CLEAN SYSTEMS TECHNOLOGY GROUP LTD
Form 10QSB
June 08, 2004

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, 2003

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 June 7, 2004 was 82,663,122 shares.

Transitional Small Business Disclosure Format (check one):
Yes No X

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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

Consolidated Balance Sheet as of September 30, 2003 (Unaudited).....
Consolidated Statements of Operations for the three and nine months ended September 30, 2003 (Unaudited) and 2002 (Unaudited).....
Consolidated Statement of Shareholders' Equity (Deficit) for the nine months ended September 30, 2003 (Unaudited).....
Consolidated Statements of Cash Flows for the nine months ended September 30, 2003 (Unaudited) and 2002 (Unaudited).....
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CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2003.
(UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

ASSETS:
CURRENT ASSETS:

Cash and cash equivalents	$ 6
Accounts receivable - net	1,481
Inventory	2,223
Refundable value added tax	82
Employee advances	20
Deferred taxes	2

Other	216
TOTAL CURRENT ASSETS	4,030
PROPERTY AND EQUIPMENT - NET	1,486
OTHER ASSETS	328
TOTAL ASSETS	$ 5,844
LIABILITIES AND SHAREHOLDERS' DEFICIT:	
CURRENT LIABILITIES:	
Short-term bank borrowings	$ 929
Bank line of credit	177
Accounts payable	2,136
Accrued compensation	525
Accrued expenses	483
Short term loans	68
Short term loans - related party	108
Deferred taxes	62
Other liabilities	39
TOTAL CURRENT LIABILITIES	4,527
LONG-TERM BANK DEBT	1,160
COMMITMENTS AND CONTINGENCIES	
SHAREHOLDERS' EQUITY:	
Common stock, $.01 par value, 110,000,000 shares authorized, 55,028,851, issued and outstanding	551
Additional paid-in capital	2,235
Accumulated Deficit	(2,629)
TOTAL SHAREHOLDERS' EQUITY	157
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 5,844

See Notes to the 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 ENDED SEPTEMBER 30,	
	2003	2002	2003	2002
REVENUES	$ 477	$ 1,512	$ 2,809	$ 6
COST OF REVENUE	645	1,196	2,269	4
GROSS PROFIT (LOSS)	(168)	316	540	1
OPERATING EXPENSES:				
Selling, general and administrative	466	475	1,121	1
INCOME(LOSS) FROM OPERATIONS	(634)	(159)	(581)	
INTEREST EXPENSE	(105)	(164)	(474)	
FINANCIAL COSTS	--	--	(27)	
OTHER INCOME (EXPENSE)	86	(57)	(310)	
(LOSS) BEFORE PROVISION FOR INCOME TAXES	(653)	(380)	(1,392)	
PROVISION(BENEFIT) FOR INCOME TAXES	6	(17)	62	
NET(LOSS)	$ (659)	$ (363)	$ (1,454)	$
NET (LOSS) PER SHARE - BASIC	$ (.01)	$ (.01)	$ (.03)	$
NET (LOSS) PER SHARE - DILUTED	$ (.01)	$ (.01)	$ (.03)	$
WEIGHTED AVERAGE NUMBER OF COMMON SHARES - BASIC	54,376,184	42,766,087	48,823,519	42,766
WEIGHTED AVERAGE NUMBER OF COMMON SHARES - DILUTED	54,376,184	42,766,087	48,823,519	42,766

See Notes to the Consolidated Financial Statements.

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CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

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

	COMMON STOCK		ADDITIONAL	
	NUMBER OF SHARES	AMOUNT	PAID-IN CAPITAL	ACCUMUL DEFIC
BALANCE DECEMBER 31, 2002	42,766,087	$ 428	$ 428	$ (1
ISSUANCE RELATED TO CONVERSION OF CONVERTIBLE NOTES;/	7,627,176	76	1,278	
ISSUANCE OF NEW SHARES	4,635,588	47	529	
NET (LOSS)	--	--	--	(1
BALANCE SEPTEMBER 30, 2003	55,028,851	$ 551	$ 2,235	$ (2

See Notes to the Consolidated Financial Statements.

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CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

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

	NINE MONTHS ENDED SEPTEMBER 30,	
	2003	2002
OPERATING ACTIVITIES:		
Net (loss)	$(1,454)	$ (533)
Adjustments to reconcile net (loss) to net cash (used for) operating activities:		
Amortization and depreciation	235	281
Loss from the sale of property and equipment	10	50
Change in accrued severance pay - net	--	20
Issuance of stock for services	147	--
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable - net	246	(1,055)
Accounts receivable - related party	--	129
Inventory	184	23
Costs incurred in excess of billings on contracts in progress	--	(231)
Refundable value added tax	42	(13)
Employee advances	1	7
Deferred taxes	97	1
Other current assets	(114)	(309)
Increase (decrease) in:		
Accounts payable	408	293
Accrued compensation	(210)	244
Accrued expenses	84	(86)
Other liabilities	(9)	98
NET CASH - OPERATING ACTIVITIES	(333)	(1,081)
INVESTING ACTIVITIES:		
Acquisition of property and equipment	--	(573)
Proceeds from sale of property and equipment	44	--
Investment in unconsolidated subsidiary	(50)	108
Other assets	(35)	(6)
NET CASH - INVESTING ACTIVITIES	(41)	(471)
FINANCING ACTIVITIES:		
Proceeds from short-term loans	18	--
Proceeds from convertible notes	--	1,009
Changes in bank line of credit - net	12	777
Changes in short-term loans - net	(165)	(175)
Common stock issuance	429	--
Deferred loan costs	--	(117)

Repayment of long term bank credit	(23)	--
Proceeds from long term bank credit	86	--
NET CASH - FINANCING ACTIVITIES	357	1,494
NET [DECREASE] IN CASH AND CASH EQUIVALENTS - FORWARD	$ (17)	$ (58)

See Notes to the Consolidated Financial Statements.

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

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

	NINE MONTHS ENDED SEPTEMBER 30,	
	2003	2002
NET [DECREASE] IN CASH AND CASH EQUIVALENTS - FORWARDED	$ (17)	$ (58)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIODS	23	107
CASH AND CASH EQUIVALENTS - END OF PERIODS	$ 6	$ 49
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	$ 230	$ 184
Income taxes	$	$ 12

See Notes to the 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, all adjustments [consisting of normal recurring accruals] considered necessary in order to make the interim financial statements not misleading have been included. Results for the nine months ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. These interim consolidated financial statements should be read in conjunction with 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, 2002.

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, 2003 and 2002. 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 2 to the Company's consolidated financial statements included in the Company's Form 10-KSB for the year ended December 31, 2002.

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, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates include the Company's estimate of allowance for doubtful accounts and its revenue recognition policy using the percentage of completion method of accounting for contracts.

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]

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, 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 costs 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 January 2003, the Financial Accounting Standards Board FASB issued FASB Interpretation No- 46 ("FIN 46"), "Consolidation of Variable Interest Entities - an interpretation of ARB No. 51. " FIN 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. FIN 46 applies immediately to variable interest entities created after January 31, 200 and the variable interest entities 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 variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. We believe that we have no unconsolidated variable interest entities that would be considered under the requirements of FIN 46.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS 149"), which clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133,

"Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is effective for contracts entered into or modified after September 30, 2003 and for hedging relationships designated after September 30, 2003.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"), which established standards for how an issuer classifies and measures certain financial instruments. SFAS 150 requires that an issuer classify certain financial instruments as liabilities (or assets in some circumstance) that were previously classified as equity. Financial instruments which embody an unconditional obligation requiring the issuer to redeem or repurchase it by the transfer of assets or by issuing a variable number of its equity shares must be classified as a liability. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003.

We expect that the adoption of the new statements will not have a significant impact on our financial statements.

[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 PER SHARE

Earnings per share are calculated in accordance with the provisions of Statement of 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, 2003 and 2002, the shares issued in the Transaction are treated as outstanding for all periods presented.

[5] CONVERTIBLE NOTES

During the nine months ended September 30, 2003, the Company did not issue any convertible notes.

During the second quarter of 2003, 7,627,176 common shares were issued to convert certain convertible notes issued during October 2001 to February 2002 by several investors in the Company. According to the terms and conditions of the notes, each note holder has received a number of shares which reflects his investment plus interest of 8% annually for a period of 18 months.

According to section 4 of the notes the conversion rate was fixed at $ 0.1775 as of May 15, 2003.

[6] ISSUANCE OF SHARES

In the second quarter of 2003, an aggregate of $402,000 was invested in the Company related to the issuance of 3,300,588 shares of common stock.

On August 14, 2003, 1,335,000 common shares were issued to a public relations firm for services rendered (135,000 shares) and to a Company Director as compensation (1,200,000 shares). A charge of $146,850 is included in selling, general and administrative expenses reflecting the market value of the stock on the date of issuance.

[7] OTHER (EXPENSE)

Aggregate amounts in other (expense) are primarily the result of foreign currency translation adjustments. 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, 2003, certain assets and liabilities were denominated in new Israeli Shekel ("NIS") while the payments to suppliers were linked to the U.S. dollar. This caused a substantial translation adjustment due to the relative strength of the U.S dollar to the NIS in 2003.

[8] GEOGRAPHIC REPORTING

Revenues by geographic classifications are as follows:

	[IN U.S. $ THOUSANDS]				
	ISRAEL	ITALY	OTHERS	FRANCE	TOTAL
For the period ended September 30, 2003	$2,502	$ 80	$ --	$ 227	$2,809
For the period ended September 30, 2002	$5,880	$ 284	$ 25	$ --	$6,189

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 Clean Systems 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." Clean Systems 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. Clean Systems 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:

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This discussion and analysis of the Company's financial condition and results of operations is based on its consolidated financial statements that have been prepared under accounting principles generally accepted in the United States of America. All significant accounting policies are disclosed in note 2 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 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.

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, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS - In January 2003, the Financial Accounting Standards Board FASB issued FASB Interpretation No- 46 ("FIN 46"), "Consolidation of Variable Interest Entities - an interpretation of ARB No. 51. "FIN 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. FIN 46 applies immediately to variable interest entities created after January 31, 200 and the variable interest entities 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 variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. We believe that we have no unconsolidated variable interest entities that would be considered under the requirements of FIN 46.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS 149"), which clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is effective for contracts entered into or modified after September 30, 2003 and for hedging relationships designated after September 30, 2003.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"), which established standards for how an issuer classifies and measures certain financial instruments. SFAS 150 requires that an issuer classify certain financial instruments as liabilities (or assets in some circumstance) that were previously classified as equity. Financial instruments which embody an unconditional obligation requiring the issuer to redeem or repurchase it by the transfer of assets or by issuing a variable number of its equity shares must be classified as a liability. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003.

We expect that the adoption of the new statements will not have a significant impact on our financial statements.

RESULTS OF OPERATIONS

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,		NINE MONTHS ENDED SEPTEMBER 30,	
	2003	2002	2003	2002
	%	%	%	%
Revenues	100	100	100	100
Cost of Revenues	135	79	81	70
Gross Profit	(35)	21	19	30
Selling General and Administrative	(98)	(31)	40	28
Income(loss) from Operations	(133)	(10)	(21)	2
Interest Expense	(22)	(11)	(18)	(5)
Other (Expense)	18	(4)	(11)	(5)
Income (loss) Before 50 Taxes	(137)	(25)	(50)	(8)
Income Taxes	(1)	1	(2)	(1)
Net Income	(52)	(9)	(138)	(24)

THREE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 2002 (AMOUNTS IN THOUSANDS UNLESS OTHERWISE INDICATED)

REVENUES

Revenues in 2003 of $477 decreased $1,035 (or 68%) from $1,512 in 2002. This decrease was due to the general slow down in the Israeli economy and the slowdown in particular in the industrial sector. 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. During the three months ended September 30, 2003 and 2002, revenues to customers in Israel amounted to $427 and $1,474, respectively. Revenues to non-domestic customers amounted to $50 and $38, 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,	
	2003	2002
Cost of materials and inventory	$ 152	$ 436
Salaries, subcontractors and related expenses	237	568
Cost of service abroad	17	13
Rent and taxes	43	35
Vehicles and transportation	98	51
Equipment maintenance and insurance	31	48
Depreciation and amortization	56	45
Miscellaneous	11	-
Cost of Revenues	$ 645	$ 1,196

Cost of revenues has decreased by $551 (or 46%) to$ 645 in 2003 from $1,196 in 2002. The decrease is in line with the overall decline in Company revenues. The purchase cost of materials increased in 2003 as a percentage of the revenue as compared to 2002, from 29% to 32% . Materials, inventory costs and labor as a percentage of revenues was higher in 2003 as compared to 2002. The average number of employees during 2003 was 65 as compared to 145 for 2002. Other costs such as rent and taxes, transportation, equipment maintenance and insurance and depreciation have changed in relative proportion to the decrease in revenues.

GROSS PROFIT

Gross profit has decreased by $484 (or 153%) to $(168) in 2003 from $316 in 2002.

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,	
	2003	2002

Salaries and related expenses	$ 104	$ 169
Professional fees	202	111
Telephone and office maintenance	72	27
Travel vehicles and transportation	10	85
Depreciation	41	28
Sales and marketing	37	55
	$ 466	$ 475

Selling, General and Administrative Expenses ("SG&A") have decreased $9 (or 2%) to $466 in 2003 from $ 475 in 2002. The decrease is primarily attributable to the termination of three senior employees at the end of 2002. Management's initiative to increase domestic sales efforts resulted in increased professional fees.

INTEREST EXPENSE

Interest expense decreased by $59 to $105 in 2003 from $164 in 2002. The decrease is primarily attributable to a reduction in interest rates.

OTHER INCOME (EXPENSE)

The decrease in other expense of $143 to income of $ 86 in 2003 as compared to an expense of $57 in 2002 is primarily the result of foreign currency translation adjustments. 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, 2003 and 2002, certain assets and liabilities were denominated in NIS while the payments to suppliers was linked to the U.S. dollar.

NINE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 2002(AMOUNTS IN THOUSANDS UNLESS OTHERWISE INDICATED).

REVENUES

Revenues in 2003 of $2,809 decreased $3,380 (or 55%) from $6,189 in 2002. This decrease was due to the general slow down in the Israeli economy and the slowdown in particular in the industrial sector. During the nine months ended September 30, 2003 and 2002, revenues to customers in Israel amounted to $2,502 and $5,880, respectively. Revenues to Italian, Indian, and other non-domestic costumers amounted to $307 and $309 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,	
	2003	2002
Cost of materials and inventory	$ 774	$ 1,007
Salaries, subcontractors, and related expenses	821	1,956
Cost of service abroad	85	69
Rent and taxes	101	77
Vehicles and transportation	204	238
Equipment maintenance and insurance	116	118
Depreciation	145	134
Miscellaneous	23	27
Changes in work in process	---	734
Cost of revenues	$ 2,269	$ 4,360

Cost of revenues has decreased by $2,091 (or 48%) to $2,269 in 2003 from $4,360 in 2002. The decrease is in line with the overall decline in Company revenues. The purchase cost of materials did not significantly increase in 2003 over 2002. Materials, inventory costs and labor as a percentage of revenues was 57% in 2003 as compared to 48% in 2002 reflecting large decrease in revenues. The average number of employees during 2003 was 60 as compared to 140 for 2002. Other costs such as rent and taxes, transportation, equipment maintenance and insurance and depreciation have changed in relative proportion to the decrease in revenues.

GROSS PROFIT

Gross profit has decreased by $1,289 to $540 in 2003 from $1,829 in 2002. The decrease in gross profit percentage to 19% in 2003 from 30% in 2002 is due to the lower margins attained on revenues in Israel due to the pricing environment. During the nine months ended September 30, 2003, a substantial portion of revenues was earned in Israel as well as revenues earned in the comparative nine month period for 2002. The projects worked on in the first nine months of 2003 were more labor intensive than the materials intensive projects of the first nine months of 2002.

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,	
	2003	2002

Salaries and related expenses	$ 281	$ 754
Professional fees	363	420
Telephone and office maintenance	226	150
Travel vehicles and transportation	29	168
Depreciation	98	71
Sales and marketing	124	179
	1,121	1,742

Selling, general and administrative expenses ("SG&A") have decreased $621 (or 36%) to $1,121 in 2003 from $1,742 in 2002. The decrease is primarily attributable to the termination of three executive management positions end of 2002.

Management has also instituted cost cutting program in response to slow down in activities.

INTEREST EXPENSES

Interest expense increased by $157 to $474 in 2003 from $317 in 2002. The increase is primarily attributable to a higher level of outstanding debt in 2003 as compared to 2002. Part of the increase was offset by the conversion of convertible notes to common stock in 2003.

OTHER INCOME (EXPENSE)

No material change in this category over the comparative periods.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2003, the Company had cash and cash equivalents of $6 as compared to $49 at September 30, 2002.

Net cash used in operating activities was $333 for the nine months ended September 30, 2003 as compared to $1,081 for the nine months ended September 30, 2002. The use of net cash for operating activities in 2003 is primarily attributable to net losses offset by decreases in net accounts receivables and increases in accounts payable.

Net cash used in investing activities was $41 and $471 for the nine months ended September 30, 2003 and 2002, respectively. During 2002, the Company invested in property and equipment as a consequence of an arrangement with Israeli tax authorities regarding a benefit program on new investment.

Net cash provided by financing activities was $357 and $1,494 for the nine months ended September 30, 2003 and 2002, respectively. The decrease was primarily due to a lower level of new borrowings to support the Company's working capital position in 2003 versus 2002.

The following summarizes certain financing outstanding as of September 30, 2003:

[a] 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, 2003, the bank had extended approximately $383 in guarantees to five customers.

Assuming there is improvement in the results of the business, the Company believes that additional equity funding and cash flow from operations and will be sufficient to fund its needs for at least the next twelve months.

ITEM 3. CONTROLS AND PROCEDURES.

Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by 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.

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.

99.1 - Certification of Chief Executive Officer pursuant to the Sarbanes-Oxley Act of 2002
99.2 - Certification of Chief Financial Officer pursuant to the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K.

There were no reports filed on Form 8-K during the quarter ended March 31, 2003.

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.

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

Dated: June 6, 2004

By: /s/ JACOB LUSTGARTEN

Jacob Lustgarten
Chief Executive Officer and
Chairman of the Board

Dated: June 6, 2004

By: /s/ JOYA LIEBOWITZ

Yona Liebowitz
Chief Financial Officer