

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended September 30, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from to

Commission file number 0-9040

DRYCLEAN USA, Inc.

(Exact name of small business issuer as specified in its charter)

DELAWARE 11-2014231
(State of other jurisdiction of (I.R.S. Employer)
incorporation or organization) Identification No.)

290 N.E. 68 Street, Miami, Florida 33138
(Address of principal executive offices)

(305) 754-4551
(Issuer's telephone number)

Not Applicable
(Former name)

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

State the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date: Common Stock, \$.025 par value per share - 7,001,250 shares outstanding as of November 10, 2000.

DRYCLEAN USA, Inc.
Condensed Consolidated Statements of Income

	For the three months ended	
	September 30,	
	2000	1999
	(Unaudited)	(Unaudited)
Net sales	4,574,476	\$ 4,559,810
Management and franchise fees, commissions and other income	340,875	174,958
Total revenues	4,915,351	4,734,768
Cost of goods sold	3,253,127	3,315,946
Selling, general and administrative expenses	1,165,522	1,010,419
Research and development	26,672	62,411
Total	4,445,321	4,388,776
Operating Income	470,030	345,992
Interest income	13,752	9,378
Interest expense	(38,300)	(42,643)

Earnings before provision for income taxes	445,482	312,727
Provision for income taxes	178,200	125,091

Net earnings	\$ 267,282	\$ 187,636
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Basic earnings per share	\$.04	\$.03
Diluted earnings per share	\$.04	\$.03

Weighted average number of shares

Basic	7,001,250	6,925,000
Diluted	7,252,856	7,308,768

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See Notes to Condensed Consolidated Financial Statements

DRYCLEAN USA, Inc
Condensed Consolidated Balance Sheets

ASSETS

	September 30, 2000 (Unaudited)	June 30, 2000
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Current Assets

Cash and cash equivalents	\$ 479,280	\$ 982,588
Accounts receivable, net	2,515,155	2,065,761
Inventories	4,466,190	4,103,680
Lease receivables	82,500	105,394
Deferred income taxes	46,135	46,135
Prepaid expenses and other	261,447	270,170

Total current assets	7,850,707	7,573,728
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Lease receivables, due after one year	30,968	45,519
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Equipment and improvements - net of accumulated depreciation and amortization	321,129	340,342
Franchise, trademarks and other intangible assets, net	681,408	621,941
Deferred tax asset	2,514	2,514

	\$ 8,886,726	\$ 8,584,044
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See Notes to Condensed Consolidated Financial Statements

DRYCLEAN USA, Inc.
Condensed Consolidated Balance Sheets

LIABILITIES AND
STOCKHOLDERS' EQUITY

	September 30, 2000 (Unaudited)	June 30, 2000
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Current Liabilities		
Accounts payable and		
accrued expenses	\$ 1,178,213	\$ 1,301,537
Line of credit	228,613	---
Income taxes payable	126,695	281,944
Customer deposits	568,505	374,396
Current portion of long term debt	480,000	480,000

Total current liabilities	2,582,026	2,437,877

Term loan, less current portion	1,040,000	1,160,000

Total liabilities	3,622,026	3,597,877

Stockholders' Equity		
Common stock, \$.025 par value; 15,000,000 shares authorized; 7,027,500 and 7,016,250 shares issued and outstanding at September 30 and June 30, 2000, respectively, including 26,250 shares held in treasury		
	175,688	175,406
Additional paid-in capital	2,048,571	2,037,602
Retained earnings	3,040,441	2,773,159

Total stockholders' equity	5,264,700	4,986,167

	\$ 8,886,726	\$ 8,584,044

See Notes to Condensed Consolidated Financial Statements

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<TABLE>
<CAPTION>

DRYCLEAN USA, Inc.
Condensed Consolidated Statements of Cash Flows

	For the three months ended	
	September 30,	
	2000	1999
	(Unaudited)	Unaudited)

Operating activities:		
<S>	<C>	<C>
Net earnings	\$ 267,282	\$ 187,636
Adjustments to reconcile net earnings to cash (used) provided by operating activities		
Depreciation and amortization	38,701	34,846
Bad debts	81,619	1,383
(Increase) decrease in operating assets:		
Accounts and lease receivables	(493,568)	261,369
Inventories	(362,510)	24,033
Prepaid expenses and other	8,723	31,569
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(123,324)	(362,811)
Income taxes payable	(155,249)	38,666
Customer deposits	194,109	119,730

Net cash (used) provided by operating activities	(544,217)	336,421

Investing activities:		
Capital expenditures	(78,954)	(77,862)
Acquisition of Franchise and Licensing agreements	---	(550,000)

Net cash used by investing activities	(78,954)	(627,862)
Financing activities:		
Borrowings under line of credit	228,613	27,451
Payments on term loan	(120,000)	(120,000)
Proceeds from exercise of stock options	11,250	---
Net cash provided (used) by financing activities	119,863	(92,549)
Net decrease in cash and cash equivalents	(503,308)	(383,990)
Cash and cash equivalents at beginning of period	982,588	964,768
Cash and cash equivalents at end of period	\$ 479,280	\$ 580,778
Supplemental disclosures of cash flow information		
Cash paid during the period for		
Interest	\$ 38,300	\$ 42,643
Income taxes	\$ 333,449	\$ 117,225

</TABLE>

See Notes to Condensed Consolidated Financial Statements

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DRYCLEAN USA, Inc.

Notes To Condensed Consolidated Financial Statements

Note (1) - General: The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and the instructions to Form 10-QSB related to interim period financial statements. Accordingly, these condensed consolidated financial statements do not include certain information and footnotes required by generally accepted accounting principles for complete financial statements. However, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) which, in the opinion of management, are necessary in order to make the financial statements not misleading. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. For further information, refer to the Company's financial statements and footnotes thereto in the Company's Annual Report on Form 10-KSB for the year ended June 30, 2000. The June 30, 2000 balance sheet information was derived from audited consolidated financial statements included in the Company's Annual Report on Form 10-KSB as of that date.

Note (2) - New Accounting Pronouncements: In March 2000, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 44 (Interpretation 44), Accounting for Certain Transactions Involving Stock Compensation. Interpretation 44 provides criteria for the recognition of compensation expense in certain stock-based compensation arrangements that are accounted for under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. Interpretation 44 is effective July 1, 2000, with certain provisions that are effective retroactively to December 15, 1998 and January 12, 2000. Interpretation 44 did not have an impact on the Company's consolidated financial statements.

Note (3) - 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. 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.

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Note (3) continued

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

	For the three months ended	
	September 30,	
	2000	1999
	(Unaudited)	(Unaudited)

Revenues:		
Commercial and industrial laundry and dry cleaning equipment	3,803,088	\$3,939,736
Manufacturing and sales of telephone test equipment	907,544	754,793
License and franchise operations	204,719	40,239

Total revenues	\$4,915,351	\$4,734,768
=====		
Operating income (loss)		
Commercial and industrial laundry and dry cleaning equipment	\$ 260,307	\$ 360,225
Manufacturing and sales of telephone test equipment	32,843	(30,859)
License and franchise operations	176,880	16,626

Total operating income	\$ 470,030	\$ 345,992
=====		
Identifiable assets:		
Commercial and industrial laundry and dry cleaning equipment	\$5,570,320	\$4,682,484
Manufacturing and sales of telephone test equipment	2,487,140	2,247,802
License and franchise operations	829,266	661,624

Total assets	\$8,886,726	\$7,591,910
=====		

Management's Discussion and Analysis Or Plan of Operation

Liquidity and Capital Resources

For the three months ended September 30, 2000, cash decreased by \$503,308. For the three month period ended September 30, 1999, cash decreased by \$383,990.

For the first three months of fiscal 2001, operating activities used cash of \$544,217, principally to support an increase in accounts and lease receivables (\$493,568) and inventories (\$362,510) and to reduce accounts payable and accrued expenses (\$123,324) and income taxes payable (\$155,249). These uses were partially offset by the Company's net income of \$267,282, non-cash expenses of \$38,701 for depreciation and amortization and \$81,619 in bad debt expense. Additional cash was provided by an increase in customer's deposits (\$194,109) and a decrease in prepaid expenses (\$8,723). Of the cash generated by operating activities in the first quarter of fiscal 2000 (\$336,421), \$187,636 was provided by net income and \$34,846 and \$1,383 was derived from non-cash expenses for depreciation and amortization and bad debts, respectively. Additional cash was provided by a decrease in accounts and lease receivables (\$261,369), inventories (\$24,033) and pre-paid expenses and other assets (\$31,569). Cash was also provided by an increase in customer deposits (\$119,730) and income taxes payable (\$38,666) which partially offset a decrease in accounts payable and accrued expenses (\$362,811).

During the first quarter of fiscal 2001, investing activities used cash of \$78,954 to acquire capital assets. During the first quarter of fiscal 2000, investing activities used cash of \$627,862, to fund the acquisition of Dryclean USA License Corp. for \$550,00 and \$77,862 to purchase other capital assets.

Financing activities provided cash of \$119,863 for the three month period ended September 30, 2000, principally due to the borrowing of \$228,613 under the Company's line of credit and \$11,250 from the exercise of stock options. This was partially offset by the monthly installment payments made on the Company's term loan (\$120,000). For the same period of fiscal 2000, financing activities consumed cash of \$92,549, mostly to make payments on the Company's term loan (\$120,000) which was offset, in part, by the borrowing of \$27,451 under the Company's line of credit.

The Company believes that its present cash, cash it expects to generate from operations and cash borrowings under its \$2,250,000 line of credit will be sufficient to meet its operational needs.

Results of Operations

Total revenues for the three month period ended September 30, 2000 increased by \$180,583 (3.8%) over the same period of fiscal 2000. Revenues of the laundry and dry cleaning equipment segment decreased by \$136,648 (3.5%) principally due to a reduction in sales volume of laundry equipment. Revenues of the Company's telecommunication segment increased by \$152,751 (20.2%) mostly due to increased sales volume of outside plant test equipment. The Company's license and franchise segment, which was acquired in July 1999, increased its revenues for the

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first quarter of fiscal 2001 by \$164,480 (408.8%) over the first quarter in fiscal 2000, mostly due to initial license fees and increased royalty payments

Costs of goods sold, expressed as a percentage of net sales improved to 71.1% in the first quarter of fiscal 2001 from 72.7% for the first quarter of fiscal 2000. The improvement was principally due to the increase in sales in the telecommunication division, which historically carries a higher margin, and a more profitable product mix than sales of laundry and dry cleaning equipment.

For the first quarter of fiscal 2001, selling, general and administrative expenses increased by \$155,103 (15.4%) over the same period of fiscal 2000. The increase was attributable to increased advertising and sales expense in the telecommunications division and an increase in the reserve for bad debts in the laundry and dry cleaning equipment segment. The increase in the reserve for bad debts was primarily attributable to a \$50,000 reserve against amounts receivable for management fees from an entity controlled by one of the Company's principal shareholders.

Research and development expenses, which relate solely to the telecommunications operation, decreased by \$ 35,739 (57.3%) in the first quarter of fiscal 2001, mostly due to a reduction in salary expense while the Company is continuing its search to replace its former Director of Engineering. In the interim, new products are being designed with the help of outside consultants. The amount expended for the outside consultants was less than the amount expended for the former Director of Engineering.

As a result of the foregoing, operating income increased by \$124,038 (35.8%) for the first quarter of fiscal 2001 over the comparable period of fiscal 2000 and as a percentage of total revenues increased to 9.6% from 7.3%, respectively.

Interest income increased by \$4,374 (46.6%) during the first quarter of fiscal 2001 over the first quarter of fiscal 2000 as a result of additional interest earned on daily bank balances.

Interest expense decreased by \$4,343 (10.2%) in the first quarter of fiscal 2001 from the same period in fiscal 2000, primarily due to a reduction in average amounts of outstanding debt during the fiscal 2001 period, which was partially offset by higher interest rates.

The provision for income taxes increased by \$53,109 (42.5%) in the first three months of fiscal 2001 over the same period of fiscal 2000, due to the increase in pre-tax profit. The effective tax rate in each period was 40.0%.

Net earnings increased by \$79,646 (42.4%) in the first quarter of fiscal 2001

over the first quarter of fiscal 2000.

Inflation

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

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New Accounting Pronouncements

In March 2000, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 44 (Interpretation 44), Accounting for Certain Transactions Involving Stock Compensation. Interpretation 44 provides criteria for the recognition of compensation expense in certain stock-based compensation arrangements that are accounted for under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. Interpretation 44 is effective July 1, 2000, with certain provisions that are effective retroactively to December 15, 1998 and January 12, 2000. Interpretation 44 did not have an impact on the Company's consolidated financial statements.

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Securityholders.

At the Company's 2000 Annual Meeting of Stockholders held on November 10, 2000, the Company's stockholders:

(a) Reelected the Company's then existing Board of Directors by the following votes:

	Votes	
	For	Withheld
Michael S. Steiner	6,494,467	36,642
William K. Steiner	6,494,461	36,648
Venerando J. Indelicato	6,492,125	38,984
David Blyer	6,492,171	38,938
Lloyd Frank	6,494,559	36,550
Alan Grunspan	6,494,559	36,550
Stuart Wagner	6,494,559	36,550

(b) Approved Company's 2000 Stock Option Plan by a vote of 5,602,314 shares in favor and 65,041 shares against, with 7,285 shares abstaining and 856,469 broker non-votes.

Item 7. Exhibits and Reports on Form 8-K

(a) Exhibits

27. Financial Data Schedule

(b) Reports on Form 8-K

No Current Reports on Form 8-K were filed by the Company during the period covered by this report.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DRYCLEAN USA, Inc.

Dated: November 10, 2000 By: /s/ Michael S. Steiner

Michael S. Steiner, President
and Chief Executive Officer

Date: November 10, 2000 By: /s/ Venerando J. Indelicato

Venerando J. Indelicato
Treasurer and
Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description
-----	-----
27	Financial Data Schedule

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