Financing Receivables, net</u>
Unsecuritized Loan Portfolio.....	\$ 133	\$ 164	\$ 297	\$ 194	\$ 6,449	\$ (321)	\$ 6,619
Securitized Loan Portfolio.....	\$ 4,586	\$ 1,951	\$ 6,537	\$ 7,714	\$246,524	\$ (9,889)	\$ 250,886

An analysis of the allowance for doubtful accounts for loans receivable is shown below:

	<u>Unsecuritized Loan Portfolio</u>	<u>Securitized Loan Portfolio</u>
Balance, December 31, 2010	\$ 265	\$ 9,800
Provision.....	-	2,911
Write-offs.....	-	(2,915)
Recoveries.....	56	93
Balance, September 30, 2011	<u>\$ 321</u>	<u>\$ 9,889</u>

Other trust items

An interest rate cap is in place as part of the Asset Backed Facility to limit our exposure to interest rate increases which may adversely affect the overall performance of our equipment financing activities. The interest rate cap limits the Company's exposure to fluctuations in interest rates to 6.27% for fixed rate loans. The notional amount of the cap, which was \$54.0 million at September 30, 2011, varies based on the originations and payoffs of our fixed-rate loan portfolio. In conjunction with the extension of the Asset backed Facility the interest rate cap was amended to extend the expiration date to July 5, 2021. Fair value disclosures related to the interest rate cap agreement are shown below.

	<u>Notional Amount</u>	<u>September 30, 2011</u>		<u>Location on Balance Sheet</u>	<u>Term</u>
		<u>Hedge Assets</u>	<u>Hedge Liabilities</u>		
Undesignated derivatives					
Interest rate cap	\$ 54,000	\$ 328	\$ -	Accounts receivable, net	Through 7/5/21
Total undesignated derivatives		<u>\$ 328</u>	<u>\$ -</u>		

	December 31, 2010			Location on Balance Sheet	Term
	Notional Amount	Fair Value of			
		Hedge Assets	Hedge Liabilities		
Undesignated derivatives					
Interest rate cap	\$ 58,000	\$ 339	\$ -	Accounts receivable, net	Through 6/30/19
Total undesignated derivatives		<u>\$ 339</u>	<u>\$ -</u>		

Undesignated Hedges	Location in Statement of Income	(Loss) Recognized on Undesignated Hedges	
		Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Interest rate cap	Interest expense	\$ (288)	\$ (466)
		<u>\$ (288)</u>	<u>\$ (466)</u>

Undesignated Hedges	Location in Statement of Income	(Loss) Recognized on Undesignated Hedges	
		Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Interest rate cap	Interest expense	\$ (74)	\$ (618)
		<u>\$ (74)</u>	<u>\$ (618)</u>

September 30, 2011				
	Level 1	Level 2	Level 3	Total Assets / Liabilities at Fair Value
Assets				
Derivative financial instruments.....				
Interest rate cap	-	328	-	328
Total assets.....	<u>\$ -</u>	<u>\$ 328</u>	<u>\$ -</u>	<u>\$ 328</u>

December 31, 2010				
	Level 1	Level 2	Level 3	Total Assets / Liabilities at Fair Value
Assets				
Derivative financial instruments.....				
Interest rate cap	-	339	-	339
Total assets.....	<u>\$ -</u>	<u>\$ 339</u>	<u>\$ -</u>	<u>\$ 339</u>

Equipment financing, net as shown in the Condensed Consolidated Statements of Income is comprised of the following amounts:

	<u>Three Months Ended</u> <u>September 30, 2011</u>	<u>Nine Months Ended</u> <u>September 30, 2011</u>
Interest income.....	\$ 5,030	\$ 15,292
Other income.....	265	864
Interest expense on asset backed borrowings - owed to securitization investors.....	(1,307)	(5,056)
Underwriting and collection expenses.....	(916)	(2,622)
Bad debt expense.....	(1,042)	(2,911)
Equipment financing, net.....	<u>\$ 2,030</u>	<u>\$ 5,567</u>

	<u>Three Months Ended</u> <u>September 30, 2010</u>	<u>Nine Months Ended</u> <u>September 30, 2010</u>
Interest income.....	\$ 5,138	\$ 15,424
Other income.....	226	739
Interest expense on asset backed borrowings - owed to securitization investors.....	(2,055)	(5,967)
Underwriting and collection expenses.....	(899)	(2,760)
Bad debt expense.....	(1,138)	(3,346)
Equipment financing, net.....	<u>\$ 1,272</u>	<u>\$ 4,090</u>

NOTE 6. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are accounted for at fair value. The accounting for changes in the fair value of a derivative depends on the intended use, designation and type of the derivative instrument. The Company does not designate any of its derivatives as hedges and, as such, records all changes in fair values as a component of earnings.

Using derivative instruments means assuming counterparty credit risk. Counterparty credit risk relates to the loss we could incur if a counterparty were to default on a derivative contract. We primarily deal with investment grade counterparties and monitor the overall credit risk and exposure to individual counterparties. We do not anticipate nonperformance by any counterparties. The amount of counterparty credit exposure is the unrealized gains, if any, on such derivative contracts. We do not require, nor do we post, collateral, or security on such contracts.

Hedging Strategy

We are exposed to certain risks relating to our ongoing business operations. As a result, we enter into derivative transactions to manage certain of these exposures that arise in the normal course of business. The primary risks managed by using derivative instruments are interest rate risks, fluctuations in foreign currency exchange rates and commodity price fluctuations. Fluctuations in these rates and prices can affect our operating results and financial condition. We manage the exposure to these market risks through operating and financing activities and through the use of derivative financial instruments. We do not enter into derivative financial instruments for trading or speculative purposes.

Interest Rate Risk. We are exposed to market risk associated with adverse movements in interest rates. Specifically, we are primarily exposed to changes in the fair value of our Senior Term Loan.

Effective October 31, 2010, the Company entered into a \$110.0 million interest rate swap agreement with The Bank of Nova Scotia to hedge a portion of its interest rate risk related to its term loan borrowings under the Senior Term Loan. Under the swap, which matures on October 31, 2013, the Company pays a fixed rate of 0.858%, and receives or pays quarterly interest payments based upon the three month LIBOR rate.

Effective October 31, 2010, the Company entered into a \$40.0 million interest rate swap agreement with The Bank of Nova Scotia to hedge a portion of its interest rate risk related to its term loan borrowings under the Senior Term Loan. Under the swap, which matures on October 31, 2012, the Company pays a fixed rate of 0.652%, and receives or pays quarterly interest payments based upon the three month LIBOR rate.

Foreign Currency Risk. We have manufacturing, sales and distribution facilities in Belgium and sales and distribution facilities in Norway and Spain and we make investments and enter into transactions denominated in foreign currencies. Although the vast majority of our international sales from our domestic operations are denominated in U.S. dollars, we are exposed to transactional and translational foreign exchange risk related to our foreign operations.

Regarding transactional foreign exchange risk, we enter into certain forward exchange contracts to reduce the variability of the earnings and cash flow impacts of nonfunctional currency denominated receivables and payables. We do not designate these contracts as hedge transactions. Accordingly, the mark-to-market impact of these contracts is recorded each period to current earnings. At September 30, 2011, we were managing \$9.8 million of Euro foreign currency contracts, which are not designated as accounting hedges.

Our primary translation exchange risk exposure at September 30, 2011 was the Euro. Amounts invested in non-U.S. based subsidiaries are translated into U.S. dollars at the exchange rate in effect at quarter end. The resulting translation adjustments are recorded in accumulated other comprehensive income as foreign currency translation adjustments. The foreign currency translation adjustment component of accumulated other comprehensive income at September 30, 2011 was a \$2.2 million gain. The net amount invested in foreign operations at September 30, 2011 was approximately \$49.0 million, for which no hedges have been established.

Commodity Risk. We are subject to the effects of changing raw material and component costs caused by movements in underlying commodity prices. We purchase raw materials and components containing various commodities, including nickel, zinc, aluminum and copper. We generally buy these raw materials and components based upon market prices that are established with the vendor as part of the procurement process.

From time to time, we enter into contracts with our vendors to fix commodity prices for various periods to limit our near-term exposure to fluctuations in raw material and component prices. In addition, we enter into commodity hedge contracts to hedge certain commodity prices, such as nickel, copper and aluminum to reduce the variability on our earnings and cash flow impacts of purchasing raw materials containing such commodities. We do not designate these contracts as hedge transactions. Accordingly, the mark-to-market impact of these contracts is recorded each period to current earnings. At September 30, 2011, we were managing \$4.1 million of nickel hedge contracts, \$3.2 million of copper hedge contracts and \$2.7 million of aluminum hedge contracts, which are not designated as accounting hedges.

The following table summarizes our outstanding derivative contracts and their effects on our Condensed Consolidated Balance Sheets at September 30, 2011 and December 31, 2010, respectively:

	September 30, 2011			Location on Balance Sheet	Term
	Notional Amount	Hedge Assets	Hedge Liabilities		
Undesignated derivatives					
Interest rate swaps	\$ 150,000	\$ -	\$ 719	Other current liabilities	Through 10/31/13
Commodity hedges	9,994	-	2,284	Other current liabilities	Various through 12/31/12
Foreign currency hedges	9,845	-	297	Other current liabilities	Various through 12/31/12
Total undesignated derivatives		\$ -	\$ 3,300		

	December 31, 2010			Location on Balance Sheet	Term
	Notional Amount	Hedge Assets	Hedge Liabilities		
Undesignated derivatives					
Interest rate swaps	\$ 150,000	\$ 992	\$ -	Accounts receivable, net	Various through 10/31/13
Commodity hedges	6,253	1,032	-	Accounts receivable, net	Various through 12/31/11
Foreign currency hedges	8,468	-	221	Other current liabilities	Various through 6/30/11
Total undesignated derivatives		\$ 2,024	\$ 221		

The effects of derivative instruments on our Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2011 and 2010 are as follows:

Undesignated Hedges	Location in Statement of Income	Gain (Loss) Recognized on Undesignated Hedges	
		Three Months Ended	Nine Months Ended
		September 30, 2011	September 30, 2011
Interest rate swaps	Interest expense	\$ (707)	\$ (2,298)
Foreign currency hedges	Cost of sales	(458)	206
Commodity hedges	Cost of sales	(2,246)	(2,474)
		\$ (3,411)	\$ (4,566)

Undesignated Hedges	Location in Statement of Income	Gain (Loss) Recognized on Undesignated Hedges	
		Three Months Ended	Nine Months Ended
		September 30, 2010	September 30, 2010
Foreign currency hedges	Cost of sales	\$ 1,478	\$ (935)
Commodity hedges	Cost of sales	1,336	731
		\$ 2,814	\$ (204)

See Note 5 – Securitization Activities for disclosures related to the Company’s interest rate cap.

NOTE 7. FAIR VALUE MEASUREMENTS

Assets and liabilities measured at fair value, primarily related to financial products, included in our Condensed Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010 are summarized below:

September 30, 2011				
	Level 1	Level 2	Level 3	Total Assets / Liabilities at Fair Value
Liabilities				
Derivative financial instruments				
Interest rate swap contracts.....	\$ -	\$ 719	\$ -	\$ 719
Commodity contracts.....	-	2,284	-	2,284
Foreign currency contracts.....	-	297	-	297
Total liabilities.....	<u>\$ -</u>	<u>\$ 3,300</u>	<u>\$ -</u>	<u>\$ 3,300</u>
December 31, 2010				
	Level 1	Level 2	Level 3	Total Assets / Liabilities at Fair Value
Assets				
Derivative financial instruments				
Interest rate swap contracts.....	\$ -	\$ 992	\$ -	\$ 992
Commodity contracts.....	-	1,032	-	1,032
Total assets.....	<u>\$ -</u>	<u>\$ 2,024</u>	<u>\$ -</u>	<u>\$ 2,024</u>
Liabilities				
Derivative financial instruments				
Foreign currency contracts.....	\$ -	\$ 221	\$ -	\$ 221
Total liabilities.....	<u>\$ -</u>	<u>\$ 221</u>	<u>\$ -</u>	<u>\$ 221</u>

The carrying amounts reported in the Condensed Consolidated Balance Sheets for Cash and cash equivalents, Accounts receivable, Accounts receivable – restricted for securitization investors, Loans receivable, net – restricted for securitization investors, Accounts payable and Asset backed borrowings – owed to securitization investors approximate fair value due to the short-term nature or since longer-term instruments have interest at variable rates that re-price frequently. The amounts reported for borrowings under the Senior Term Loan approximate fair value since the underlying instruments bear interest at variable rates that re-price frequently. The fair value of commodity and foreign exchange hedges are obtained based upon third party quotes as disclosed in Note 6 – Derivative Financial Instruments. See Note 5 – Securitization Activities for fair value disclosures related to the Company’s interest rate cap.

NOTE 8. INCOME TAXES

During the third quarter of 2011, the Company calculated its estimated annual effective tax rate to be 38.3%, as compared to 35.8% at December 31, 2010. The primary reason for the increase in effective tax rate is the Company no longer qualifies for the energy tax credit partly offset by a reduction of foreign earnings currently taxable. The effective tax rate (including discrete items) for the nine month period ending September 30, 2011 was 38.5%. At the end of each interim period, the Company makes an estimate of the effective tax rate expected to be applicable for the full fiscal year and the impact of discrete items, if any, and adjusts the quarterly rate, as necessary.

There are various factors that may cause our tax assumptions to change in the near term and, as a result, the Company may have to increase or decrease its valuation allowance against deferred income tax assets. The Company cannot predict whether future U.S. federal, foreign and state income tax laws and regulations might be passed that could have a material effect on its results of operations. The Company will assess the impact of significant changes to the U.S. federal, foreign and state income tax laws and regulations on a regular basis and update the assumptions and estimates used to prepare its consolidated financial statements when new regulations and legislation are enacted.

The Company has approximately \$0.6 million of unrecognized tax benefits as of September 30, 2011 which, if recognized, would impact the effective tax rate. The Company does not anticipate that the net amount of unrecognized tax benefits will change significantly during the next twelve months. The Company's policy is to accrue interest and penalties related to unrecognized tax benefits in income tax expense. Tax years which remain subject to examination by tax authorities for the Company in significant tax jurisdictions include years subsequent to 2007 in the United States, subsequent to 2006 in Luxemburg and subsequent to 2009 in Belgium.

NOTE 9. GUARANTEES

The Company, through its special-purpose bankruptcy remote subsidiary, entered into a \$330.0 million Asset Backed Facility as described in Note 4 – Asset Backed Facility above. Pursuant to the terms of the Asset Backed Facility, the Company provides credit enhancement to the note purchasers including an irrevocable letter of credit, which is an unconditional lending commitment of the lenders under the Senior Credit Facility, subject to certain limits. The Company is obligated under the reimbursement provisions of the Senior Credit Facility to reimburse the lenders for any drawings on the credit enhancement by the facility indenture trustee. If the credit enhancement is not replenished by the Company after a drawing, the trust will not be permitted to request new borrowings under the Asset Backed Facility and the Asset Backed Facility will begin to amortize. The amount of the irrevocable letter of credit related to the Asset Backed Facility at September 30, 2011 was \$34.3 million.

The Company offers warranties to its customers depending upon the specific product and the product use. Standard product warranties vary from one to three years for most components, with certain components extending to ten years. Certain customers have elected to buy without warranty coverage. The standard warranty program requires that the Company replace defective components within a specified time period from the date of installation. The Company also sells separately priced extended warranties associated with its products. The Company recognizes extended warranty revenues over the period covered by the warranty.

The Company records an estimate for future warranty related costs based on actual historical incident rates and cost per incident trends. Based on analysis of these and other factors, the carrying amount of our warranty liability is adjusted as necessary. While the Company's warranty costs have historically been within its calculated estimates, it is possible that future warranty costs could exceed those estimates.

The changes in the carrying amount of our total product warranty liability were as follows:

	Nine Months Ended	
	September 30, 2011	September 30, 2010
Balance at beginning of period.....	\$ 7,085	\$ 7,490
Currency translation adjustment.....	9	(63)
Accruals for current and pre-existing warranties		
issued during the period.....	3,850	3,222
Settlements made during the period.....	(3,704)	(3,387)
Balance at end of period.....	<u>\$ 7,240</u>	<u>\$ 7,262</u>

NOTE 10. EMPLOYEE BENEFIT PLANS

The Company provides certain pension, healthcare and death benefits for eligible retirees and their dependents. The pension benefits are funded, while the healthcare and death benefits are not funded but are paid as incurred. Eligibility for coverage is based on meeting certain years of service and retirement qualifications. The components of periodic benefit costs for the three and nine months ended September 30, 2011 and 2010 are as follows:

	Pension Benefits		Other Benefits	
	Three Months Ended		Three Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Service cost.....	\$ 187	\$ 186	\$ 6	\$ 33
Interest cost.....	822	837	7	38
Expected return on assets.....	(991)	(864)	-	-
Amortization of prior service cost.....	-	1	-	(2)
Amortization of loss.....	205	217	-	6
Net periodic benefit cost.....	<u>\$ 223</u>	<u>\$ 377</u>	<u>\$ 13</u>	<u>\$ 75</u>

	Pension Benefits		Other Benefits	
	Nine Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Service cost.....	\$ 561	\$ 556	\$ 19	\$ 99
Interest cost.....	2,465	2,511	20	113
Expected return on assets.....	(2,974)	(2,592)	-	-
Amortization of prior service cost.....	2	3	(1)	(5)
Amortization of loss.....	617	653	1	16
Net periodic benefit cost.....	<u>\$ 671</u>	<u>\$ 1,131</u>	<u>\$ 39</u>	<u>\$ 223</u>

Employer Contributions

During the first nine months of 2011, the Company has contributed \$3.1 million to its defined benefit pension plan and anticipates additional contributions totaling \$0.8 million during the remainder of 2011.

NOTE 11. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

Debt, other than debt related to securitization activities discussed in Note 5 – Securitization Activities, consisted of the following at September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Senior Term Loan.....	\$ 254,000	\$ 279,000
Revolving Credit Facility.....	-	-
Capital lease obligations.....	-	4
Gross long-term debt.....	254,000	279,004
Less: discount on long-term debt.....	(2,435)	(2,747)
Less: current portion.....	-	(4)
	<u>\$ 251,565</u>	<u>\$ 276,253</u>

On September 30, 2010, we refinanced our then existing debt with a new Senior Credit Facility (the “Senior Credit Facility”) that replaced a previous credit agreement. The Senior Credit Facility provides for a five-year \$60.0 million revolving credit facility (the “Revolving Credit Facility”) and a six-year \$285.0 million term loan facility (the “Senior Term Loan”). Alliance Laundry is the borrower under the Senior Credit Facility and Alliance Holdings and Alliance Laundry Corporation, a subsidiary of Alliance Laundry, are the guarantors under this facility. The Company prepaid \$12.0 million of its Senior Credit Facility obligation during the third quarter of 2011 and \$25.0 million year to date. After considering voluntary prepayments made through September 30, 2011, the Senior Credit Facility requires minimum quarterly payments of approximately \$0.6 million beginning December 31, 2012 through June 30, 2016. The final principal payment of \$244.3 million is due on September 30, 2016. The Company is required to make prepayments with the proceeds from certain transactions as defined in the Senior Credit Facility.

The Revolving Credit Facility is available, subject to certain conditions, for general corporate purposes in the ordinary course of business and for other transactions permitted under the Senior Credit Facility. As of September 30, 2011, the Revolving Credit Facility was undrawn. A portion of the Revolving Credit Facility not in excess of \$45.0 million is available for the issuance of letters of credit. Letters of credit issued on the Company’s behalf under the Revolving Credit Facility totaled \$36.0 million at September 30, 2011. The Revolving Credit Facility matures on September 30, 2015.

At September 30, 2011, the Company could have borrowed an additional \$24.0 million of the available and unutilized Revolving Credit Facility to finance our operations. We believe that future cash flows from operations, together with available borrowings under the Revolving Credit Facility, will be adequate to meet our anticipated requirements for capital expenditures, working capital, interest payments, scheduled principal payments and other debt repayments that may be required as a result of the scheduled ratio of Consolidated Total Debt to Adjusted EBITDA discussed below.

Borrowings under the Senior Credit Facility will bear interest, at the option of Alliance Laundry, at a rate equal to an applicable margin plus (a) the base rate or (b) the eurodollar rate, which will be the rate, elected by Alliance Laundry, at which eurodollar deposits for one, two, three or six months are offered in the interbank eurodollar market (“Eurodollar Rate”), subject to a LIBOR floor of 1.75%. The applicable margin for the Senior Term Loan is initially 3.50% with respect to base rate loans and 4.50% with respect to eurodollar loans, subject to step downs based on certain financial ratios. The interest rate on the Senior Term Loan borrowings as of September 30, 2011 was 6.25%.

In addition, the Company is obligated to pay a quarterly commitment fee currently equal to 0.75% per annum, subject to step downs based on certain financial ratios, on the average daily unused portion of the \$60.0 million Revolving Credit Facility. The Company is also obligated to pay a fee on all outstanding letters of credit in the amount of the applicable margin, then in effect with respect to eurodollar loans under the Revolving Credit Facility, which was 4.50% at September 30, 2011, as well as a 0.25% fronting fee on the aggregate amount of all outstanding letters of credit.

The obligations of Alliance Laundry under the Senior Credit Facility are secured by a lien on substantially all assets (subject to certain exceptions) of Alliance Holdings, Alliance Laundry and Alliance Laundry Corporation, a wholly owned subsidiary of Alliance Laundry (“ALC”), and will also be secured by substantially all assets of their future material domestic subsidiaries (subject to certain exceptions) and are guaranteed by Alliance Holdings and ALC and their future material domestic subsidiaries (subject to certain exceptions).

Additional borrowings and the issuance of additional letters of credit under the Senior Credit Facility are subject to certain continuing representations and warranties, including the absence of any development or event which has had or could reasonably be expected to have a material adverse effect on the Company’s business or financial condition.

The Senior Credit Facility contains a number of covenants that, among other things, restrict the Company's ability to dispose of assets, repay other indebtedness, incur liens, make capital expenditures and make certain investments or acquisitions, engage in mergers or consolidation and otherwise restrict its operating activities. In addition, under the Senior Credit Facility, the Company is required to satisfy specified financial ratios and tests, including a maximum of Consolidated Total Debt to Adjusted EBITDA (as defined in the Senior Credit Facility) and a minimum Adjusted EBITDA to Consolidated Cash Interest Expense. The required maximum Consolidated Total Debt to Adjusted EBITDA ratio and the minimum Adjusted EBITDA to Consolidated Cash Interest Expense as of September 30, 2011 was 4.50 to 1.00 and 2.75 to 1.00, respectively. As of September 30, 2011 the Company's Consolidated Total Debt to Adjusted EBITDA ratio was 3.04 to 1.00 and the Company's Adjusted EBITDA to Consolidated Cash Interest Expense ratio was 4.51 to 1.00. The Company currently expects to meet its obligations under its debt agreement including compliance with established covenants.

The Company's ability to make scheduled payments of principal or to refinance its indebtedness, or to pay the interest or liquidated damages on its indebtedness, if any thereon, or to fund planned capital expenditures, or to meet its debt covenants, will depend upon the Company's future performance, which, in turn, is subject to general economic, financial, competitive and other factors that are beyond the Company's control. Global macroeconomic conditions remain unstable. Given the continuing uncertainty regarding the economies of Europe and other markets in which we operate and projected federal deficits in the U.S. and Europe, macroeconomic conditions could deteriorate in the near term or over the longer term. The Company continues to monitor its business plan for cost control measures that could improve profitability. The Company also has the ability to defer non-critical capital expenditures. Based on current forecasts, the Company currently expects to meet its obligations under its debt agreements including compliance with established financial covenants. However, if the economic environments in which the Company operates were to deteriorate beyond current expectations, it could have a material adverse effect on its ability to remain in compliance with its covenants which would result in a material adverse effect on its liquidity and results of operations. Any amendment to, or waiver of, the covenants would likely involve substantial upfront fees, significantly higher annual interest costs and other terms significantly less favorable to the Company than those contained in its current credit facilities.

As discussed in more detail in Note 6 – Derivative Financial Instruments, the Company maintains two interest rate swaps to manage its exposure to changes in interest rates. The swaps will expire on October 31, 2012 and October 31, 2013.

As discussed in greater detail in Note 5 – Securitization Activities, the Company had total debt outstanding of \$261.4 million related to its securitization activities.

As discussed in greater detail in Note 4 - Asset Backed Facility, effective June 17, 2011, the termination date of the Revolving Period of the Asset Backed Facility was extended through June 16, 2013.

NOTE 12. RELATED PARTY TRANSACTIONS

On August 15, 2011, ALH granted 2,100 performance options (which we refer to below as the "new homerun options") to certain key employees. None of our named executive officers received these new homerun options. The new homerun options have a per share exercise price equal to \$197.49. These options have an expiration date of April 22, 2020 and will fully vest upon a change in control prior to that date, if (and only if) the return to OTPP is at least three times its invested capital (and, if such return threshold is not met, the new homerun options will be forfeited). The new homerun options are classified as equity and no expense has been recorded related to the new homerun options.

As of September 30, 2011, a total of 156,648 stock options remain outstanding. The granted options entitle the members of management to purchase shares of ALH's common stock at an average option price of \$136.49 per share at September 30, 2011, subject to certain requirements. As of September 30, 2011, stock options

represented an aggregate of 9.8% of the fully diluted common shares of ALH common stock issuable upon exercise of stock options. As of September 30, 2011, approximately forty-five percent (45%) of the options granted were time based options, of which the majority vested according to anniversary dates, and the remaining fifty-five percent (55%) of the options granted were performance based options.

Based upon a valuation of all granted stock options, the Company recognized \$1.8 million and \$2.6 million of compensation expense for the nine months ended September 30, 2011 and 2010, respectively. The Company recognized \$1.5 million and \$0.1 million of compensation expense for the three months ended September 30, 2011 and 2010, respectively.

NOTE 13. MEMBER(S)' EQUITY

Total comprehensive earnings were a loss of \$1.6 million and gain of \$14.4 million for the quarter and nine months ended September 30, 2011, respectively, and \$8.5 million and \$16.0 million for the quarter and nine months ended September 30, 2010, respectively. For the nine months ended September 30, 2011 and 2010, comprehensive earnings included a gain of \$0.2 million and a loss of \$2.8 million, respectively. For the quarter ended September 30, 2011 and 2010, comprehensive earnings included a loss of \$5.0 million and a gain of \$5.9 million, respectively. The gains and losses in each of these periods related to changes in foreign currency exchange rates.

NOTE 14. SEGMENT INFORMATION

The Company manufactures and sells commercial laundry equipment that can be installed in a multitude of applications ranging from small chassis products used in commercial laundromats to large products used in institutional laundry applications. The Company maintains manufacturing facilities in Ripon, Wisconsin, Wevelgem, Belgium and Nazareth, Belgium to fulfill orders throughout the world. In the third quarter of 2011, the Company completed the closure of its Nazareth, Belgium manufacturing facility. See Note 16 – Restructuring for further discussion. Based upon the information used by management for making operating decisions and assessing performance, the Company has the following operating segments: U.S. and Canada, Europe, Asia, Latin America, and the Middle East & Africa. The Company has determined that its operating segments are its reportable segments.

The Company uses segment net revenues and gross profit as its measures of performance and to allocate resources. Management believes these are the best measures to help users of its financial statements predict future trends. In determining gross profit for its operating segments, the Company does not allocate certain manufacturing costs, including manufacturing variances and customer support expenses. Gross profit is determined by subtracting cost of sales from net revenues. Cost of sales is comprised of the costs of raw materials and component parts, plus costs incurred at the manufacturing plant level, including, but not limited to, labor and related fringe benefits, depreciation, supplies, utilities, property taxes and insurance.

General and administrative expenses, interest expense, other debt related expenses and the provision for income taxes are centrally managed. Consequently, these measures are not presented in the segment disclosures because they are not part of the segment profitability results reviewed by management.

Currently, assets are physically maintained in the United States and Belgium. However, due to common manufacturing lines and significant shared components across all five reportable segments, assets by reportable segment are not provided to the Company's Chief Operating Decision Maker. As such, total assets by reportable segment are not disclosed.

Net revenues and gross profit as determined by the Company for its reportable segments are as follows:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u> <u>2011</u>	<u>September 30,</u> <u>2010</u>	<u>September 30,</u> <u>2011</u>	<u>September 30,</u> <u>2010</u>
	(in millions)			
Net Revenues:				
United States and Canada.....	\$ 80.8	\$ 71.5	\$ 234.8	\$ 215.7
Europe.....	13.7	12.3	44.7	40.1
Latin America.....	4.4	3.8	11.2	10.7
Asia.....	10.5	10.1	29.3	26.2
Middle East & Africa.....	4.7	5.9	16.2	16.9
	<u>\$ 114.1</u>	<u>\$ 103.6</u>	<u>\$ 336.2</u>	<u>\$ 309.6</u>
Gross Profit:				
United States and Canada.....	\$ 19.4	\$ 23.3	\$ 61.5	\$ 62.6
Europe.....	4.0	3.4	13.6	11.9
Latin America.....	1.5	1.3	3.9	3.6
Asia.....	3.3	2.8	9.4	8.2
Middle East & Africa.....	1.2	1.6	4.3	4.1
	<u>\$ 29.4</u>	<u>\$ 32.4</u>	<u>\$ 92.7</u>	<u>\$ 90.4</u>

NOTE 15. COMMITMENTS AND CONTINGENCIES

Various claims and legal proceedings generally incidental to the normal course of business are pending or threatened against us. While the Company cannot predict the outcome of these matters, in the opinion of management, any liability arising thereunder will not have a material adverse effect on the business, financial condition and results of operations after giving effect to provisions already recorded. The Company has recorded accruals related to these matters of \$1.2 million at both September 30, 2011 and December 31, 2010.

Environmental, Health and Safety Matters

We are subject to comprehensive and frequently changing federal, state and local environmental and occupational health and safety laws and regulations, including laws and regulations governing emissions of air pollutants, discharges of waste and storm water and the disposal of hazardous wastes. The Company is also subject to liability for the investigation and remediation of environmental contamination (including contamination caused by other parties) at the properties it owns or operates and at other properties where the Company or predecessors have arranged for the disposal of hazardous substances. As a result, we are involved, from time to time, in administrative and judicial proceedings and inquiries relating to environmental matters. There can be no assurance that we will not be involved in such proceedings in the future and that the aggregate amount of future clean-up costs and other environmental liabilities will not have a material adverse effect on our business, financial condition and results of operations. The Company believes that its facilities and operations are in material compliance with all environmental, health and safety laws.

NOTE 16. RESTRUCTURING

During the third quarter of 2011, the Company completed the closure of its Nazareth, Belgium manufacturing facility. During the first quarter of 2011, the Company had announced its intention to close this facility due to product line changes and the ability to better utilize existing space at its other facilities. In the first quarter of 2011 the Company accrued an obligation of approximately \$1.1 million for severance expenses related to the affected employees based on statutory requirements in Belgium. In the third quarter the Company

accrued an additional \$0.5 million for lease cancellation and other costs, in accordance with accounting guidance. These amounts were included in the Other costs line of the Condensed Consolidated Statements of Income. These obligations will be fully settled by March 2012, based on the timing of severance benefit payments.

NOTE 17. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In January 2010, the FASB issued new accounting guidance that amends previously issued guidance regarding fair value measures and disclosures. The new guidance requires disclosure of transfers into and out of Level 1 and Level 2 fair value measurements, and also requires more detailed disclosure about the activity within Level 3 fair value measurements. The Company adopted the accounting guidance related to fair value disclosures in January 2010, except for the requirements related to Level 3 disclosures, which was effective for, and adopted by, the Company in January 2011. This guidance did not have a material impact on the Company's consolidated balance sheet and income statement.

In July 2010, the FASB issued new accounting guidance that amends previously issued guidance regarding receivable assets. The new guidance requires disclosures related to financing receivables and the allowance for credit losses by portfolio segment. The new guidance also requires disclosures of information regarding the credit quality, aging, nonaccrual status and impairments by class of receivable. A portfolio segment is the level at which a creditor develops a systematic methodology for determining its credit allowance. A receivable class is a subdivision of a portfolio segment with similar measurement attributes, risk characteristics and common methods to monitor and assess credit risk. Trade accounts receivable with maturities of one year or less are excluded from the disclosure requirements. The Company adopted this new guidance on January 1, 2011. The disclosures required by this new guidance are included in Note 5 – Securitization Activities.

In April 2011, the FASB issued ASU No. 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring, which amends ASC 310, Receivables. This ASU states that a troubled debt restructuring occurs when a creditor grants a concession it would not otherwise consider to a debtor that is experiencing financial difficulties. The guidance clarifies what would be considered a concession by the creditor and financial difficulties of the debtor. Certain disclosures are required for transactions that qualify as troubled debt restructurings. The effective date of implementation for the Company will be the fourth quarter of 2011. The adoption is not expected to have a material effect on the Company's consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820), "Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS" ("ASU No. 2011-04"). ASU No. 2011-04 amends the wording used to describe many of the requirements for measuring fair value to achieve the objective of developing common fair value measurement and disclosure requirements, as well as improving consistency and understandability. Some of the requirements clarify the FASB's intent about the application of existing fair value measurement requirements while other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. ASU No. 2011-04 is effective for calendar years beginning after December 15, 2011. Early adoption is prohibited. The Company is currently evaluating the potential impact of ASU No. 2011-04 on the financial statements and related disclosures but does not anticipate a material impact.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (ASU 2011-05). The amendments in ASU 2011-05 require entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, the amendments in ASU 2011-05 require an entity to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the

components of other comprehensive income are presented. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011. The Company does not expect material financial statement implications relating to the adoption of this ASU.

In September 2011, the FASB issued Accounting Standards Update 2011-08, “Testing Goodwill for Impairment” (“ASU 2011-08”) to simplify how both public and non-public entities test goodwill for impairment. The amended guidance gives entities the option to qualitatively assess whether the two-step goodwill impairment test under Accounting Standards Codification Topic 350-20, “Intangibles – Goodwill and Other – Goodwill” (“ASC 350-20”) must be performed. Under ASU 2011-08, entities can assess whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If entities elect to perform the qualitative assessment and determine that the fair value of goodwill is, more likely than not, less than the carrying amount of goodwill, then Step 1 of the goodwill impairment test under ASC 350-20 needs to be performed; otherwise no further evaluation is required. If entities choose not to perform the qualitative assessment then entities would also perform Step 1 of the goodwill impairment test under ASC 350-20. These provisions are effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years, although early adoption is permitted. The provisions of ASU 2011-08, when adopted, are not expected to have a material impact on the Company’s consolidated financial statements.

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

This management's discussion and analysis ("MD&A") should be read in conjunction with the financial statements and notes appearing elsewhere in this report and in our Annual Report for the Year Ended December 31, 2010.

OVERVIEW

We believe that we are a leading global designer, manufacturer and marketer of commercial laundry equipment used in laundromats, multi-housing laundries and on-premise laundries. Under the well-known brand names of Speed Queen®, UniMac®, Huebsch®, IPSO®, and Cissell® we produce a full line of commercial washing machines and dryers with load capacities from 12 to 200 pounds. We have been a leader in the United States and Canada stand-alone commercial laundry equipment industry for more than ten years. With the addition of our foreign operations and our ability to offer a wide range of brands and products throughout the world, we believe that we are a leader in the global stand-alone commercial laundry equipment industry.

Stand-alone commercial laundry equipment industry revenues are primarily driven by population growth and the replacement cycle of laundry equipment. With economic conditions having limited effect on the frequency of use and, therefore, the useful life of laundry equipment, industry revenues have historically been relatively stable. A majority of our revenues are generated by recurring sales of replacement equipment and service parts.

During the quarter ended September 30, 2011, our industry, as many other industries both in the United States and abroad, have seen macroeconomic conditions improve slightly compared to recent historical periods. While raw material prices have begun to increase, capital markets have stabilized and our customers' continue to have access to financing. However, global macroeconomic conditions remain fragile. We expect these conditions to continue in the near term.

RESULTS OF OPERATIONS

Quarter Ended September 30, 2011 as Compared to Quarter Ended September 30, 2010

The following table sets forth our consolidated net revenues for the periods indicated:

	Three Months Ended		
	September 30,	September 30,	
	2011	2010	Change
	(in millions)		
Net revenues:			
United States and Canada.....	\$ 80.8	\$ 71.5	12.9%
Europe.....	13.7	12.3	10.8%
Latin America.....	4.4	3.8	16.5%
Asia.....	10.5	10.1	4.8%
Middle East & Africa.....	4.7	5.9	(20.8%)
	<u>\$ 114.1</u>	<u>\$ 103.6</u>	<u>10.1%</u>

Net revenues. Net revenues for the quarter ended September 30, 2011 increased \$10.5 million, or 10.1%, to \$114.1 million from \$103.6 million for the quarter ended September 30, 2010. The net revenues increase of \$10.5 million was attributable to increases in United States and Canada revenues of \$9.3 million, Europe revenues of \$1.4 million, Latin America revenues of \$0.6 million and Asia revenues of \$0.4 million. Middle East & Africa revenues for the same time period decreased \$1.2 million. The increase in United States and

Canada revenues was driven primarily by increased revenue to consumer laundry and laundromat customers, as well as \$0.8 million of higher earnings from our equipment financing program. The increase in Europe revenues was primarily the result of favorable currency conversion rates, as well as higher sales to both Eastern Europe and Western Europe, most significantly in Germany and Spain. The increase in Latin America revenues was most significant to Mexico, Chile and Brazil. The increase in Asia revenues was most significant to Australia and Taiwan, but was partially offset by lower sales to China. The decrease in Middle East & Africa revenues primarily reflects lower sales to the United Arab Emirates. The higher total Company equipment and parts revenues for the quarter include a sales volume and sales mix increase of \$6.3 million, and price increases of \$2.4 million.

	Three Months Ended		Change
	September 30, 2011	September 30, 2010	
	(in millions)		
Gross profit:			
United States and Canada.....	\$ 19.4	\$ 23.3	(16.5%)
Europe.....	4.0	3.4	17.1%
Latin America.....	1.5	1.3	15.1%
Asia.....	3.3	2.8	19.2%
Middle East & Africa.....	1.2	1.6	(30.6%)
	<u>\$ 29.4</u>	<u>\$ 32.4</u>	<u>(9.4%)</u>

Gross profit. Gross profit for the quarter ended September 30, 2011 decreased \$3.0 million, or 9.4%, to \$29.4 million from \$32.4 million for the quarter ended September 30, 2010. Total gross profit for the quarter ended September 30, 2011 includes approximately \$8.2 million of higher raw material and distribution costs and \$0.2 million of higher warranty related costs, which were partially offset by \$1.8 million of increased gross profit due to an increase in sales volume and sales mix, approximately \$2.4 million of price increases, \$0.8 million of higher earnings from our equipment financing program and \$0.6 million of lower labor related expenses as compared to the three months ended September 30, 2010. Included in the \$8.2 million of higher raw material and distribution costs were \$3.0 million of non-cash mark-to-market losses related to commodity and foreign exchange hedge agreements, recognized in the quarter ended September 30, 2011, as compared to \$3.0 million of non-cash mark-to-market gains for the quarter ended September 30, 2010. United States and Canada gross profit decreased primarily as a result of higher raw material and distribution costs, which were partially offset by price increases, an increase in sales volume and sales mix and increased earnings from the equipment financing program. Europe gross profit increased primarily as a result of lower material and distribution costs and favorable currency conversion rates. Latin America gross profit increased primarily as a result of price increases and an increase in sales volume and sales mix. Asia gross profit increased primarily as a result of price increases, which were partially offset by higher raw material and distribution costs. Middle East & Africa gross profit decreased as a result of a decrease in sales volume, which was partially offset by price increases. Gross profit as a percentage of net revenues decreased to 25.7% for the quarter ended September 30, 2011 from 31.3% for the quarter ended September 30, 2010.

Selling, general and administrative expense. Selling, general and administrative expense for the quarter ended September 30, 2011 increased \$2.8 million, or 19.1%, to \$17.3 million from \$14.5 million for the quarter ended September 30, 2010. The increase in selling, general and administrative expense was driven by \$1.4 million of increased non-cash incentive compensation expense, \$0.6 million of higher sales and marketing expenses, \$0.4 million of increased engineering spending and \$0.3 million of higher administrative costs in Belgium. Selling, general and administrative expense as a percentage of net revenues was 15.2% for the quarter ended September 30, 2011 and 14.0% for the quarter ended September 30, 2010.

Other costs. Other costs for the quarter ended September 30, 2011 were \$0.5 million, with no comparable costs for the quarter ended September 30, 2010. Other costs of \$0.5 million consist of estimated severance and building closure costs related to the closure of the Nazareth, Belgium manufacturing facility, which was completed in the current quarter. Other costs as a percentage of net revenues was 0.4% for the quarter ended September 30, 2011.

Operating income. As a result of the foregoing, operating income for the quarter ended September 30, 2011 decreased \$6.2 million to \$11.7 million as compared to \$17.9 million for the quarter ended September 30, 2010. Operating income as a percentage of net revenues decreased to 10.2% for the quarter ended September 30, 2011 as compared to 17.3% for the quarter ended September 30, 2010.

Interest expense. Interest expense for the quarter ended September 30, 2011 increased \$1.2 million, or 20.4%, to \$6.9 million from \$5.7 million for the quarter ended September 30, 2010. The increase in interest expense was primarily attributable to a net unfavorable non-cash impact of \$0.7 million to reflect adjustments in the fair value of interest rate swap agreements, a net increase of \$0.3 million related to the new Senior Credit Facility as compared to the prior credit facility and increased revolver related interest of \$0.2 million. Interest expense as a percentage of net revenues was 6.1% for the quarter ended September 30, 2011 and 5.5% for the quarter ended September 30, 2010.

Loss from early extinguishment of debt. There was no loss from early extinguishment of debt for the quarter ended September 30, 2011 as compared to a loss of \$7.7 million for the quarter ended September 30, 2010. The loss from early extinguishment of debt in 2010 included \$4.5 million of cash costs and expenses related to the repurchase of senior subordinated notes, \$3.0 million related to the write-off of unamortized debt issuance costs and \$0.2 million related to the write-off of the remaining senior subordinated notes unamortized discount. The loss from early extinguishment of debt as a percentage of net revenues was 7.4% for the quarter ended September 30, 2010.

Provision for income taxes. The provision for income taxes for the quarter ended September 30, 2011 was \$1.4 million as compared to \$2.1 million for the quarter ended September 30, 2010. The income tax rate was 28.9% for the quarter ended September 30, 2011 as compared to 45.5% for the quarter ended September 30, 2010. The decrease in the income tax rate is due to a reduction of foreign earnings currently taxable and a change in the state tax rate.

Net income. As a result of the foregoing, our net income for the quarter ended September 30, 2011 increased \$0.9 million, or 37.4%, to \$3.4 million from \$2.5 million for the quarter ended September 30, 2010. Net income as a percentage of net revenues for the quarter ended September 30, 2011 was 3.0% as compared to 2.4% for the quarter ended September 30, 2010.

Nine Months Ended September 30, 2011 as Compared to Nine Months Ended September 30, 2010

The following table sets forth our consolidated net revenues for the periods indicated:

	Nine Months Ended		Change
	September 30, 2011	September 30, 2010	
	(in millions)		
Net revenues:			
United States and Canada.....	\$ 234.8	\$ 215.7	8.8%
Europe.....	44.7	40.1	11.4%
Latin America.....	11.2	10.7	4.8%
Asia.....	29.3	26.2	11.9%
Middle East & Africa.....	16.2	16.9	(4.3%)
	<u>\$ 336.2</u>	<u>\$ 309.6</u>	<u>8.6%</u>

Net revenues. Net revenues for the nine months ended September 30, 2011 increased \$26.6 million, or 8.6%, to \$336.2 million from \$309.6 million for the nine months ended September 30, 2010. The net revenues increase of \$26.6 million was attributable to increases in United States and Canada revenues of \$19.1 million, Europe revenues of \$4.6 million, Asia revenues of \$3.1 million and Latin America revenues of \$0.5 million. Middle East & Africa revenues for the same time period decreased \$0.7 million. The increase in United States and Canada revenues was due to increased revenue to multi-housing laundry, consumer laundry and service parts customers, as well as \$1.5 million of higher earnings from our equipment financing program. The increase in Europe revenues was due to higher sales to Eastern Europe, including Russia, Poland, and Romania, and additionally as a result of higher currency conversion rates. The increase in Asia revenues was most significant to Australia, but was partially offset by lower sales to China. The increase in Latin America revenues reflects higher sales to Chile and Brazil. The higher total Company equipment and parts revenues for the nine months ended September 30, 2011 include a sales volume increase of \$14.8 million, and price increases of \$7.6 million. The decrease in Middle East & Africa revenues reflects lower sales to the United Arab Emirates and Saudi Arabia.

	<u>Nine Months Ended</u>		<u>Change</u>
	<u>September 30,</u> <u>2011</u>	<u>September 30,</u> <u>2010</u>	
	(in millions)		
Gross profit:			
United States and Canada.....	\$ 61.5	\$ 62.6	(1.7%)
Europe.....	13.6	11.9	14.3%
Latin America.....	3.9	3.6	8.3%
Asia.....	9.4	8.2	14.6%
Middle East & Africa.....	4.3	4.1	3.5%
	<u>\$ 92.7</u>	<u>\$ 90.4</u>	<u>2.6%</u>

Gross profit. Gross profit for the nine months ended September 30, 2011 increased \$2.3 million, or 2.6%, to \$92.7 million from \$90.4 million for the nine months ended September 30, 2010. Total gross profit for the nine months ended September 30, 2011 includes approximately \$7.6 million of price increases and \$3.5 million of gross profits due to an increase in sales volume and sales mix, as compared to the nine months ended September 30, 2010, as well as \$1.5 million of higher earnings from our equipment financing program. These gross profit increases were partially offset by approximately \$9.4 million of higher raw material and distribution expenses and \$0.6 million of higher warranty related costs. Included in the \$9.4 million of higher raw material and distribution costs were \$3.3 million of non-cash mark-to-market losses related to commodity and foreign exchange hedge agreements, recognized in the nine months ended September 30, 2011, as compared to \$0.3 million of non-cash mark-to-market losses for the nine months ended September 30, 2010. United States and Canada gross profit increased primarily as a result of price increases, increases in sales volume and increased earnings from the equipment financing program, which were partially offset by higher material and distribution costs and higher warranty related costs. Europe gross profit increased primarily as a result of price increases and lower material and distribution expenses. Latin America gross profit increased as a result of higher selling prices, which were partially offset by higher material and distribution expenses. Asia gross profit increased primarily as a result of price increases and higher sales volume, which were partially offset by higher material and distribution costs. Middle East & Africa gross profit increased slightly as a result of price increases, which were partially offset by lower volume related sales margins and higher material and distribution costs. Gross profit as a percentage of net revenues decreased to 27.6% for the nine months ended September 30, 2011 from 29.2% for the nine months ended September 30, 2010.

Selling, general and administrative expense. Selling, general and administrative expense for the nine months ended September 30, 2011 increased \$3.4 million, or 7.6%, to \$47.8 million from \$44.4 million for the nine months ended September 30, 2010. The increase in selling, general and administrative expense was primarily due to \$2.6 million of increased sales and marketing expenses, \$1.0 million of higher engineering expenses and \$0.5 million of increased amortization related to an enterprise wide software system installed in the second quarter of 2011. These increases were offset by \$0.8 million of lower non-cash incentive compensation expense. Selling, general and administrative expense as a percentage of net revenues decreased to 14.2% for the nine months ended September 30, 2011 from 14.3% for the nine months ended September 30, 2010.

Other costs. Other costs for the nine months ended September 30, 2011 were \$1.6 million, with no comparable costs for the nine months ended September 30, 2010. Other costs of \$1.6 million consist of estimated severance and building closure costs related to the closure of the Nazareth, Belgium manufacturing facility which was completed in the current quarter. Other costs as a percentage of net revenues was 0.5% for the nine months ended September 30, 2011.

Operating income. As a result of the foregoing, operating income for the nine months ended September 30, 2011 decreased \$2.6 million to \$43.4 million as compared to \$46.0 million for the nine months ended September 30, 2010. Operating income as a percentage of net revenues decreased to 12.9% for the nine months ended September 30, 2011 as compared to 14.9% for the nine months ended September 30, 2010.

Interest expense. Interest expense for the nine months ended September 30, 2011 increased \$3.9 million, or 23.3%, to \$20.7 million from \$16.8 million for the nine months ended September 30, 2010. The increase in interest expense was attributable to a net unfavorable non-cash impact of \$1.6 million to reflect adjustments in the fair value of interest rate swap agreements, a net increase of \$1.2 million related to the new Senior Credit Facility as compared to the prior credit facility, increased revolver related interest of \$0.6 million and higher non-cash debt issuance costs of \$0.5 million. Interest expense as a percentage of net revenues was 6.2% for the nine months ended September 30, 2011 and 5.4% for the nine months ended September 30, 2010.

Loss from early extinguishment of debt. There was no loss from early extinguishment of debt for the nine months ended September 30, 2011 as compared to a loss of \$7.7 million for the nine months ended September 30, 2010. The loss from early extinguishment of debt in 2010 included \$4.5 million of cash costs and expenses related to the repurchase of senior subordinated notes, \$3.0 million related to the write-off of unamortized debt issuance costs and \$0.2 million related to the write-off of the remaining senior subordinated notes unamortized discount. The loss from early extinguishment of debt as a percentage of net revenues was 2.5% for the nine months ended September 30, 2010.

Provision for income taxes. The provision for income taxes for the nine months ended September 30, 2011 was \$8.7 million as compared to \$7.9 million for the nine months ended September 30, 2010. The income tax rate was 38.5% for the nine months ended September 30, 2011 as compared to 36.8% for the nine months ended September 30, 2010. The primary reason for the increase in effective tax rate is the Company no longer qualifies for the energy tax credit partly offset by a reduction of foreign earnings currently taxable.

Net income. As a result of the foregoing, our net income for the nine months ended September 30, 2011 increased \$0.3 million, or 2.4%, to \$13.9 million from \$13.6 million for the nine months ended September 30, 2010. Net income as a percentage of net revenues for the nine months ended September 30, 2011 was 4.1% as compared to 4.4% for the nine months ended September 30, 2010.

LIQUIDITY AND CAPITAL RESOURCES

On September 30, 2010, we refinanced our then existing debt with a new Senior Credit Facility (the “Senior Credit Facility”) that replaced a previous credit agreement. The Senior Credit Facility provides for a five-year \$60.0 million revolving credit facility (the “Revolving Credit Facility”) and a six-year \$285.0 million term loan facility (the “Senior Term Loan”). On September 30, 2011, the Revolving Credit Facility was undrawn. The

Senior Term Loan amortizes at 1% per annum, requires minimum quarterly payments and the balance is due at maturity. Any unused portion of the Revolving Credit Facility is subject to a commitment fee of 0.75% per annum, subject to step downs based on certain financial ratios.

Our principal sources of liquidity are cash flows generated from operations and potential borrowings under our \$60.0 million Revolving Credit Facility. Our principal uses of liquidity are to meet debt service requirements, finance our capital expenditures and provide working capital. We expect that capital expenditures in 2011 will not exceed \$11 million. We have invested \$7.5 million in capital expenditures for the nine months ended September 30, 2011. The aggregate scheduled maturities of long-term debt in subsequent years as of September 30, 2011 are as follows:

<u>Year</u>	<u>Long-Term Debt</u>	<u>Asset Backed Facility</u>	<u>Total</u>
2011	\$ -	\$ 78,420	\$ 78,420
2012	648	37,847	38,495
2013	2,592	36,590	39,182
2014	2,592	33,140	35,732
2015	2,592	28,290	30,882
Thereafter	245,576	47,094	292,670
Totals	<u>\$ 254,000</u>	<u>\$ 261,381</u>	<u>\$ 515,381</u>
Less: Unamortized discount on long-term debt	(2,435)	-	(2,435)
Long-term debt and capital lease obligations, net	<u>\$ 251,565</u>	<u>\$ 261,381</u>	<u>\$ 512,946</u>

The Senior Credit Facility contains a number of covenants that, among other things, restricts our ability to dispose of assets, repay other indebtedness, incur liens, make capital expenditures, make certain investments or acquisitions, engage in mergers or consolidation and otherwise restrict our operating activities. In addition, under the Senior Credit Facility, the Company is required to satisfy specified financial ratios and tests, including a maximum of Total Debt to Adjusted EBITDA (as defined in the credit agreement governing the Senior Credit Facility) and a Minimum Interest Coverage ratio. The occurrence of any default of these covenants could result in the acceleration of our obligations under the Senior Credit Facility (\$254.0 million at September 30, 2011) and foreclosure on the collateral securing such obligations.

At September 30, 2011, there were no borrowings outstanding under our Revolving Credit Facility and letters of credit issued on our behalf under the Revolving Credit Facility totaled \$36.0 million, of which \$34.3 million relate to the Asset Backed Facility. We had \$24.0 million of our existing \$60.0 million Revolving Credit Facility available that we could have borrowed at September 30, 2011, subject to certain limitations under the Senior Credit Facility.

The Senior Credit Facility is also subject to mandatory prepayment with the proceeds of certain debt incurrence, asset sales and a portion of Excess Cash Flow (as defined in the Senior Credit Facility). The Revolving Credit Facility will terminate on September 30, 2015.

Our ability to make scheduled payments of principal or to refinance our indebtedness, or to pay the interest or liquidated damages on our indebtedness, if any thereon, or to fund planned capital expenditures, or to meet our debt covenants, will depend upon our future performance, which, in turn, is subject to general economic, financial, competitive and other factors that are beyond our control. Global macroeconomic conditions remain unstable. Given the continuing uncertainty regarding the economies of Europe and other markets in which we operate and projected federal deficits in the U.S. and Europe, macroeconomic conditions could deteriorate in the near term or over the longer term. We continue to monitor our business plan for cost control measures that could improve profitability. We also have the ability to defer non-critical capital expenditures. We currently expect to meet our obligations under our debt agreements including compliance with established financial covenants. However, if the economic environments in which we operate were to deteriorate significantly beyond current expectations, it could have a material adverse effect on our ability to remain in compliance with

our covenants which would result in a material adverse effect on our liquidity and results of operations. Any amendment to or waiver of the covenants would likely involve substantial upfront fees, significantly higher annual interest costs and other terms significantly less favorable to us than those contained in our current credit facilities.

As discussed in greater detail in Note 4 – Asset Backed Facility, effective as of June 17, 2011 the termination date of the Revolving Period of the Asset Backed Facility was extended through June 16, 2013.

EBITDA and Adjusted EBITDA

One of our two principal sources of liquidity is potential borrowings under the \$60.0 million Revolving Credit Facility, which is governed by our Senior Credit Facility. We have presented EBITDA and Adjusted EBITDA below because certain covenants, which affect our ability to borrow within our Senior Credit Facility, are tied to ratios based on these measures. “EBITDA” represents net income before interest expense, income tax provision and depreciation and amortization (including non-cash interest expense). “Adjusted EBITDA” (as defined under the Senior Credit Facility) is EBITDA as further adjusted to exclude, among other things, certain non-recurring expenses and other non-recurring non-cash charges which are further defined in our Senior Credit Facility. As of September 30, 2011, the Senior Credit Facility requires us to satisfy a maximum Consolidated Total Debt (as defined under the Senior Credit Facility) to Adjusted EBITDA ratio of 4.50 to 1.00 and a minimum Adjusted EBITDA to Consolidated Cash Interest Expense ratio (as defined in the Senior Credit Facility) of 2.75 to 1.00. As of September 30, 2011, our Consolidated Total Debt to Adjusted EBITDA ratio was 3.04 to 1.00 and our Adjusted EBITDA to Consolidated Cash Interest Expense ratio was 4.51 to 1.00. To the extent that we fail to maintain either of these ratios within the limits set forth in the Senior Credit Facility, our ability to access amounts available under our Revolving Credit Facility would be limited, our liquidity would be adversely affected and our obligations under the Senior Credit Facility could be accelerated.

EBITDA and Adjusted EBITDA do not represent, and should not be considered, an alternative to net income or cash flow from operations, as determined by GAAP, and our calculations thereof may not be comparable to similarly titled measures reported by other companies.

We have presented, in the tables below, a calculation of Consolidated Total Debt and Consolidated Cash Interest Expense, in each case, as defined in the Senior Credit Facility. The calculation of Adjusted EBITDA (as defined in the Senior Credit Facility) set forth in the tables below uses as its starting point EBITDA which represents net income before interest expense, income tax provision and depreciation and amortization (including non-cash interest income). The calculations set forth below for Adjusted EBITDA and Consolidated Cash Interest Expense are, in each case, for the four fiscal quarters ended September 30, 2011.

The following table presents a calculation of the Consolidated Total Debt to Adjusted EBITDA ratio and the Adjusted EBITDA to Consolidated Cash Interest Expense ratio (in thousands):

	Quarter Ended December 31, 2010	Quarter Ended March 31, 2011	Quarter Ended June 30, 2011	Quarter Ended September 30, 2011	Total
EBITDA.....	\$ 22,601	\$ 17,772	\$ 21,595	\$ 15,578	\$ 77,546
Securitization interest - permitted receivables financing (a).....	(291)	(290)	(282)	(199)	(1,062)
Other non-recurring charges (b).....	32	1,113	-	452	1,597
Other non-cash charges (c).....	(582)	402	196	4,491	4,507
Adjusted EBITDA.....	<u>\$ 21,760</u>	<u>\$ 18,997</u>	<u>\$ 21,509</u>	<u>\$ 20,322</u>	<u>\$ 82,588</u>

	September 30, 2011
Revolving Credit Facility.....	\$ -
Senior Term Loan.....	254,000
Other long-term debt and capital lease obligations.....	-
Unrestricted cash held by foreign subsidiaries (d).....	(3,000)
Consolidated Total Debt.....	<u>\$ 251,000</u>

Consolidated Total Debt to Adjusted EBITDA ratio..... 3.04

	Quarter Ended December 31, 2010	Quarter Ended March 31, 2011	Quarter Ended June 30, 2011	Quarter Ended September 30, 2011	Total
Interest expense.....	\$ 5,223	\$ 5,986	\$ 7,831	\$ 6,905	\$ 25,945
Non-cash interest expense (income).....	36	(953)	(2,743)	(1,929)	(5,589)
Interest on letters of credit and permitted receivables financing.....	(543)	(511)	(510)	(516)	(2,080)
Interest income.....	2	7	19	18	46
Consolidated Cash Interest Expense.....	<u>\$ 4,718</u>	<u>\$ 4,529</u>	<u>\$ 4,597</u>	<u>\$ 4,478</u>	<u>\$ 18,322</u>

Adjusted EBITDA to Consolidated Cash Interest Expense ratio..... 4.51

- (a) Securitization Interest – permitted receivables financing represents interest expense on trade receivables sold to ALERT 2009A. This activity was consolidated in our financial statements on January 1, 2010 in conjunction with the adoption of new accounting guidance. Beginning with the first quarter of 2010, this expense, which is charged to the interest expense line of our Condensed Consolidated Statements of Income, is deducted in calculating Adjusted EBITDA.
- (b) Other non-recurring charges is comprised of \$1.6 million of estimated severance and building closure costs related to the closure of the Nazareth, Belgium manufacturing facility, which is included in the Other costs line of our Condensed Consolidated Statements of Income.
- (c) Other non-cash charges are comprised of \$2.9 million of non-cash mark-to-market expense relating to commodity and foreign exchange hedge agreements, which is included in the cost of sales line of our Condensed Consolidated Statements of Income, and \$1.6 million of accrued management incentive compensation expense, which is included in the selling, general and administrative expense line of our Condensed Consolidated Statements of Income.
- (d) As defined in the Senior Credit Facility, Consolidated Total Debt is the aggregate principal amount of all funded debt for the relevant period minus the lesser of \$3.0 million or the aggregate amount of unrestricted cash and cash equivalents held by the foreign subsidiaries.

Asset Backed Facility and Aggregate Contractual Obligations

On June 26, 2009, Alliance Laundry, through a special-purpose bankruptcy remote subsidiary, Alliance Laundry Equipment Receivables 2009 LLC (“ALER 2009”), and a trust, Alliance Laundry Equipment Receivables Trust 2009-A (“ALERT 2009A”), entered into a \$330.0 million asset backed securitization funding facility (the “Asset Backed Facility”) backed by equipment loans and trade receivables originated by Alliance Laundry. Alliance Laundry will sell or contribute substantially all of the trade receivables and certain of the equipment loans that we originate to ALER 2009 which, in turn, will transfer them to the trust. ALERT 2009A will finance the acquisition of the trade receivables and equipment loans through borrowings under variable funding notes (the “Notes”) issued to the lenders under the Asset Backed Facility. Effective June 17, 2011, the administrative agent and noteholders under the Asset Backed Facility extended the termination date of the Revolving Period through June 16, 2013, among other things, based on a request by ALERT 2009A.

Cash Flows

Cash provided by operating activities for the nine months ended September 30, 2011 of \$45.6 million was driven by cash generated by operations of \$40.4 million (net income adjusted for depreciation, amortization and other non-cash adjustments) and changes in working capital requirements of \$5.2 million. Cash flow used by inventory of \$2.5 million is due to seasonal inventory increases. Cash flows provided by accounts payable increased \$3.0 million primarily as a result of the timing of purchases related to production. The net cash flows used by accounts and notes receivable - restricted for securitization investors of \$5.4 million is primarily the result of timing of assets sold to ALER 2009.

Capital Expenditures

Our capital expenditures for the nine months ended September 30, 2011 and 2010 were \$7.5 million and \$6.4 million, respectively. Capital spending in the first nine months of 2011 was principally attributable to product redesign, manufacturing equipment replacements and cost improvement projects. Capital spending in the first nine months of 2010 was principally attributable to the implementation of an enterprise wide computer software system, manufacturing equipment replacements and cost improvement projects.

Defined Benefit Plan

The funded status of our pension plan is dependent upon many factors, including returns on invested assets and the level of market interest rates. During the first nine months of 2011, the Company has contributed \$3.1 million to its defined benefit pension plan and anticipates additional contributions totaling \$0.8 million during the remainder of 2011.

Critical Accounting Policies

The Company’s critical accounting policies are discussed in the Management’s Discussion and Analysis section of the Annual Report for the Year Ended December 31, 2010.

Recently Issued Accounting Standards

In January 2010, the FASB issued new accounting guidance that amends previously issued guidance regarding fair value measures and disclosures. The new guidance requires disclosure of transfers into and out of Level 1 and Level 2 fair value measurements, and also requires more detailed disclosure about the activity within Level 3 fair value measurements. We adopted the accounting guidance related to fair value disclosures in January 2010, except for the requirements related to Level 3 disclosures, which was effective for, and adopted by, us in January 2011. This guidance did not have a material impact on the Company’s consolidated balance sheet and income statement.

In July 2010, the FASB issued new accounting guidance that amends previously issued guidance regarding receivable assets. The new guidance requires disclosures related to financing receivables and the allowance for

credit losses by portfolio segment. The new guidance also requires disclosures of information regarding the credit quality, aging, nonaccrual status and impairments by class of receivable. A portfolio segment is the level at which a creditor develops a systematic methodology for determining its credit allowance. A receivable class is a subdivision of a portfolio segment with similar measurement attributes, risk characteristics and common methods to monitor and assess credit risk. Trade accounts receivable with maturities of one year or less are excluded from the disclosure requirements. We adopted this new guidance on January 1, 2011. The disclosures required by this new guidance are included in Note 5 – Securitization Activities to the financial statements.

In April 2011, the FASB issued ASU No. 2011-02, A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring, which amends ASC 310, Receivables. This ASU states that a troubled debt restructuring occurs when a creditor grants a concession it would not otherwise consider to a debtor that is experiencing financial difficulties. The guidance clarifies what would be considered a concession by the creditor and financial difficulties of the debtor. Certain disclosures are required for transactions that qualify as troubled debt restructurings. The effective date of implementation for the Company will be the fourth quarter of 2011. The adoption is not expected to have a material effect on the Company’s consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820), “Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS” (“ASU No. 2011-04”). ASU No. 2011-04 amends the wording used to describe many of the requirements for measuring fair value to achieve the objective of developing common fair value measurement and disclosure requirements, as well as improving consistency and understandability. Some of the requirements clarify the FASB’s intent about the application of existing fair value measurement requirements while other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. ASU No. 2011-04 is effective for calendar years beginning after December 15, 2011. Early adoption is prohibited. The Company is currently evaluating the potential impact of ASU No. 2011-04 on the financial statements and related disclosures but does not anticipate a material impact.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (ASU 2011-05). The amendments in ASU 2011-05 require entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, the amendments in ASU 2011-05 require an entity to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011. The Company does not expect material financial statement implications relating to the adoption of this ASU.

In September 2011, the FASB issued Accounting Standards Update 2011-08, “Testing Goodwill for Impairment” (“ASU 2011-08”) to simplify how both public and non-public entities test goodwill for impairment. The amended guidance gives entities the option to qualitatively assess whether the two-step goodwill impairment test under Accounting Standards Codification Topic 350-20, “Intangibles – Goodwill and Other – Goodwill” (“ASC 350-20”) must be performed. Under ASU 2011-08, entities can assess whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If entities elect to perform the qualitative assessment and determine that the fair value of goodwill is, more likely than not, less than the carrying amount of goodwill, then Step 1 of the goodwill impairment test under ASC 350-20 needs to be performed; otherwise no further evaluation is required. If entities choose not to perform the qualitative assessment then entities would also perform Step 1 of the goodwill impairment test under ASC 350-20. These provisions are effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years, although early adoption is permitted. The provisions of ASU 2011-08, when adopted, are not expected to have a material impact on the Company’s consolidated financial statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk associated with changes in interest rates, foreign currency exchange rate fluctuations and certain commodity prices. To reduce these risks, we selectively use financial instruments and other proactive management techniques. We do not use financial instruments for trading purposes or speculation. There have been no material changes in our market risk exposures as compared to those discussed in our Annual Report for the Year ended December 31, 2010, except as noted below.

From time to time we may enter into derivative financial instruments to hedge our interest rate exposures, exchange rate fluctuations between United States dollars and foreign currencies and certain commodity prices.

Effective October 31, 2010, we entered into a \$110.0 million interest rate swap agreement with The Bank of Nova Scotia to hedge a portion of our interest rate risk related to our term loan borrowings under the Senior Term Loan. Under the swap, which matures on October 31, 2013, we pay a fixed rate of 0.858%, and receive or pay quarterly interest payments based upon three month LIBOR. The fair value of this interest rate swap agreement, which represents the amount that the Company would pay upon a settlement of this instrument, was \$0.7 million at September 30, 2011.

Effective October 31, 2010, we entered into a \$40.0 million interest rate swap agreement with The Bank of Nova Scotia to hedge a portion of its interest rate risk related to its term loan borrowings under the Senior Term Loan. Under the swap, which matures on October 31, 2012, the Company pays a fixed rate of 0.652%, and receives or pays quarterly interest payments based upon the three month LIBOR rate. The fair value of this interest rate swap agreement, which represents the amount that the Company would pay upon a settlement of this instrument, was \$0.1 million at September 30, 2011.

We entered into foreign exchange hedge contracts with Private Bank & Trust Company to hedge a portion of our foreign exchange risk related to the purchases by Alliance Laundry Systems LLC from European vendors. Under the foreign exchange hedges, we received \$0.1 and \$0.3 million during the three and nine month periods ended September 30, 2011. The fair value of these foreign exchange hedge contracts, which represents the amount that we would pay upon a settlement of these instruments, was a \$0.3 million liability at September 30, 2011. The notional amount of the foreign exchange hedge contracts outstanding as of September 30, 2011 totaled \$9.8 million Euros.

We enter into commodity hedge contracts with Bank of America, N.A. to hedge a portion of our nickel commodity risk related to stainless steel purchases and copper commodity risk related to wiring and aluminum related to motor assemblies. Under the commodity hedges, we received \$0.2 and \$0.8 million during the three and nine month periods ended September 30, 2011. The fair value of these commodity hedge contracts, which represents the amount that we would pay upon a settlement of these instruments, was a \$2.3 million liability at September 30, 2011. The notional amount of the nickel, copper and aluminum commodity hedge contracts outstanding as of September 30, 2011 totaled 165 metric tons, 387 metric tons and 1,034 metric tons, respectively.

We are exposed to market risk associated with adverse movements in interest rates. Specifically, we are primarily exposed to changes in earnings and related cash flows on our variable interest rate debt obligations outstanding under the Senior Credit Facility, and changes in our retained interests related to trade accounts receivable and equipment loans sold to our special-purpose securitization entity.

An interest rate cap is in place as part of the Asset Backed Facility to limit our exposure to interest rate increases which may adversely affect the overall performance of our equipment financing activities. The interest rate cap limits our exposure to fluctuations in interest rates to 6.27% for fixed rate loans. The notional

amount of the cap, which was \$54.0 million at September 30, 2011, varies based on the originations and payoffs of our fixed-rate loan portfolio. The fair value of the interest rate cap contract, which represents the amount that we would receive upon a settlement of this instrument, was \$0.3 million at September 30, 2011.

CAUTIONARY STATEMENTS FOR FORWARD-LOOKING INFORMATION

With the exception of the reported actual results, the information presented herein contains predictions, estimates or other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Act of 1934, as amended, including items specifically discussed in Note 15 to the Financial Statements – Commitments and Contingencies section of this document. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of our business to differ materially from those expressed or implied by such forward-looking statements. Although we believe that our plans, intentions and expectations reflected in such forward-looking statements are based on reasonable assumptions, we can give no assurance that such plans, intentions, expectations, objectives or goals will be achieved. Important factors that could cause actual results to differ materially from those included in forward-looking statements include: the ability to borrow funds under the Senior Credit Facility (as defined herein); the ability to successfully implement operating strategies and trends affecting the business, liquidity, financial condition and results of operations of the Company; the impact of competition; continued sales to key customers; possible fluctuations in the cost of raw materials and components; possible fluctuations in currency exchange rates, which affect the competitiveness of our products abroad; possible fluctuation in interest rates, which affects our earnings and cash flows; the impact of substantial leverage and debt service on us; possible loss of suppliers; risks related to our asset backed securitization facility; dependence on key personnel; labor relations; potential liability for environmental, health and safety matters; potential future legal proceedings and litigation as well as those set forth in Item 1A of our Annual Report for the Year ended December 31, 2010 under “Risk Factors.” All statements other than statements of historical facts included in this Quarterly Report, including, without limitation, the statements under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and located elsewhere herein regarding industry prospects, the Company’s strategy and the Company’s financial position are forward-looking statements. In some cases, you can identify forward-looking statements by words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “predict,” “potential,” “should,” “will,” and “would,” or the negatives thereof, variations thereof or other similar words. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof, and we undertake no obligation to update or revise publicly any forward-looking statements whether as a result of new information, future events or otherwise.