CLEAN SYSTEMS TECHNOLOGY GROUP LTD
Form 10QSB
August 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 JUNE 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 August 13, 2002 was 42,766,087 shares.

Transitional Small Business Disclosure Format (check one):

Yes X No ________

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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

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CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

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

ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	$ 167
Accounts receivable - net	2,405
Inventory	2,255
Costs incurred in excess of billings on contracts in progress	575
Refundable value added tax	58
Employee advances	22
Other current assets	225
Deferred taxes	31
TOTAL CURRENT ASSETS	5,738
PROPERTY AND EQUIPMENT - NET	1,973
OTHER ASSETS	236
TOTAL ASSETS	$7,947
LIABILITIES AND SHAREHOLDERS' EQUITY:	
CURRENT LIABILITIES:	
Bank line of credit	$2,067
Accounts payable	2,163
Accrued compensation	507
Short-term loans	159
Accrued expenses	229
Other liabilities	104
TOTAL CURRENT LIABILITIES	5,229
CONVERTIBLE NOTES	1,226

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	636
TOTAL SHAREHOLDERS' EQUITY	1,492
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$7,947

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 JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2001	2002	20
REVENUES	$ 1,578	$ 4,695	$ 4,677	$
COST OF REVENUE	1,407	2,868	3,164	
GROSS PROFIT	171	1,827	1,513	
OPERATING EXPENSES:				
Selling, general and administrative	752	518	1,267	
[LOSS] INCOME FROM OPERATIONS	(581)	1,309	246	
INTEREST EXPENSE	(117)	(32)	(153)	
OTHER (EXPENSE) INCOME	24	(5)	(251)	

[LOSS] INCOME BEFORE PROVISION FOR INCOME TAXES	(674)	1,272	(158)	
PROVISION FOR INCOME TAXES	2	154	12	
NET [LOSS] INCOME	$ (676)	$ 1,118	$ (170)	$
NET [LOSS] INCOME PER SHARE - BASIC	$ (.01)	$ .03	$ --	$
NET [LOSS] INCOME PER SHARE - DILUTED	$ (.01)	$ .03	$ --	$
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 SHARE DATA)

	COMMON STOCK NUMBER OF SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
BALANCE DECEMBER 31, 2001	42,766,087	$ 428	$ 428	$ 806	$ 1,662
Net [Loss]	--	--	--	(170)	(170)
BALANCE JUNE 30, 2002	42,766,087	$ 428	$ 428	$ 636	$ 1,492

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)

	SIX MONTHS ENDED JUNE 30, 2 0 0 2	2 0 0 1
OPERATING ACTIVITIES:		
Net [loss] income	$ (170)	$ 1,592
Adjustments to reconcile net [loss] income to net cash (used for) provided by operating activities:		
Amortization and depreciation	158	83
Loss from the sale of property and equipment	--	1
Change in accrued severance pay - net	23	9
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable - net	(914)	(8)
Accounts receivable - related party	129	--
Inventory	42	41
Costs incurred in excess of billings on contracts in progress	(238)	(741)
Refundable value added tax	14	157
Employee advances	8	(33)
Other current assets	(202)	(111)
Deferred taxes	3	(69)
Increase (decrease) in:		
Accounts payable	522	(330)
Accrued compensation	48	28
Accrued expenses	(149)	53
Other liabilities	87	37
NET CASH - OPERATING ACTIVITIES	(639)	709

INVESTING ACTIVITIES:

Acquisition of property and equipment	(443)	(351)
Proceeds from sale of property and equipment	--	16
Other assets	(4)	3
Investment in unconsolidated subsidiary	(94)	--
NET CASH - INVESTING ACTIVITIES	(541)	(332)
FINANCING ACTIVITIES:		
Proceeds from convertible notes	948	--
Repayment of shareholder loans	--	(60)
Changes in short-term bank credit - net	566	(570)
Repayment of short-term loans - net	(157)	(94)
Deferred loan costs	(117)	--
NET CASH - FINANCING ACTIVITIES	1,240	(724)
NET INCREASE [DECREASE] IN CASH AND CASH EQUIVALENTS - FORWARD	$ 60	$ (347)

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)

	SIX MONTHS ENDED JUNE 30, 2 0 0 2	SIX MONTHS ENDED JUNE 30, 2 0 0 1
NET INCREASE [DECREASE] IN CASH AND CASH EQUIVALENTS - FORWARD	$ 60	$ (347)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIODS	107	1,238
CASH AND CASH EQUIVALENTS - END OF PERIODS	$ 167	$ 891
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: Cash paid for:		
Interest	$ 91	$ 75
Income taxes	$ 12	$ 83

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. 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 six months ended June 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 six months ended June 30, 2002. The consolidated financial statements for the three and six months ended June 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 June 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 June 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 March 31, 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.

[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 six months ended June 30, 2002 and 2001, the shares issued in the Transaction are treated as outstanding for all periods presented. For the three and six months ended June 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 six months ended June 30, 2002, the Company issued $948 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 June 30, 2002, interest of $38 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. 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 six months ended June 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. $ THOUSANDS]			
	ISRAEL	ITALY	INDIA	OTHER
For the period ended June 30, 2002	$ 4,406	$ 253	$ 18	$
For the period ended June 30, 2001	$ 144	$ 5,869	$ 1,659	$ 2

[8] INVESTMENT IN UNCONSOLIDATED SUBSIDIARY - AT COST

In January 2002 the Company paid $94 for a nineteen percent (19%) interest in Altan Systems Ltd., an entity whose processes and technology may enhance CSTI's product line. The investment will be 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:

o Micro-electronics (semi conductors);
o Optical fibers;
o Pharmaceuticals and Bio-technology; and
o 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 this 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:

o Revenue Recognition
o 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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS - In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS') No. 141, "Business Combinations" ("SFAS No. 141"). SFAS No. 141 changes the accounting for business combinations initiated after June 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 June 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 December 31, 2001, 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.

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

REVENUES

Revenues in 2002 of $1,578 decreased $3.12 million (or 66.4%) from $4,695 in 2001. The decrease is due to fewer new projects in 2002 as compared to 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. During the three months ended June 30, 2002 and 2001, revenues to customers in Israel amounted to $1,399 and $124, respectively. Revenues to Italian, Indian, and other non-domestic customers amounted to $179 and $4,571 for the three months ended June 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 JUNE 30, 2 0 0 2	THREE MONTHS ENDED JUNE 30, 2 0 0 1
Cost of materials and inventory	$ 443	$ 2,136
Salaries and related expenses	634	475
Subcontractors	58	112
Cost of service abroad	17	342
Rent and taxes	20	26
Vehicles and transportation	113	96
Equipment maintenance and insurance	61	23

Depreciation	45	29
Miscellaneous	16	5
Changes in work in process	--	(376)
Cost of Revenues	$ 1,407	$ 2,868

Cost of revenues has decreased by $1.46 million (or 51%) to $1.41 million in 2002 from $2.87 million in 2001. The decrease is due to the decline in revenues. Materials and inventory costs decreased by $1.70 million to $0.44 million in 2002 from $2.14 million in 2001. The lower material costs also were partially offset by the higher use of project labor costs versus 2001. The purchase cost of materials did not significantly increase in 2002 over 2001. Materials and inventory costs as a percentage of revenues was 28% in 2002 as compared to 45% in 2001. The average number of employees during 2002 was 145 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 $1.66 million to $0.17 million in 2002 from $1.83 million in 2001 due to the lower volume of revenues. Gross margins approximated 11% in 2002 versus 39% in 2001. The lower margins relate to the comparative non-absorption of the fixed production costs from the lower base revenue. During the three months ended June 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. Further, the projects worked on in the second quarter of 2002 were more labor intensive than the materials intensive projects of the second quarter of 2001.

SELLING, GENERAL AND ADMINISTRATIVE

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

	THREE MONTHS ENDED JUNE 30,	
	2 0 0 2	2 0 0 1
Salaries and related expenses	$ 307	$ 149
Professional fees	175	225
Telephone and office maintenance	72	47
Travel vehicles and transportation	38	23
Depreciation	22	10
Sales and marketing	138	64
	$ 752	$ 518

Selling, general and administrative expenses ("SG&A") have increased $0.23

million to $0.75 million in 2002 from $0.52 million in 2001. The increase is primarily attributable to the addition of three executive management positions in 2002. Management's initiative to increase sales efforts resulted in increased related expenses.

INTEREST EXPENSE

Interest expense increased by $85 to $117 in 2002 from $32 in 2001. The increase is attributable to higher levels of outstanding debt in 2002 as compared to 2001.

OTHER INCOME (EXPENSE)

The increase in other income of $29 to $24 in 2002 as compared to $(5) in other expenses in 2001 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 June 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 .

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

REVENUES

Revenues in 2002 of $4,677 decreased $3.29 million (or 41.2%) from $7,965 in 2001. The decrease is due to fewer new projects in Second Quarter 2002 as compared to 2001. During the six months ended June 30, 2002 and 2001, revenues to customers in Israel amounted to $4,406 and $144, respectively. Revenues to Italian, Indian, and other non-domestic customers amounted to $271 and $7,821 for the six months ended June 30, 2002 and 2001, respectively.

COST OF REVENUES

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

	SIX MONTHS ENDED JUNE 30, 2 0 0 2	SIX MONTHS ENDED JUNE 30, 2 0 0 1
Cost of materials and inventory	$ 571	$ 3,338
Salaries and related expenses	1,288	862
Subcontractors	100	177
Cost of service abroad	56	552
Rent and taxes	42	50
Vehicles and transportation	187	171

Equipment maintenance and insurance	70	50
Depreciation	89	54
Miscellaneous	27	37
Changes in work in process	734	--
Cost of Revenues	$ 3,164	$ 5,291

GROSS PROFIT

Gross profit has decreased by $1.16 million to $1.51 million in 2002 from $2.67 million in 2001. The decrease in gross profit percentage to 32% in 2002 from 34% in 2001 is due to the lower margins attained on revenues in Israel due to the pricing environment. During the six months ended June 30, 2002, a substantial portion of revenues were earned in Israel while revenues earned in the comparative six month period were earned substantially outside of Israel. Further, the projects worked on in the first six months of 2002 were more labor intensive than the materials intensive projects of the first six months of 2001.

SELLING, GENERAL AND ADMINISTRATIVE

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

	SIX MONTHS ENDED JUNE 30,	
	2 0 0 2	2 0 0 1
Salaries and related expenses	$ 550	$ 304
Professional fees	269	276
Telephone and office maintenance	123	92
Travel vehicles and transportation	83	54
Depreciation	43	19
Sales and marketing	199	193
	$ 1,267	$ 938

Selling, general and administrative expenses ("SG&A") have increased $0.33 million (or 35%) to $1.27 million in 2002 from $0.94 million in 2001. The increase is primarily attributable to the addition of three executive management positions as previously discussed.

INTEREST EXPENSE

Interest expense increased by $78 to $153 in 2002 from $75 in 2001. The increase is attributable to higher level of outstanding debt in 2002 as compared to 2001.

OTHER INCOME (EXPENSE)

The increase in other expense of $336 to $251 in 2002 as compared to an income of $85 in 2001 is primarily the result of foreign currency translation adjustments.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2002, the Company had cash and cash equivalents of $167 as compared to $891 at June 30, 2001.

Net cash used in operating activities was $639 for the six months ended June 30, 2002 as compared to net cash provided by operating activities of $709 for the six months ended June 30, 2001. The increase in net cash used in operating activities is primarily attributable to increases in net accounts receivables offset by accounts payables. These net cash outflows were offset by the net change in operating results.

Net cash used in investing activities was $541 and $332 for the six months ended June 30, 2002 and 2001, respectively. The increase is primarily due to the direct purchase of real estate property ($200) and an equity investment in an unconsolidated subsidiary ($100).

Net cash provided by financing activities was $1,240 versus net cash used $(724) for the six months ended June 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 June 30, 2002:

[a] Convertible Notes - During the six months ended June 30, 2002, the Company issued $948 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 June 30, 2002, the bank had extended approximately $297 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.

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 June 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: August 19, 2002

By: /s/ JACOB LUSTGARTEN

Jacob Lustgarten
Chief Executive Officer and
Chairman of the Board

Dated: August 19, 2002

By: /S/ YONA LIEBOWITZ

Yona Leibowitz
Chief Financial Officer