CLEAN SYSTEMS TECHNOLOGY GROUP LTD
Form 10QSB
April 14, 2005

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, 2004

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)

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

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 March 31, 2005 was 81,962,670 shares.

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

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Clean Systems Technology Group, Ltd
Consolidated Balance Sheet
September 30, 2004
(Unaudited)
(in thousand)

ASSETS	
Current assets:	
Cash and cash equivalents	$ 975
Account receivable - net of allowance for doubtful accounts of $116	2,696
Inventory	2,510
Other current assets	380
Total current assets	6,561
Property and equipment - net	1,048
Investment	178
Other assets	132
	$ 7,919
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Current potion long term debt - Lines of credit and notes payable	$ 2,750
Due to related parties	70
Accounts payable	1,835
Accrued expenses	477
Accrued compensation	640
Other liabilities	109
Total current liabilities	5,881
Long-term debt	395
Commitments and contingencies	-
Shareholders' equity:	
Common stock, $0.01 par value, 110,000,000 shares authorized, 81,962,670 issued and outstanding	820
Additional paid-in capital	5,411
Stock subscription receivable	(97)
Accumulated deficit	(4,491)

Total shareholders' equity	1,643
	$ 7,919

See notes to unaudited consolidated financial statements.

Clean Systems Technology Group, Ltd
Consolidated Statements of Operations
(Unaudited)
(in thousands, except per share data)

	Three months Ended		Nine
	September 30, 2004	September 30, 2003	September 2004
Revenues	$ 1,560	$ 477	$ 4,53
Cost of Revenues	914	645	2,60
Gross profit (loss)	646	(168)	1,93
Administrative and general expenses	412	466	1,21
Income (loss) from operations	234	(634)	71
Other (expense) income			
Interest expenses	(70)	(105)	(22
Other (expense) income	(26)	86	(1
Total other (expense) income	(96)	(19)	(23
Income (loss) before provision for income taxes	138	(653)	47
(Benefit) provision for income taxes	(7)	6	
Net income (loss)	$ 145	$ (659)	$ 47

Net income (loss) per share - basic	$ -	$ (0.01)	$ 0.0
Net income (loss) per share - diluted	$ -	$ (0.01)	$ 0.0
Weighted average number of common shares - basic	81,962,670	54,376,184	80,778,07
Weighted average number of common shares - diluted	81,962,670	54,376,184	80,778,07

See notes to unaudited consolidated financial statements.

Clean Systems Technology Group, Ltd
Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	Nine months Ended	
	September 30, 2004	Septemb 20
Operating Activities:		
Net income (loss)	$ 471	$ (1,
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	225	
Gain from the sale of property and equipment	-	
Issuance of common stock for services	-	
Changes in operating assets and liabilities:		
Account receivable	(1,415)	
Inventory	(295)	
Other assets	(131)	
Accounts payable	(39)	
Accrued expenses	(100)	
Accrued compensation	(102)	(
Other liabilities	(173)	
Net cash used in operating activities	(1,559)	(
Investing Activities:		

Acquisition of property and equipment	(35)	
Proceeds from sale of property and equipment	-	
Investment in unconsolidated subsidiary	-	
Net cash used in investing activities	(35)	
Financing Activities:		
Proceeds from lines of credit and notes payable	1,477	
Repayments of lines of credit and notes payable	(584)	(
Proceeds from issuance of common stock	1,108	
Offering costs associated with issuance of common stock	(20)	
Net cash provided by financing activities	1,981	
Net increase (decrease) in cash	387	
Cash and cash equivalents at beginning of period	588	
Cash and cash equivalents at end of period	$ 975	$
Supplemental disclosure of cash flow information:		
Cash Paid for:		
Interest	$ 242	$
Income taxes	$ -	$

See notes to unaudited 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 un audited consolidated financial statements of Clean Systems Technology Group, Ltd. 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 normal recurring adjustments considered necessary in order to make the interim financial statements not misleading have been included Results for the nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. These interim unaudited 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, 2003.

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. ("CSTI Hi-Tec") an Israeli corporation. All of the issued and outstanding shares of CSTI Hi-Tec 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 accounted for as a reverse acquisition under the purchase method for business combinations, and accordingly the Transaction has been treated as a recapitalization of CSTI Hi-Tec, with CSTI Hi-Tec 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 financial position and the result of operations of CSTI Hi-Tec and its subsidiaries and ENTI as of September 30, 2004 and for the three and nine months ended September 30, 2004 and 2003. 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, 2003.

Reclassifications - Certain reclassifications have been made to prior period consolidated financial statements to conform to the current period presented.

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.

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.

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.

Recent accounting pronouncements -

- In November 2004, the Financial Accounting Standards Board issued (`the FASB") issued Statement of Financial Accounting Standards No. 151 ("SFAS No. 151"), "Inventory Costs, an amendment of ARB No. 43, Chapter 4." SFAS No. 151 clarifies that abnormal inventory costs such as costs of idle facilities, excess freight and handling costs, and wasted materials (spoilage) are required to be recognized as current period costs. The provisions of SFAS No.151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management is currently evaluating the provisions of SFAS No. 151 and does not expect the adoption will have a material impact on the Company's financial position, results of operations or cash flows.

- In December 2004, the FASB finalized SFAS No. 123R "Share-Based Payment" ("SFAS 123R"), amending SFAS No. 123, effective beginning the Company's first quarter of fiscal 2006. SFAS 123R will require the Company to expense stock options based on grant date fair value in its financial statements. Further, adoption of SFAS No. 123R will require additional accounting related to income tax effects and additional disclosure regarding cash flow effects resulting from share-based payments arrangements. The adoption of SFAS 123R will not effect the Company's cash flows or financial position, but may have an adverse impact on results of operations if options are granted in the future.

- In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - an amendment for APB Opinion No. 29". This statement amends APB Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of SFAS No. 153 are effective for the Company's year ended December 31, 2006. Management is currently evaluating the impact of the adoption of SFAS No. 153 on the Company's consolidated financial position, liquidity, or results of operations.

[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, 2004 and 2003, the shares issued in the Transaction are treated as outstanding for all periods presented. Share and per share amounts reflect the effect of the one for twenty reverse stock split in October 2001.

[5] ISSUANCE OF SHARES

During the nine month ended September 30,2004, the Company issued 11,080,000 shares of common stock at $0.10, for proceeds of $1,108, inclusive of issuance costs of $20.

[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 nine months ended September 30, 2004, certain assets and liabilities were denominated in NIS (New Israeli Shekels) while the payments to suppliers were linked to the U.S. dollar. This caused a substantial translation adjustment due to relative strength of the U.S dollar to the NIS in 2004.

[7] GEOGRAPHIC REPORTING

Revenues by geographic classifications are as follows:

[In U.S. $ thousands]

	Israel	Italy	France	Total
For the three month period ended September 30, 2004	$ 163	$ 1,397	$ --	$ 1,560
For the thee month period ended September 30, 2003	$ 427	$ 50	$ --	$ 477
For the nine month period ended September 30, 2004	$ 1,499	$ 3,032	$ --	$ 4,531

For the nine month period ended September 30, 2003	$	2,502	$	80	$	227	$	2,809

Assets by geographic classifications are as follows:

	[IN U.S. $ THOUSANDS]							
		Israel		Italy		France		Total
As of September 30, 2004	$	7,116	$	803	$	--	$	7,919

[8] COMMITMENTS AND CONTINGENCIES

The Company, from time to time, is a party to claims and lawsuits, in the ordinary course of business. The Company has accrued amounts to cover such claims if management believes, with advice of counsel, that losses are probable.

The Company has initiated legal proceedings in India to recover costs incurred in a project for a European customer. Total receivable as of September 30, 2004 for this project is approximately $400,000. As management can not reasonably determine the outcome of this matter, a reserve of approximately $100,000 has been accounted for with regards to this receivable.

[9] LINE OF CREDIT

In July 2004 the Company entered into a line of credit agreement for up to $1,000,000. This line bears interest at LIBOR + 5%. The LIBOR rate at the date of the Line was approximately 1.4%. This line is available through March 31, 2006, with prescribed repayments of principal and interest throughout the life of the line of credit. This line is collateralized by the assignment of a receivable from a customer of the Company's Italian subsidiary Clean Systems Technology Italia S.r.l for approximately $983,000. In addition the Company has placed into an escrow account 1,212,121 shares of its common stock with a value of approximately $400,000, as security in the event of non-payment. The line requires a credit extension fee of 2% of the available credit, or $20,000. This fee has been recorded as a discount against net proceeds the line of credit, and is being amortized as interest expense over the life of the line.

In the event of non-payment the lender may convert any unpaid portion of the unpaid line of credit into shares of the Company's common stock at the lower of $0.20 per share or 67% of quoted market price of the Company's common stock on the date of conversion.

As of September 30, 2004, the Company has drawn approximately $746,000 from this line of credit

Through March 31, 2005, the Company has drawn approximately $850,000 under this line of credit.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Forward-looking Statements

This Quarterly Report on Form 10-QSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. 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, many of which are beyond the Company's control, 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.

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.

A strategic decision was adopted by CSTI to be involved in the fiber optic industry. Since May 2002 to date 5 types of processing machines have been developed to solve smooth fabrication and quality problems of the fibers. Those machines are to be manufactured for CSTI clients in the fiber industry. The prototype of the first machine is to be launched - January 2005.

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, the disclosure of contingent assets and liabilities 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 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. 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.

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.

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,		SIX MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
	%	%	%	%
Revenues	100	100	100	100
Cost of revenues	59	135	57	81
Administrative & general	26	98	27	40
Income (loss) from operations	15	(133)	16	(21)
Interest expense	(4)	(22)	(5)	(17)
Other (expense) income	(2)	18	-	(12)
Income (loss) before provision For income taxes	9	(137)	11	(50)
(Benefit) provision for income taxes	0	1	-	2
Net income (loss)	9	(138)	11	(52)

Three Months Ended September 30, 2004 compared with Three Months ended September 30, 2003
(Amounts in Thousands unless Otherwise Indicated)

Revenues

Revenues in 2004 of $1,560,000 increased $1,083,000 (or 227%) from $477,000 in 2003. 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, 2004 and 2003, revenues to customers in Israel amounted to 163 and 427 respectively. Revenues to non-domestic customers amounted to $1,397 and $50, 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 4	2 0 0 3
Cost of materials and inventory	$ 392,000	$ 152,000
Salaries, Subcontractors and related expenses	275,000	237,000
Cost of service abroad	94,000	17,000
Rent and taxes	44,000	43,000
Vehicles and transportation	44,000	98,000
Equipment maintenance and insurance	22,000	31,000
Depreciation and Amortization	45,000	56,000
Miscellaneous	(2,000)	11,000
Cost of Revenues	$ 914,000	$ 645,000

Cost of revenues has increased by 269$ (or 42%) to $914 in 2004 from $645 in 2003. The increase is in line with the overall increase in Company revenues. The purchase cost of materials has decreased in 2004 as a percentage of the revenue as compared to 2003, 25% and 32% respectively. Materials, inventory costs and labor as a percentage of revenues was lower in 2004 lower as compared in 2003, at 43% and 81% respectively. The average number of employees during 2004 was 58 as compared to 65 for 2003. Other costs such as rent and taxes, transportation, equipment maintenance and insurance and depreciation have changed in relative proportion to the decrease in revenues, and number of employees.

Gross Profit

Gross profit (loss) has increased by $814 (or 485%) to $646 in 2004 from $(168) in 2003.

Administrative & general expenses

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

	Three months ended September 30, 2004	Three months ended September 30, 2003
Salaries and related expenses	$ 165,000	$ 104,000
Professional fees	195,000	202,000
Telephone and office maintenance	40,000	72,000
Travel vehicles and transportation	12,000	10,000
Depreciation	27,000	41,000
Sales and marketing	(27,000)	37,000
	$ 412,000	$ 466,000

Administrative & general expenses have decreased $54,000 (or 12%) to $412 in 2004 from $466,000 in 2003.

Interest Expense

Interest expense decreased by $35,000 to $70,000 in 2004 from $105,000 in 2003. The decrease is primarily attributable, to lower rate of interest.

The decrease is primarily attributable to lower interest rates on credit lines and notes payable in 2004 as compared to 2003, and the repayments of credit lines and the conversion of the convertible notes into shares of the Company's common stock in 2003.

Other (Expense) Income

The increase in other (expense) income by $112,000 to $(26,000) in 2004 as compared to an income of $86,000 in 2003 is primarily due to 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, 2004 and 2003, certain assets and liabilities were denominated in NIS (New Israeli Shekel) while the payments to suppliers was linked to the U.S. dollar.

Nine months ended September 30, 2004 compared with nine months ended September 30, 2003(Amounts in thousands unless otherwise indicated).

Revenues

Revenues in 2004 of $4,531,000 increased by $1,722,000 (or 61%) from $2,809,000 in 2003. During the nine months ended September 30, 2004 and 2003, revenues from customers in Israel amounted to $1,499 and $2,502, respectively. Revenues to Italian, and other non-domestic costumers amounted to $3,032 and $307 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, 2004	Nine months ended September 30, 2003
Cost of materials and inventory	$ 1,063,000	$ 774,000
Salaries, subcontractors, and related expenses	854,000	821,000
Cost of service abroad	144,000	85,000
Rent and taxes	132,000	101,000
Vehicles and transportation	156,000	204,000
Equipment maintenance and insurance	109,000	116,000
Depreciation	140,000	145,000
Miscellaneous	2,000	23,000
Cost of revenues	$ 2,600,000	$ 2,269,000

The ratio of cost of revenue to revenues has varied from 57% in 2004 in comparison to 81% in 2003 mainly due to increase in revenues and improving profitability.

Gross profit

Gross profit has increased by $1,391 to $1,931 in 2004 from $540 in 2003. The increase in gross profit percentage to 43% in 2004 from 19% in 2003 is due to the margins attained on revenues due to the pricing environment. During the nine months ended September 30, 2004,a substantial portion of revenues were earned out of Israel. A change in trend compared to the comparative nine month period.

Administrative & general expenses

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

	Nine months ended September 30, 2004	Nine months ended September 30, 2003
Salaries and related expenses	$ 430,000	$ 281,000
Professional fees	435,000	363,000
Telephone and office maintenance	147,000	226,000
Travel vehicles and transportation	35,000	29,000
Depreciation	87,000	98,000
Sales and marketing	81,000	124,000
	$ 1,215,000	$ 1,121,000

Administrative and general expenses have increased by $94 (or 8%) to $1,215,000 in 2004 from $1,121,000 in 2003.The increase is primarily attributable to the increase volume of activities. Management has also instituted cost cutting program to improve cash flow.

Interest expenses

Interest expense decreased by $251,000 to $223,000 in 2004 from $474,0000 in 2003. The decrease is primarily attributable to lower level of interest rates and improve in profitability. Part of the decrease is also attributed to conversion of convertible notes to common stock.

Other (expense) income

Expense decreased by $322,000 to $15,000 in 2004 from $337,000 in 2003.

Liquidity and Capital Resources

At September 30, 2004, the Company had cash and cash equivalents of $975,000 as compared to $6,000 at September 30, 2003.

Net cash used in operating activities was $1,559,000 for the nine months ended September 30, 2004 as compared to $368,000 for the nine months ended September 30, 2003. The use of net cash for operating activities is primarily attributable to increases in accounts receivables.

Net cash used in investing activities was $35,000 and $6,000 for the nine months ended September 30, 2004 and 2003, respectively.

Net cash provided by financing activities was $1,981,000 and $ 357,000 for the nine month ended September 30, 2004 and 2003 respectively. The increase was primarily due to the sale of common stock and new borrowings to support the Company's working capital position in 2004 versus 2003.

The following summarizes certain financing outstanding as of September 30, 2004:

[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, 2004, the bank had extended approximately $95 in guarantees to five customers.

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

In July 2004 the Company entered into a line of credit agreement for up to $1,000,000. This line bears interest at LIBOR + 5%. The LIBOR rate at the date of the Line was approximately 1.4%. This line is available through March 31, 2006, with prescribed repayments of principal and interest throughout the life of the line of credit. This line is collateralized by the assignment of a receivable from a customer of the Company's Italian subsidiary Clean Systems Technology Italia S.r.l for approximately $983,000. In addition the Company has placed into an escrow account 1,212,121 shares of its common stock with a value of approximately $400,000, as security in the event of non-payment. The line requires a credit extension fee of 2% of the available credit, or $20,000. This fee has been recorded as a discount against net proceeds the line of credit, and is being amortized as interest expense over the life of the line.

In the event of non-payment the lender may convert any unpaid portion of the unpaid line of credit into shares of the Company's common stock at the lower of $0.20 per share or 67% of quoted market price of the Company's common stock on the date of conversion.

Through March 31, 2005, the Company has drawn approximately $850,000 under this line of credit.

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Item 3. Controls and Procedures.

The Company maintains "disclosure controls and procedures," as such term is defined in Rules 13a-15e and 15d-15e of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are designed to ensure that information required to be disclosed in its reports, pursuant to the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to its management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosures. In designing and evaluating the disclosure controls and procedures, management has recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures.

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's "disclosure controls and procedures" as of the end of the period covered by this Quarterly Report on Form 10-QSB. Based on their evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date the controls were evaluated.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

We sold an aggregate of 11,080,000 shares of Common Stock for gross proceeds of $1,088,000. The sales were made pursuant to Section 4(2) of the Securities Act of 1933, as amended.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4. SUBMISSIONS OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None

ITEM 5. OTHER INFORMATION

None

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

(a) Exhibits.

31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of 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 June 30, 2004.

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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: April 12, 2005

By: /S/ JACOB LUSTGARTEN
Jacob Lustgarten
Chief Executive Officer and
Chairman of the Board

Dated: April 12, 2005

By: /S/ YONA LIEBOWITZ
Yona Liebowitz
Chief Financial Officer