CLEAN SYSTEMS TECHNOLOGY GROUP LTD
Form 10QSB
November 19, 2002

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

FORM 10-QSB

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended SEPTEMBER 30, 2002

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGES ACT

For the transition period from ____________________ to ______________

Commission file number 000-14646

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.
(Exact name of Small Business Issuer as Specified in Its Charter)

NEW YORK	06-1113228
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
4 Ashlagan Street, P.O. Box 8624, Kiryat Gat, Israel	82021
(Address of principal executive offices)	(Zip Code)

011 972 8 660 2108 (Issuer's telephone number, including area code)

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 [ ]

The number of shares outstanding of the registrant's Common Stock, $0.01 Par Value, on November 13, 2002 was 42,766,087 shares.

Transitional Small Business Disclosure Format (check one):

Yes ____X____ No ___________

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PART I - FINANCIAL INFORMATION

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-QSB contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements, which are other than statements of historical facts. These statements are subject to uncertainties and risks including, but not limited to, product and service demand and acceptance, changes in technology, economic conditions, the impact of competition and pricing, government regulation, and other risks defined in this document and in statements filed from time to time with the Securities and Exchange Commission. These cautionary statements and any other cautionary statements that may accompany the forward-looking statements expressly qualify all such forward-looking statements. In addition, Clean Systems Technology Group, Ltd. disclaims any obligation to update any forward-looking statements to reflect events or circumstances after the date hereof.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2002.
(UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	$ 49
Accounts receivable - net	2,539
Inventory	2,274
Costs incurred in excess of billings on contracts in progress	568
Refundable value added tax	85
Employee advances	23
Other current assets	339
Deferred taxes	33
TOTAL CURRENT ASSETS	5,910
PROPERTY AND EQUIPMENT - NET	1,712
OTHER ASSETS	255
TOTAL ASSETS	$7,877
LIABILITIES AND SHAREHOLDERS' EQUITY:	
CURRENT LIABILITIES:	
Bank line of credit	$2,269
Accounts payable	1,934
Accrued compensation	700
Short-term loans	131
Accrued expenses	292
Other liabilities	92
TOTAL CURRENT LIABILITIES	5,418

CONVERTIBLE NOTES	1,312
BANK LOANS	18
COMMITMENTS AND CONTINGENCIES	--
SHAREHOLDERS' EQUITY:	
Common stock, $.01 par value, 110,000,000 shares authorized, 42,766,087, issued and outstanding	428
Additional paid-in capital	428
Retained earnings	273
TOTAL SHAREHOLDERS' EQUITY	1,129
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$7,877

See Notes to Consolidated Financial Statements.

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDE SEPTEMBER 30,	
	2 0 0 2	2 0 0 1	2 0 0 2	2 0
REVENUES	$ 1,512	$ 2,158	$ 6,189	$
COST OF REVENUE	1,196	1,100	4,360	
GROSS PROFIT	316	1,058	1,829	
OPERATING EXPENSES:				
Selling, general and administrative	475	739	1,742	

[LOSS] INCOME FROM OPERATIONS	(159)	319	87	
INTEREST EXPENSE	(164)	(29)	(317)	
OTHER (EXPENSE) INCOME	(57)	186	(308)	
[LOSS] INCOME BEFORE PROVISION FOR INCOME TAXES	(380)	476	(538)	
PROVISION FOR INCOME TAX EXPENSE [BENEFIT]	(17)	(57)	(5)	
NET [LOSS] INCOME	$ (363)	$ 533	$ (533)	$
NET [LOSS] INCOME PER SHARE - BASIC	$ (.01)	$ .01	$ (.01)	$
NET [LOSS] INCOME PER SHARE - DILUTED	$ (.01)	$ .01	$ (.01)	$
WEIGHTED AVERAGE NUMBER OF COMMON SHARES - BASIC	42,766,087	42,766,087	42,766,087	42,7
WEIGHTED AVERAGE NUMBER OF COMMON SHARES - DILUTED	42,766,087	43,809,087	42,766,087	43,8

See Notes to Consolidated Financial Statements.

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(UNAUDITED)
(IN THOUSANDS, EXCEPT NUMBER OF SHARES DATA)

	COMMON STOCK NUMBER OF SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	T RET EAR
BALANCE DECEMBER 31, 2001	42,766,087	$ 428	$ 428	$

Net [Loss]	--	--	--	
BALANCE SEPTEMBER 30, 2002	42,766,087	$ 428	$ 428	$

See Notes to Consolidated Financial Statements.

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE
(UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	NINE MONTHS ENDED SEPTEMBER 30, 2 0 0 2	NINE MONTHS ENDED SEPTEMBER 30, 2 0 0 1
OPERATING ACTIVITIES:		
Net [loss] income	$ (533)	$ 2,125
Adjustments to reconcile net [loss] income to net cash (used for) operating activities:		
Amortization and depreciation	281	133
Loss from the sale of property and equipment	50	1
Change in accrued severance pay - net	20	22
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable - net	(1,055)	(458)
Accounts receivable - related party	129	--
Inventory	23	(835)
Costs incurred in excess of billings on contracts in progress	(231)	(870)
Refundable value added tax	(13)	79
Employee advances	7	(19)
Other current assets	(309)	(58)
Deferred taxes	1	(44)
Increase (decrease) in:		
Accounts payable	293	(887)
Accrued compensation	244	69
Accrued expenses	(86)	269
Other liabilities	98	205
NET CASH - OPERATING ACTIVITIES	(1,081)	(268)

INVESTING ACTIVITIES:		
Acquisition of property and equipment	(573)	(746)
Proceeds from sale of property and equipment	--	16
Other assets	(6)	(192)
Investment in unconsolidated subsidiaries	108	--
NET CASH - INVESTING ACTIVITIES	(471)	(922)
FINANCING ACTIVITIES:		
Proceeds from convertible notes	1,009	--
Repayment of shareholder loans	--	(78)
Changes in short-term bank credit - net	777	259
Changes in short-term loans - net	(175)	(127)
Deferred loan costs	(117)	--
NET CASH - FINANCING ACTIVITIES	1,494	54
NET [DECREASE] IN CASH AND CASH EQUIVALENTS - FORWARD	$ (58)	$(1,136)

See Notes to Combined Financial Statements.

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	NINE MONTHS ENDE SEPTEMBER 30,	
	2 0 0 2	2
NET [DECREASE] IN CASH AND CASH EQUIVALENTS - FORWARDED	$ (58)	$
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIODS	107	
CASH AND CASH EQUIVALENTS - END OF PERIODS	$ 49	$
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	$ 184,000	$
Income taxes	$ 12,000	$

See Notes to Consolidated Financial Statements.

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AND
PER SHARE DATA OR AS OTHERWISE NOTED)

[1] BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Clean Systems Technology Group, Ltd. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. Accordingly, they do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, such statements include, all adjustments [consisting only of normal recurring items] considered necessary in order to make the interim financial statements not misleading. Results for the nine months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002. For further information, refer to the consolidated financial statements and footnotes thereto of the Company and management's discussion and analysis of financial condition and results of operations included in the Company's annual report on Form 10-KSB for the year ended December 31, 2001.

On October 17, 2001, Entertainment International Ltd. ("ENTI"), through its wholly-owned subsidiary ENTI Acquisition I Corp., closed a transaction (the "Transaction") providing for the acquisition of CSTI Hi-Tec, Ltd. an Israeli corporation. All of the issued and outstanding shares of CSTI Hi-Tec, Ltd. were exchanged for shares of ENTI's unregistered restricted common stock. Simultaneously with the closing, the Board of Directors authorized a one for twenty reverse stock split of all ENTI's issued and outstanding common stock. All references in the accompanying consolidated financial statements to the number of shares have been restated to reflect the reverse stock split.

For accounting purposes, the Transaction has been treated as a recapitalization of CSTI Hi-Tec, Ltd., with CSTI Hi-Tec, Ltd. as the acquirer. The shares issued in the Transaction are treated as being issued for cash and are shown as outstanding for all periods presented in the same manner as for a stock split. The consolidated financial statements reflect the results of operations of CSTI Hi-Tec, Ltd. and its subsidiaries and ENTI as of and for the three and nine months ended September 30, 2002. The consolidated financial statements for the three and nine months ended September 30, 2001, reflect the results of operations and financial position of CSTI Hi-Tec, Ltd. and its subsidiaries. Pro forma information on the Transaction is not presented as, at the date of the Transaction, ENTI was considered a public shell and accordingly, the Transaction was not considered a business combination. On December 27, 2001, ENTI amended its certificate of incorporation to change its name from Entertainment International, Ltd. to Clean Systems Technology Group, Ltd. (the "Company" or

"CSTI").

[2] SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Company are set forth in Note 1 to the Company's consolidated financial statements included in the Company's Form 10-KSB for the year ended December 31, 2001.

USE OF ESTIMATES - The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

[2] SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

REVENUE RECOGNITION - The Company follows the percentage-of-completion method of accounting for contracts that extend for periods in excess of one year. Accordingly, income is recognized in the ratio that costs incurred bears to estimated total costs. Where contracts in progress are subject to negotiation and it is probable that the additional costs will be recovered, none of the costs are recognized in the income statement until pricing has been approved. Similarly, the revenue is not recognized until realization is assured beyond a reasonable doubt. Adjustments to cost estimates are made periodically, and losses expected to be incurred on contracts in progress are charged to operations in the period such losses are determined. The aggregate of cost incurred on contracts in progress in excess of related billings is shown as a current asset, and the aggregate of billings on contracts in progress in excess of related costs incurred as shown as a current liability.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS - In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations" ("SFAS No. 141"). SFAS No. 141 changes the accounting for business combinations initiated after September 30, 2001, requiring that all business combinations be accounted for using the purchase method and that intangible assets be recognized as assets apart from goodwill if they arise from contractual or other legal rights, or if they are separable or capable of being separated from the acquired entity and sold, transferred, licensed, rented or exchanged. SFAS No. 141 is effective for all business combinations initiated after September 30, 2001. The adoption of SFAS No. 141 did not have a material impact on the Company's financial statements.

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangibles" (SFAS No. 142") SFAS No. 142 specifies the financial accounting and reporting for acquired goodwill and other intangible assets. Goodwill and intangible assets with indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. SFAS No. 142 requires that the useful lives of intangible assets acquired on or before June 30, 2001 be reassessed and the remaining amortization periods adjusted accordingly. Previously recognized intangible assets deemed to have indefinite lives shall be tested for impairment. Goodwill recognized on or before June 30, 2001, shall be assigned to one or more reporting units and shall be tested for impairment as of the beginning of the fiscal year in which SFAS No. 142 is initially applied in its entirety. As of September 30, 2002, the Company had no recorded goodwill or indefinite lived intangibles. Therefore, the Company believes that the adoption of SFAS No. 142 will not have a significant impact on its results of operations or financial position.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"), which is effective October 1, 2003. SFAS No. 143 requires, among other things, the accounting and reporting of legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, or normal operation of a long-lived asset. The Company is currently assessing, but has not yet determined, the effect of SFAS No. 143 on its financial position or results of operations.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS No. 144"). SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. SFAS No. 144 addresses accounting and reporting of all long-lived assets, except goodwill, that are either held and used or disposed of through sale or other means. The Company is currently assessing the impact of SFAS No. 144, but believes that its adoption will not have a material impact on its operating results or financial position.

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA OR AS OTHERWISE NOTED)

[2] SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS [CONTINUED] - On April 30, 2002, the Financial Accounting Standards Board (FASB) issued Statement No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections.

Statement 145 rescinds Statement 4, which required all gains and losses from extinguishments of debt to be aggregated and, if material, classified as an extraordinary item, net of any income tax effect. As a result, the criteria in Opinion No. 30 will now be used to classify those gains and losses. Statement 64 amended Statement 4 and is no longer necessary because Statement 4 has been rescinded.

Statement 145 amended Statement 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. This amendment is consistent with the FASB's goal of requiring similar accounting treatment for transactions that have similar economic effects.

This Statement also makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice.

In June 2002 the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities."

The Company expects that the adoption of the new statements will not have a significant impact on its financial statements. It is not possible to quantify the impact until the newly issued statements have been studied.

[3] INVENTORY

Inventory, which consists of raw materials, is valued at the lower of cost or market. Cost is determined by the weighted average method.

[4] NET INCOME [LOSS] PER SHARE

Earnings per share are calculated in accordance with the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"). SFAS 128 requires the reporting of both basic earnings per share, which is the weighted-average number of common shares outstanding, and diluted earnings per share, which includes the weighted-average number of common shares outstanding and all dilutive potential common shares outstanding, utilizing the treasury stock method. For the three and nine months ended September 30, 2002 and 2001, the shares issued in the Transaction are treated as outstanding for all periods presented. For the three and nine months ended September 30, 2002 and 2001, dilutive potential common shares outstanding reflect shares issuable under convertible notes [See Note 5]. The computation of diluted earnings per share does not assume conversion, exercise or contingent issuance of securities that would have an anti-dilutive effect on earnings per share. Share and per share amounts reflect the effect of the one for twenty reverse stock split in October 2001.

[5] CONVERTIBLE NOTES

During the nine months ended September 30, 2002, the Company issued $1,009 in principal convertible notes. Principal amounts of the notes may be converted by the holders into shares of Company common stock, at a conversion price of $0.875 per share, at any time from issuance until May 15, 2003. At May 15, 2003, the notes automatically convert into shares of Company common stock at a price equal to $0.875, subject to adjustment. The adjustment entitles the noteholders to receive consideration at least equal to the original principal amount of the note plus accrued interest at eight percent from the date of issuance. The consideration may be paid in cash or common stock at the sole discretion of the Company.

At September 30, 2002, interest of $63 has been accrued on the outstanding principal convertible notes.

[6] OTHER (EXPENSE) INCOME

Aggregate amounts in other (expense) income are primarily the result of foreign currency translation adjustments and capital losses on the sale of equipment. Substantially all of the Company's sales are made in U.S. dollars. In addition, a substantial portion of the Company's costs are incurred in U.S. dollars. Since the U.S. dollar is the primary currency in the economic environment in which the Company operates, the U.S. dollar is its functional currency.

During the nine months ended September 30, 2002 certain assets and liabilities were denominated in NIS while the payments to suppliers were linked to the U.S. dollar which caused a substantial translation adjustment due to the relative strength of the U.S. dollar to the New Israeli shekel in 2002.

[7] GEOGRAPHIC REPORTING

Revenues by geographic classifications are as follows:

	[IN U.S. $ THOUSA		
	ISRAEL	ITALY	INDIA
For the period ended September 30, 2002	$ 5,880	$ 284	$ 18
For the period ended September 30, 2001	$ 201	$ 7,765	$ 1,990

[8] INVESTMENT IN UNCONSOLIDATED SUBSIDIARY - AT COST

The Company has a nineteen percent (19%) interest in Altan Systems Ltd., an entity whose processes and technology may enhance CSTI's product line. The investment is carried at cost.

. . . .

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

FORWARD-LOOKING STATEMENTS

When used in this Form 10-QSB and in future filings by CSTI with the Securities and Exchange commission, the words or phrases "will likely result" and "the company expects," "will continue," "is anticipated," "estimated," "project," or "outlook" or similar expressions are intended to identify "forward-looking statements." CSTI wishes to caution readers not to place undue reliance on any such forward-looking statements, each of which speak only as of the date made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. CSTI has no obligation to publicly release the result of any revisions which may be made to any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements.

OVERVIEW

CSTI designs, engineers, manufactures, installs and services ultra high purity systems for transportation of clean gases and liquids from the source, where the gases and liquids are stored, to the point of use for the following processing industries:

- Micro-electronics (semi conductors);
- Optical fibers;
- Pharmaceuticals and Bio-technology; and
- Metal Blades.

CSTI product lines provide a total solution for the four major gas and chemical systems from source to the point of use referenced above. Since the gases and the chemicals are pure and extremely dangerous, the systems that CSTI manufactures must have the highest levels of safety and quality.

CSTI products are divided into three main categories:

o Systems for ultra high purity gases from source to point of use; o Pre-manufactured products sub-systems; and o System upgrades.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This discussion and analysis of the Company's financial condition and results of operations are based on its consolidated financial statements that have been prepared under accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. All significant accounting policies are disclosed in note 1 to the consolidated financial statements included in Form 10-KSB. The consolidated financial statements and the related notes thereto should be read in conjunction with the following discussion of the Company's critical accounting policies. Critical accounting policies and estimates are:

- Revenue Recognition
- Use of Estimates

REVENUE RECOGNITION - The Company follows the percentage-of-completion method of accounting for contracts that extend for periods in excess of one year. Accordingly, income is recognized in the ratio that costs incurred bears to estimated total costs. Adjustments to cost estimates are made periodically, and losses expected to be incurred on contracts in progress are charged to operations in the period such losses are determined. The aggregate of cost incurred and income recognized on uncompleted contracts in excess of related billings is shown as a current asset, and the aggregate of billings on uncomplete contracts in excess of related costs incurred and income recognized is shown as a current liability.

USE OF ESTIMATES - The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"), which is effective October 1, 2003. SFAS No. 143 requires, among other things, the accounting and reporting of legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, or normal operation of a long-lived asset. The Company is currently assessing, but has not yet determined, the effect of SFAS No. 143 on its financial position or results of operations.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS No. 144"). SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. SFAS No. 144 addresses accounting and reporting of all long-lived assets, except goodwill, that are either held and used or disposed of through sale or other means. The Company is currently assessing the impact of SFAS No. 144, but believes that its adoption will not have a material impact on its operating results or financial position.

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Statement 145 rescinds Statement 4, which required all gains and losses from extinguishments of debt to be aggregated and, if material, classified as an extraordinary item, net of any income tax effect. As a result, the criteria in Opinion No. 30 will now be used to classify those gains and losses. Statement 64 amended Statement 4 and is no longer necessary because Statement 4 has been rescinded.

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This Statement also makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice.

In June 2002 the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities."

The Company expects that the adoption of the new statements will not have a significant impact on its financial statements. It is not possible to quantify the impact until the newly issued statements have been studied.

The following table sets forth, as a percentage of total revenue, certain consolidated statements of operations data for the periods indicated. These operating results are not necessarily indicative of the results for any future period.

THREE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 2001 (AMOUNTS IN THOUSANDS UNLESS OTHERWISE INDICATED)

REVENUES

Revenues in 2002 of $1,512 decreased $.65 million (or 29.9%) from $2,158 in 2001. Management's strategic decision is to continue to be a premier industry leader in Israel as well as to continue to gain market share in the European and Central Asian markets, especially Italy and India, respectively. During the three months ended September 30, 2002 and 2001, revenues to customers in Israel amounted to $1,474 and $57, respectively. Revenues to Italian, Indian, and other non-domestic customers amounted to $38 and $2,101 for the three months ended September 30, 2002 and 2001, respectively. In general, the Company is not dependent upon any single customer or group of customers. The nature of the Company's business is such that it works on several large contracts at any one time. Therefore, several customers may comprise a significant portion of CSTI's revenues during any fiscal period. Once the Company installs a system for its customer, the customer is generally dependent on the Company for future upgrades of that system.

COST OF REVENUES

The following table sets forth a comparison of the costs of revenues for the periods indicated:

	THREE MONTHS ENDED SEPTEMBER 30,	
	2 0 0 2	2 0 0 1

	2002	2001
Cost of materials and inventory	$ 436	$ 55
Salaries and related expenses	501	370
Subcontractors	67	279
Cost of service abroad	13	59
Rent and taxes	35	50
Vehicles and transportation	51	138
Equipment maintenance and insurance	48	48
Depreciation	45	34
Miscellaneous	--	67
Cost of Revenues	$ 1,196	$ 1,100

Cost of revenues has increased by $0.10 million (or 9%) to $1.20 million in 2002 from $1.10 million in 2001. Costs of revenues increased despite the overall decline in revenues due to management's strategy to absorb higher job costs associated with gaining market share. Materials, inventory and subcontractors costs increased by $0.17 million to $0.50 million in 2002. The average number of employees during 2002 was 130 as compared to 83 for 2001. Other costs such as rent and taxes, transportation, equipment maintenance and insurance and depreciation decreased in relative proportion to the decrease in revenues.

GROSS PROFIT

Gross profit has decreased by $0.74 million to $0.32 million in 2002 from $1.06 million in 2001 due to the lower volume of revenues. Gross margins approximated 21% in 2002 versus 49% in 2001. The lower margins relate to the competitive pricing environment and the Company's inability to absorb its fixed production costs at a lower revenue volume. During the three months ended September 30, 2002, a substantial portion of revenues were earned in Israel while revenues earned in the comparative three month period were earned substantially outside of Israel.

SELLING, GENERAL AND ADMINISTRATIVE

The following table sets forth details regarding selling, general and administrative expenses for the periods indicated:

	THREE MONTHS ENDED SEPTEMBER 30,	
	2 0 0 2	2 0 0 1
Salaries and related expenses	$ 169	$ 165
Professional fees	111	104
Telephone and office maintenance	27	181
Travel vehicles and transportation	85	57
Depreciation	28	21
Sales and marketing	55	211
	$ 475	$ 739

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Selling, general and administrative expenses ("SG&A") have decreased $0.26 million to $0.48 million in 2002 from $0.74 million in 2001. Due to the current economic environment, management has temporarily instituted certain cost containment initiatives in the sales and marketing departments.

INTEREST EXPENSE

Interest expense increased by $135 to $164 in 2002 from $29 in 2001. The increase is primarily attributable to the higher levels of outstanding debt in 2002, and higher interest rates in 2002, as compared to 2001.

OTHER INCOME (EXPENSE)

The increase in other income (expense) of $(243) to $(57) in 2002 as compared to $186 in other income in 2001 is primarily the result of foreign currency translation adjustments and capital losses on the sale of equipment. Substantially all of the Company's sales are made in U.S. dollars. In addition, a substantial portion of the Company's costs are incurred in U.S. dollars. Since the U.S. dollar is the primary currency in the economic environment in which the Company operates, the U.S. dollar is its functional currency.

During the three months ended September 30, 2002, certain assets and liabilities were denominated in NIS while the payments to suppliers were linked to the U.S. dollar which caused a substantial translation adjustment due to the relative strength of the U.S. dollar to the New Israeli shekel in 2002 .

NINE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 2001 (AMOUNTS IN THOUSANDS UNLESS OTHERWISE INDICATED)

REVENUES

Revenues in 2002 of $6,189 decreased $3.93 million (or 38.9%) from $10,123 in 2001. During the nine months ended September 30, 2002 and 2001, revenues to customers in Israel amounted to $5,880 and $201, respectively. Revenues to Italian, Indian, and other non-domestic customers amounted to $309 and $9,922 for the nine months ended September 30, 2002 and 2001, respectively.

COST OF REVENUES

The following table sets forth a comparison of the costs of revenues for the periods indicated:

	NINE MONTHS ENDED SEPTEMBER 30, 2002	NINE MONTHS ENDED SEPTEMBER 30, 2001
Cost of materials and inventory	$ 1,007	$ 2,564
Salaries and related expenses	1,789	1,232
Subcontractors	167	456
Cost of service abroad	69	611
Rent and taxes	77	100
Vehicles and transportation	238	309

Equipment maintenance and insurance	118	68
Depreciation	134	88
Miscellaneous	27	134
Changes in work in process	734	829
Cost of Revenues	$ 4,360	$ 6,391

GROSS PROFIT

Gross profit has decreased by $1.90 million to $1.83 million in 2002 from $3.73 million in 2001. The decrease in gross profit percentage to 30% in 2002 from 37% in 2001 is due to the lower margins attained on revenues in Israel due to the pricing environment. During the nine months ended September 30, 2002, a substantial portion of revenues were earned in Israel while revenues earned in the comparative nine month period were earned substantially outside of Israel. Further, the projects worked on in the first nine months of 2002 were more labor intensive than the materials intensive projects of the first nine months of 2001.

SELLING, GENERAL AND ADMINISTRATIVE

The following table sets forth details regarding selling, general and administrative expenses for the periods indicated:

	NINE MONTHS ENDED SEPTEMBER 30,	
	2 0 0 2	2 0 0 1
Salaries and related expenses	$ 754	$ 504
Professional fees	420	345
Telephone and office maintenance	150	273
Travel vehicles and transportation	168	111
Depreciation	71	40
Sales and marketing	179	404
	$ 1,742	$ 1,677

Selling, general and administrative expenses ("SG&A") have increased $65 (or 4%) to $1.74 million in 2002 from $1.68 million in 2001. The increase is primarily attributable to the addition of three executive management positions in 2002 which were partially offset by cost reduction efforts in the sales and marketing departments.

INTEREST EXPENSE

Interest expense increased by $213 to $317 in 2002 from $104 in 2001. The increase is primarily attributable to higher level of outstanding debt in 2002 as compared to 2001.

OTHER INCOME (EXPENSE)

The increase in other expense of $(579) to $308 in 2002 as compared to income of $271 in 2001 is primarily the result of foreign currency translation adjustments and capital losses on the sale of equipment.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2002, the Company had cash and cash equivalents of $49 as compared to $102 at September 30, 2001.

Net cash used in operating activities was $1,081 for the nine months ended September 30, 2002 as compared to $268 for the nine months ended September 30, 2001. The increase in net cash used in operating activities is primarily attributable to increases in net accounts receivables offset by accounts payables and other liabilities. These net cash outflows were offset by the net change in operating results.

Net cash used in investing activities was $471 and $922 for the nine months ended September 30, 2002 and 2001, respectively. The decrease is primarily due to a decrease in property and equipment acquisitions net of an increase in equity investment in an unconsolidated subsidiary.

Net cash provided by financing activities was $1,494 versus $54 for the nine months ended September 30, 2002 and 2001, respectively. The increase was primarily due to the increased use of the bank-line of credit facility and the proceeds received from the issuance of convertible notes.

The following summarizes certain financing outstanding as of September 30, 2002:

[a] Convertible Notes - During the nine months ended September 30, 2002, the Company issued $1,009 in convertible notes. Principal amounts of the notes may be converted by the holder into shares of Company common stock, at a conversion price of $0.875 per shares, at any time from issuance until May 15, 2003. At May 15, 2003, the notes automatically convert into shares of Company common stock at a price equal to $0.875, subject to adjustment. The adjustment entitles the noteholders to receive consideration at least equal to the original principal amount of the note plus accrued interest at eight percent from the date of issuance. The consideration may be paid in cash or common stock at the sole discretion of the Company.

[b] Bank Guarantees - Certain customers require the Company to obtain bank guarantees of a portion of the contract undertaken. The Company has an agreement with the bank under which such guarantees are available. In the event the Company is unable to perform all aspects of the contracts, the bank will make contractual payments to customers and then seek reimbursement from the Company.

As of September 30, 2002, the bank had extended approximately $278 in guarantees to four customers.

Assuming there is no significant change in the business, the Company believes that additional funding such as described above and cash flow from operations and will be sufficient to fund its needs for at least the remainder of year 2002.

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ITEM 3. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation within 90 days of the filing date of this report, that our disclosure controls and procedures are effective for gathering, analyzing and disclosing the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the previously mentioned evaluation.

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PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Other than as previously disclosed in the Company's Form 10-KSB, the Company is not party to any other material legal proceedings.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits.

None.

(b) Reports on Form 8-K.

None.

SIGNATURES

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

The undersigned chief executive officer and chief financial officer of Clean Systems Technology Group, Ltd., certify that this quarterly report on Form 10-QSB for the period ended September 30, 2002, which accompanies this certification fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of the Registrant at the dates and for the periods indicated. The foregoing certification is made pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350) and no purchaser or seller of securities of any other person shall be entitled to rely upon the foregoing certification for any purpose. The undersigned expressly disclaims any obligation to update the foregoing certification except as required by law.

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

Dated: November 19, 2002

By: ----------------------------------
Jacob Lustgarten
Chief Executive Officer and
Chairman of the Board

Dated: November 19, 2002

By: ----------------------------------
Yona Leibowitz
Chief Financial Officer

SARBANES-OXLEY SECTION 302(a) CERTIFICATION

I, Jacob Lustgarten certify that:

1. I have reviewed this quarterly report on Form 10-Q of Clean Systems Technology Group, Ltd.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of 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 quarterly report;

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared.

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 19, 2002

Jacob Lustgarten
Chief Executive Officer and Chairman of the Board

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SARBANES-OXLEY SECTION 302(a) CERTIFICATION

I, Yona Leibowitz certify that:

1. I have reviewed this quarterly report on Form 10-Q of Clean Systems Technology Group, Ltd.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of 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 quarterly report;

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared.

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 19, 2002

Yona Leibowitz
Chief Financial Officer