UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

[X ] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2003

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-9040

DRYCLEAN USA, Inc.

(Name of small business issuer in its charter)

| Delaware | 11-2014231 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 290 N.E. 68th Street, Miami, Florida | 33138 |
| (Address of principal executive offices) | (Zip Code) |

Issuer's telephone number, including area code: 305-754-4551

Securities registered under Section 12(b) of the Exchange Act: Common Stock, $.025 par value

Securities registered under Section 12(g) of the Exchange Act: None

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

The Company's revenues from continuing operations for its fiscal year ended June 30, 2003 were $14,317,448.

The aggregate market value as at September 23, 2003 of the Common Stock of the issuer, its only class of voting stock, held by non-affiliates was approximately $3,945,000 calculated on the basis of the mean between the high and low sales prices of the Company's Common Stock on the American Stock Exchange on that date. Such market value excludes shares owned by all executive officers and directors (and their spouses); this should not be construed as indicating that all such persons are affiliates.

The number of shares outstanding of the issuer's Common Stock as at September 23, 2003 was 6,996,450.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the issuer's Proxy Statement relating to its 2003 Annual Meeting of Stockholders are incorporated by reference into Items 10, 11, 12 and 14 in Part III of this Report.

Transitional Small Business Disclosure Format Yes [ ] No [X]

## FORWARD LOOKING STATEMENTS

Certain statements in this Report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this Report, words such as "may," "should," "seek," "believe," "expect," anticipate," "estimate," "project," "intend," "strategy" and similar expressions are intended to identify forward-looking statements regarding events, conditions and financial trends that may affect the Company's future plans, operations, business strategies, operating results and financial position. Forward-looking statements are subject to a number of known and unknown risks and uncertainties that may cause actual results, trends, performance or achievements of the Company, or industry trends and results, to differ materially from the future results, trends, performance or achievements expressed or implied by such forward-looking statements. Such risks and uncertainties include, among others:

general economic and business conditions in the United States and other countries in which the Company's customers are located; industry conditions and trends, including supply and demand; changes in business strategies or development plans; the availability, terms and deployment of debt and equity capital; technology changes; competition and other factors which may affect prices which the Company may charge for its products and its profit margins; the availability and cost of the equipment purchased by the Company; relative values of the United States currency to currencies in the countries in which the Company's customers, suppliers and competitors are located; changes in, or the failure to comply with, government regulation, principally environmental regulations; and the Company's ability to successfully introduce, market and sell at acceptable profit margins its new Green Jet(R) dry-wetcleaning(TM) machine and Multi-Jet(TM) dry cleaning machine. These and certain other factors are discussed in this Report and from time to time in other Company reports filed with the Securities and Exchange Commission. The Company does not assume an obligation to update the factors discussed in this Report or such other reports.

## PART I

## ITEM 1. DESCRIPTION OF BUSINESS.

### GENERAL

The Company was incorporated under the laws of the State of Delaware on June 30, 1963 under the name Metro-Tel Corp. Until November 1, 1999, when Steiner-Atlantic Corp. ("Steiner") was merged with and into, and therefore became, a wholly-owned subsidiary of the Company (the "Merger"), the Company's principal business was the manufacture and sale of telephone test and customer premise equipment utilized by telephone and telephone interconnect companies in the installation and maintenance of telephone equipment through its Metro-Tel telecommunications segment (the "Metro-Tel segment"). Since the Merger, the Company's principal business has been as a supplier of commercial and industrial dry cleaning equipment, laundry equipment and steam boilers and related activities. To reflect the change in the Company's principal business, the Company changed its name to DRYCLEAN USA, Inc. on November 7, 1999.

Effective July 31, 2002, the Company sold substantially all of the operating assets (principally inventory, equipment and intangible assets, including tradenames) of the Metro-Tel segment to an unaffiliated third party. The Company retained all of the cash, accounts receivable and liabilities of the Metro-Tel segment. The sales price was $800,000, of which $250,000 was paid in cash on August 2, 2002 and the remaining $550,000 is evidenced by the purchaser's promissory note that bears interest at the prevailing prime rate plus 1% per annum and is payable in 42 equal monthly installments commencing October 1, 2002. Transaction costs to the Company aggregated approximately $40,000. In March 2003 the purchaser prepaid $50,000 of the principal amount of the outstanding promissory



note, which was applied to the last installments to become due. Payment and performance of the promissory note is guaranteed by two companies affiliated with the purchaser and the three principal shareholders of purchaser and the affiliated companies, and is collateralized by substantially all of the operating assets of the purchaser and the affiliated companies. The Company has agreed to subordinate payment of the promissory note, the obligations of the affiliated companies under their guarantees and the collateral granted by the purchaser and the affiliated companies to the obligations of the purchaser and the affiliated companies to two bank lenders, subject to the Company's right to receive installment payments under the promissory note as long as the purchaser and the affiliated companies are not in default of their obligations to the applicable lender. The Company agreed to a three-year covenant not to compete with the purchaser. The Company had determined to sell the Metro-Tel segment in light of the segment's telecommunications business being unrelated to the Company's core business, the reduction in revenues and increasing losses that the Metro-Tel segment had been experiencing and to enable the Company to devote its resources to its larger and profitable core business activities in the dry cleaning and laundry equipment industry, including its Green Jet(R) dry-wetcleaning(TM) machine. As a result of the determination to sell the Metro-Tel segment, the operations of the Metro-Tel segment are reflected in the financial statements included in this Report as a discontinued operation and are not discussed in detail in this Report as the Company is no longer engaged in that business.

The Company, through Steiner, supplies commercial and industrial dry cleaning equipment, laundry equipment and steam boilers in the United States, the Caribbean and Latin American markets. This aspect of the Company's business services includes:

- selling its own lines of laundry and dry cleaning machines under its Aero-Tech(R)and Green Jet(R)brand names;

- designing and planning "turn-key" laundry and/or dry cleaning

systems to meet the layout, volume and budget needs of a variety of institutional and retail customers;

- supplying replacement equipment and parts to its customers;

- providing warranty and preventative maintenance through factory-trained technicians and service managers; and

- selling process steam systems and boilers.

In March 1999, the Company formed a subsidiary, Steiner-Atlantic Brokerage Corp. ("Steiner Brokerage"), to act as a business broker to assist others seeking to buy or sell existing dry cleaning stores and coin laundry businesses. Some of the Company's existing customers have become Steiner Brokerage clients, utilizing the Company's staff and ability to assist them in the sale of their businesses and associated real property.

In July 1999, the Company, through its DRYCLEAN USA LICENSE CORP. subsidiary, acquired certain assets of DRYCLEAN USA Franchise Company ("DRYCLEAN USA Franchise"), including, among other things, the worldwide rights to the name DRYCLEAN USA, along with existing franchise and license agreements. DRYCLEAN USA is one of the largest franchise and license operations in the dry cleaning industry, currently consisting of over 400 franchised and licensed locations in the United States, the Caribbean and Latin America. The Company intends to increase the number of existing franchisees and licensees of DRYCLEAN USA through proven sales and advertising methods.

In February 2001, the Company formed DRYCLEAN USA Development Corp. ("DRYCLEAN USA Development") as a new subsidiary to develop new turn-key dry cleaning establishments for resale to third parties.



Product Lines. The Company offers a broad line of commercial and industrial laundry and dry cleaning equipment and steam boilers, as well as a comprehensive parts and accessories inventory. The Company's commercial and industrial laundry equipment features washers and dryers, including coin-operated machines, boilers, water reuse and heat reclamation systems, flatwork ironers and automatic folders. The Company's dry cleaning equipment includes commercial dry cleaning machines sold primarily under the Aero-Tech(R) and Green Jet(R) names, garment presses, finishing equipment, and sorting and storage conveyors.

In December 2001, the Company began shipping its environmentally friendly Green Jet(R) dry-wetcleaning(TM) machine. This new machine not only cleans garments efficiently, but it also eliminates the use of perchloroethylene (Perc) in the dry cleaning process, thereby eliminating the health and environmental concerns that Perc poses to our customers and their landlords. It also alleviates flammability, odor and cost issues inherent in alternative solvents and cleaning processes. Patents have been applied for to protect this innovative approach to garment cleaning. In August 2003, the Company introduced its Multi-Jet(TM) dry cleaning machine which can use a number of environmentally safe solvents and will replace certain existing products.

The Company's products are positioned and priced to appeal to customers in each of the high-end, mid-range and value priced markets. The Company's products are offered under a wide range of price points to address the needs of a diverse customer base. Suggested prices for most of the Company's products range from approximately $5,000 to $50,000. The Company's products afford the Company's customers a "one-stop shop" for commercial and industrial laundry and dry cleaning machines, boilers and accessories. By providing "one-stop" shopping, the Company believes it is better able to attract and support potential customers who can choose from the Company's broad product line. Product sales accounted for approximately 94% of fiscal year 2003 revenues.

The Company seeks to establish customer satisfaction by offering:

- an on-site training and preventive maintenance program performed by factory trained technicians and service managers;

- design and layout assistance;

- maintenance of a comprehensive parts and accessories inventory and same day or overnight availability;

- competitive pricing; and

- a toll-free support line to resolve customer service problems.

In addition, the Company, under the name DRYCLEAN USA, currently franchises and licenses over 400 retail drycleaning stores in the United States, the Caribbean and Latin America, making it one of the largest retail drycleaning license and franchise operations in the dry cleaning industry. During fiscal 2003, the Company's license and franchise segment contributed approximately 2.4% of the Company's revenues from continuing operations and 12.9% of operating income from continuing operations.

Through its Steiner Brokerage subsidiary, the Company acts as a business broker to assist others seeking to buy or sell existing dry cleaning and laundry businesses. Some of the Company's existing customers have become Steiner Brokerage clients, utilizing the Company's staff and ability to assist them in the sale of their businesses and associated real property. This business contributed 1.3% of revenue from continuing operations during fiscal 2003.



The Company, through its DRYCLEAN USA Development subsidiary, develops new turn-key dry cleaning establishments for resale to third parties. During fiscal 2003, DRYCLEAN USA Development contributed under 1% of revenues from continuing operations.

Sales, Marketing and Customer Support. The Company's laundry and dry cleaning equipment products are marketed in the United States, the Caribbean and Latin America to its customers, as well as customers of its DRYCLEAN USA Franchise subsidiary. The Company employs sales executives to market its products, including its Aero-Tech(R) and Green Jet(R) products, in the United States and in international markets. The Company supports its products by representative advertising in trade publications, participating in trade shows and engaging in regional promotions and sales incentive programs. A substantial portion of the Company's equipment sales orders are obtained by telephone, e-mail and fax inquiries originated by the customer or by representatives of the Company, and significant repeat sales are derived from existing customers.

Additionally, the Company's Aero-Tech(R) machines are sold through distributors and dealers throughout the United States, the Caribbean, Latin America and Europe. The Company is in the process of developing distributor relationships in North America and Europe for the distribution of its Green Jet(R) dry-wetcleaning(TM) machine and its Multi-Jet(TM) dryclean machine. To date, it has entered into distributorship arrangements for the Company's Green Jet(R) dry-wetcleaning(TM) machines with approximately 12 distributors in North America.

The Company trains its sales and service employees to provide service and customer support. The Company uses specialized classroom training, instructional videos and vendor sponsored seminars to educate employees about product information. In addition, the Company's technical staff has prepared comprehensive training manuals, written in English and Spanish, relating to specific training procedures. The Company's technical personnel are continuously retrained as new technology is developed. The Company monitors service technicians continued educational experience and fulfillment of requirements in order to evaluate their competence. All of the Company's service technicians receive service bulletins, service technicians' tips and continued training seminars.

Customers and Markets. The Company's customer base consists of approximately 500 customers in the United States, the Caribbean and Latin America, including independent and franchise dry cleaning stores and chains, hotels, motels, hospitals, cruise lines, nursing homes, government institutions and distributors. No customer accounted for more than 10% of the Company's revenues during the years ended June 30, 2003 or June 30, 2002.

Sources of Supply. The Company purchases laundry and dry cleaning machines, boilers and other products from a number of manufacturers, none of which accounted for more than 20% of the Company's purchases for the years ended June 30, 2003 or June 30, 2002. The Green Jet(R) dry-wetcleaning(TM) machines are currently manufactured exclusively for the Company by one manufacturer in the United States. Substantially all of the Company's dry cleaning equipment sold under the Aero-Tech(R) label is currently manufactured exclusively for the Company by two manufacturers in Italy. The Company has established long-standing relationships with these manufacturers. The Company's management believes these supplier relationships provide the Company with a substantial competitive advantage, including exclusivity in certain products and areas and favorable prices and terms. Therefore, the loss of one of these vendor relationships could adversely affect the Company's business. Historically, the Company has not experienced difficulty in purchasing desired products from its suppliers and believes it has good working relationships with its suppliers.

The Company has a formal contract with a few of its equipment manufacturers and relies on its long-standing relationship with its other suppliers. The Company collaborates in the design and closely



monitors the quality of the manufactured product. The Company must place its orders with its United States manufacturer of the Green Jet(R) dry-wetcleaning(TM) machine and with its Italian manufacturer of its Aero-Tech(R) dry cleaning machines prior to the time the Company has received all of its orders. However, because of the Company's close working relationship with its manufacturers, the Company can usually adjust orders rapidly and efficiently to reflect a change in customer demands. The Company believes that if, for any reason its arrangement with these manufacturers were to cease, or in the event the cost of these products were to be adversely affected, it will be

able to have these products manufactured by other suppliers.

Under its arrangement with the Italian manufacturer, the Company purchases dry cleaning machines in Euros. The Company's current bank revolving credit facility includes a $250,000 foreign exchange subfacility for the purpose of enabling the Company to mitigate its currency exposure in connection with its import activities through spot foreign exchange and forward exchange contracts.

Imports into the United States are also affected by the cost of transportation, the imposition of import duties and increased competition from greater production demands abroad. The United States and Italy may, from time to time, impose new quotas, duties, tariffs or other restrictions or adjust prevailing quotas, duties or tariff levels, which could affect the Company's margins on its Aero-Tech(R) machines. United States customs duties presently are less than 1% of invoice cost for the Company's imported dry cleaning machines.

Competition. The commercial and industrial laundry and dry cleaning equipment distribution business is highly competitive and fragmented with over 100 full-line or partial-line equipment distributors in the United States. The Company's management believes that no one distributor has a major share of the market and that substantially all distributors are independently owned and, with the exception of several regional distributors, operate primarily in local markets. Competition is based on price, product quality, delivery and support services provided by the distributor to the customer. In South Florida, the Company's principal domestic market, the Company's primary competition is derived from two full-line distributors which operate out of the Miami area. In the export market, the Company competes with several distributors and anticipates increased competition as the export market grows. On a national level, the Company competes with over a dozen manufacturers of dry cleaning equipment whose products are distributed nationally. The Company competes by offering an extensive product selection, value-added services, such as product inspection and quality assurance, a toll-free customer support line, reliability, warehouse location, price, competitive special features and, with respect to certain products, exclusivity.

As a franchisor/licensor of retail dry cleaning stores, DRYCLEAN USA competes with several other franchisors and turn-key suppliers of dry cleaning stores primarily on the basis of trademark recognition and reputation. As a broker in the purchase and sale of retail dry cleaning stores and coin laundry businesses, Steiner Brokerage competes with business brokers generally, as well as with other professionals with contacts in the retail dry cleaning and coin laundry business. Competition in this latter area is primarily based on reputation, advertising and, to a lesser degree, on the level of fees charged.

RESEARCH AND DEVELOPMENT
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The Company has designed and introduced its new Green Jet(R) dry-wetcleaning(TM) and Multi-Jet(TM) drycleaning machines and continues to improve these products. The amounts of research and development expenses for the years ended June 30, 2003 and 2002 were $44,009 and $31,499.



PATENTS AND TRADEMARKS
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The Company is the owner of United States service mark registrations for the names Aero-Tech(R), Logitrol(R), Petro-Star(R), Enviro-Star(R) and Green Jet(R), which are used in connection with its laundry and dry cleaning equipment, and of DRYCLEAN USA(R), which is licensed by it to retail dry cleaning establishments. The Company intends to use and protect these or related service marks, as necessary. The Company believes its trademarks and service marks have significant value and are an important factor in the marketing of its products. Patents have been applied for to protect the Company's new Green Jet(R) dry-wetcleaning(TM) machine.

COMPLIANCE WITH ENVIRONMENTAL AND OTHER GOVERNMENT LAWS AND REGULATIONS
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Over the past several decades in the United States, federal, state and local governments have enacted environmental protection laws in response to public concerns about the environment, including with respect to perchloroethylene (Perc), the primary cleaning agent historically used in commercial and industrial dry cleaning process. A number of industries, including the commercial and industrial dry cleaning and laundry equipment industries, are subject to these evolving laws and implementing regulations. As a supplier to the industry, the Company serves customers who are primarily responsible for compliance with environmental regulations. Among the federal laws that the Company believes are applicable to the industry are the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), which provides for the investigation and remediation of hazardous waste sites; the Resource Conservation and Recovery Act of 1976, as amended ("RCRA"), which regulates generation and transportation of hazardous waste as well as its treatment, storage and disposal; and the Occupation Safety and Health Administration Act ("OSHA"), which regulates exposure to toxic substances and other health and safety hazards in the workplace. Most states and a number

of localities have laws that regulate the environment which are at least as stringent as the federal laws. In Florida, for example, in which a significant amount of the Company's dry cleaning and laundry equipment sales are made, environmental matters are regulated by the Florida Department of Environmental Protection which generally follows the Environmental Protection Agency's ("EPA") policy in the EPA's implementation of CERCLA and RCRA and closely adheres to OSHA's standards.

The Company believes its Aero-Tech(R) and Green Jet(R) machines exceed the environmental regulations set by safety and environmental regulatory agencies.

The Company does not believe that compliance with Federal, state and local environmental and other laws and regulations which have been adopted have had, or will have, a material effect on its capital expenditures, earnings or competitive position.

The Company is also subject to Federal Trade Commission (the "FTC") regulations and various state laws regulating the offer and sale of franchises. The FTC and various state laws require the Company to, among other things, furnish to prospective franchisees a franchise offering circular containing prescribed information. Certain states in the United States require separate filings in order to offer and sell franchises in those states. The Company is presently registered in four of those states. The Company believes that it is in compliance in all material respects with these laws.

## EMPLOYEES

The Company currently employs 32 employees on a full-time basis, of whom three serve in executive management capacities, 11 are engaged in sales and marketing, 11 are administrative and clerical personnel, and seven serve as warehouse support. None of the Company's employees are subject to a



collective bargaining agreement, nor has the Company experienced any work stoppages. The Company believes that its relations with employees are satisfactory.

## FOREIGN AND GOVERNMENT SALES

Export sales of the Company's laundry and dry cleaning business were approximately $2,596,000 and $2,081,000 during the years ended June 30, 2003 and June 30, 2002, respectively, and were made principally to Latin America and the Caribbean. See "Customers and Markets".

All of the Company's export sales require the customer to make payment in United States dollars. Accordingly, foreign sales may be affected by the strength of the United States dollar relative to the currencies of the countries in which their customers and competitors are located, as well as the strength of the economies of the countries in which the Company's customers are located.

## ITEM 2. DESCRIPTION OF PROPERTIES.

The Company's executive offices and the main distribution center for its products are housed in three leased adjacent facilities totaling approximately 45,000 square feet in Miami, Florida. The Company believes its facilities are adequate for its present and anticipated future needs. The following table sets forth certain information concerning the leases at these facilities:

| Facility | Approximate Sq. Ft. | Expiration |
|---|---|---|
| Miami, Florida (1) | 27,000 | October 2004 |
| Miami, Florida | 8,000 | March 2004 (2) |
| Miami, Florida | 10,000 | December 2005 |

(1) Leased from William K. Steiner, a director of the Company. The lease includes an option to renew the lease for a ten-year term at a rent to be agreed upon by the parties.
(2) In addition, the Company has two separate two-year renewal options.

## ITEM 3. LEGAL PROCEEDINGS.

The Company is not a party to any material pending legal proceedings.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

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PART II

ITEM 5. MARKET FOR THE COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's Common Stock is traded on the American Stock Exchange (the "Amex") and on the Chicago Stock Exchange, each under the symbol "DCU." The following table sets forth, for the Company's Common Stock, the high and low sales prices on the Amex, as reported by Amex, for the periods reflected below.

| | HIGH | LOW |
|---|---|---|
| **Fiscal 2002** | | |
| First Quarter | $ .85 | $ .50 |
| Second Quarter | .60 | .42 |
| Third Quarter | .99 | .50 |
| Fourth Quarter | .89 | .55 |
| **Fiscal 2003** | | |
| First Quarter | $ .65 | $ .35 |
| Second Quarter | .62 | .31 |
| Third Quarter | .97 | .55 |
| Fourth Quarter | .79 | .57 |

As of September 16, 2003 there were approximately 494 holders of record of the Company's Common Stock.

No dividends have been paid on the Company's Common Stock during either of the last two fiscal years. However, on September 26, 2003, the Company's Board of Directors declared a dividend of $.05 per share, payable on October 31, 2003 to holders of the Company's Common Stock of record on October 17, 2003. The Company is a party to a Loan and Security Agreement with a commercial bank, which, among other things, provides that the Company may declare or pay dividends only to the extent that the dividend payment would not reasonably likely result in a failure by the Company to maintain specified consolidated debt service or short-term debt to equity ratios.

The following table sets forth certain information, as at June 30, 2003, with respect to the Company's equity compensation plans:

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<TABLE>
<CAPTION>

| PLAN CATEGORY | NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS | WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS | NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Equity compensation plans approved by security holders.. | 439,000 (a) | $1.02 | 560,000 (b) |
| Equity compensation plans not approved by security holders...................... | -0- | -- | -0- |
| Total..................... | 439,000 | $1.02 | 560,000 |

</TABLE>

(a) Includes 399,000 and 40,000 shares subject to options granted under the Company's 1991 Stock Option Plan under which no future options may be granted and the Company's 1994 Non-Employee Director Stock Option Plan (the "1994 Plan"), respectively.

(b) Includes 500,000 shares available for future grant under the Company's 2000 Stock Option Plan (the "2000 Plan"), which permits the grant of options to employees and directors of, and consultants to, the Company, and 60,000 shares available for grant to future non-employee directors under the 1994 Plan. Upon the expiration, cancellation or termination of unexercised options, shares subject to options under the 2000 and 1994 Plans will again be available for the grant of options under the applicable plan.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.
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GENERAL
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The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto which appear in Item 7 of this Report.

Effective July 31, 2002, the Company sold substantially all of the operating assets (principally inventory, equipment and intangible assets, including tradenames) of its Metro Tel segment to an unaffiliated third party. A provision of $555,000 for the estimated loss on the sale was established in the Company's financial statements for the year ended June 30, 2002. As discussed below, for the year ended June 30, 2003, the Company recorded a net gain of $57,659 as a result of the settlement of liabilities associated with the discontinued operation. The results of operations of the Company's Metro Tel segment are not discussed in detail below as they have been classified as discontinued operations. The following discussion relates primarily to the Company's continuing operations.

LIQUIDITY AND CAPITAL RESOURCES
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For the year ended June 30, 2003, cash increased by $349,784 compared to an increase of $888,445 for the year ended June 30, 2002.

In fiscal 2003, operating activities provided net cash of $787,620, compared to $1,251,708 in fiscal 2002. Net earnings from continuing operations ($546,134), together with non-cash expenses for depreciation and amortization ($114,941), a provision for bad debts ($126,210), and a decrease in deferred income taxes ($102,154) produced an aggregate of $889,439 of cash in fiscal 2003. Changes in operating



assets and liabilities used cash of $101,819. The principal uses of cash during fiscal 2003 were caused by a reduction of accounts payable and accrued expenses by $577,086 as fiscal 2002 year end levels were higher than at the end of fiscal 2003 due principally to the accrual of expenses related to the sale of the Metro Tel segment toward the end of fiscal 2002 and lower inventory purchases toward the end of fiscal 2003, and a result of a reduction in customer deposits by $204,280. These were partially offset by cash provided by reductions in the level of inventories ($341,534) due to the lower level of inventory purchases toward the end of fiscal 2003, accounts and notes receivable ($18,172) and other assets ($16,537), the collection of refundable income taxes ($225,167) and an increase in income taxes payable ($78,137). The level of inventory and accounts and notes receivable vary in the normal course of business.

Cash provided by operating activities in fiscal 2002 was $1,251,708. Continuing operations provided $1,162,701 of the net cash. In generating cash from operations, the Company's net income from continuing operations of $479,978 was supplemented by $113,102 of non-cash expenses for depreciation and amortization and partially offset by deferred taxes of $167,098. Changes in operating assets and liabilities contributed $746,144 to net cash due to a decrease of $489,989 in accounts, notes and lease receivables resulting primarily from decreased sales and an improvement in the collection of receivables and a $261,660 increase in accounts payable and accrued expenses resulting primarily from accrued expenses of the discontinued Metro Tel segment.

Discontinued operations in fiscal 2003 represents the non-cash gain on the settlement of liabilities of the Metro Tel segment discussed in "General," above, net of taxes. In fiscal 2002, these discontinued operations provided cash of $89,007.

Investment activities provided cash of $362,164 for the fiscal year ended June 30, 2003, principally as a result of $210,000 provided by the net proceeds from the sale of the Company's Metro Tel segment and $180,952 from payments received, including a $50,000 prepayment, on a note received as a portion of the sales price. Capital expenditures for equipment purchases used cash of $15,634 and $13,154 was used for patent costs. Net cash used by investing activities in fiscal 2002 was $243. Equipment purchases used $97,969 of cash and patent expenditures used cash of $16,769. These were substantially offset by $114,495 provided by the collection of a related party receivable.

In fiscal 2003, financing activities used cash of $800,000 for monthly payments on the Company's term loan ($266,667) and, on May 7, 2003, to prepay the balance of that loan ($533,333). Financing activities in fiscal 2002 used cash of $363,020 to make payments on the Company's term loan ($360,000) and for the purchase of Company common stock ($3,020).

On October 11, 2002, the Company received an extension, until October 30, 2003, of its existing $2,250,000 revolving line of credit facility. Revolving credit borrowings are limited by a borrowing base of 60% of eligible accounts receivable and 60% of certain inventories and 50% of other eligible

inventories. As of June 30, 2003 the Company had no outstanding borrowings under the line of credit. The Company believes it can negotiate an extension of this, or a new line of credit facility, by October 30, 2003.

On September 26, 2003, The Company's Board of Directors declared a $.05 per share annual dividend (or an aggregate of approximately $350,000) payable on October 31, 2003 to shareholders of record on October 17, 2003.

The Company believes that its present cash position and cash it expects to generate from operations will be sufficient to meet its operational needs.

OFF-BALANCE SHEET FINANCING

The Company has no off-balance sheet financing arrangements within the meaning of item 303(c) of Regulation S-B.



RESULTS OF OPERATIONS

Revenues from continuing operations for the fiscal year ended June, 30, 2003 increased by $28,944 (.2%) over fiscal 2002. Sales of commercial and industrial laundry and dry cleaning equipment increased by $92,179 (.7%), mostly due to increases in parts sales of 3% and boiler sales of 4.1%, which offset a 5% decrease in the sales of dry cleaning equipment. Export sales improved by 24.7% in fiscal 2003 over fiscal 2002, which offset a decline in sales to the domestic market due to the sluggish economy.

Revenues from the Company's license and franchise segment decreased by $3,985 (1.2%) with a decrease in initial license fee income offset, in part, by an increase in royalty income.

Cost of goods sold expressed as a percentage of net sales improved to 72.1% in fiscal 2003 from 72.5% in fiscal 2002, primarily due to the relative mix of products sold in each period.

Selling, general and administrative expenses decreased by $50,806 (1.3%) in fiscal 2003 from fiscal 2002 principally as a result of reductions in advertising and exhibit expenses ($53,842), commissions ($29,671), supplies and utilities ($25,479) and professional fees ($34,138), net of increased bad debts of $126,210 due principally to the economy in Latin America.

Research and development expenses increased by $12,510 (39.7%) in fiscal 2003 over fiscal 2002. The increase was due to the continuing development of the Company's Green-Jet(R) dry-wetcleaning(TM) machine and the Company's new Multi-Jet(TM) dry cleaning machine, the latter of which was introduced at an industry show in August 2003.

Interest income increased by $17,878 (164.8%), primarily due to interest earned on a note received by the Company as part of the consideration for the sale of the Metro Tel segment in July 2002.

Interest expense decreased by $29,393 (54.5%) as a result of lower average outstanding debt during the year and the prepayment of the balance of the loan in May 2003.

The provision for income taxes on continuing operations increased by $39,010 (13.2%) due primarily to the increase in earnings from continuing operations. The effective tax rate applicable to the Company's pre-tax income from continuing operations was 38% for both fiscal 2003 and fiscal 2002. See Note 4 to the Consolidated Financial Statements for further information concerning the provision for income taxes.

Discontinued operations provided a non-cash gain of $57,659, net of taxes, for fiscal year 2003, as a result of the settlement of estimated liabilities accrued in fiscal 2002 for the sale of the assets of the Company's Metro Tel segment to an unaffiliated third party effective July 31, 2002. Savings were realized principally in lease termination expenses and other transaction costs.

INFLATION

Inflation has not had a significant effect on the Company's operations during any of the reported periods.

TRANSACTIONS WITH RELATED PARTIES

The Company leases 27,000 square feet of warehouse and office space from William K. Steiner, a principal shareholder, Chairman of the Board of Directors and a director of the Company, under a lease which expires in October 2004. Annual rental under this lease is approximately $83,200. The Company

believes that the terms of the lease are comparable to terms that would be obtained from an unaffiliated third party for similar property in a similar locale.

## CRITICAL ACCOUNTING POLICIES

Securities and Exchange Commission Financial Reporting Release No. 60 encourages all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Management believes the following critical accounting policies affect the significant judgments and estimates used in the preparation of the Company's financial statements:

### REVENUE RECOGNITION AND ACCOUNTS AND NOTES RECEIVABLE

Sales of products are generally recorded as they are shipped. Commissions and development fees are recorded when earned, generally when the services are performed. Individual franchise arrangements include a license and provide for payment of initial fees, as well as continuing service fees. Initial franchise fees are generally recorded upon the opening of the franchised store, which is evidenced by a certificate from the franchisee, indicating that such store has opened, and collectibility is reasonably assured. Continuing services fees represent regular contractual payments received for the use of the "Dryclean USA" marks, which are recognized as revenue when earned, generally on a straight line basis.

Accounts and trade notes receivable are customer obligations due under normal trade terms. The Company sells its products primarily to independent dryclean and laundry stores. Note receivable represents the amounts due from the sale of the telecommunications business. The Company performs continuing credit evaluations of its customers' financial condition and depending on the term of credit, the amount of the credit granted and management's past history with a customer, the Company may require the debtor to pledge the purchased equipment as collateral for the receivable. Senior management reviews accounts and notes receivable on a regular basis to determine if any such amounts will potentially be uncollectible. The Company includes any balances that are determined to be uncollectible, along with a general reserve, in its overall allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off. The Company's non-trade notes receivable are collateralized by the assets sold and are subject to personal guarantees by the principals of the debtor. All payments on such notes are current. Based on the information available to management, it believes the Company's allowance for doubtful accounts as of June 30, 2003 and 2002 is adequate. However, actual write-offs might exceed the recorded allowance.

### FRANCHISE LICENSE TRADEMARK AND OTHER INTANGIBLE ASSETS

The franchise license, trademark, patents and trade name are stated at cost less accumulated amortization. Those assets are amortized on a straight-line basis over the estimated future periods to be benefited (10-15 years). The patents are amortized over the shorter of the patents' useful life or legal life from the date such patents are granted. The Company reviews the recoverability of intangible assets based primarily upon an analysis of undiscounted cash flows from the intangible assets. In the event the expected future net cash flows should become less than the carrying amount of the assets, an impairment loss will be recorded in the period such determination is made based on the fair value of the related assets.

### USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates these estimates, including those related to allowances for doubtful accounts receivable, the carrying value of inventories and long-lived assets, the



timing of revenue recognition for initial license and franchise fees from sales of franchise arrangements and continuing license and franchise service fees, as well as sales returns. Management bases these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the recognition of revenues and expenses and the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

## NEW ACCOUNTING PRONOUNCEMENTS

In June 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This Statement requires the recognition of a liability for a cost associated with an exit or disposal

activity when the liability is incurred versus the date the Company commits to an exit plan. In addition, this Statement states the liability should be initially measured at fair value. The Statement is effective for exit or disposal activities that are initiated after December 31, 2002. The primary effect to the Company's financial statements would be in the timing of accounting recognition of potential future exit activities. The adoption of this pronouncement did not have a material effect on the Company's financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure". The Statement amends the transition provisions of SFAS No. 123 for companies that choose to adopt the fair value based method of accounting for stock based employee compensation. The Statement does not amend the provisions of SFAS No. 123, which allow for entities to continue to apply the intrinsic value-based method prescribed in APB No. 25, "Accounting for Stock Issued to Employees", however, it does amend some of the disclosure requirements regardless of the method used to account for stock-based employee compensation.

During April 2003, the FASB issued SFAS No. 149 - "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003. In addition, except as stated below, all provisions of this Statement should be applied prospectively. The provisions of this Statement that relate to Statement 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, paragraphs 7(a) and 23(a), which relate to forward purchases or sales of then-issued securities or other securities that do not yet exist, should be applied to both existing contracts and new contracts entered into after June 30, 2003. The Company does not participate in such transactions, however, it is evaluating the effect of this new pronouncement, if any, and will adopt FASB 149 prospectively as proscribed.

During May 2003, the FASB issued SFAS 150 - "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", effective for financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a freestanding financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity or in a separate category between debt and equity in a balance sheet. Some of the provisions of this Statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, "Elements of Financial Statements". The Company does not participate in such transactions however, is evaluating the effect of this new pronouncement, if any, and will adopt FASB 150 within the proscribed time.



In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57, and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annul financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and did not have a material effect on the Company's financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46 (" FIN 46"), "Consolidation of Variable Interest Entities." FIN 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 applies immediately to variable interest entities ("VIE's") created after January 31, 2003, and to VIE's in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to VIE's in which an enterprise holds a variable interest that it acquired before February 1, 2003. FIN 46 applies to public enterprises as of the beginning of the applicable interim or annual period. The Company is evaluating the effects, if any, the adoption of FIN 46 may have on the Company's consolidated financial position, liquidity, or results of operations.

ITEM 7. FINANCIAL STATEMENTS.
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DRYCLEAN USA, Inc. and Subsidiaries

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Report of Independent Certified Public Accountants

Board of Directors and Shareholders
DRYCLEAN USA, Inc.
Miami, Florida

We have audited the accompanying consolidated balance sheets of DRYCLEAN USA, Inc. and subsidiaries as of June 30, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DRYCLEAN USA, Inc. and subsidiaries as of June 30, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Miami, Florida BDO Seidman, LLP
September 10, 2003



<TABLE>
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DRYCLEAN USA, Inc. and Subsidiaries

Consolidated Balance Sheets

| June 30, | 2003 | 2002 |
|---|---|---|
| ASSETS (Note 5) | | |
| CURRENT ASSETS | | |

| <S> | <C> | <C> |
|---|---|---|
| Cash and cash equivalents | $ 1,614,141 | $ 1,264,357 |
| Accounts and trade notes receivable, net of allowance for doubtful accounts of $205,000 and $130,000, respectively | 1,382,386 | 1,542,691 |
| Lease receivables (Note 2) | 53,894 | 37,290 |
| Inventories | 2,576,938 | 2,918,472 |
| Refundable income taxes | - | 225,167 |
| Deferred income taxes (Note 4) | 118,525 | 240,351 |
| Current assets of discontinued operations (Note 12) | - | 745,000 |
| Note receivable-current (Note 12) | 157,143 | - |
| Other current assets | 169,094 | 185,631 |
| Total current assets | 6,072,121 | 7,158,959 |
| LEASE RECEIVABLES - due after one year (Note 2) | - | 681 |
| NOTE RECEIVABLE, LESS CURRENT PORTION (NOTE 12) | 211,905 | - |
| EQUIPMENT AND IMPROVEMENTS, net (Note 3) | 233,767 | 274,124 |
| FRANCHISE, TRADEMARKS AND OTHER INTANGIBLE ASSETS, net (Note 1) | 409,308 | 455,104 |
| DEFERRED INCOME TAXES (Note 4) | 28,541 | 8,869 |
| NON-CURRENT ASSETS OF DISCONTINUED OPERATIONS (NOTE 12) | - | 15,000 |
| | $ 6,955,642 | $ 7,912,737 |

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

| | | |
|---|---|---|
| Accounts payable and accrued expenses | $ 1,066,860 | $ 1,736,393 |
| Income taxes payable | 112,925 | - |
| Customer deposits and other | 335,206 | 539,486 |
| Current portion of term loan (Note 5) | - | 320,000 |
| Total current liabilities | 1,514,991 | 2,595,879 |
| TERM LOAN, less current portion (Note 5) | - | 480,000 |
| Total liabilities | 1,514,991 | 3,075,879 |
| COMMITMENTS AND CONTINGENCIES (Notes 6, 8 and 9) | | |
| SHAREHOLDERS' EQUITY (Note 11) Common stock, $0.025 par value: | | |
| Authorized shares - 15,000,000; 7,027,500 shares issued and outstanding, including shares held in treasury | 175,688 | 175,688 |
| Additional paid-in capital | 2,048,570 | 2,048,570 |
| Retained earnings | 3,219,413 | 2,615,620 |
| Treasury stock, 31,050 shares at cost | (3,020) | (3,020) |
| Total shareholders' equity | 5,440,651 | 4,836,858 |
| | $ 6,955,642 | $ 7,912,737 |

See accompanying summary of accounting policies and notes to consolidated financial statements

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DRYCLEAN USA, Inc. and Subsidiaries

Consolidated Statements of Operations

| Year ended June 30, | 2003 | 2002 |
|---|---|---|
| REVENUES: | | |
| <S> | <C> | <C> |
| Net sales | $ 13,413,145 | $ 13,330,158 |
| Development fees, franchise and license fees, commissions and other | 904,303 | 958,346 |

| | | |
|---|---|---|
| Total | 14,317,448 | 14,288,504 |
| COST OF SALES | 9,676,975 | 9,667,630 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 8 and 9) | 3,720,404 | 3,771,210 |
| RESEARCH AND DEVELOPMENT EXPENSES | 44,009 | 31,499 |
| Total | 13,441,388 | 13,470,339 |
| OPERATING INCOME | 876,060 | 818,165 |
| OTHER INCOME (EXPENSE): | | |
| Interest income | 28,725 | 10,847 |
| Interest expense | (24,562) | (53,955) |
| Earnings from continuing operations before income taxes | 880,223 | 775,057 |
| Provision for income taxes (Note 4) | 334,089 | 295,079 |
| EARNINGS FROM CONTINUING OPERATIONS | 546,134 | 479,978 |
| Loss from discontinued operations, net of income tax benefit of $0 and $127,787, respectively (Note 12) | - | (204,992) |
| Estimated gain (loss) on disposal of discontinued operations, net of income tax expense (benefit) of ($34,788) and $347,358, respectively (Note 12) | 57,659 | (554,996) |
| Income (loss) from discontinued operations | 57,659 | (759,988) |
| NET EARNINGS (LOSS) | $ 603,793 | $ (280,010) |
| Earnings per share from continuing operations, basic | $ .08 | $ .07 |
| Earnings (loss) per share from discontinued operations, net of taxes, basic | .01 | (.11) |
| Net earnings (loss) per share, basic (Note 10) | $ .09 | $ (.04) |
| Earnings per share from continuing operations, diluted | $ .08 | $ .07 |
| Earnings (loss) per share from discontinued operations, net of taxes, diluted | .01 | (.11) |
| Net earnings (loss) per share, diluted (Note 10) | $ .09 | $ (.04) |
| Weighted average number of shares of common stock outstanding: | | |
| Basic | 6,996,450 | 6,996,813 |
| Diluted | 6,996,450 | 6,997,342 |

See accompanying summary of accounting policies and notes to consolidated financial statements

</TABLE>



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<CAPTION>

DRYCLEAN USA, Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity

| | COMMON STOCK | | Additional Paid-in | Treasury Stock | | Retained | |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | SHARES | COST | Earnings | Total |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Balance at July 1, 2001 | 7,027,500 | $ 175,688 | $ 2,048,570 | 26,250 | $ - | $ 2,895,630 | $ 5,119,888 |
| Treasury stock repurchases | - | - | - | 4,800 | (3,020) | - | (3,020) |
| Net loss | - | - | - | - | - | (280,010) | (280,010) |
| Balance at June 30, 2002 | 7,027,500 | 175,688 | 2,048,570 | 31,050 | (3,020) | 2,615,620 | 4,836,858 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Net earnings | - | - | - | - | - | 603,793 | 603,793 |
| BALANCE AT JUNE 30, 2003 | 7,027,500 | $ 175,688 | $ 2,048,570 | 31,050 | $ (3,020) | $ 3,219,413 | $ 5,440,651 |

See accompanying summary of accounting policies and notes to consolidated financial statements

</TABLE>



<TABLE>
<CAPTION>

DRYCLEAN USA, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

| YEAR ENDED JUNE 30, | 2003 | 2002 |
|---|---|---|
| OPERATING ACTIVITIES: | | |
| <S> | <C> | <C> |
| Net earnings from continuing operations | $ 546,134 | $ 479,978 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 114,941 | 113,102 |
| Bad debt (recovery) expense | 126,210 | (9,425) |
| Provision for deferred income taxes | 102,154 | (167,098) |
| (Increase) decrease in operating assets: | | |
| Accounts, notes and lease receivables | 18,172 | 498,989 |
| Inventories | 341,534 | (311) |
| Refundable income taxes | 225,167 | 32,196 |
| Other current assets | 16,537 | (12,578) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and accrued expenses | (577,086) | 261,660 |
| Income taxes payable | 78,137 | - |
| Customer deposits and other | (204,280) | (33,812) |
| Net cash provided by continuing operations | 787,620 | 1,162,701 |
| Net income (loss) from discontinued operations | 57,659 | (759,988) |
| Adjustments: | | |
| Estimated (gain) loss on disposal of assets | (92,447) | 902,354 |
| Decrease (increase) in net operating assets | 34,788 | (53,359) |
| Net cash provided by discontinued operations | - | 89,007 |
| Cash provided by operating activities | 787,620 | 1,251,708 |
| INVESTING ACTIVITIES: | | |
| Net proceeds upon disposal of business | 210,000 | - |
| Payments received on note receivable | 180,952 | - |
| Capital expenditures | (15,634) | (97,969) |
| Collection of related party receivable | - | 114,495 |
| Patent expenditures | (13,154) | (16,769) |
| Net cash provided by (used) in investing activities | 362,164 | (243) |
| FINANCING ACTIVITIES: | | |
| Payments on term loan | (800,000) | (360,000) |
| Acquisition of treasury stock | - | (3,020) |
| Net cash used in financing activities | (800,000) | (363,020) |
| Net increase in cash and cash equivalents | 349,784 | 888,445 |
| Cash and cash equivalents at beginning of year | 1,264,357 | 375,912 |
| Cash and cash equivalents at end of year | $ 1,614,141 | $ 1,264,357 |
| Supplemental Information: | | |
| Cash paid for: | | |
| Interest | $ 24,562 | $ 53,955 |
| Income taxes | 24,000 | 171,000 |

See accompanying summary of accounting policies and notes to consolidated financial statements

</TABLE>



DRYCLEAN USA, Inc. and Subsidiaries

Summary of Accounting Policies

NATURE OF BUSINESS DRYCLEAN USA, Inc. and subsidiaries (collectively, the "Company") sell commercial and industrial laundry and dry cleaning equipment, boilers and replacement parts; sell individual and area franchises under the DRYCLEAN USA name; and act as a business broker in connection with the purchase and sale of retail dry cleaning stores and coin laundries.

The Company primarily sells to customers located in the United States, the Caribbean and Latin America.

PRINCIPLES OF CONSOLIDATION The accompanying consolidated financial statements include the accounts of DRYCLEAN USA, Inc. and its wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

REVENUE RECOGNITION Sales of products are generally recorded as they are shipped. Shipping, delivering and handling fee income of approximately $118,000 and $121,000 for the years ended June 30, 2003 and 2002, respectively, are included as other revenues in the consolidated financial statements. Shipping, delivering and handling costs are included in cost of sales. Commissions and development fees are recorded when earned. Individual franchise arrangements include a license and provide for the payment of initial fees, as well as continuing royalty fees. Initial franchise fees are generally recorded upon the opening of the franchise store. Continuing royalty fees are recorded when earned.

ACCOUNTS AND NOTES RECEIVABLE Accounts and trade notes receivable are customer obligations due under normal trade terms. The Company sells its products primarily to independent dryclean and laundry stores. Note receivable represents the amounts due from the sale of the telecommunications segment. The Company performs continuing credit evaluations of its customers' financial condition and depending on the terms of credit, the amount of the credit granted and management's history with a customer, the Company may require the customer to pledge the purchased equipment as collateral for the receivable. Senior management reviews accounts and notes receivable on a regular basis to determine if any such amounts will potentially be uncollectible. The Company includes any balances that are determined to be uncollectible, along with a general reserve, in its overall allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off. The Company's non-trade note receivable is collateralized by the assets sold and are subject to personal guarantees by the principals of the debtor. All payments on such notes are current. Based on the information available, management believes the Company's allowance for doubtful accounts as of June 30, 2003 and 2002 is adequate. However, actual write-offs might exceed the recorded allowance.

INVENTORIES Inventories consist principally of finished goods and are valued at the lower of cost or market determined on the first-in first-out method.



EQUIPMENT, IMPROVEMENTS AND DEPRECIATION Property and equipment are stated at cost. Depreciation and amortization are calculated on accelerated and straight-line methods over lives of five to seven years for furniture and equipment

and the life of the lease for leasehold improvements for both financial reporting and income tax purposes, except that leasehold improvements are amortized over 31 years for income tax purposes.

ASSET IMPAIRMENTS The Company accounts for long-lived assets in accordance with the provisions of the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standard ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less estimated costs to sell.

INCOME TAXES The Company utilizes the asset and liability method wherein deferred taxes are recognized for differences between consolidated financial statement and income tax bases of assets and liabilities.

CASH EQUIVALENTS Cash equivalents include all highly liquid investments with original maturities of three months or less.

ESTIMATES The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

STOCK BASED COMPENSATION SFAS No. 123, Accounting for Stock-Based Compensation, requires the Company to provide pro forma information regarding net income (loss) and net income (loss) per share as if compensation cost for the Company's stock options had been determined in accordance with the fair value based method prescribed in SFAS No. 123. The Company estimates the fair value of each stock option at the grant date by using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in fiscal year 2002: no dividend yield; expected volatility of 95%; risk-free interest rates of approximately 4.2%, and expected lives of 5 years. No options were granted in fiscal year 2003. Based on these assumptions, under the accounting provisions of SFAS No. 123, the Company's net income (loss) and net income (loss) per common share would have been as follows:



<TABLE>
<CAPTION>

| Year ended June 30, | 2003 | 2002 |
| --- | --- | --- |
| <S> | <C> | <C> |
| Earnings from continuing operations, as reported | $ 546,134 | $ 479,978 |
| Less: Total stock-based employee compensation expense determined under fair value based method for all awards | (14,377) | (25,624) |
| Pro forma earnings from continuing operations | $ 531,757 | $ 454,354 |
| Net income (loss), as reported | $ 603,793 | $ (280,010) |

| | | 2003 | 2002 |
|---|---|---|---|
| Less: Total stock-based employee compensation expense determined under fair value based method for all awards | | (14,377) | (25,624) |
| Pro forma net income (loss) | | $ 589,416 | $(305,634) |
| Earnings per common share from continuing operations: | | | |
| Basic | As reported | $ .08 | $ .07 |
| | Pro forma | .08 | .06 |
| Diluted | As reported | .08 | .07 |
| | Pro forma | .08 | .06 |
| Net income (loss) per common share: | | | |
| Basic | As reported | $ .09 | $ (.04) |
| | Pro forma | .08 | (.04) |
| Diluted | As reported | .09 | (.04) |
| | Pro forma | .08 | (.04) |

</TABLE>

EARNINGS PER SHARE Basic earnings per share are computed on the basis of the weighted average number of common shares outstanding during each year. Diluted earnings per share are computed on the basis of the weighted average number of common shares and dilutive securities outstanding during each year. Securities having an anti-dilutive effect on earnings per share are excluded from the calculations.

ADVERTISING COSTS The Company expenses the cost of advertising as of the first date the advertisement is run. The Company expensed approximately $179,000 and $218,000 of advertising costs for the years ended June 30, 2003 and 2002, respectively.

FAIR VALUE OF FINANCIAL INSTRUMENTS The Company's financial instruments consist principally of cash and cashequivalents, accounts receivable, lease receivables, notes receivable, accounts payable and accrued expenses and debt. Due to their relatively short-term nature or variable rates, the carrying amounts of such financial instruments, as reflected in the accompanying consolidated balance sheets, approximate their estimated fair value. Their estimated fair value is not necessarily indicative of the amounts the Company could realize in a current market exchange or of future earnings or cash flows.

FRANCHISE LICENSE, TRADEMARK AND OTHER INTANGIBLE ASSETS Franchise license, trademark, and other intangible assets are stated at cost less accumulated amortization. These assets are amortized on a straight-line basis over the estimated future periods to be benefited (10-



15 years). Patents are amortized over the shorter of the patents' useful life or legal life from the date such patents are granted. The Company reviews the recoverability of intangible assets based primarily upon an analysis of undiscounted cash flows expected to be generated from the acquired assets. In the event the expected future net cash flows should become less than the carrying amount of the assets, an impairment loss will be recorded in the period such determination is made based on the fair value of the related assets.

NEW ACCOUNTING PRONOUNCEMENTS In June 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This Statement requires the recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred versus the date the Company commits to an exit plan. In addition, this Statement states the liability should be initially measured at fair value. The Statement is effective for exit or disposal activities that are initiated after December 31, 2002. The primary effect to the Company's financial statements would be in the timing of accounting recognition of potential

future exit activities. The adoption of this pronouncement did not have a material effect on the Company's financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure". The Statement amends the transition provisions of SFAS No. 123 for companies that choose to adopt the fair value based method of accounting for stock based employee compensation. The Statement does not amend the provisions of SFAS No. 123, which allow for entities to continue to apply the intrinsic value-based method prescribed in APB No. 25, "Accounting for Stock Issued to Employees", however, it does amend some of the disclosure requirements regardless of the method used to account for stock-based employee compensation.

During April 2003, the FASB issued SFAS No. 149 - "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003. In addition, except as stated below, all provisions of this Statement should be applied prospectively.



The provisions of this Statement that relate to Statement 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, paragraphs 7(a) and 23(a), which relate to forward purchases or sales of then-issued securities or other securities that do not yet exist, should be applied to both existing contracts and new contracts entered into after June 30, 2003. The Company does not participate in such transactions, however, it is evaluating the effect of this new pronouncement, if any, and will adopt FASB 149 prospectively as proscribed.

During May 2003, the FASB issued SFAS 150 - "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", effective for financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a freestanding financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity or in a separate category between debt and equity in a balance sheet. Some of the provisions of this Statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, "Elements of Financial Statements". The Company does not participate in such transactions however, is evaluating the effect of this new pronouncement, if any, and will adopt FASB 150 within the proscribed time.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57, and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annul financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and did not have a material effect on the Company's financial statements.

In January 2003, the FASB issued FASB

Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities." FIN 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 applies immediately to variable interest entities ("VIE's") created after January 31, 2003, and to VIE's in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to VIE's in which an enterprise holds a variable interest that it acquired before February 1, 2003. FIN 46 applies to public enterprises as of the beginning of the applicable interim or annual period. The Company is evaluating the effects, if any, the adoption of FIN 46 may have on the Company's consolidated financial position, liquidity, or results of operations.



1. INTANGIBLE ASSETS Franchise, trademark and other intangible assets consist of the following:

<TABLE>
<CAPTION>

| | Estimated Useful Lives (in years) | JUNE 30, 2003 | June 30, 2002 |
|---|---|---|---|
| Franchise license agreements | 10 | $ 529,500 | $ 529,500 |
| Trademarks, patents and trade name | 10-15 | 105,944 | 93,910 |
| | | 635,444 | 623,410 |
| Less accumulated amortization | | (226,136) | (168,306) |
| | | $ 409,308 | $ 455,104 |

</TABLE>

2. LEASE RECEIVABLES Lease receivables result from customer leases of equipment under arrangements which qualify as sales-type leases. At June 30, 2003 and 2002, future lease payments, net of deferred interest ($3,212 and $4,685 at June 30, 2003 and 2002), due under these leases amounted to $53,894 and $37,971, respectively.

3. EQUIPMENT AND IMPROVEMENTS Major classes of equipment and improvements consist of the following:

<TABLE>
<CAPTION>

| June 30, | 2003 | 2002 |
|---|---|---|
| Furniture and equipment | $ 670,262 | $ 646,501 |
| Leasehold improvements | 322,514 | 330,877 |
| | 992,776 | 977,378 |
| Less accumulated depreciation and amortization | (759,009) | (703,254) |
| | $ 233,767 | $ 274,124 |

</TABLE>

Depreciation and amortization of equipment and improvements amounted to $55,991 and $55,723 for the years ended June 30, 2003 and 2002, respectively.

4. INCOME TAXES Income taxes (benefit) included in the consolidated statements of operations is as follows:

<TABLE>
<CAPTION>

| Year ended June 30, | 2003 | 2002 |
|---|---|---|

<S>

| | <C> | <C> |
|---|---|---|
| Continuing operations | $ 334,089 | $ 295,079 |
| Discontinued operations | - | (127,787) |
| Income (loss) on sale of discontinued operations | 34,788 | (347,358) |
| | $ 368,877 | $ (180,066) |

</TABLE>

27

The following are the components of income taxes (benefit):

<TABLE>
<CAPTION>

| Year ended June 30, | 2003 | 2002 |
|---|---|---|
| <S> | <C> | <C> |
| Current | | |
| Federal | $ 227,828 | $ (11,721) |
| State | 38,895 | (1,247) |
| | 266,723 | (12,968) |
| Deferred | | |
| Federal | 87,134 | (150,979) |
| State | 15,020 | (16,119) |
| | 102,154 | (167,098) |
| | $ 368,877 | $ (180,066) |

</TABLE>

The reconciliation of income tax expense computed at the Federal statutory tax rate of 34% to income taxes (benefit) is as follows:

<TABLE>
<CAPTION>

| Year ended June 30, | 2003 | 2002 |
|---|---|---|
| <S> | <C> | <C> |
| Tax at the statutory rate | $ 330,708 | $ (166,317) |
| State income taxes, net of federal benefit | 35,584 | (11,462) |
| Other | 2,585 | (2,287) |
| | $ 368,877 | $ (180,066) |

</TABLE>

Deferred income taxes reflect the net tax effect of temporary differences between the bases of assets and liabilities for financial reporting purposes and the bases used for income tax purposes. Significant components of the Company's current and noncurrent deferred tax assets and liabilities are as follows:

<TABLE>
<CAPTION>

| Year ended June 30, | 2003 | 2002 |
|---|---|---|
| <S> | <C> | <C> |
| Current deferred tax asset (liability): | | |
| Allowance for doubtful accounts | $ 77,142 | $ 48,919 |
| Inventory capitalization | 47,454 | 65,318 |
| Loss on sale of assets | 753 | 133,929 |
| Other | (6,824) | (7,815) |
| | 118,525 | 240,351 |
| Noncurrent deferred tax asset (liability): | | |
| Depreciation | (5,075) | (18,680) |
| Amortization | 33,616 | 27,549 |
| | 28,541 | 8,869 |
| Total net deferred income taxes | $ 147,066 | $ 249,220 |

--------------------------------------------------------------------------------
</TABLE>



5. CREDIT AGREEMENT AND TERM LOAN

In December 2001, the Company entered into a bank loan agreement with a facility consisting of a term loan of $960,000 and a revolving credit facility of $2,250,000, including a $1,000,000 letter of credit subfacility and $250,000 foreign exchange subfacility. Revolving credit borrowings are limited by a borrowing base of 60% of eligible accounts receivable and 60% of certain, and 50% of other, eligible inventories. Borrowings under the term loan facility and revolving credit facility bear interest at 2.65% and 2.50% per annum, respectively, above the Adjusted LIBOR Market Index Rate, are guaranteed by all of the Company's subsidiaries and are collateralized by substantially all of the Company's and its subsidiaries' assets. At June 30, 2002, the Company owed $800,000, under the term loan. In May 2003, the Company pre-paid the then outstanding balance ($533,333) of its term loan and no amounts are outstanding at June 30, 2003. The revolving credit facility matures October 30, 2003. At June 30, 2003 and 2002, there were no outstanding borrowings under the line of credit. The loan agreement requires maintenance of certain earnings based and other financial ratios and contains other restrictive covenants. The loan agreement also contains limitations on the extent to which the Company and its subsidiaries may incur additional indebtedness, pay dividends, guarantee indebtedness of others, grant liens, sell assets and make investments.

6. RELATED PARTY TRANSACTIONS

At June 30, 2001, $114,495, net of $100,000 allowance for doubtful accounts, was due the Company from an entity controlled by one of the principal shareholders of the Company. During the year ended June 30, 2002, the full $114,495 was collected.

The Company leases warehouse and office space from a principal shareholder of the Company under an operating lease which expires in October 2004. Annual rental commitments under this lease approximate $83,200. The lease is renewable for a ten-year term at an amount to be agreed upon by the parties.

7. CONCENTRATIONS OF CREDIT RISK

The Company places its excess cash in overnight deposits with a large national bank. Concentration of credit risk with respect to trade and lease receivables is limited due to a large customer base. Trade and lease receivables are generally collateralized with equipment sold. The note receivable is collateralized by the assets sold and subject to personal guarantees by the principals of the debtor.

From time to time, the Company purchases inventory from manufacturers in Europe, as a result, the Company is exposed to foreign currency risk in Europe. To mitigate such risk, the Company may enter into foreign exchange forward contracts to reduce its risk to foreign exchange losses associated with commitments to purchase equipment denominated in Euros. The Company does not designate such contracts as hedges and accordingly, all changes in fair value associated with its forward contracts are recorded in cost of sales. At June 30, 2003 and 2002, the Company had no outstanding commitments to purchase foreign currency.



8. COMMITMENTS

In addition to the warehouse and office space leased from a principal shareholder (see Note 6), the Company leases two additional office and warehouse spaces under operating leases expiring in March 2004 and December 2005. As of June 30, 2003, the Company is also obligated under five leases for future dry cleaning stores that aggregate $144,000 to $149,000 in annual base rent per year for the next five years. The Company anticipates assigning such leases to dry cleaning

franchisees or other customers when the leased facilities are available for occupancy.

Minimum future rental commitments for leases in effect at June 30, 2003 approximates the following:

<TABLE>
<CAPTION>

| Years ending June 30, | |
|---|---|
| <S> | <C> |
| 2004 | $ 283,000 |
| 2005 | 208,000 |
| 2006 | 164,000 |
| 2007 | 148,000 |
| 2008 | 149,000 |

</TABLE>

Rent expense aggregated $153,841 and $151,196 for the years ended June 2003 and 2002, respectively.

As of June 30, 2003 the Company had an outstanding letter of credit to an Italian manufacturer in the amount of $134,400, due July 25, 2003 for the purchase of inventory. The commitment was honored on schedule.

The Company, through its manufacturers, provides parts warranties for products sold. These warranties are the responsibility of the manufacturer, as such, warranty related expenses are insignificant to the consolidated financial statements.

9. DEFERRED COMPENSATION PLAN

The Company has a participatory deferred compensation plan wherein it matches employee contributions up to 1% of an eligible employee's yearly compensation.

Employees are eligible to participate in the plan after three months of service. The Company contributed approximately $10,000 to the Plan in each of 2003 and 2002. The plan is tax deferred under Section 401(k) of the Internal Revenue Code.



10. EARNINGS PER SHARE

The following reconciles the components of the earnings per share computation:

<TABLE>
<CAPTION>

| YEAR ENDED JUNE 30, 2003 | INCOME (NUMERATOR) | SHARES (DENOMINATOR) | PER SHARE AMOUNT |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Earnings from continuing operations | $ 546,134 | 6,996,450 | $ .08 |
| Effect of dilutive securities: | | | |
| Stock options | - | - | - |
| Net earnings plus assumed dilution | $ 546,134 | 6,996,450 | $ .08 |

| YEAR ENDED JUNE 30, 2002 | INCOME (NUMERATOR) | SHARES (DENOMINATOR) | PER SHARE AMOUNT |
|---|---|---|---|
| Earnings from continuing operations | $ 479,978 | 6,996,813 | $ .07 |
| Effect of dilutive securities: | | | |
| Stock options | - | 529 | - |
| Net earnings plus assumed dilution | $ 479,978 | 6,997,342 | $ .07 |

</TABLE>

There were outstanding stock options to purchase 439,000 and 497,750, shares of the Company's common stock outstanding at June 30, 2003 and 2002, respectively, that were excluded in the computation of earnings per share for such years because the exercise prices of the options were at least the average market price of the Company's common stock for that year.

11. STOCK OPTIONS The Company has stock option plans that authorize the grant of options to purchase up to 500,000 shares (until May 2010) of the Company's common stock to employees and consultants and options to purchase 100,000 shares (until August 2004) of the Company's common stock to directors of the Company.

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for stock options to employees and directors. Under APB Opinion No. 25, because the exercise price of the stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation cost has been recognized. No options have been granted to consultants.

Pursuant to the plans, the Company may grant incentive stock options and nonqualified stock options. All options under the director plan are nonqualified stock options. Options may have a maximum term of 10 years, are not transferable and must be granted at an exercise price of at least 100% of the market value of the common stock on the date of grant.



Incentive stock options granted to an individual owning more than 10% of the total combined voting power of all classes of stock issued by the Company must have an exercise price of at least 110% of the fair market value of the shares issuable on the date of the grant and may not have a term of more than five years. Incentive stock options granted under the employee plan are subject to the limitation that the aggregate fair market value (determined as of the date of grant) of those options which may first become exercisable in any calendar year cannot exceed $100,000. Generally, options terminate three months following termination of service (except generally one year in the case of termination of service by reason of death or disability).

The Company also has options outstanding under a stock option plan that expired as to the grant of new options in September 2001.

Generally, options granted to date have been exercisable, on a cumulative basis, as to one-fourth of the shares covered thereby on the first anniversary of grant and one-fourth on the next three anniversaries of grant. However, in fiscal 2002, the Company granted 25,000 options to two employees, exercisable upon issuance through 2007 at a price of $.56 per share. There were no stock options granted in fiscal 2003. Options granted under the plans terminate upon a merger in which the Company is not the surviving corporation, or in certain events in which Shareholders before the transaction cease to own at least 50% of the combined voting power in the elections of directors of the surviving corporation, the sale of substantially, all of the Company's assets or the liquidation or dissolution of the Company, unless other provision is made by the board of directors.

A summary of options under the Company's stock option plans as of June 30, 2003, and changes during the year then ended is presented below:

<TABLE>
<CAPTION>

WEIGHTED
AVERAGE

| | SHARES | EXERCISE PRICE |
|---|---|---|
| Outstanding at beginning of year | 522,750 | $ 1.04 |
| Granted | - | - |
| Expired | (83,750) | 1.05 |
| Outstanding at end of year | 439,000 | $ 1.02 |
| Options exercisable at year-end | 436,500 | $ 1.02 |



A summary of options under the Company's stock option plans as of June 30, 2002, and changes during the year then ended is presented below:

| | SHARES | WEIGHTED AVERAGE EXERCISE PRICE |
|---|---|---|
| Outstanding at beginning of year | 594,750 | $ 1.09 |
| Granted | 25,000 | .56 |
| Expired | (97,000) | 1.22 |
| Outstanding at end of year | 522,750 | $ 1.04 |
| Options exercisable at year-end | 400,812 | $ 1.03 |
| Weighted average fair value options granted during the year | $ .45 | |

The following table summarizes information about stock option plan and non-plan options outstanding at June 30, 2003:

| Range of Exercise Prices | Number Outstanding at 6/30/03 | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable at 6/30/03 | Weighted Average Exercise Price |
|---|---|---|---|---|---|
| $ .91-$1.00 | $ 419,000 | .33 years | $ 1.00 | 419,000 | $ 1.00 |
| $ 2.00 | $ 20,000 | 1.5 years | $ 2.00 | 17,500 | $ 2.00 |

12. DISCONTINUED OPERATIONS

In May 2002, the Company initiated a plan to sell substantially all of the operating assets (principally inventory, equipment and intangible assets) of its Metro-Tel segment, which was engaged in the manufacture and sale of telephone test equipment.

The sale, to an unaffiliated purchaser, closed July 31, 2002. The purchase price was $800,000 less $40,000 in estimated transactions costs, consisting of $250,000 in cash and a $550,000 promissory note, bearing interest at prime + 1%, (5% at June 30, 2003) and payable monthly over 42 months commencing October 1, 2002. The promissory note is guaranteed by certain companies affiliated with the purchaser and the purchaser's and the affiliates' principal shareholders and is collateralized by the operating assets of the purchaser and the affiliated companies. The Company has agreed to subordinate payment of the promissory note, obligations of the affiliated companies of the purchaser under their guarantees and the collateral granted by the purchaser and the affiliated companies to the obligation of the purchaser and the affiliated companies to two bank lenders. The purchaser prepaid $50,000 of the note

in 2003. As of June 30, 2003, there was $369,048 due the Company under this note. Principal payments on this note are scheduled to be collected as follows:



| Years ending June 30, | |
|---|---|
| 2004 | $ 157,143 |
| 2005 | 157,143 |
| 2006 | 54,762 |
| | $ 369,048 |

The Company retained all of the segment's accounts receivable, cash and liabilities existing at the time of closing and agreed to a three-year covenant not to compete with the purchaser.

In connection with the sale, the Company accrued costs, including estimated lease termination costs, aggregating approximately $184,000 at June 30, 2003. Additionally, the Company recorded a provision of $718,000 to reduce the carrying value of assets sold to their estimated net realizable value at June 30, 2002. The estimated loss on sale of the discontinued operation, net of income tax benefit, recorded as of June 30, 2002 was $555,000.

During the year ended June 30, 2003 the Company settled certain of these estimated costs, including lease termination fees and professional fees for amounts less than previously estimated. Accordingly, the Company recognized a gain on disposal of approximately $58,000, net of taxes in fiscal 2003.

Net assets and operating results for the discontinued operations are approximately as follows:

<TABLE>
<CAPTION>

| June 30, | 2003 | 2002 |
|---|---|---|
| <S> | <C> | <C> |
| Inventory | $ - | $ 745,000 |
| Property and equipment, net | - | 10,000 |
| Intangible asset, net | - | 5,000 |
| Net assets of discontinued operations | $ - | $ 760,000 |

| June 30, | 2003 | 2002 |
|---|---|---|
| Revenues | $ 55,000 | $ 1,648,000 |
| Expenses | (55,000) | (1,981,000) |
| Income tax benefit | - | 128,000 |
| (Loss) from discontinued operations | $ - | $ (205,000) |

</TABLE>

13. SEGMENT INFORMATION The Company's reportable segments are strategic businesses that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Steiner-Atlantic Corp., Steiner-Atlantic Brokerage Corp. and DRYCLEAN USA Development Corp., wholly-owned subsidiaries of the



Company, comprise the commercial and industrial laundry and dry cleaning equipment segment. Steiner-Atlantic Corp. is a supplier of dry cleaning equipment, industrial laundry equipment

and steam boilers to customers in the United States, the Caribbean and Latin American markets. Steiner-Atlantic Brokerage Corp. acts as a business broker to assist others seeking to buy or sell existing dry cleaning and coin laundry businesses. DRYCLEAN USA Development Corp. develops turn-key dry cleaning establishments for resale to third parties.

DRYCLEAN USA License Corp. is the license and franchise operations segment.

The Company primarily evaluates the operating performance of its segments based on the categories noted in the table below. The Company has no sales between segments.

Financial information for the Company's business segments is as follows:

| Year ended June 30, | 2003 | 2002 |
|---|---|---|
| Revenues: | | |
| Commercial and industrial laundry and dry cleaning equipment | $ 13,980,780 | $ 13,947,851 |
| License and franchise operations | 336,668 | 340,653 |
| Total revenues | $ 14,317,448 | $ 14,288,504 |
| Operating income (loss): | | |
| Commercial and industrial laundry and dry cleaning equipment | $ 1,013,611 | $ 869,397 |
| License and franchise operations | 112,893 | 157,668 |
| Corporate | (250,444) | (208,900) |
| Total operating income | $ 876,060 | $ 818,165 |
| Identifiable assets: | | |
| Commercial and industrial laundry and dry cleaning equipment | $ 5,498,438 | $ 5,585,225 |
| License and franchise operations | 759,750 | 789,179 |
| Corporate | 737,454 | 778,333 |
| Assets of discontinued operations | - | 760,000 |
| Total assets | $ 6,995,642 | $ 7,912,737 |

For the years ended June 30, 2003 and 2002, export revenues, principally to the Caribbean and Latin America, aggregated approximately $2,720,000 and $2,206,000, respectively of which, approximately $2,596,000 and $2,081,000 for years ended June 30, 2003 and 2002, respectively, related to the commercial and industrial laundry and dry cleaning equipment segment. All such sales are denominated in U.S. Dollars and accordingly the Company is not exposed to risks of foreign currency fluctuations as a result of such sales.

No single customer accounted for more than 10% of the Company's revenues in 2003 and 2002.



ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

ITEM 8A. CONTROLS AND PROCEDURES.

As of the end of the period covered by this report, management of the Company, with the participation of the Company's President and principal executive officer and the Company's principal financial officer, evaluated the effectiveness of the Company's "disclosure controls and procedures," as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. Based on that evaluation, these officers concluded that, as of the date of their evaluation, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's periodic filings under the Securities Exchange Act of 1934 is accumulated and

communicated to our management, including those officers, to allow timely decisions regarding required disclosure.

During the period covered by this Report, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

The following information is presented with respect to the background of each of the directors and executive officers of the Company:

Michael S. Steiner, 47, has been President and Chief Executive Officer of the Company since the effectiveness of the Merger on November 1, 1998 and of Steiner since 1988. Mr. Steiner has been a director of the Company since the effectiveness of the Merger on November 1, 1998.

William K. Steiner, 73, has been Chairman of the Board of Steiner since he founded Steiner in 1960. Mr. Steiner has been a director of the Company since the effectiveness of the Merger on November 1, 1998.

Venerando J. Indelicato, 70, was President of the Company from December 1967 until the effectiveness of the Merger on November 1, 1998 and has been Treasurer and Chief Financial Officer of the Company since December 1969.

Lloyd Frank, 78, has been a member of the law firm of Jenkens & Gilchrist Parker Chapin LLP and its predecessor since 1977. Mr. Frank has been a director of the Company since 1977. The Company retained Jenkens & Gilchrist Parker Chapin LLP during the Company's last fiscal year and is retaining that firm during the Company's current fiscal year. Mr. Frank is also a director of Park Electrochemical Corp. and Volt Information Sciences, Inc.

David Blyer, 43, has served as a director of the Company since the effectiveness of the Merger on November 1, 1998. Mr. Blyer was Chief Executive Officer and President of Vento Software, a developer of software for specialized business applications, from 1994, when he co-founded that company, until mid-2002. Since that time, Mr. Blyer has been an independent consultant.



Alan M. Grunspan, 43, has served as a director of the Company since May 1999. Mr. Grunspan has been a member of the law firm of Kaufman Dickstein & Grunspan P. A. since 1991. The Company has retained Kaufman Dickstein & Grunspan P. A. during the Company's last fiscal year and is retaining that firm during the Company's current fiscal year.

Stuart Wagner, 71, has served as a director of the Company since the effectiveness of the Merger on November 1, 1998. Mr. Wagner has been a consultant for Diversitech Corp. since 1997. From 1975 to 1997, Mr. Wagner served as President of Wagner Products Corp., a manufacturer and distributor of products in the HVAC industry, a company which he founded.

Mr. Michael S. Steiner is the son of Mr. William K. Steiner. There are no other family relationships among any of the directors and executive officers of the Company. All directors serve until the next annual meeting of stockholders and until the election and qualification of their respective successors. All officers serve at the pleasure of the Board of Directors.

The following information is presented with respect to the background of each person who is not an executive officer but who is expected to continue to make a significant contribution to the Company:

Osvaldo Rubio, 40, has served as Vice President and Director of Sales for the Export Department of Steiner since joining Steiner in May 1993.

Ronald London, 70, has served as Vice President, primarily oversees sales of the retail Dry Cleaning Equipment Department of Steiner since joining Steiner in September 1992.

ITEM 10. EXECUTIVE COMPENSATION.

The information called for by this Item will be contained in the Company's definitive Proxy Statement with respect to the Company's 2003 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, and is incorporated herein by reference to such information.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information called for by this Item will be contained in the Company's definitive Proxy Statement with respect to the Company's 2003 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, and is incorporated herein by reference to such information, except that the information as to the Company's equity compensation plans, contained in the last paragraph of Item 5, of this Report, is incorporated by reference into this Item 11.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.
----------------------------------------------

The information called for by this Item will be contained in the Company's definitive Proxy Statement with respect to the Company's 2003 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, and is incorporated herein by reference to such information.



ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K.
--------------------------------

(a) Exhibits

2(a) Agreement of Merger dated as of July 1, 1998 among the Company, Metro-Tel Acquisition Corp., Steiner-Atlantic Corp., William K. Steiner and Michael S. Steiner. (Exhibit A of the definitive Proxy Statement of the Company filed on October 5, 1998, File No. 0-9040.)

3(a)(1) Certificate of Incorporation of the Company, as filed with the Secretary of State of the State of Delaware on June 30, 1963. (Exhibit 4.1(a) to the Company's Current Report on Form 8-K dated (date of earliest event reported) October 29, 1998, File No. 0-9040.)

3(a)(2) Certificate of Amendment to the Certificate of Incorporation of the Company, as filed with the Secretary of State of the State of Delaware on March 27, 1968. (Exhibit 4.1(b) to the Company's Current Report on Form 8-K dated (date of earliest event reported) October 29, 1998, File No. 0-9040.)

3(a)(3) Certificate of Amendment to the Certificate of Incorporation of the Company, as filed with the Secretary of State of the State of Delaware on November 4, 1983. (Exhibit 4.1(c) to the Company's Current Report on Form 8-K dated (date of earliest event reported) October 29, 1998, File No. 0-9040.)

3(a)(4) Certificate of Amendment to the Certificate of Incorporation of the Company, as filed with the Secretary of State of the State of Delaware on November 5, 1986. (Exhibit 4.1(d) to the Company's Current Report on Form 8-K dated (date of earliest event reported) October 29, 1998, File No. 0-9040.)

3(a)(5) Certificate of Change of Location of Registered Office and of Agent, as filed with the Secretary of State of the State of Delaware on December 31, 1986. (Exhibit 4.1(e) to the Company's Current Report on Form 8-K dated (date of earliest event reported) October 29, 1998, File No. 0-9040.)

3(a)(6) Certificate of Ownership and Merger of Design Development Incorporated into the Company, as filed with the Secretary of State of the State of Delaware on June 30, 1998. (Exhibit 4.1(f) to the Company's Current Report on Form 8-K dated (date of earliest event reported) October 29, 1998, File No. 0-9040.)

3(a)(7) Certificate of Amendment to the Company's Certificate of Incorporation as filed with the Secretary of State of the State of Delaware on October 30, 1998. (Exhibit 4.1(g) to the Company's Current Report on Form 8-K dated (date of earliest event reported) October 29, 1998, File No. 0-9040.)

3(a)(8) Certificate of Amendment to the Company's Certificate of Incorporation, as filed with the Secretary of State of the State of Delaware on November 5, 1999. (Exhibit 4.1 to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 1999, File No. 0-9040.)

3(b) By-Laws of the Company, as amended. (Exhibit 4.2 to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 1999, File No. 0-9040.)

4(a)(1)(A) Loan and Security Agreement, dated as of December 19, 2001, from the Company in favor of First Union National Bank.

(Exhibit 4.1(a) to the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2001, File No. 0-9040).



4(a)(1)(B) Letter agreement dated September 23, 2002 between the Company and First Union National Bank (Exhibit 4(a)(1)(B) to the Company's Annual Report on Form 10-KSB for the year ended June 30, 2002, File No. 0-0904.).

*4(a)(1)(C) Letter agreement dated October 11, 2002 between the Company and Wachovia (Exhibit 4.01 to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2002, File No. 0-9040).

4(a)(2) Term Note, dated as of December 19, 2001, from the Company in favor of First Union National Bank. (Exhibit 4.1(b) to the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2001, File No. 0-9040).

4(a)(3) Revolving Credit Note, dated as of December 19, 2001, from the Company in favor of First Union National Bank. (Exhibit 4.1(c) to the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2001, File No. 0-9040).

4(a)(4) Guaranty and Security Agreement, dated as of December 19, 2001, from Steiner-Atlantic Corp., Steiner-Atlantic Brokerage Company, DRYCLEAN USA Development Corp. and DRYCLEAN USA License Corp., subsidiaries of the Company, in favor of First Union National Bank. (Exhibit 4.1(d) to the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2001, File No. 0-9040).

10(a)(1) Lease dated October 6, 1995 between Steiner and William, K. Steiner with respect to Steiner's facilities located 290 N.E. 68th Street, 297 N.E. 67 St. and 277 N.E. 67 St. Miami, Florida. (Exhibit 10(a)(2) to the Company's Transition Report on Form 10-KSB for the transition period from January 1, 1998 to June 30, 1998, File No. 0-9040.)

10(b)(1)(i)+ Employment Agreement dated July 1, 1981 between the Company and Venerando J. Indelicato. (Exhibit 10(b)(1)(i) to the Company's Annual Report on Form 10-KSB for the year ended June 30,1995, File No. 0-9040.)

10(b)(1)(ii)+ Amendment No. 1 dated July 1, 1983 to the Employment Agreement dated July 1, 1981 between the Company and Venerando J. Indelicato. (Exhibit 10(b)(l)(ii) to the Company's Annual Report on Form 10-KSB for the year ended June 30, 1995, File No. 0-9040.)

10(b)(1)(iii)+ Amendment No. 2 dated October 30, 1998 to the Employment Agreement dated July 1, 1981 between the Company and Venerando J. Indelicato. (Exhibit 10(b)(1)(iii) to the Company's Transition Report on Form 10-KSB for the transition period from January 1, 1998 to June 30, 1998, File No. 0-9040.)

10(c)(l)+ The Company's 1991 Stock Option Plan, as amended. (Exhibit 99.3 to the Company's Current Report on Form 8-K dated (date of earliest event reported) October 29, 1998, File No. 0-9040.)

10(c)(2)+ The Company's 1994 Non-Employee Director Stock Option Plan. (Exhibit A to the Company's Proxy Statement dated October 14, 1994 used in connection with the Company's 1994 Annual Meeting of Stockholders, File No. 0-9040.)

10(c)(3)+ The Company's 2000 Stock Option Plan. (Exhibit 99.1 to the Company's Registration Statement on Form S-8, File No. 333-37582).

21 Subsidiaries of the Company. (Exhibit 21 to the Company's Annual Report on Form 10-KSB for the year ended June 30, 2001, File No. 0-9040.)

*23 Consent of BDO Seidman, LLP.

*31(a) Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 promulgated under the Securities Exchange Act of 1934.



*31(b) Certification of principal financial officer pursuant to

Section 302 of the Sarbanes-Oxley Act of 2002 promulgated under the Securities Exchange Act of 1934.

*32(a) Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*32(b) Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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* Filed with this Report. All other exhibits are incorporated herein by reference to the filing indicated in the parenthetical reference following the exhibit description.

+ Management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K

During the quarter ended June 30, 2003, the Company furnished one report on Form 8-K, dated May 14, 2003, reporting under Item 7, Financial Statements, Pro Forma Financial Information and Exhibits, and Item 9, Regulation FD Disclosure (Information is Being Provided Under Item 12). No financial statements were filed with that Report.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information called for by this Item will be contained in the Company's definitive Proxy Statement with respect to the Company's 2003 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, and is incorporated herein by reference to such information.



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

DRYCLEAN USA, Inc.

Dated: September 29, 2003

By: /s/ Michael S. Steiner
Michael S. Steiner
President and Chief Executive Officer

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

| Signature | Capacity | Date |
|---|---|---|
| /s/ Michael S. Steiner<br>Michael S. Steiner | President, Chief Executive Officer (Principal Executive Officer) and Director | September 29, 2003 |
| /s/ William K. Steiner<br>William K. Steiner | Director | September 29, 2003 |
| /s/ Venerando J. Indelicato<br>Venerando J. Indelicato | Chief Financial Officer (Principal Financial and Accounting Officer) and Director | September 29, 2003 |
| /s/ Lloyd Frank<br>Lloyd Frank | Director | September 29, 2003 |
| /s/ Alan M. Grunspan<br>Alan M. Grunspan | Director | September 29, 2003 |
| /s/ Stuart Wagner | Director | September 29, 2003 |

Stuart Wagner

Director

- ---------------------------------

David Blyer

</TABLE>



EXHIBIT INDEX

| Exhibit No. | Description |
|---|---|
| 2(a) | Agreement of Merger dated as of July 1, 1998 among the Company, Metro-Tel Acquisition Corp., Steiner-Atlantic Corp., William K. Steiner and Michael S. Steiner. (Exhibit A of the definitive Proxy Statement of the Company filed on October 5, 1998, File No. 0-9040.) |
| 3(a)(1) | Certificate of Incorporation of the Company, as filed with the Secretary of State of the State of Delaware on June 30, 1963. (Exhibit 4.1(a) to the Company's Current Report on Form 8-K dated (date of earliest event reported) October 29, 1998, File No. 0-9040.) |
| 3(a)(2) | Certificate of Amendment to the Certificate of Incorporation of the Company, as filed with the Secretary of State of the State of Delaware on March 27, 1968. (Exhibit 4.1(b) to the Company's Current Report on Form 8-K dated (date of earliest event reported) October 29, 1998, File No. 0-9040.) |
| 3(a)(3) | Certificate of Amendment to the Certificate of Incorporation of the Company, as filed with the Secretary of State of the State of Delaware on November 4, 1983. (Exhibit 4.1(c) to the Company's Current Report on Form 8-K dated (date of earliest event reported) October 29, 1998, File No. 0-9040.) |
| 3(a)(4) | Certificate of Amendment to the Certificate of Incorporation of the Company, as filed with the Secretary of State of the State of Delaware on November 5, 1986. (Exhibit 4.1(d) to the Company's Current Report on Form 8-K dated (date of earliest event reported) October 29, 1998, File No. 0-9040.) |
| 3(a)(5) | Certificate of Change of Location of Registered Office and of Agent, as filed with the Secretary of State of the State of Delaware on December 31, 1986. (Exhibit 4.1(e) to the Company's Current Report on Form 8-K dated (date of earliest event reported) October 29, 1998, File No. 0-9040.) |
| 3(a)(6) | Certificate of Ownership and Merger of Design Development Incorporated into the Company, as filed with the Secretary of State of the State of Delaware on June 30, 1998. (Exhibit 4.1(f) to the Company's Current Report on Form 8-K dated (date of earliest event reported) October 29, 1998, File No. 0-9040.) |
| 3(a)(7) | Certificate of Amendment to the Company's Certificate of Incorporation as filed with the Secretary of State of the State of Delaware on October 30, 1998. (Exhibit 4.1(g) to the Company's Current Report on Form 8-K dated (date of earliest event reported) October 29, 1998, File No. 0-9040.) |
| 3(a)(8) | Certificate of Amendment to the Company's Certificate of Incorporation, as filed with the Secretary of State of the State of Delaware on November 5, 1999. (Exhibit 4.1 to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 1999, File No. 0-9040.) |
| 3(b) | By-Laws of the Company, as amended. (Exhibit 4.2 to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 1999, File No. 0-9040.) |
| 4(a)(1)(A) | Loan and Security Agreement, dated as of December 19, 2001, from the Company in favor of First Union National Bank. (Exhibit 4.1(a) to the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2001, File No. 0-9040). |
| 4(a)(1)(B) | Letter agreement dated September 23, 2002 between the Company and First Union National Bank (Exhibit 4(a)(1)(B) to the Company's Annual Report on Form 10-KSB for the year ended June 30, 2002, File No. 0-0904.). |

*4(a)(1)(C) Letter agreement dated October 11, 2002 between the Company and Wachovia (Exhibit 4.01 to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2002, File No. 0-9040).

4(a)(2) Term Note, dated as of December 19, 2001, from the Company in favor of First Union National Bank. (Exhibit 4.1(b) to the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2001, File No. 0-9040).

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10(b)(1)(i)+ Employment Agreement dated July 1, 1981 between the Company and Venerando J. Indelicato. (Exhibit 10(b)(1)(i) to the Company's Annual Report on Form 10-KSB for the year ended June 30,1995, File No. 0-9040.)

10(b)(1)(ii)+ Amendment No. 1 dated July 1, 1983 to the Employment Agreement dated July 1, 1981 between the Company and Venerando J. Indelicato. (Exhibit 10(b)(l)(ii) to the Company's Annual Report on Form 10-KSB for the year ended June 30, 1995, File No. 0-9040.)

10(b)(1)(iii)+ Amendment No. 2 dated October 30, 1998 to the Employment Agreement dated July 1, 1981 between the Company and Venerando J. Indelicato. (Exhibit 10(b)(1)(iii) to the Company's Transition Report on Form 10-KSB for the transition period from January 1, 1998 to June 30, 1998, File No. 0-9040.)

10(c)(l)+ The Company's 1991 Stock Option Plan, as amended. (Exhibit 99.3 to the Company's Current Report on Form 8-K dated (date of earliest event reported) October 29, 1998, File No. 0-9040.)

10(c)(2)+ The Company's 1994 Non-Employee Director Stock Option Plan. (Exhibit A to the Company's Proxy Statement dated October 14, 1994 used in connection with the Company's 1994 Annual Meeting of Stockholders, File No. 0-9040.)

10(c)(3)+ The Company's 2000 Stock Option Plan. (Exhibit 99.1 to the Company's Registration Statement on Form S-8, File No. 333-37582).

21 Subsidiaries of the Company. (Exhibit 21 to the Company's Annual Report on Form 10-KSB for the year ended June 30, 2001, File No. 0-9040.)

*23 Consent of BDO Seidman, LLP.

*31(a) Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 promulgated under the Securities Exchange Act of 1934.

*31(b) Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 promulgated under the Securities Exchange Act of 1934.

*32(a) Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.



*32(b) Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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* Filed with this Report. All other exhibits are incorporated herein by reference to the filing indicated in the parenthetical reference

following the exhibit description.

\+ Management contract or compensatory plan or arrangement.

EXHIBIT 23
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CONSENT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

DRYCLEAN USA, Inc.
Miami, Florida

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File No. 333-37574, 333-37576 and 333-37582) of our report dated September 10, 2003 relating to the consolidated financial statements of DRYCLEAN USA, Inc. appearing in the Company's Annual Report on Form 10-KSB for the fiscal year ended June 30, 2003.

BDO Seidman, LLP

Miami, Florida
September 29, 2003

Exhibit 31(a)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael S. Steiner, certify that:

1. I have reviewed this Annual Report on Form 10-KSB for the year ended June 30, 2003 of DRYCLEAN USA, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: September 29, 2003

/s/ Michael S. Steiner
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Michael S. Steiner
President and Principal
Executive Officer

Exhibit 31(b)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Venerando J. Indelicato, certify that:

1. I have reviewed this Annual Report on Form 10-KSB for the year ended June 30, 2003 of DRYCLEAN USA, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: September 29, 2003

/s/ Venerando J. Indelicato

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Venerando J. Indelicato
Treasurer and Principal
Financial Officer

EXHIBIT 32(a)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of DRYCLEAN USA, Inc. (the "Company") on Form 10-KSB for the year ended June 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael S. Steiner, Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

September 29, 2003

/s/ Michael S. Steiner
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Michael S. Steiner
President and Principal
Executive Officer

EXHIBIT 32(b)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of DRYCLEAN USA, Inc. (the "Company") on Form 10-KSB for the year ended June 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Venerando J. Indelicato, Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

September 29, 2003

/s/ Venerando J. Indelicato
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Venerando J. Indelicato
Treasurer and Principal
Financial Officer