Golden Minerals Co
Form DEF 14A
November 23, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material under §240.14a-12

Golden Minerals Company

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x	No fee required.	
o	Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.	
	(1)	Title of each class of securities to which transaction applies:
	(2)	Aggregate number of securities to which transaction applies:
	(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
	(4)	Proposed maximum aggregate value of transaction:
	(5)	Total fee paid:
o	Fee paid previously with preliminary materials.	
o		

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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350 Indiana Street, Suite 800

Golden, Colorado 80401

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To be held January 19, 2016

Dear Stockholders:

We cordially invite you to attend a special meeting of the stockholders of Golden Minerals Company (the Company) to be held at the Courtyard by Marriott Denver West/Golden, 14700 W. 6th Avenue Frontage Road, Golden, CO 80401 on January 19, 2016 at 9:00 a.m., Denver time. The primary business of the meeting will be to vote on the Company s proposal to:

Approve the issuance of shares of the Company s Common Stock upon the conversion of a Senior Secured Convertible Note in favor of the Company s stockholder The Sentient Group.

The foregoing is more fully described in the Proxy Statement accompanying this Notice. Only stockholders of record at the close of business on November 24, 2015, the record date fixed by the board of directors, are entitled to notice of, and to vote at, the special meeting and at any postponements or adjournments thereof.

Your vote is very important, regardless of the number of shares you own. Whether or not you expect to attend the special meeting, please complete, sign, date, and return the enclosed proxy card as soon as possible in accordance with the instructions on the proxy card. You may revoke this proxy at any time prior to the special meeting and, if you attend the special meeting, you may vote your shares in person.

The Proxy Statement is available for viewing, printing and downloading at www.viewproxy.com/GoldenMinerals/2016

By order of the Board of Directors,

Warren M. Rehn
President and Chief Executive Officer
November 23, 2015

Stockholders are requested to sign the enclosed proxy card and

return it in the enclosed stamped envelope by return mail.

OR

Stockholders may also complete a proxy via the Internet or by telephone

in accordance with the instructions listed on the proxy card.

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GOLDEN MINERALS COMPANY

350 Indiana Street, Suite 800

Golden, Colorado 80401

PROXY STATEMENT

SPECIAL MEETING OF STOCKHOLDERS

January 19, 2016

This Proxy Statement is furnished to the stockholders of Golden Minerals Company (Golden Minerals, the Company, we , or our) in connection with the solicitation of proxies by the board of directors of Golden Minerals to be voted at the special meeting of stockholders on January 19, 2016, or at any postponements or adjournments of the special meeting. This special meeting is being held for the purpose set forth in the accompanying Notice of Special Meeting of Stockholders. The Proxy Statement and proxy card were first mailed to stockholders on or about December 1, 2015.

Important Notice Regarding the Availability of Proxy Materials for the Special Stockholder Meeting to be Held on January 19, 2016:

THE PROXY STATEMENT IS AVAILABLE FOR VIEWING, PRINTING AND DOWNLOADING AT:

www.viewproxy.com/GoldenMinerals/2016

ABOUT THE MEETING

Why am I receiving this Proxy Statement and proxy card?

You have received these proxy materials because our board of directors is soliciting your proxy to vote your common stock at the special meeting of stockholders on January 19, 2016 to approve the issuance of shares of the Company s common stock, par value $0.01 per share (the Common Stock) upon the conversion of a Senior Secured Convertible Note (the Note) in favor of the Company s stockholder The Sentient Group, as further described in this Proxy Statement. This Proxy Statement provides you with information on this matter so that you may make an informed decision.

What is the purpose of the special meeting?

At our special meeting, stockholders will vote on the following item of business:

To approve the issuance of shares of the Company s Common Stock upon the conversion of a Senior Secured Convertible Note in favor of the Company s stockholder The Sentient Group.

What are the board s recommendations?

Our board of directors recommends that you vote **FOR** the issuance of shares of the Company s Common Stock upon the conversion of a Senior Secured Convertible Note in favor of the Company s stockholder The Sentient Group (see the Proposal)

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the board of directors or, if no recommendation is given, in their own discretion.

What shares are entitled to vote?

As of November 24, 2015, the record date for the special meeting, we had 53,335,333 shares of Common Stock outstanding. This amount includes 465,005 shares of unvested restricted Common Stock issued pursuant to our Amended and Restated 2009 Equity Incentive Plan, which are not entitled to vote at the special meeting. Therefore, as of November 24,

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2015, 52,870,328 shares of Common Stock were outstanding and are entitled to vote at the special meeting. You can vote all of the shares that you owned on the record date. These shares include: (1) shares held directly in your name as the stockholder of record, and (2) shares held for you as the beneficial owner through a stockbroker, bank or other nominee.

What is the difference between holding shares as a stockholder of record and as a beneficial owner?

Most stockholders hold their shares through a broker or other holder of record rather than directly in their own names. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Stockholder of Record. If your shares are registered directly in your name with our transfer agent, Computershare Trust Company, N.A., you are considered, with respect to those shares, the stockholder of record, and we have sent the Notice and Proxy Statement directly to you. As the stockholder of record, you have the right to grant your voting proxy directly to the named proxy holder or to vote in person at the meeting. You may vote by proxy by filling out the proxy card included with the materials mailed to you, via the Internet, or by calling the toll free number found on the proxy card.

Beneficial Owner. If your shares are held in a brokerage account, or by a bank or other holder of record, you are considered the beneficial owner of shares held in street name, and the proxy materials are being forwarded to you by that holder of record together with a voting instruction card. As the beneficial owner, you have the right to direct your broker, bank or other holder of record how to vote and are also invited to attend the special meeting.

Who may attend the special meeting?

All stockholders as of the record date, or their duly appointed proxies, may attend the meeting. If you are not a stockholder of record but hold shares through a broker, bank or other holder of record (i.e., in street name) and wish to attend the meeting, you will need to provide proof of beneficial ownership on the record date, such as your most recent account statement as of November 24, 2015, a copy of the voting instruction card provided by your broker, bank or other holder of record, or other similar evidence of ownership. Registration and seating will begin at 8:30 a.m., Denver time. Cameras, recording devices and other electronic devices will not be permitted at the meeting.

How may I vote my shares in person at the special meeting?

Shares held in your name as the stockholder of record may be voted in person at the special meeting. Shares held beneficially in street name may be voted by you in person only if you obtain a legal proxy from the broker, bank or other holder of record that holds your shares giving you the right to vote the shares. Even if you plan to attend the special meeting, we recommend that you submit your proxy or voting instructions prior to the meeting as described below so that your vote will be counted if you later decide not to attend the meeting.

How may I vote my shares without attending the special meeting?

Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct how your shares are voted without attending the meeting. If you are a stockholder of record, you may vote by submitting a proxy card or via the Internet or telephone by following the instructions provided on the proxy card. If you hold shares beneficially in street name, you may vote by submitting voting instructions to your broker, bank or other holder of record. For directions on how to vote, please refer to the instructions included on the proxy card or, for shares held beneficially in street name, the voting instruction card provided by your broker, bank or other holder of record.

If you need assistance in voting by telephone or over the Internet or completing your proxy card or have questions regarding the special meeting, please contact our proxy advisor:

Alliance Advisors, LLC

200 Broadacres Drive, 3rd Floor

Bloomfield, NJ 07003

855-928-4483

Proxies submitted properly by one of the methods described above will be voted in accordance with the instructions contained therein. If you submit a proxy but do not provide voting directions, the proxy will be voted FOR the approval of the issuance of shares of the Company s Common Stock upon the conversion of the Note.

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If your shares are held through a broker, bank or other nominee, under applicable rules of the NYSE MKT LLC (NYSE MKT) (the U.S. exchange on which our Common Stock is traded) and applicable Canadian securities laws, the broker will vote your shares according to the specific instructions it receives from you. If the broker does not receive specific voting instructions from you, the broker will not be able to vote your shares, as under the NYSE MKT rules and guidance, the approval of the sale of Common Stock upon conversion of the Note is not a routine matter on which brokers are entitled to vote without specific direction from the beneficial holder. If your broker does not vote your shares because it has not received specific voting instructions from you, commonly referred to as a broker non-vote, it will not affect the outcome of the vote on this matter since the returned proxy will not be counted. However, abstentions will be included in the number of shares voting and will have the effect of a vote against the Proposal.

May I change my vote or revoke my proxy after I return my proxy card?

Yes. Even after you have submitted your proxy, you may change the votes you cast or revoke your proxy at any time before the votes are cast at the meeting by (1) delivering a written notice of your revocation to our Corporate Secretary at our principal executive office located at 350 Indiana Street, Suite 800, Golden, Colorado 80401; (2) executing and delivering a later dated proxy card; or (3) by the Internet or telephone by following the voting instructions provided on the proxy card. In addition, the powers of the proxy holders to vote your stock will be suspended if you attend the meeting in person and so request, although attendance at the meeting will not by itself revoke a previously granted proxy.

What constitutes a quorum?

The presence at the meeting, in person or by proxy, of the holders of a majority (over 50%) of the shares of our Common Stock outstanding and entitled to vote as of the record date will constitute a quorum. There must be a quorum for any action to be taken at the meeting (other than an adjournment or postponement of the meeting). If you properly submit a proxy, even if you abstain from voting, then your shares will be counted for purposes of determining the presence of a quorum.

What vote is required to approve the Proposal?

The affirmative vote of a majority of the outstanding shares of Common Stock present at the meeting (either in person or by proxy) will be required to approve the Proposal.

The Sentient Group has indicated that it intends to vote its shares of Common Stock pro rata in the same percentages as the shares held by all stockholders (except The Sentient Group) are voted.

How may I vote on the Proposal?

For approval of the issuance of Common Stock upon conversion of the Note, you may vote ***FOR*** or ***AGAINST***, or you may indicate that you wish to ***ABSTAIN*** from voting.

Who will count the proxy votes?

Votes will be tabulated by Alliance Advisors.

What rights of appraisal or similar rights of dissenters do I have with respect to any matter to be acted upon at the meeting?

No action is proposed at this meeting for which the laws of the state of Delaware or our Bylaws provide a right of our stockholders to dissent and obtain appraisal of or payment for such stockholders Common Stock.

Who will bear the cost of this proxy solicitation?

The accompanying proxy is solicited on behalf of the Company by its board of directors, and the cost of solicitation will be borne by the Company. Following the original mailing of the proxies and soliciting materials, directors, officers, and employees of the Company may solicit proxies by mail, telephone, facsimile, email or personal interviews. We have retained Alliance Advisors to assist in the solicitation of proxies and provide related advice and informational support, for a solicitation service fee and the reimbursement of customary disbursements for a total estimated cost of approximately $9,000.

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THE PROPOSAL APPROVAL OF THE ISSUANCE OF THE COMPANY S COMMON STOCK UPON THE CONVERSION OF A SENIOR SECURED CONVERTIBLE NOTE IN FAVOR OF THE COMPANY S STOCKHOLDER THE SENTIENT GROUP

At the special meeting, you will be asked to consider and vote upon the issuance of the Company s Common Stock upon the conversion of the Note in favor of The Sentient Group, as further described below.

Introduction

On October 27, 2015, the Company entered into a Loan Agreement (the Loan Agreement) with Sentient Global Resources Fund IV, L.P., a Cayman Islands exempted limited partnership (Sentient). Sentient is a private equity fund managed by The Sentient Group, an independent private equity firm that manages investments in the global resources industry. Together with certain other funds managed by The Sentient Group, Sentient is the Company s largest stockholder, holding in the aggregate approximately 27% of the Company s outstanding common stock (excluding restricted common stock held by the Company s employees). On October 27, 2015, the Company borrowed from Sentient $5.0 million (the Loan), the entire amount available under the Loan Agreement, pursuant to a Senior Secured Convertible Note (the Note) in favor of Sentient, with principal and accrued interest due and payable on October 27, 2016 (the Loan Maturity Date). Upon approval by the Company s stockholders as provided in this Proxy Statement, Sentient will have the right to convert the principal and accrued interest under the Note, in whole or in part and from time to time, to shares of the Company s common stock, $0.01 par value (Common Stock) at a conversion price equal to $0.29 per share or a lower price as described below (see Summary of the Transaction Documents Conversion Price).

The material terms of the Note and Loan Agreement are summarized herein. Additionally, because the information included herein is a summary, it may not include a discussion of all of the provisions in which you are interested. As such, the Note and the Loan Agreement are attached to this Proxy Statement as Appendix A and B, respectively. We encourage you to read Appendices A and B in their entirety.

Reason for Seeking Stockholder Approval

The Common Stock is listed on the NYSE MKT and the Toronto Stock Exchange. Section 713(a) of the NYSE MKT rules requires stockholder approval in connection with a transaction involving the sale, issuance, or potential issuance by the issuer of common stock (or securities convertible into common stock) equal to 20% or more of presently outstanding shares of common stock at a price less than the greater of book value or market value. Section 713(b) of the NYSE MKT rules requires stockholder approval in connection with a transaction involving the issuance or potential issuance of additional shares which would result in a change of control of the issuer.

If Sentient were to convert the entire amount of principal and interest due at the Loan Maturity Date, estimated at approximately $5.5 million, at $0.29, the highest conversion price permitted under the Note, Sentient would receive 18,965,516 shares of Common Stock, increasing its ownership by about 19% from approximately 27% to approximately 46% of the Company s then outstanding Common Stock, assuming no other issuances of Common Stock by the Company. Under certain circumstances described below (see Summary of the Transaction Documents Conversion Price), the conversion price could be significantly lower than $0.29, resulting in Sentient receiving substantially in excess of 20% of the Company s Common Stock on conversion and owning substantially in excess of 46% of the Company s Common Stock following conversion. The NYSE MKT has informed the Company that the potential issuance of Common Stock to Sentient pursuant to a right to convert principal and interest under the Note to Common Stock constitutes a change of control for purposes of NYSE MKT Section 713(b). Therefore, Sentient will

not have the right to convert the Note, and the Company will not have the right to issue Common Stock on conversion of the Note until the Company s stockholders approve the Proposal.

Additionally, pursuant to the Loan Agreement, the Company is required to obtain stockholder approval by January 31, 2016, subject to extension under certain circumstances.

Certain Consequences if the Proposal is Approved

The Proposal must be approved in order for Sentient to convert the principal and accrued interest under the Note into the Company s Common Stock and for the Company to issue the Common Stock on conversion.

The consequences of approving the Proposal are significant. Approval of the Proposal and a subsequent issuance of Common Stock to Sentient upon exercise by Sentient of its conversion rights will have the effect of diluting the ownership of existing stockholders and giving The Sentient Group more control over the Company. If Sentient were to convert the entire amount of principal and interest due at the Loan Maturity Date,

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estimated at approximately $5.5 million, at $0.29, Sentient would receive 18,965,516 shares of Common Stock, increasing its ownership from approximately 27% to approximately 46% of the Company s then outstanding common stock, assuming no other issuances of Common Stock by the Company. A lower stock price prior to the conversion date or the effects of an anti-dilution adjustment in the Note could further reduce the Conversion Price significantly, and significantly increase the number of shares of Common Stock issuable on conversion. As such, by approving the Proposal, stockholders are approving the issuance of an unlimited number of Common Stock to Sentient.

If a significant amount of Common Stock is issued to Sentient upon conversion of the Note, a change of control could occur. If a change of control occurs, Sentient and The Sentient Group would exert significant control over the Company, including over the election of directors, changes in the size or the composition of the board of directors, and mergers and other business combinations involving the Company. Through control of the board of directors and increased voting power, including an ability to prevent a quorum at stockholders meetings, The Sentient Group would be able to control certain decisions, including decisions regarding qualification and appointment of officers, operations of the business including acquisition or disposition of our assets or purchases and sales of mining or exploration properties, dividend policy, and access to capital (including borrowing from third-party lenders and the issuance of equity or debt securities).

Our executives will not receive change of control benefits under Company agreements or plans as a result of Sentient s conversion of the Note. Our executives have waived any rights that might accrue to them upon or following a change of control as defined in change of control agreements, severance plans, and the Company s equity incentive plan, in connection with a change of control that occurs as a result of Sentient s exercise of its conversion rights.

Certain Consequences if the Proposal is Not Approved

If the Proposal is not approved by our stockholders on or before January 31, 2016, as that date may be extended by Sentient, that failure would be an Event of Default as defined in the Loan Agreement. If an Event of Default occurs, Sentient has the right to terminate the Note with the entire amount of principal and interest (at the default rate of 18%) immediately due and payable, and also has the right to foreclose on the stock of and to enforce Loan guarantees against our subsidiaries that hold our principal assets.

We do not expect to generate sufficient funds internally to pay the principal and interest on the Loan either following an Event of Default or when the Loan becomes due on October 27, 2016. We plan, and are required by the Loan Agreement, to seek external funding through the sale of equity or securities convertible into equity in order to raise sufficient funds to repay principal and pay interest on the Loan. There can be no assurance that we will be successful in obtaining sufficient external funding on terms acceptable to us or at all.

Summary of the Transaction Documents

Loan Agreement and Note. The Company borrowed $5.0 million under the Loan Agreement, which is due and payable on the Loan Maturity Date. The Company has no right to prepay all or any part of the principal or interest prior to the Loan Maturity Date. The Note bears interest at a rate of 14% per annum, compounded monthly. If the Company s

stockholders approve the issuance of Common Stock upon the convertibility of the Note, then the interest rate is reduced to 9% per annum, compounded monthly, retroactively applied to the initial borrowing date. The Loan Agreement contains customary representations, warranties, covenants and default provisions and is secured by the stock of the Company s principal subsidiaries, including subsidiaries that are holding companies for or directly own the Company s Velardeña Properties in Mexico and its El Quevar advanced exploration project in Argentina. The Company has agreed to use its reasonable best efforts to raise at least $5.0 million through the sale of equity or securities convertible into equity, and to retain the proceeds of any such financing for the purposes of repaying the Note. The Company may use the Loan proceeds to fund certain activities or items specified in the Loan Agreement including the costs of entering into the financing arrangement, operations and general and administrative costs including shutdown and severance costs in connection with the planned shutdown of the Velardeña mine, and the acquisition, exploration and evaluation of new properties.

Conversion Price. Following approval by the Company s stockholders, Sentient will have the right to convert principal and accrued interest, in whole or in part and from time to time, to Common Stock at a price (the Conversion Price) equal to the lowest of (i) $0.29, equal to 90 percent of the 15-day volume weighted average price (VWAP) of our common Stock for the period immediately preceding the loan closing date, (ii) 90 percent of the 15-day VWAP for the

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period immediately preceding the loan conversion date, or (iii) an anti-dilution adjusted price based on the lowest price for which the Company has sold its stock after October 27, 2015 (subject to certain exceptions set forth in the Note).

If approved, upon conversion of the Note, Common Stock would be issued to Sentient outside the United States pursuant to Regulation S under the Securities Act of 1933, as amended (the Securities Act).

Registration Rights. Upon conversion of all or any portion of the Note, the Company will enter into a Registration Rights Agreement with Sentient pursuant to which the Company will be required to prepare and file a resale registration statement under the Securities Act registering the resale by Sentient from time to time of Common Stock issued to Sentient upon conversion of the Note (the Registrable Securities). The registration statement will be required to be filed after the date that is four months following the date on which Common Stock is issued upon conversion of the Note, but no later than nine months following conversion. The Company will further be required to use its best efforts to have the registration statement declared effective as soon as practical and in no event later than 12 months after conversion is completed. The Company will cause the registration statement to remain effective until the earlier of (i) the sale of the Registrable Securities pursuant to Rule 144 under the Securities Act, or pursuant to the effective registration statement and (ii) the first date on which the Registrable Securities may be sold pursuant to Rule 144 under the Securities Act without being subject to volume restrictions sent forth in Rule 144(e) under the Securities Act. The Registration Rights Agreement will provide that if the Company is unable to meet the filing and effectiveness deadlines noted above, it may be subject to a penalty equal to 1.0% of the aggregate purchase price paid by Sentient for the shares paid for every thirty days following the applicable deadline, up to a maximum amount of 3.0% of the aggregate purchase price.

Waiver of Change of Control Benefits. In connection with the Loan Agreement, Sentient required that the Company s three executive officers enter into a Change of Control Benefit Waiver Agreement, pursuant to which each officer (i) agreed that the acquisition by Sentient of the Company s Common Stock pursuant to exercise of its Note conversion rights will not constitute a Change of Control as defined in and pursuant to the officer s Change of Control Agreement, the Company s Amended and Restated 2009 Equity Incentive Plan, or the Company s Severance Compensation Plan, and (ii) waives any rights to benefits under those Agreements or Plans that might otherwise result from Sentient s acquisition of the Company s Common Stock pursuant to its Note conversion rights. This Agreement does not affect the right of any executive officer under his or her Change of Control Agreement or the referenced Plans that might result from a Change of Control as defined in such Agreement or Plans due to a third party s acquisition of the Company s Common Stock, other than Sentient s acquisition of Common Stock by exercising its Note conversion rights.

The material terms of the Loan Agreement and the Note are qualified in their entirety by reference to the text of the Note and the Loan Agreement attached to this Proxy Statement as Appendices A and B, respectively.

Additional Consequences of the Proposal

As a result of anti-dilution provisions in our outstanding warrants, the approval of the Proposal, which will permit Sentient to convert the Note to Common Stock at a conversion price of $0.29 or less, will result in adjustments that reduce the exercise price and increase the number of shares issuable under our outstanding warrants, including warrants held by Sentient.

In September 2012, the Company closed on a public offering and concurrent private placement with Sentient in which it sold units consisting of one share of Common Stock and a five-year warrant to acquire one half of a share of Common Stock at an exercise price of $8.42 per share (the September 2012 Warrants). The exercise price was subsequently adjusted downward to $7.17 per share based on a weighted average dilution provision in the September 2012 Warrants. This adjustment was the result of the September 2014 public offering and concurrent Sentient private placement described below. As a result of approval of the Proposal, the number of shares of Common Stock issuable upon exercise of the September 2012 Warrants will be increased from 4,031,409 shares to 5,164,279 shares (1,132,870 share increase) and the exercise price will be decreased from $7.17 per share to approximately $5.60 per share due to the anti-dilution provisions of the September 2012 Warrants (the 2012 Warrant Adjustment). Sentient holds September 2012 Warrants exercisable for 802,249 shares, which would increase to 1,027,690 shares as the result of the anti-dilution adjustment described above.

In September 2014, the Company closed on a public offering and concurrent private placement with Sentient in which it sold units, consisting of one share of Common Stock and a five-year warrant to acquire one half of a share of Common Stock at an exercise price of $1.21 per share (the September 2014 Warrants and together with the September 2012 Warrants, the Warrants). Pursuant to the anti-dilution provisions

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in the September 2014 Warrants issued in the public offering, as a result of approval of the Proposal, the number of shares of Common Stock issuable upon exercise of the September 2014 Warrants issued in the public offering will be increased from 1,846,000 shares to 2,234,391 shares (388,391 share increase), and the September 2014 Warrants exercise price will be decreased from $1.21 per share to approximately $1.00 per share (the 2014 Warrant Adjustment , and together with the 2012 Warrant Adjustment, the Warrant Adjustment). Pursuant to the anti-dilution provisions in the Sentient September 2014 Warrants, the exercise price would be adjusted downward to approximately $1.00 per share as noted above, but there would be no increase in the shares underlying the Sentient September 2014 Warrants. Sentient would continue to hold September 2014 Warrants exercisable for 2,900,000 shares of Common Stock.

Stockholder Dilution

Stockholder approval of the proposed issuance of Common Stock upon conversion of the Note will have the effect of diluting the ownership of existing stockholders.

The following table shows the potential number of shares of Common Stock issuable upon conversion of the Note at various conversion prices which may result from lower stock prices prior to conversion or anti-dilution adjustments, and assumes Sentient converts the entire amount of principal and interest due on the Note at the Loan Maturity Date, estimated at approximately $5.5 million ($5 million principal and approximately $500,000 accrued interest).

	Number of Shares of Common Stock			
Event	**Conversion Price Equal to $0.29(1)**	**Conversion Price Equal to $0.2175(2)**	**Conversion Price Equal to $0.145(3)**	**Conversion Price Equal to $0.0725(4)**
Conversion of the principal	17,241,379	22,988,505	34,482,758	68,965,517
Conversion of accrued interest(5)	1,724,137	2,298,850	3,448,275	6,896,551

(1) Assumes Conversion Price equal to 90 percent of the 15-day VWAP for the period immediately preceding the loan closing date, or $0.29 (VWAP Price)
(2) Assumes conversion at 75% of VWAP Price
(3) Assumes conversion at 50% of VWAP Price
(4) Assumes conversion at 25% of VWAP Price
(5) Assumes the number of shares of Common Stock issuable upon conversion of accrued interest through the Loan Maturity Date

The following table assumes (i) Sentient converts the entire amount of principal and interest due on the Note at the Loan Maturity Date, estimated at approximately $5.5 million ($5 million principal and approximately $500,000 accrued interest), (ii) the Conversion Price is the WVAP Price of $0.29, and (iii) as a result of the Warrant Adjustment described above, the number of shares of Common Stock issuable upon exercise of all outstanding Warrants of the Company, would increase from 8,777,409 shares to 10,298,670 shares (a 1,521,261 share increase), including an increase from 3,702,249 shares to 3,927,690 shares (a 225,441 share increase) for Warrants held by Sentient as a result of the 2012 Warrant Adjustment.

	Pre-Conversion Shares Outstanding		At Conversion Shares Outstanding		Upon Exercise of All Outstanding Securities (Fully Diluted)(1)	
Current Company Stockholders and Warrant Holders (Including The Sentient Group)	53,335,333	100%	72,300,849	100%	84,090,614	100%
Current Company Stockholders and Warrant Holders (Excluding The Sentient Group)	39,111,599	73.3%	39,111,599	54.1%	46,973,674	55.9%
The Sentient Group	14,223,734	26.7%	33,189,250	45.9%	37,116,940	44.1%

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

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

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

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

4. Long-Term Debt

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

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

11% Senior Secured Notes

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

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

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

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

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

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

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

Senior Credit Facility

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

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

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

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

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

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

Intercompany Loan

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

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

Interest Rate Swaps

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

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

5. Guarantor Subsidiaries

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

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

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

Condensed Consolidating Balance Sheets

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

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

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

Condensed Consolidating Balance Sheets (continued)

	March 31, 2006				
	Coinmach Service Corp.	Coinmach Laundry Corporation	Coinmach Corporation and Subsidiaries	Adjustments and Eliminations	Consolidated
Assets					
Current assets, consisting of cash, receivables, inventories, prepaid expenses and other current assets	$ 940	$	$ 87,002	$ (55)	$ 87,887
Advance location payments			67,242		67,242
Property, equipment and leasehold Improvements, net			252,398		252,398
Intangible assets, net			503,108		503,108
Deferred income taxes	9,471	689		(10,160)	
Intercompany loans and advances	(311)			311	
Due from Parent		49,253		(49,253)	
Investment in subsidiaries	(152,462)	(23,762)		176,224	
Investment in preferred stock	178,216			(178,216)	
Other assets	194,334		4,602	(187,405)	11,531
Total assets	$ 230,188	$ 26,180	$ 914,352	$ (248,554)	$ 922,166
Liabilities and Stockholders Equity (Deficit)					
Current liabilities:					
Accounts payable, accrued expenses and accrued rental payments	$ 4,196	$ 36	$ 68,927	$ (3,896)	$ 69,263
Current portion of long-term debt	5,649		5,502		11,151
Total current liabilities	9,845	36	74,429	(3,896)	80,414
Deferred income taxes			60,144	(10,160)	49,984
Long-term debt, less current portion	82,067		571,035		653,102
Loan payable to parent			183,564	(183,564)	
Due to parent/subsidiary			48,942	(48,942)	
Preferred stock and dividends payable		178,216		(178,216)	
	138,276	(152,072)	(23,762)	176,224	138,666

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

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

Condensed Consolidating Statements of Operations

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

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

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

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

Condensed Consolidating Statements of Operations

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

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

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

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

Condensed Consolidating Statements of Cash Flows

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

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

Condensed Consolidating Statements of Cash Flows (continued)

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

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

6. Segment Information

The Company reports segment information for the route segment, its only reportable operating segment, and provides information for its two other operating segments reported as All other. The route segment, which comprises the Company s core business, involves leasing laundry rooms from building owners and property management companies typically on a long-term, renewal basis, installing and servicing the laundry equipment, collecting revenues generated from laundry machines, collection services to third party operators and operating retail laundromats. The other business operations reported in All other include the aggregation of the rental and distribution. The rental business involves the leasing of laundry machines and other household appliances to property owners, managers of multi-family housing properties and to a lesser extent, individuals and corporate relocation entities through the Company s jointly-owned subsidiary, AWA. The distribution business involves constructing complete turnkey retail laundromats, retrofitting existing retail laundromats, distributing exclusive lines of coin and non-coin machines and parts, and selling service contracts through the Company s subsidiary, Super Laundry. The Company evaluates performance and allocates resources based on EBITDA (earnings from continuing operations before interest, taxes and depreciation and amortization), cash flow and growth opportunity. The accounting policies of the segment are the same as those described in the audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2006.

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COINMACH SERVICE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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The table below presents information about the Company s segments (in thousands):

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

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

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

The computation of EBITDA for the three and nine months ended

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

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

Non-GAAP Financial Measures

EBITDA represents earnings from continuing operations before deductions for interest, income taxes and depreciation and amortization. Management believes that EBITDA is useful as a means to evaluate the Company s ability to service existing debt, to sustain potential future increases in debt and to satisfy capital requirements. EBITDA is also used by management as a measure of evaluating the performance of the Company s three operating segments. Management further believes that EBITDA is useful to investors as a measure of comparative operating performance as it is less susceptible to variances in actual performance resulting from depreciation, amortization and other non-cash charges and more reflective of changes in pricing decisions, cost controls and other factors that affect operating performance. Management uses EBITDA to develop compensation plans, to measure sales force performance and to allocate capital assets. Additionally, because the Company has historically provided EBITDA to investors, management believes that presenting this non-GAAP financial measure provides consistency in financial reporting. Management s use of EBITDA, however, is not intended to represent cash flows for the period, nor has it been presented as an alternative to either (a) operating income (as determined by U.S. generally accepted accounting principles) as an indicator of operating performance or (b) cash flows from operating, investing and financing activities (as determined by U.S. generally accepted accounting principles) as a measure of liquidity. Given that EBITDA is not a measurement determined in accordance with U.S. generally accepted accounting principles and is thus susceptible to varying calculations, EBITDA may not be comparable to other similarly titled measures of other companies. The following table reconciles the Company s net income (loss) to EBITDA for each period presented (in millions):

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

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

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

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

approximately $0.2 million relating to the IPO.

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

7. Income Taxes

The components of the Company s deferred tax liabilities and assets are as follows (in thousands):

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

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

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

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

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

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

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

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

8. Income (Loss) per Common Share

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

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

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

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

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

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

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

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

9. 2004 Long-Term Incentive Plan

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

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

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

COINMACH SERVICE CORP. AND SUBSIDIARIES
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(UNAUDITED) (continued)

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

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

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

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

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

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

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

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

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

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

As of December 31, 2006, there was less than $1.2 million of unrecognized compensation costs related to restricted share compensation arrangements pertaining to the 2006 Restricted Stock Awards and the Time Vesting Shares from the 2007 Restricted Stock Awards. That cost is expected to be recognized over a weighted average period of 3.25 years. In addition, as of December 31, 2006, there was less than $0.1 million of unrecognized compensation costs related to restricted share compensation arrangements pertaining only to those Performance Vesting Shares that the Company has determined will relate to the probable outcome for the attainment of certain performance conditions. Such costs are expected to be recognized over a weighted average period of 2.5 years. At December 31, 2006, there was also approximately $0.7 million of unrecognized compensation costs related to restricted share compensation arrangements pertaining only to those Performance Vesting Shares that the Company has determined are not probable for the attainment of certain performance conditions.

10. New Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109.* FIN No. 48 provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including the decision whether to file or not file in a particular jurisdiction. FIN No. 48 must be applied to all existing tax positions upon initial adoption. The cumulative effect of applying FIN No. 48 at adoption, if any, is to be reported as an adjustment to opening retained earnings for the year of adoption. FIN No. 48 is effective for fiscal years beginning after December 15, 2006, which is the Company s 2008 fiscal year, although early adoption is permitted. The Company is currently evaluating the impact, if any, the adoption of FIN No. 48 will have on our operating income or net earnings.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements.* SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We plan to adopt SFAS No. 157 beginning in the first quarter of fiscal 2009. We have not determined the impact, if any, the adoption of SFAS No. 157 will have on our operating income or net earnings.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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In September 2006, the SEC issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB No. 108 provides interpretative guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. This pronouncement is effective for fiscal years ending after November 15, 2006. We are currently evaluating the provisions of SAB No. 108.

COINMACH SERVICE CORP. AND SUBSIDIARIES

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

General

Except for the historical information contained herein, certain matters discussed in this document are forward-looking statements based on the beliefs of our management and are subject to certain risks and uncertainties, including the risks and uncertainties discussed below, as well as other risks set forth in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2006 under the caption Business Risk Factors. Should any of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our future performance and actual results of operations may differ materially from those expected or intended. See Special Note Concerning Forward Looking Statements below.

Our primary financial objective is to increase our cash flow from operations. Cash flow from operations represents a source of funds available to service indebtedness, pay dividends and for investment in both organic growth and growth through acquisitions. We have experienced net losses during the past three fiscal years. Such net losses were attributable in part to significant non-cash charges associated with our acquisitions and the related amortization of contract rights accounted for under the purchase method of accounting. We incur significant depreciation and amortization expense relating to annual capital expenditures, which also reduces our net income. The continued incurrence of significant depreciation and amortization expenses may cause us to continue to incur losses.

Overview

We are principally engaged in the business of supplying laundry equipment services to multi-family housing properties. Our most significant revenue source is our route business, which over the last three fiscal years has accounted for approximately 89% of our revenue. Through our route operations, we provide laundry equipment services to locations by leasing laundry rooms from building owners and property management companies, typically on a long-term, renewable basis. In return for the exclusive right to provide these services, most of our contracts provide for commission payments to the location owners. Commission expense (also referred to as rent expense), our single largest expense item, is included in laundry operating expenses and represents payments to location owners. Commissions may be fixed amounts or percentages of revenues and are generally paid monthly. In addition to commission payments, many of our leases require us to make advance location payments to location owners, which are capitalized and amortized over the life of the applicable leases. Advance location payments to location owners are paid, as required by the applicable lease, at the inception or renewal of a lease for the right to operate applicable laundry rooms during the contract period, which generally ranges from 5 to 10 years. The amount of advance location payments varies depending on the size of the location and the term of the lease.

We also operate an equipment rental business through Appliance Warehouse of America, Inc. (AWA), a Delaware corporation that is jointly-owned by us and Coinmach. AWA leases laundry equipment and other household appliances and electronic items to property owners, managers of multi-family housing properties, and to a lesser extent, individuals and corporate relocation entities.

COINMACH SERVICE CORP. AND SUBSIDIARIES

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)

We also operate an equipment distribution business through Super Laundry Equipment Corp. (Super Laundry), our indirect wholly-owned subsidiary. Super Laundry s business consists of constructing and designing complete turnkey retail laundromats, retrofitting existing retail laundromats, distributing exclusive lines of commercial coin and non-coin operated machines and parts, and selling service contracts.

Laundry operating expenses include, in addition to commission payments, (i) the cost of machine maintenance and revenue collection in the route and retail laundromat business, including payroll, parts, insurance and other related expenses, (ii) costs and expenses incurred in maintaining our retail laundromats, including utilities and related expenses, (iii) the cost of sales associated with the equipment distribution business and (iv) certain expenses related to the operation of our rental business.

Critical Accounting Policies:

Our financial statements are based on the selection and application of significant accounting policies, which require management to make significant estimates and assumptions. We believe that the following is one of the more critical judgment area in the application of our accounting policies that currently affect our financial condition and results of operations.

We have developed software to be utilized internally by our customer service representatives. Expenditures related to such qualifying computer software costs incurred during the application development stage, have been capitalized by us since the activities performed during this stage will create probable future economic benefits as required per Statement of Position (SOP) 98-1, *Accounting for Computer Software Developed For or Obtained For Internal-Use* (SOP 98-1). In order for computer software costs to be considered internal-use software and subject to SOP 98-1, the costs must have the following characteristics: (i) the software must be internally developed, acquired, or modified solely to meet our internal needs and (ii) no plan exists or is being developed to market the software externally during the development or modification of the software. Once we determine that such expenditures are available for actual application, these expenditures will be expensed as incurred, similar to maintenance.

COINMACH SERVICE CORP. AND SUBSIDIARIES

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)

Results of Operations

The following discussion should be read in conjunction with the attached unaudited condensed consolidated financial statements and notes thereto.

Comparison of the three- and nine-month periods ended December 31, 2006 and December 31, 2005.

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

	Three months ended December 31,			Nine months ended December 31,		
	2006	2005	Change	2006	2005	Change
Route	$ 125.4	$ 122.1	$ 3.3	$ 369.3	$ 358.6	$ 10.7
Rental	9.6	9.2	0.4	28.9	26.8	2.1
Distribution	6.0	7.4	(1.4)	18.4	19.5	(1.1)
	$ 141.0	$ 138.7	$ 2.3	$ 416.6	$ 404.9	$ 11.7

Revenue increased by approximately $2.3 million, or 2%, for the three-month period ended December 31, 2006, as compared to the prior year s corresponding period. Revenue increased by approximately $11.7 million, or 3%, for the nine-month period ended December 31, 2006, as compared to the prior year s corresponding period.

Route revenue for the three months ended December 31, 2006 increased by approximately $3.3 million, or 3%, over the prior year s corresponding period. Route revenue for the nine months ended December 31, 2006 increased by approximately $10.7 million, or 3%, over the prior year s corresponding period. The increase was primarily due to an improvement in same store sales driven by the Company s pricing strategies and the general recovery in occupancy rates throughout our operating regions, as well as additional revenue generated from the ASI acquisition. On April 3, 2006, we completed the acquisition of substantially all of the assets of ASI for a purchase price of $15.0 million, subject to the outcome of certain purchase price adjustments. ASI was a leading laundry service provider to colleges and universities in the mid-west, with 40 years of experience and more than 45 partner schools.

Rental revenue for the three months ended December 31, 2006 increased by approximately $0.4 million, or 4%, over the prior year s corresponding period. Rental revenue for the nine months ended December 31, 2006 increased by approximately $2.1 million, or 8%, over the prior year s corresponding period. This increase was primarily the result of our continuing internal growth of the machine base in existing areas of operations during the current and prior years, as well as the result of a tuck-in acquisition during the prior year.

Distribution revenue for the three months ended December 31, 2006 decreased by approximately $1.4 million, or 19%, over the prior year s corresponding period as compared to

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COINMACH SERVICE CORP. AND SUBSIDIARIES
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)

the prior year s corresponding period. Distribution revenue for the nine months ended December 31, 2006 decreased by approximately $1.1 million, or 6%, from the prior year s corresponding period. The decrease was primarily due to decreased equipment sales. Sales from the distribution business unit are sensitive to general market and economic conditions.

Laundry operating expenses, exclusive of depreciation and amortization, increased by approximately $1.0 million, or 1%, for the three-month period ended December 31, 2006, as compared to the prior year s corresponding period. Laundry operating expenses, exclusive of depreciation and amortization, increased by approximately $7.1 million, or 3%, for the nine-month period ended December 31, 2006, as compared to the prior year s corresponding period. As a percentage of revenues, laundry operating expenses were approximately 67% for the three-month period ended December 31, 2006 as compared to approximately 68% for the prior year s corresponding period and 68% for both nine-month periods ended December 31, 2006 and December 31, 2005.

The increase in laundry operating expenses for the three-month period was due primarily to (i) an increase in commissions paid of approximately $1.8 million related to increased route revenue, (ii) various laundry operating expenses incurred as a result of the ASI acquisition in the route business of approximately $0.8 million, (iii) an increase in franchise and property taxes due primarily to timing of approximately $0.4 million, (iv) partially offset by decreased cost of goods sold of approximately $1.7 million due to decreased equipment sales in the distribution business, (v) a decrease in energy costs for vehicle fuel as well as utilities in our laundromats of approximately $0.6 million and (vi) other miscellaneous operating costs and expenses that are not material, individually or in the aggregate.

The increase in laundry operating expenses for the nine-month period was due primarily to (i) an increase in commissions paid of approximately $5.3 million related to increased route revenue, (ii) various laundry operating expenses incurred as a result of the ASI acquisition in the route business of approximately $1.6 million, (iii) an increase in franchise and property taxes due primarily to timing of approximately $0.5 million, (iv) an increase in costs related to medical insurance coverage of approximately $0.7 million, (v) partially offset by a decrease in cost of goods sold of approximately $1.8 million due to decreased equipment sales in the distribution business and (vi) other miscellaneous operating costs and expenses that are not material, individually or in the aggregate.

General and administrative expenses decreased by approximately $0.5 million for the three-month period ended December 31, 2006, as compared to the prior year s corresponding period. General and administrative expenses increased by less than $0.1 million for the nine-month period ended December 31, 2006, as compared to the prior year s corresponding period. The decrease in general and administrative expenses was primarily due to the timing of employee benefit costs, professional fees, audit and legal fees associated with being a public company, as well as costs related to continued procedures in order to comply with the Sarbanes-Oxley Act of 2002. As a percentage of revenues, general and administrative expenses were

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)

approximately 2% for the three-month and the nine-month periods ended December 31, 2006 and December 31, 2005.

In conjunction with our 2006 Restricted Stock Awards, we adopted SFAS 123(R) as of January 1, 2006. SFAS 123(R) requires us to recognize compensation expense for all share-based payments made to employees based on their fair value of share-based payment at the date of grant. For share-based payments relating to the Time Vesting Shares granted subsequent to January 1, 2006, compensation expense, based on their fair value on the date of grant, will be recognized in the Consolidated Statements of Operations from the date of grant. For share-based payments relating to the Performance Vesting Shares granted subsequent to January 1, 2006, compensation expense will be recorded to the Consolidated Statements of Operations only for those shares of which the attainment of the applicable performance conditions is probable, based on their fair value on the date of grant. For the nine-month period ended December 31, 2006, we recognized approximately $0.2 million to compensation expense which is included in general and administrative expense in the Consolidated Statements of Operations for share-based payments to employees, which is discussed further in Note 9 to our consolidated financial statements.

Depreciation and amortization expense decreased by approximately $0.2 million, or less than 1%, for the three-month period ended December 31, 2006, as compared to the prior year s corresponding period. Depreciation and amortization expense decreased by approximately $1.0 million, or 2%, for the nine-month period ended December 31, 2006, as compared to the prior year s corresponding period. The decrease in depreciation and amortization expense was primarily due to a reduction in depreciation expense relating to reduced capital expenditures made in prior years.

Amortization of advance location payments decreased by approximately $0.1 million, or 2%, for the three-month period ended December 31, 2006, as compared to the prior year s corresponding period. Amortization of advance location payments increased by approximately $0.5 million, or 4%, for the nine-month period ended December 31, 2006, as compared to the prior year s corresponding period. The increase in amortization expense for the nine-month period is primarily due to the timing of leases signed or renewed, as such related advance location payments are capitalized and amortized over the life of the applicable leases.

Amortization of intangibles increased by less than $0.1 million, or 1%, for the three-month period ended December 31, 2006, as compared to the prior year s corresponding period. Amortization of intangibles increased by approximately $0.2 million, or 2%, for the nine-month period ended December 31, 2006, as compared to the prior year s corresponding period. The increase was primarily due to additional amortization expense relating to the acquisitions.

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COINMACH SERVICE CORP. AND SUBSIDIARIES

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)

Operating income margins were approximately 11.2% for the three-month period ended December 31, 2006, as compared to approximately 10.0% for the prior year s corresponding period. Operating income margins were approximately 10.6% for the nine-month period ended December 31, 2006, as compared to approximately 9.7% for the prior year s corresponding period. The increase in operating income margin was primarily due to an increase in revenue offset partially by an increase in laundry operating expenses.

Transaction costs for the nine-month period ended December 31, 2006 of approximately $0.8 million consisted of costs related to the redemption of a portion of the 11% Senior Secured Notes in April 2006. Transaction costs of approximately $2.6 million for both the three-month and nine-month periods ended December 31, 2005 were primarily due to (1) the write-off of the unamortized deferred financing costs relating to the repayment of term loans under the Company s then existing senior credit facility, aggregating approximately $1.7 million, (2) expenses aggregating approximately $0.7 million relating to an amendment and restatement of the Company s then existing senior credit facility and (3) additional costs of approximately $0.2 million related to the IPO.

Interest expense decreased by approximately $1.6 million, or 10%, for the three-month period ended December 31, 2006 as compared to the prior year s corresponding period. Interest expense decreased by approximately $4.9 million, or 11%, for the nine-month period ended December 31, 2006 as compared to the prior year s corresponding period. The decrease in interest expense was due primarily to the redemption of the 9% Senior Notes in February 2006, which were financed with additional borrowings under our credit facility at a lower rate and the redemption of a portion of the 11% Senior Secured Notes in February 2006. This decrease was partially offset by additional interest expense due to an increase in variable interest rates on such credit facility.

The provision for income taxes for the three-month period ended December 31, 2006 was $0.9 million as compared to a benefit for income taxes of approximately $1.7 million for the prior year s corresponding period. The change of approximately $2.6 million is primarily due to an increase in operating income and a change in the state of Texas franchise tax statutes, as discussed below. The provision for income taxes for the nine-month period ended December 31, 2006 was approximately $1.3 million as compared to a benefit for income taxes of approximately $3.8 million for the prior year s corresponding period. The change of approximately $5.1 million for the nine-month period is primarily due to an increase in operating income and state taxes. The effective tax rate for the nine-month period ended December 31, 2006 was approximately 66% as compared to 39% for the prior year s corresponding period. The increased effective tax rate is primarily due to changes in the state of Texas franchise tax statute pursuant to the Texas Franchise Tax Reform Bill (HB 3) which is effective for fiscal years ending in 2007.

Net income was approximately $0.7 million for the nine-month period ended December 31, 2006, as compared to net loss of approximately $5.9 million for the prior year s

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COINMACH SERVICE CORP. AND SUBSIDIARIES
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)

corresponding period. The change is primarily due to increased revenue and a decrease in interest expense, partially offset by increased laundry operating expenses and income taxes.

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

	Three months ended December 31,			Nine months ended December 31,		
	2006	2005	Change	2006	2005	Change
Route	$ 41.2	$ 40.7	$ 0.5	$ 120.3	$ 118.2	$ 2.1
Rental	4.4	4.0	0.4	12.8	11.2	1.6
Distribution	0.6	0.2	0.4	1.5	0.6	0.9
Other items, net					(0.3)	0.3
Corporate expenses	(3.1)	(3.5)	0.4	(9.2)	(9.1)	(0.1)
Transaction costs(1)		(2.6)	2.6	(0.9)	(2.6)	1.7
Total EBITDA	$ 43.1	$ 38.8	$ 4.3	$ 124.5	$ 118.0	$ 6.5

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

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

EBITDA represents earnings from continuing operations before deductions for interest, income taxes and depreciation and amortization. Management believes that EBITDA is useful as a means to evaluate our ability to service existing debt, to sustain potential future increases in debt and to satisfy capital requirements. EBITDA is also used by management as a measure of evaluating the performance of our three operating segments. Management further believes that EBITDA is useful to investors as a measure of comparative operating performance as it is less susceptible to variances in actual performance resulting from depreciation, amortization and other non-cash charges and more reflective of changes in pricing decisions, cost controls and other factors that affect operating performance. Management uses EBITDA to develop compensation plans, to measure sales force performance and to allocate capital assets. Additionally, because we have historically provided EBITDA to investors, we believe that presenting this non-GAAP financial measure provides consistency in financial reporting. Our use of EBITDA, however, is not intended to represent cash flows for the period, nor has it been presented as an alternative to either (a) operating

income (as determined by GAAP) as an indicator of operating performance or (b) cash flows from operating, investing and financing activities (as determined by GAAP) as a measure of liquidity. Given that EBITDA is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, EBITDA may not be comparable to other similarly titled measures of other companies. See Note 6 to the Condensed Consolidated Financial Statements for a reconciliation of net income (loss) to EBITDA for the periods indicated in the table immediately above.

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COINMACH SERVICE CORP. AND SUBSIDIARIES

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)

EBITDA was approximately $43.1 million for the three months ended December 31, 2006, as compared to approximately $38.8 million for the three months ended December 31, 2005. EBITDA margin was approximately 30.6% for the three months ended December 31, 2006, as compared to 28.0% for the prior year s corresponding period. EBITDA was approximately $124.5 million for the nine months ended December 31, 2006, as compared to approximately $118.0 million for the nine months ended December 31, 2005. EBITDA margin was approximately 29.9% for the nine months ended December 31, 2006, as compared to 29.2% for the prior year s corresponding period. The increase in EBITDA and EBITDA margin for the nine-month period is primarily attributable to an increase in revenue primarily in the route business and a decrease in interest expense.

Liquidity and Capital Resources

We are a holding company with no material assets other than the capital stock of our subsidiaries, the Intercompany Note and the guaranty of such Intercompany Note by certain subsidiaries of Coinmach. Our operating income is generated by our subsidiaries. The Intercompany Note and related guarantees are described below under Financing Activities The Intercompany Loan. Our liquidity requirements, on a consolidated basis, primarily consist of (i) interest payments on the 11% Senior Secured Notes, (ii) interest and regularly scheduled amortization payments with respect to borrowings under the Senior Credit Facility, (iii) dividend payments, if any, on our common stock and (iv) capital expenditures and other working capital requirements.

We have met these requirements for the past three fiscal years. Our ability to make such payments and expenditures will depend on the earnings and cash flows of our subsidiaries and the ability of our subsidiaries to distribute amounts to us, including by way of payments on the Intercompany Note. Our principal sources of liquidity are cash flows from operating activities and borrowings available under the revolver portion of Senior Credit Facility. As of December 31, 2006, we had cash and cash equivalents of approximately $38.4 million and available borrowings under the revolver portion of the Senior Credit Facility of approximately $68.2 million. Letters of credit under the revolver portion of the Senior Credit Facility outstanding at December 31, 2006 were approximately $6.8 million.

Our stockholders equity was approximately $107.9 million as of December 31, 2006.

As we have focused on increasing our cash flow from operating activities, we have made significant capital investments, primarily consisting of capital expenditures related to acquisitions, renewals, growth and software. We anticipate that we will continue to utilize cash flows from operations to finance our capital expenditures and working capital needs, including interest and principal payments on our outstanding indebtedness, and to pay dividends on our common stock.

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COINMACH SERVICE CORP. AND SUBSIDIARIES

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)

Dividend Policy

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

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

As a result of our dividend policy, we may not retain a sufficient amount of cash to finance growth opportunities or unanticipated capital expenditure needs or to fund our operations in the event of a significant business downturn. We may have to forego growth opportunities or capital expenditures that would otherwise be necessary or desirable if we do not find alternative sources of financing. If we do not have sufficient cash for these purposes, our financial condition and our business will suffer.

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

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

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

On February 1, 2007, the board of directors of CSC declared a quarterly cash dividend of $0.20615 per share of Class A Common Stock (or approximately $6.0 million in the aggregate),

COINMACH SERVICE CORP. AND SUBSIDIARIES
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)

which cash dividend is payable on March 1, 2007 to holders of record as of the close of business on February 26, 2007.

Financing Activities

We have from time to time used external financings to meet cash needs for operating expenses, the payment of interest, retirement of debt and acquisitions and capital expenditures. We may use external financings in the future to refinance or fund the retirement of our and our subsidiaries existing indebtedness. The timing and amount of external financings depend primarily upon economic and financial market conditions, our consolidated cash needs and our future capital structure objectives, as well as contractual limitations on additional financings. Additionally, the availability and cost of external financings will depend upon the financial condition of the entities seeking those funds.

11% Senior Secured Notes

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

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

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

Senior Credit Facility

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

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COINMACH SERVICE CORP. AND SUBSIDIARIES

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)

The Senior Credit Facility requires Coinmach to make certain mandatory repayments, including from (a) 100% of net proceeds from asset sales by Coinmach and its subsidiaries, (b) 100% of the net proceeds from the issuance of debt (with an exception for proceeds from intercompany loans made by Coinmach to us), (c) 50% of annual excess cash flow of Coinmach and its subsidiaries, and (d) 100% of the net proceeds from insurance recovery and condemnation events of Coinmach and its subsidiaries, in each case subject to reinvestment rights, as applicable, and other exceptions generally consistent with the Old Senior Secured Credit Facility. For the fiscal year ended March 31, 2006, there is no required amount that was payable relating to the annual excess cash flows of Coinmach.

The Senior Credit Facility contains a number of restrictive covenants and agreements applicable to Coinmach which, if the Merger Event were completed, would apply directly to us as borrower under such credit facility, including covenants with respect to limitations on (i) indebtedness; (ii) certain payments (in the form of the declaration or payment of certain dividends or distributions on Coinmach s capital stock or its subsidiaries or the purchase, redemption or other acquisition of any of its or its subsidiaries capital stock); (iii) voluntary prepayments of previously existing indebtedness; (iv) Investments (as defined in the Senior Credit Facility); (v) transactions with affiliates; (vi) liens; (vii) sales or purchases of assets; (viii) conduct of business; (ix) dividends and other payment restrictions affecting subsidiaries; (x) consolidations and mergers; (xi) capital expenditures; (xii) issuances of certain of Coinmach s equity securities; and (xiii) creation of subsidiaries. The Senior Credit Facility also requires that Coinmach satisfy certain financial ratios, including a maximum leverage ratio and a minimum consolidated interest coverage ratio.

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

The Intercompany Loan

In connection with the IDS Transactions and the Class A Offering, CSC made the Intercompany Loan to Coinmach, which is eliminated in consolidation. The Intercompany Loan is represented by the Intercompany Note.

As of December 31, 2006, approximately $183.6 million aggregate principal amount of indebtedness was outstanding under the Intercompany Note. The Intercompany Loan contains covenants that are substantially the same as those provided in the terms of the Senior Credit Facility. The Intercompany Loan and the guaranty of the Intercompany Loan by certain subsidiaries of the Company were pledged by CSC to secure the repayment of the 11% Senior Secured Notes.

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

COINMACH SERVICE CORP. AND SUBSIDIARIES
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)

Operating and Investing Activities

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

Capital Expenditures

Capital expenditures (net of proceeds from the sale of equipment) for the three months ending December 31, 2006 were approximately $16.5 million. Capital expenditures (net of proceeds from the sale of equipment) for the nine months ending December 31, 2006 were approximately $52.0 million. The primary components of our capital expenditures are (i) machine expenditures, (ii) advance location payments, and (iii) laundry room improvements. Additionally, capital expenditures for the nine months ending December 31, 2006 include approximately $3.4 million attributable to technology upgrades. The full impact on revenues and cash flow generated from capital expended on the net increase in the installed base of machines is not expected to be reflected in our financial results until subsequent reporting periods, depending on certain factors, including the timing of the capital expended. While we estimate that we will generate sufficient cash flows from operations to finance anticipated capital expenditures, there can be no assurances that we will be able to do so.

The following table sets forth our capital expenditures (excluding payments for capital business acquisitions) for the periods indicated (in millions of dollars):

	Three months ended December 31,			Nine months ended December 31,		
	2006	**2005**	**Change**	**2006**	**2005**	**Change**
Route	$ 14.9	$ 13.1	$ 1.8	$ 46.5	$ 43.4	$ 3.1
Rental	0.5	0.8	(0.3)	2.2	4.4	(2.2)
Distribution		0.1	(0.1)		0.2	(0.2)
Corporate	1.1	1.6	(0.5)	3.3	4.2	(0.9)
	$ 16.5	$ 15.6	$ 0.9	$ 52.0	$ 52.2	$ (0.2)

Management of our working capital, including timing of collections and payments and levels of inventory, affects operating results indirectly. However, our working capital requirements are, and are expected to continue to be, minimal since a significant portion of our operating expenses are commission payments based on a percentage of collections, and are not paid until after cash is collected from the installed machines.

Summary of Contractual Obligations

The following table sets forth information with regard to disclosures about our contractual obligations and commitments as of December 31, 2006:

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COINMACH SERVICE CORP. AND SUBSIDIARIES
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)

		Payments Due in Fiscal Year					
	Total	2007	2008	2009	2010	2011	After
Long-Term Debt Obligations	$ 650.0	$ 0.6	$ 2.4	$ 3.2	$ 5.7	$ 5.7	$ 632.4
Interest on Long-Term Debt (1)	420.3	18.0	53.6	53.4	53.1	52.6	189.6
Capital Lease Obligations (2)	9.5	1.1	3.6	2.6	1.3	0.8	0.1
Operating Lease Obligations	31.6	2.2	7.4	6.2	5.3	3.5	7.0
	$ 1,111.4	$ 21.9	$ 67.0	$ 65.4	$ 65.4	$ 62.6	$ 829.1

(1) As of December 31, 2006, $567.7 million of our long-term debt outstanding under the Senior Credit Facility term loans was subject to variable rates of interest. Interest expense on these variable rate borrowings for future years was calculated using a weighted average interest rate of approximately 7.875% based on the Eurodollar rate in effect at December 31, 2006. In addition, approximately $82.1 million of

our long-term debt outstanding was subject to a fixed interest rate of 11.0%. In connection with the Senior Credit Facility, Coinmach is a party to two separate interest rate swap agreements totaling $230.0 million in aggregate notional amount that effectively convert a portion of its floating-rate term loans pursuant to the Senior Credit Facility to a fixed interest rate of approximately 7.40%, thereby reducing the impact of interest rate changes on future interest expense.

(2) Includes both principal and interest.

Future Capital Needs and Resources

Our near-term cash requirements are primarily related to payment of interest on our existing consolidated indebtedness, capital expenditures, working capital and, if and when declared by our board of directors, dividend payments on our common stock. Substantially all of our consolidated long-term debt is scheduled to mature on or after December 19, 2012, the date on which the remaining balances under the Senior Credit Facility s term loans become due. However, our consolidated level of indebtedness will have several important effects on our future operations including, but not limited to, the following: (i) a significant portion of our cash flow from operations will be required to pay interest on our indebtedness and the indebtedness of our subsidiaries, (ii) the financial covenants contained in certain of the agreements governing such indebtedness will require us and/or our subsidiaries to meet certain financial tests and may limit our respective abilities to borrow additional funds, (iii) our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions or general corporate purposes may be impaired and (iv) our ability to adapt to changes in the laundry equipment services industry could be limited.

We continuously evaluate our capital structure objectives and the most efficient uses of our capital, including investment in our lines of business, potential acquisitions, and purchasing, refinancing, exchanging or retiring certain of our and our subsidiaries outstanding debt securities and other instruments in privately negotiated or open market transactions or by other means, to the extent permitted by our existing covenant restrictions. To pursue such transactions we may use external financings, cash flow from operations, or any combination thereof, which in turn will depend on our consolidated cash needs, liquidity, leverage and prevailing economic and financial market conditions. However, should we determine to pursue any one or more of such transactions, there can be no assurance that any such transaction would not adversely affect our liquidity or our ability to satisfy our capital requirements in the near term.

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COINMACH SERVICE CORP. AND SUBSIDIARIES

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)

The most significant factors affecting our near-term cash flow requirements are our ability to generate cash from operations, which is dependent on our ability to attract new and retain existing customers, and our ability to satisfy our debt service and capital expenditure requirements. Considering our anticipated level of capital expenditures, our scheduled interest payments on our consolidated indebtedness, existing contractual obligations, our anticipated dividend payments on our capital stock and subject to the factors described below, we estimate that over the next twelve months cash flow from operations, along with available cash and cash equivalents and borrowings under the Senior Credit Facility, will be sufficient to fund our operating needs, to service our outstanding consolidated indebtedness, and to pay dividends anticipated to be declared by our board of directors.

Other factors, including but not limited to any significant acquisition transactions, the pursuit of any significant new business opportunities, potential material increases in the cost of compliance with regulatory mandates (including state laws imposing heightened energy and water efficiency standards on clothes washers), tax treatment of our debt, unforeseen reductions in occupancy levels, changes in our competitive environment, or unexpected costs associated with lease renewals, may affect our ability to fund our liquidity needs in the future. In addition, subject to certain limitations contained in the indenture governing the 11% Senior Secured Notes, we may redeem all or part of the then outstanding Class B Common Stock on a pro rata basis. Any exercise by us of such redemption rights will further reduce cash available to fund our liquidity needs.

We intend to annually deduct interest expense on the 11% Senior Secured Notes from taxable income for U.S. federal and state and local income tax purposes. However, if the IRS were successfully to challenge our position that the 11% Senior Secured Notes are debt for U.S. federal income tax purposes, the cumulative interest expense associated with the 11% Senior Secured Notes would not be deductible from taxable income, and we would be required to recognize additional tax expense and establish a related income tax liability. To the extent that any portion of the interest expense is determined not to be deductible, we would be required to recognize additional tax expense and establish a related income tax liability. The additional tax due to federal, state and local authorities would be based on our taxable income or loss for each of the respective years that we take the interest expense deduction and would reduce our after-tax cash flow.

Any disallowance of our ability to deduct interest expense could adversely affect our ability to make interest payments on the 11% Senior Secured Notes and dividend payments on the shares of Class A Common Stock as well as dividend payments on the Class B Common Stock. Based on our anticipated level of cash requirements, including capital expenditures, scheduled interest and dividend payments, and existing contractual obligations, we estimate that over the next twelve months cash flow from operations, along with the available cash and cash equivalents and borrowing capacity under the Senior Credit Facility, will be sufficient to fund our operating needs and to service our indebtedness even if the interest expense deduction is not allowed.

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COINMACH SERVICE CORP. AND SUBSIDIARIES
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)

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

We continuously monitor our debt position and coordinate our capital expenditure program with expected cash flows and projected interest and dividend payments. However, our actual cash requirements may exceed our current expectations. In the event cash flow is lower than anticipated, we expect to either: (i) reduce capital expenditures, (ii) supplement cash flow from operations with borrowings under the Senior Credit Facility, or (iii) evaluate other cost-effective funding alternatives. We expect that substantially all of the cash generated by our business in excess of operating needs, debt service obligations and reserves will be distributed to the holders of our common stock. As a result, we may not retain a sufficient amount of cash to finance growth opportunities or unanticipated capital expenditure needs or to fund our operations in the event of a significant business downturn. In addition, we may have to forego growth opportunities or capital expenditures that would otherwise be necessary or desirable if we do not find alternative sources of financing. If sources of liquidity are not available or if we cannot generate sufficient cash flow from operations, we might also be required to reduce or eliminate dividends to the extent previously paid or obtain additional sources of funds through capital market transactions, reducing or delaying capital expenditures, refinancing or restructuring our indebtedness, asset sales or financing from third parties, or a combination thereof. Additional sources of funds may not be available or allowed under the terms of our outstanding indebtedness or that of our subsidiaries or, if available, may not have commercially reasonable terms.

Inflation and Seasonality

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

Special Note Concerning Forward Looking Statements

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward looking statements, including, without limitation, the statements under Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations, to be covered by the safe harbor provisions for forward-looking statements in these provisions. These forward-looking statements include, without limitation, statements about our future financial position, adequacy of available cash resources, common stock dividend policy and anticipated payments, business strategy, competition, budgets, projected costs and plans and objectives of management for future operations. These forward-

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COINMACH SERVICE CORP. AND SUBSIDIARIES
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)

looking statements are usually accompanied by words such as may, will, expect, intend, project, estimate, a believe, continue and similar expressions. The forward looking information is based on various factors and was derived using numerous assumptions.

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

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

the restrictive debt covenants and other requirements related to our substantial leverage that could restrict our operating flexibility;

our ability to continue to renew our lease contracts with property owners and management companies;

extended periods of reduced occupancy which could result in reduced revenues and cash flow from operations in certain areas;

our ability to compete effectively in a highly competitive and capital intensive industry which is fragmented nationally, with many small, private and family-owned businesses operating throughout all major metropolitan areas;

compliance obligations and liabilities under regulatory, judicial and environmental laws and regulations, including, but not limited to, governmental action imposing heightened energy and water efficiency standards or other requirements with respect to commercial clothes washers;

our ability to maintain borrowing flexibility and to meet our projected and future cash needs, including capital expenditure requirements with respect to maintaining our machine base, given our substantial level of indebtedness, history of net losses and cash dividends on our common stock pursuant to our dividend policy;

risks associated with expansion of our business through tuck-ins and other acquisitions and integration of acquired operations into our existing business;

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COINMACH SERVICE CORP. AND SUBSIDIARIES

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (continued)

as a holding company, our dependence on cash flow from our operating subsidiaries to make payments under the 11% Senior Secured Notes, and contractual and legal restrictions on the ability of our subsidiaries to make dividends and distributions to us;

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

risks associated with changes in accounting standards promulgated by the Financial Accounting Standards Board, the SEC or the American Institute of Certified Public Accountants; and

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

Several important factors, in addition to the specific factors discussed in connection with each forward-looking statement individually, could affect our future results or expectations and could cause those results and expectations to differ materially from those expressed in the forward-looking statements contained in this report. These additional factors include, among other things, future economic, industry, social, competitive and regulatory conditions, demographic trends, financial market conditions, future business decisions and actions of our competitors, suppliers, customers and stockholders and legislative, judicial and other governmental authorities, all of which are difficult or impossible to predict accurately and many of which are beyond our control. These factors, in some cases, have affected, and in the future, together with other factors, could affect, our ability to implement our business strategy and may cause our future performance and actual results of operations to vary significantly from those contemplated by the statements expressed in this report.

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COINMACH SERVICE CORP. AND SUBSIDIARIES

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our principal exposure to market risk relates to changes in interest rates on our long term borrowings. Our operating results and cash flow would be adversely affected by an increase in interest rates. As of December 31, 2006, we had approximately $337.7 million outstanding relating to our variable rate debt portfolio.

Our future earnings, cash flow and fair values relevant to financial instruments are dependent upon prevalent market rates. Market risk is the risk of loss from adverse changes in market prices and interest rates. If market rates of interest on our variable interest rate debt increased by 2.0% (or 200 basis points), our annual interest expense on such variable interest rate debt would increase by approximately $6.8 million, assuming the total amount of variable interest rate debt outstanding was $337.7 million, the balance as of December 31, 2006.

On November 17, 2005, Coinmach entered into two separate interest rate swap agreements totaling $230.0 million in aggregate notional amount that effectively convert a portion of its floating-rate term loans pursuant to the Senior Credit Facility to a fixed rate basis, thereby reducing the impact of interest rate changes on future interest expense. The two swap agreements consist of: (i) a $115.0 million notional amount interest rate swap transaction with a financial institution effectively fixing the three-month LIBOR interest rate (as determined therein) at 4.90% and expiring on November 1, 2010, and (ii) a $115.0 million notional amount interest rate swap transaction with a financial institution effectively fixing the three-month LIBOR interest rate (as determined therein) at 4.89% and expiring on November 1, 2010. These interest rate swaps used to hedge the variability of forecasted cash flows attributable to interest rate risk were designated as cash flow hedges.

Our fixed debt instruments are not generally affected by a change in the market rates of interest, and therefore, such instruments generally do not have an impact on future earnings. However, as fixed rate debt matures, future earnings and cash flows may be impacted by changes in interest rates related to debt acquired to fund repayments under maturing facilities.

We do not use derivative financial instruments for trading purposes and are not exposed to material foreign currency translation.

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COINMACH SERVICE CORP. AND SUBSIDIARIES

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, we evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2006. Based on that evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2006.

Changes in Internal Control over Financial Reporting

Additionally, our management, including our chief executive officer and our chief financial officer, also conducted an evaluation of our internal control over financial reporting to determine whether any change occurred during the quarter ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, our chief executive officer and our chief financial officer concluded that there has been no change during the quarter ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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COINMACH SERVICE CORP. AND SUBSIDIARIES

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

We are party to various legal proceedings arising in the ordinary course of business. Although the ultimate disposition of such proceedings is not presently determinable, management does not believe that adverse determinations in any or all such proceedings would have a material adverse effect upon our financial condition, results of operations or cash flows.

ITEM 1A. Risk Factors

There has been no material change to the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2006.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Submission of Matters to a Vote of Security Holders

None

ITEM 5. Other Information

None.

ITEM 6. Exhibits

Exhibit Number	Description
10.1*	Restricted Stock Award Agreement, dated November 3, 2006, by and between Stephen R. Kerrigan and CSC
10.2*	Restricted Stock Award Agreement, dated November 3, 2006, by and between Robert M. Doyle and CSC
10.3*	Restricted Stock Award Agreement, dated November 3, 2006, by and between Mitchell Blatt and CSC
10.4*	Restricted Stock Award Agreement, dated November 3, 2006, by and between Michael E. Stanky and CSC
10.5*	Restricted Stock Award Agreement, dated November 3, 2006, by and between Ramon Norniella and CSC

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COINMACH SERVICE CORP. AND SUBSIDIARIES

Exhibit Number	Description
10.6*	Restricted Stock Award Agreement, dated November 3, 2006, by and between James N. Chapman and CSC
31.1*	Certificate of Chief Executive Officer pursuant to Exchange Act Rules 13a-14 and 15d-14, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certificate of Chief Financial Officer pursuant to Exchange Act Rules 13a-14 and 15d-14, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certificate of Chief Executive Officer pursuant to 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certificate of Chief Financial Officer pursuant to 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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COINMACH SERVICE CORP. AND SUBSIDIARIES
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	COINMACH SERVICE CORP.
Date: February 5, 2007	/s/ Robert M. Doyle Robert M. Doyle Chief Financial Officer (on behalf of registrant and as Principal Financial Officer)

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COINMACH SERVICE CORP. AND SUBSIDIARIES
INDEX TO EXHIBITS

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31.1*	Certificate of Chief Executive Officer pursuant to Exchange Act Rules 13a-14 and 15d-14, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certificate of Chief Financial Officer pursuant to Exchange Act Rules 13a-14 and 15d-14, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certificate of Chief Executive Officer pursuant to 18 United States Code, Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certificate of Chief Financial Officer pursuant to 18 United States Code, Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith

Furnished herewith

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