

CLEAN SYSTEMS TECHNOLOGY GROUP LTD  
Form 10-K  
April 30, 2003

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

FORM 10-KSB

(MARK ONE)

ANNUAL REPORT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002.

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NO. 000-14646

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.  
-----

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

NEW YORK  
-----

06-1113228  
-----

(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

(I.R.S. EMPLOYER IDENTIFICATION NO.)

4 ASHLAGAN ST., P.O. BOX 8624,  
KIRYAT GAT, ISRAEL 82021  
-----

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: 011 972 8 660 2108  
-----

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS NAME OF EACH EXCHANGE ON WHICH REGISTERED  
-----

NOT APPLICABLE NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

COMMON STOCK, \$.01 PAR VALUE  
-----

(TITLE OF CLASS)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL  
REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE  
ACT OF 1934 DURING THE PRECEDING 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 NO X .

INDICATE BY CHECK MARK IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM 405  
OF REGULATION S-K IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO THE  
BEST OF REGISTRANT'S KNOWLEDGE, IN DEFINITIVE PROXY OR INFORMATION STATEMENTS  
INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-KSB OR ANY AMENDMENT TO

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THIS FORM 10-KSB. YES X NO \_\_\_.

THE ISSUER'S NET SALES FOR THE MOST RECENT FISCAL YEAR WERE \$6,245,000.

THE AGGREGATE MARKET VALUE OF THE VOTING STOCK HELD BY NON-AFFILIATES BASED UPON THE LAST SALE PRICE ON APRIL 11, 2003 WAS APPROXIMATELY \$2,560,043.

AS OF APRIL 11, 2003 THERE WERE 42,766,087 SHARES OF COMMON STOCK, PAR VALUE \$.01 PER SHARE, ISSUED AND OUTSTANDING.

## TABLE OF CONTENTS

ITEM	PAGE
PART I	
1 Description of Business.....	1
2 Description of Property.....	5
3 Legal Proceedings.....	5
4 Submission of Matters to a Vote of Security Holders.....	5
PART II	
5 Market for Common Equity and Related Stockholder Matters.....	6
6 Management's Discussion and Analysis or Plan of Operation .....	7
7 Financial Statements.....	10
8 Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.....	10
PART III	
9 Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16 of the Exchange Act .....	11
10 Executive Compensation.....	13
11 Security Ownership of Certain Beneficial Owners and Management And Related Stockholder Matters.....	13
12 Certain Relationships and Related Transactions.....	13
PART IV	
13 Exhibits And Reports on Form 8-K.....	13
14 Controls and Procedures.....	14

SIGNATURES

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## PART I

### ITEM 1. BUSINESS

#### GENERAL

Clean Systems Technology Group, Ltd., a New York corporation (the "Company" or "CSTI"), through its operating subsidiary CSTI-Hi-Tec, Ltd. ("CSTI Hi-Tec"), designs, engineers, manufactures and installs Ultra High Purity systems for transportation of gases and liquids for companies in the processing industries. CSTI provides its products and services to customers in several countries around the world including Israel, Italy, Germany, India and the Scandanavian countries. CSTI believes that its expertise and hands-on experience in the field of ultra high purity gas and chemical systems for the process industries makes it a leader in this field (See "Business - Competition"). CSTI Hi-Tec, the Company's operating subsidiary, was formed under the laws of the state of Israel in 1995.

The Company's principal executive offices are located at 4 Ashlagan St., P.O. Box 8624, Kiryat Gat 82021, Israel, phone number 011 972 8 660 2108 and its website is [www.cstigroup.com](http://www.cstigroup.com).

The Company's consolidated sales for the fiscal years ended December 31, 2002 and 2001 were \$6,245,000 and \$10,601,000, respectively, and its consolidated net (loss) income was \$(1,981,000) and \$2,167,000, respectively, during such periods.

#### INDUSTRY OVERVIEW

Gas manufacturing and delivery systems, such as those produced by the Company, find wide use and application in the optical fibers, metal fabrication, chemicals, pharmaceuticals, semiconductor materials and other industries. Utilizing the gas and chemical delivery and distribution systems that CSTI designs and constructs, its customers create value through improved product quality, increased productivity and the attainment of efficiency objectives. CSTI's management has extensive expertise in the microelectronics industry, in particular, and has built a strong reputation for providing quality products and installations relating to research and development, production processing, utilities maintenance, gas production and delivery, vacuum systems and cryogenic systems. CSTI believes that it continues to be a major technological innovator in the industrial gases industry and, working with its customers, has increased the use of its industrial gases to support the manufacture and processing of products.

All industries, which utilize ultra high pure gases and chemicals in their fabrication, require four major gas and chemical delivery systems to handle and deliver the gases and the chemicals from the source to the point of use. See "Business - Products."

According to Semico Research Corporation, a marketing and engineering research company, the processing markets are forecasted to grow significantly over the next several years. The micro-electronics processing market alone is predicted to grow from \$156.4 billion in 2001 to \$302.8 billion in 2004.

#### THE COMPANY

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);

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- Optical fibers;
- Pharmaceuticals and Bio-technology; and
- Metal Blades.

In addition, CSTI, through its wholly owned subsidiary, CSTI Italia Fiber SRL., invested during 2002 in establishing a new facility in Italy for the engineering and design of its own process tools, including MCVD, for the fiber optics Industry. These tools offer many advantages over current products on the market.

CSTI provides its clients with a total solution commencing from the design through engineering, manufacturing and installation, positioning of the process equipment and ending in tests and certification of the delivery systems. This unique total solution provides CSTI's clients with gas and chemical quality at the point of use identical to the source from which it has been delivered.

All of CSTI's products are manufactured and tested under strict regulations, and working and quality control procedures that comply with the U.S. government's ISO 9001 standards, with respect to which CSTI has been certified since 1996. All systems, products and installations manufactured by CSTI are produced under the strictest safety procedures.

The Company's principal executive offices are located at 4 Ashlagan St., P.O. Box 8624, Kiryat Gat 82021, Israel, phone number 011 972 8 660 2108 and its website is [www.cstigroup.com](http://www.cstigroup.com). The Company is in the process of establishing offices in New York City and Orlando, Florida. The Company's New York City office will be located at 521 Fifth Avenue, 17th floor, New York, New York 10175, where it intends to provide marketing and sales, public and investor relations and financial and banking relations services. The Company's Orlando, Florida office will be located at 7380 Sand Lake Road, Suite 350, Orlando, Florida 32819-5257, where it intends to provide sales and marketing services. Clean Systems Technology Italia S.r.l is located at 20 Via Felice Casati, Milano Italy 20124. See Item 2. Properties.

### PRODUCTS

CSTI customizes distribution systems for its customers, based on the source, specific gas or chemical being distributed and the required treatment of the gas from the source to the end user. Since the gases and the chemicals are pure and extremely dangerous, these systems must comply with the highest levels of safety and quality.

CSTI product lines provide a total solution for gas and chemical systems from source to the point of use. CSTI supplies its systems as shelf products and modifies them to be custom tailored to its clients specifications. Each of CSTI's products can be used as a stand-alone system for the purpose it was designed or as a total solution when packaged together at the customer's request.

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;
- Systems upgrades.

The following is a description of these categories.

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### CSTI ULTRA HIGH PURITY SYSTEMS

In the micro-electronics, optical fibers, pharmaceuticals and bio-technology industries and other processing industries utilizing gases and chemicals in their processes, there is a need for gas systems that will handle and deliver gas from source to point of use where the actual manufacturing process takes place. CSTI product lines provide a total solution for the four major gas and chemical systems from source to the point of use. The gas systems, which "treat" the gas from source to point of use, are divided into the following four categories:

#### I) GAS SYSTEMS AT THE SOURCE:

This system deals with gas pressure and adapting the pressure at the source to the pressure required for the process. This system is also designed to recognize the level of gas in the source and change over to a substitute source once the initial source is depleted, and simultaneously complying with all safety and quality control procedures.

#### II) DISTRIBUTION SYSTEM:

A system fed from one gas line and supplying up to eight systems from it. This system is called the Valve Manifold Box (VMB) and is where the main distribution of the gases and chemicals occur and are distributed to different points of use.

#### III) POINT OF USE PANEL:

This is a system located near the process equipment, which enables the operator to control the flow/non-flow of the gas into the system and control the pressure as well.

#### IV) PROCESS TOOL GAS-BOX:

The final gas system controls the flow of the gas into the production equipment and regulates the flow and pressure during the process.

CSTI designs and manufactures each of the above systems which treat the gases. In certain instances CSTI supplies all four stages to the same client and in other cases, depending on the clients needs and requirements, CSTI supplies only part of the system. In most instances, CSTI supplies custom made systems adapted to the requirements of the client/process, but in all cases the system is custom tailored to fit the client's design, method, process philosophy and safety accessories specifications.

When CSTI designs a system for a client it does so within the following parameters and guidelines: providing the highest safety of the system; keeping the system at the highest level of quality and purity; making the system conform to the process without compromising safety and quality; insuring the efficacy of the system during normal operation and maintenance, while simultaneously maintaining its safety and quality; and ensuring continuous gas or chemical supply to the process, in particular when more than one point of use is connected to the same source.

These design parameters are implemented in all of CSTI's products. In addition, CSTI's component selection, quality assurance and quality control systems, highly trained and experienced personnel performing the production under strict working quality procedures allow CSTI to deliver products and systems that the Company believes are superior to those of its competitors. See "Competition."

### PRE-MANUFACTURED PRODUCTS SUB-SYSTEMS

The Company also provides a full line of its pre-manufactured products

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subsystems to its clients. These products are described as off the shelf products and include bulk systems for non-specialty gases, bulk systems for specialty gases and chemicals, gas distribution panels and cabinets, distribution systems and point of use systems. These products have standard specifications in contrast to the customized systems the Company builds. Although the systems are pre-manufactured with standard specifications, the system is custom tailored to fit the client's design, method, process philosophy and safety accessories specifications.

### SYSTEMS UPGRADES

In addition to designing and manufacturing new systems, CSTI upgrades and retrofits existing systems to adapt to new manufacturing processes. Many of CSTI's customers are engaged in industries where the life duration of a manufacturing process can be very short. For example, in the opinion of management, the life duration of the manufacturing process in the microelectronics industry tends to be between one and three years because of constant changes in the process as a result of market demands. The cost of process equipment is extremely high, ranging from one to ten million dollars, and therefore it is often uneconomical for a customer to invest in new equipment every 2-3 years. Instead of acquiring new systems, the Company is capable of upgrading and retrofitting existing systems to adapt to different types of gases fed into the process equipment in accordance with a new process, or the Company is able to make actual changes in the process equipment.

Internal upgrading in the process equipment is critical from the client's perspective since this impacts the most basic and essential elements of the equipment. The ability to upgrade the performance of the equipment directly affects the profitability of the client's entire manufacturing process.

### RESEARCH AND DEVELOPMENT

During the year 2002, CSTI, through its wholly owned subsidiary, CSTI Italia Fiber SRL., launched a Research and Development program and established a new facility in Italy for the engineering and design of its own process tools, including MCVD, for the fiber optics industry. These tools offer many advantages over current products on the market. The total investment in 2002 in this program was \$196,000 and it intends to invest an additional \$500,000 during 2003 in this program. The main Research and Development activity during 2002 was directed to the fiber optic industry which CSTI believes is a potentially large market.

During the fiscal years ended December 31, 2001 and 2000 CSTI did not directly expend any funds on research and development activities. Amounts dedicated to research and development have historically been included in the cost of revenue as part of the manufacturing process.

### PATENTS AND TRADEMARKS

The Company does not own any patents or trademarks, and relies on its proprietary information, technological know-how and experience to conduct its business.

In January 2002, CSTI filed an application in Israel to register the logo of CSTI as a trademark. The application is still pending as of the date hereof.

### COMPETITION

The Company competes on the basis of its ability to provide its customers a full turn-key high quality solution at a competitive price. The Company does not believe that it has any direct competitors who are able to provide such a solution. However, the Company does experience competition from large

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international and domestic gas and chemical companies that offer partial solutions to their clients and a total solution through the use of third-party sub-contractors. The Company's competitors also include installation companies. Substantially all of the Company's competitors have greater financial and/or personnel resources than the Company.

The ability of CSTI to supply comprehensive solutions to its clients gives CSTI the ability to be competitive in its pricing as compared to many of its competitors that use sub-contractors. CSTI's competitors that use sub-contractors find it difficult to afford their clients attractive prices due to the mark-ups that they must include in their cost. In addition, these competitors often have difficulties guaranteeing the quality of the systems designed by their subcontractors. The Company's total solution allows it to provide its clients with a "one stop" quality guarantee.

-2-

### GAS COMPANIES

The main competitors of CSTI are the large gas supply companies such as British Oxygen Ltd. (BOC) whose business is primarily gas supply and to a lesser extent the installation of gas delivery systems. The portion of gas systems installation revenue, where they compete with CSTI, is estimated to be, in managements opinion, between \$200- \$500 million annually. These large gas companies occasionally compete with the Company and in other instances work together and cooperate in providing the services as described below.

The primary reason that these gas supplies companies deal with the manufacture and installation of gas and chemical systems is because their clients demand that the gas companies be responsible for the systems and in some cases to operate them on a daily basis. In certain instances potential clients require their gas suppliers to be responsible for the quality of the gas at the point of use which requires the supply companies to be involved in the installation of gas systems. The gas supply company may have a contract for installation and in such instance, in effect, becomes a direct competitor of CSTI. The result is that the gas systems are not the core business nor the highest priority of the gas companies. As such, this provides CSTI with an opportunity to compete in this market because CSTI, unlike the gas supply companies, has significant experience, know how and expertise with respect to understanding the characteristic of the gases and chemicals; constructing the system to fit the gas and chemical character; familiarity with the process itself; and knowing the process demands and the daily routine of operation.

CSTI designs its products in-house and without relying on any outside source. In management's opinion, CSTI's unique design, and its ability to customize a client's delivery system and provide a total solution are among the main advantages over its competitors.

### INSTALLATION COMPANIES

There are numerous companies around the world that specialize in the installation of gas and chemical supply systems. CSTI's largest competitor in the field of installation is Kinetic Inc. Although Kinetic Inc. is one of the largest installation companies in the world, CSTI believes it has a competitive advantage over Kinetic Inc. based on its total solution, inventive products, technology, expertise and know-how.

### CUSTOMERS

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In general, CSTI is not dependent upon any single customer or several customers. However, in 2002, 26% of CSTI's revenues came from Galil Engineering Ltd. for Tower Semiconductor Ltd., 26% of CSTI's revenue came from Meissner-Baran Ltd. for Tower Semiconductor Ltd., and 18% of CSTI's revenue came from Baran Industries (91) Ltd. for governmental facilities. The nature of the Company's business is that it works on several large contracts at any given time and therefore several customers may comprise a significant portion of the Company's revenues and net income during any fiscal year. Furthermore, once the Company installs a system for its customer, the customer is generally dependent on the Company for future upgrades of the system.

CSTI is a global enterprise with 95% of its fiscal year 2001 and 5% of its fiscal year 2002 sales outside of Israel. CSTI anticipates that a larger percentage of its revenues will be derived from outside of Israel during 2003.

CSTI's customers have included Intel, Tower Semiconductor Ltd., Pirelli, Sterlite, Teva Pharmaceutical Industries Ltd., Biopharmix (Taro), Applied Materials, Galil Engineering, Iscar, BOC, Baran Industries (91) Ltd. and Meissner-Baran Ltd.

CSTI's international business is subject to risks customarily encountered in foreign operations, including fluctuations in foreign currency exchange rates and controls, import and export controls, and other economic, political and regulatory policies of local governments.

CSTI conducts its business through its Israeli and Italian subsidiaries and through joint ventures in Scandinavia, Germany and India, and intends to open offices in New York City and Orlando, Florida in order to enter the U.S. market. CSTI continues to provide its products and services to customers located in several countries around the world. In 1997 CSTI established a wholly-owned subsidiary, Clean Systems Technology Italia S.r.l, located in Milan, Italy, to provide CSTI's products and services to the Italian market similar to those provided in the Israeli market. CSTI is also considering establishing a subsidiary in India for concentration on the Asian and Indian markets. See "Company."

### SEASONALITY

As a design, manufacturing and installation company serving a diverse customer base in different countries around the world, CSTI's business is not subject to seasonal fluctuations to any significant extent.

### SUPPLIERS

CSTI is not dependent upon any one supplier for the raw materials it purchases to manufacture its products.

### EMPLOYEES AND LABOR RELATIONS

Due to the slowdown in the world economy and in the local economy CSTI underwent an efficiency increase program and consequently CSTI has significantly reduced its costs and has also reduced its labor force. CSTI has reduced its manpower to more efficiently conduct its operations and activities..

As of March 31, 2003, CSTI had approximately 69 employees worldwide, all of whom are full-time employees, approximately 80% of whom are engaged in manufacturing and installation. A detailed breakdown is as follows:

Management and administrative

7



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Finance	3
Engineering	2
Research and Development	2
Purchase and Logistic	2
Quality Safety Control	5
Contract and Installation	48
Total	69

In accordance with Section 25 of the Collective Agreements Law 1997, under Israeli law the Minister of Labor issued in 1983 an Extension Order, which extends provisions of the collective agreement between the Industrialist Union and the Histadrut (the major workers union in Israel). Although there is no direct agreement between CSTI and any workers union, in accordance with that order, CSTI is required to comply with the extended provisions, which relate to certain working and payment conditions to its workers, such as overtime payments and annual holidays. The Extension Order does not apply to employees in executive and managerial positions.

### GOVERNMENTAL REGULATIONS

The Company's business operations, in general, are not subject to any specific governmental regulations. However, for information concerning tax benefits granted by the Israeli government to the Company, see "Tax Status."

-3-

### ENVIRONMENT

The Company is not significantly affected by the costs of complying with government imposed environmental laws in Israel in connection with the manufacturing of its products. Compliance with environmental legislation in Israel and other parts of the world is the responsibility of the Company's clients. When designing and installing gas and liquid delivery systems, CSTI takes these issues into consideration, but the costs are borne by the clients.

### TAX STATUS

On August 1, 2001, CSTI was granted under Israeli law a status of "Approved Enterprise" in accordance with the Law for the Encouragement of Capital Investments 1959. Under that law, by virtue of an "Approved Enterprise" status, CSTI will be granted various tax benefits as follows:

- (1) Tax exemption on part of the income from its approved enterprise for a period of 10 years since CSTI has elected the "alternative benefits" (involving waiver of investment grants). In the event of distribution of cash dividends out of income, which was tax exempt as above, CSTI would have to pay corporate tax at the rate 25% of the amount distributed. In general, Israeli companies are currently subject to Company Tax at the rate of 36.0% of taxable income.
- (2) CSTI is entitled to claim accelerated depreciation for five tax years commencing in the first year of operation of each asset, in respect of property and equipment used by the approved enterprise.

The entitlement to the above benefits are conditional upon CSTI fulfilling the conditions stipulated by the law, regulations published thereunder and the instruments of approval for the specific investments in the approved enterprise.

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In the event of failure to comply with these conditions, the benefits may be cancelled and CSTI may be required to refund the amount of the benefits, in whole or in part, with the addition of interest.

### CONDITIONS IN ISRAEL

The Company's main operating subsidiary is incorporated under the laws of the State of Israel, and its principal executive offices and manufacturing and research and development facilities are located in the State of Israel. Accordingly, the Company is directly affected by political, economic and military conditions in Israel.

#### Political Conditions

Since the establishment of the State of Israel in 1948, a state of hostility has existed, varying in degree and intensity, between Israel and the Arab countries. While Israel has entered into peace agreements with both Egypt and Jordan and several other countries have announced their intentions to establish trade and other relations with Israel, Israel has not entered into any peace arrangement with Syria or Lebanon. Moreover, while Israel was in the process of conducting peace negotiations with the Palestinian Authority, since the commencement of the intifada in September 2000, there has been a significant deterioration in the relationship between Israel and the Palestinian Authority and as a result of fighting in Gaza and the West Bank, and terrorist activities being conducted against Israel, the peace process between the parties is no longer being negotiated at the present time. Efforts to resolve the problem have failed to result in an agreeable solution. Continued hostilities between the Palestinian community and Israel and any failure to settle the conflict may have a significant adverse effect on the Company's business. Further deterioration of hostilities into a full-scale conflict might require more widespread military reserve service by some of the Company's employees that may have a material adverse effect on the Company's business.

All male adult citizens and permanent residents of Israel under the age of 45 are, unless exempt, obligated to perform up to 30 days of military reserve duty annually. Additionally, all such residents are subject to being called to active duty at any time under emergency circumstances. Many of the Company's officers and employees are currently obligated to perform annual reserve duty. While the Company has operated effectively under these requirements since it began operations the Company cannot assess the full impact of such requirements on its workforce or business if conditions should change and the Company cannot predict the effect on it of any expansion or reduction of such obligations.

#### Economic Conditions

Israeli's economy has been subject to numerous destabilizing factors, including a period of rampant inflation in the early to mid-1980s, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and civil unrest. The Israeli government has, for these and other reasons, intervened in various sectors of the economy, by utilizing, among other means, fiscal and monetary policies, import duties, foreign currency restrictions and control of wages, prices and foreign currency exchange rates. In 1998, the Israeli currency control regulations were liberalized significantly, as a result of which Israeli residents may deal in foreign currency and non-residents of Israel may purchase and sell Israeli currency and assets. The Israeli government has periodically changed its policies in all these areas. There are currently no Israeli currency control restrictions or remittances of dividends on the ordinary shares or the proceeds from the sale of the shares, however, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time. In addition, Israeli residents are required to file reports pertaining to specific types of actions or transactions.

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The Israeli government's monetary policy contributed to relative price and exchange rate stability in recent years, despite fluctuating rates of economic growth and a high rate of unemployment. There can be no assurance that the Israeli government will be successful in its attempts to keep prices and exchange rates stable. Price and exchange rate instability may have a material adverse effect on the Company.

### Trade Relations

Israel is a member of the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development and the International Finance Corporation. Israel is a member of the World Trade Organization and is a signatory to the General Agreement on Tariffs and Trade. In addition, Israel has been granted preferences under the Generalized System of Preferences from the United States, Australis, Canada and Japan. These preferences allow Israel to export the products covered by such programs either duty-free or at reduced tariffs.

Israel and the EEC, known now as the "European Union" concluded a Free Trade Agreement in July 1975 which confers some advantages with respect to Israeli exports to most European countries and obligates Israel to lower its tariffs with respect to imports from these countries over a number of years. In 1985, Israel and the United States entered into an agreement to establish a Free Trade Area. The Free Trade Area has eliminated all tariff and some non-tariff barriers on most trade between the two countries. On January 1, 1993, an agreement between Israel and the European Free Trade Association, known as the "EFTA," established a free-trade agreement with the European Union, which includes redefinition of rules of origin and other improvements, such as allowing Israel to become a member of the Research and Technology programs of the European Union. In recent years, Israeli has established commercial and trade relations with a number of other nations, including Russia, China, India, Turkey and other nations in Eastern Europe and Asia.

### COMPANY HISTORY

On October 17, 2001 Entertainment International Ltd. ("ENTI"), a New York corporation whose shares were publicly traded on the NASD's OTC Bulletin Board, through its wholly owned subsidiary ENTI I Acquisition Corp., acquired all of the issued and outstanding shares of CSTI Hi-Tec in exchange for shares of ENTI's unregistered common stock (the "Transaction"). Simultaneously with the closing of the Transaction, ENTI effectuated a one for twenty reverse stock split effective on October 18, 2001 of all of its issued and outstanding stock. Following the closing of the Transaction, the former shareholders of CSTI Hi-Tec acquired control of ENTI. Mr. Jacob Lustgarten, the President of CSTI Hi-Tec became the Chairman and President of ENTI.

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"). CSTI's shares of common stock are currently listed on the NASD's OTC Bulletin Board under the symbol "CSTM".

-4-

### ITEM 2. PROPERTIES

CSTI currently leases 1,569 square meters of executive and manufacturing office space in the industrial zone of Kiryat Gat, Israel. The lease expires on December 31, 2003, but can be extended for a period of five years. The monthly

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lease payments are currently \$7,500 per month. CSTI has invested in leasehold improvements, including the construction of a clean room in an area of 110 square meters. In addition, CSTI owns 3,466 square meters of land in Kiryat Gat, for which it currently has no specific plans and in January 2002, CSTI acquired an additional 1,005 square meters in the same area, which it subsequently sold in July 2002. On March 14, 2002, CSTI entered into a lease agreement for a building in Migdal-Haemek consisting of 1,512 square meters in 2001 located next to the Tower Semi Conductor FAB which will allow CSTI to expand its production in the future. This facility is expected to be ready for use within approximately four months and will be used to facilitate the Company's projects in Northern Israel and to engage in research and development activities. The monthly lease payments are approximately \$3,700 per month. CSTI occupies premises at 7380 Sand Lake Road, Orlando, Florida, and 521 Fifth Avenue, New York, New York, which have been made available to CSTI at no cost by Trans Continental Leasing, an affiliate of Louis J. Pearlman, a director of the Company. (See "The Company").

CSTI believes that its current facilities are adequate for its current and expected future business.

### ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to any legal proceedings that would have a material impact on its business and operations.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders required to be reported hereunder.

-5-

## PART II

### ITEM 5. MARKET FOR CSTI'S COMMON STOCK

The Company's Common Stock currently trades under the symbol "CSTM." Prior to the Company changing its name to Clean Systems Technology Group, Ltd., the Company's Common Stock traded under the symbol "ENTM" and prior to October 17, 2001 under the symbol "ENTI." (See "Business - Company History")

Since July 5, 1995 the Company's Common Stock has traded on the NASD's OTC Bulletin Board. The price ranges presented below represent the highest and lowest quoted bid prices during each quarter for 2001, 2002 and the second quarter of 2003 (through April 11, 2003) reported by the National Quotation Bureau Service, Inc. The quotes represent prices between dealers and do not reflect mark-ups, markdowns or commissions and therefore may not necessarily represent actual transactions. All prices below reflect the 1-for-20 reverse stock split effected on October 17, 2001.

FISCAL 2001	COMMON STOCK	
	HIGH	LOW
First	\$3.80	\$2.10
Second	\$2.60	\$1.70

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Third	\$2.40	\$1.40
Fourth	\$3.00	\$1.60
FISCAL 2002		
First	\$1.75	\$1.01
Second	\$1.18	\$0.63
Third	\$0.75	\$0.63
Fourth	\$0.25	\$0.12
FISCAL 2003		
First	\$0.22	\$0.08
Second(through April 11, 2003)	\$0.23	\$0.11

On April 11, 2003, there were approximately 1,715 holders of record of CSTI's 42,766,087 outstanding shares of Common Stock.

On April 11, 2003, the last sale price of the Common Stock as reported on the OTC Bulletin Board was \$0.16.

### DIVIDEND POLICY

CSTI has never paid or declared dividends on its common stock. The payment of cash dividends, if any, in the future is within the discretion of the Board of Directors and will depend upon CSTI's earnings, its capital requirements, financial condition and other relevant factors. CSTI intends, for the foreseeable future, to retain future earnings for use in CSTI's business.

### RECENT SALES OF UNREGISTERED SECURITIES

In December 2001, the Company issued 931,574 shares of its unregistered common stock to Industrial Development Bank of Israel Ltd. ("Bank") in connection with the exercise of an option originally granted to the Bank on March 8, 1999, by CSTI Hi-Tec. The shares were issued pursuant to an exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended. The Company has a \$2,000,000 line of credit with the Bank. See "Notes to Consolidated Financial Statements - Footnote 10."

In November and December 2001, the Company issued \$240,000 in convertible notes. During 2002, the Company issued an additional \$1,009,000 in convertible notes. The principal amount of the notes may be converted by the holder into shares of the Company's common stock, at a conversion price of \$0.875 per share, at anytime from issuance until eighteen months have passed since issuance. After eighteen months, 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 (8%) from the date of issuance. The consideration may be paid in cash or common stock at the sole discretion of the Company. At December 31, 2002, the outstanding balance plus accrued interest on the notes aggregated \$1,336,000. The notes were issued pursuant to an exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended. See "Notes to Consolidated Financial Statements - Footnote 7."

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### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### FORWARD-LOOKING STATEMENTS

The following discussion should be read in conjunction with the consolidated financial statements. Certain statements contained herein may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Because such statements include risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, risks associated with the integration of businesses following an acquisition, competitors with broader product lines and greater resources, emergence into new markets, the termination of any of the Company's significant contracts, the Company's inability to maintain working capital requirements to fund future operations or the Company's inability to attract and retain highly qualified management and technical personnel.

#### 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 product 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 2 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

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### 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 uncompleted 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 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.

On April 30, 2002, the Financial Accounting Standards Board (FASB) issued Statement No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections.

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

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

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

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

The Company expects that the adoption of the new statements will not have a significant impact on its consolidated financial statements.

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### RESULTS OF OPERATIONS

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.

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 consolidated financial statements reflect the results of operations of CSTI Hi-Tec, Ltd. and its subsidiaries and ENTI from October 17, 2001 through December 31, 2002. The results of operations of the ENTI were minimal.

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.

	DECEMBER 31,	
	2 0 0 2	2 0 0 1
Revenues	100%	100%
Cost of Revenues	84%	62%
Gross Profit	16%	38%
Selling General and Administrative	35%	20%
(Loss) Income from Operations	(19)%	18%
Interest Expense	(7)%	(1)%
Other Income (Expense)	(5)%	4%
(Loss) Income Before Taxes on Income	(31)%	21%
Net (Loss) Income	(32)%	20%

YEAR ENDED DECEMBER 31, 2002 COMPARED WITH YEAR ENDED DECEMBER 31, 2001 (AMOUNTS IN THOUSANDS UNLESS OTHERWISE INDICATED)

### REVENUES

In year 2002, the Company total revenues amounted to \$6.245 million or a decline of \$4.356 million (or 41%) from \$10.601 million in 2001. Management's strategic goal is to continue to be the premier industry leader in Israel and gain market share in the European and central Asian markets, especially Italy and India. During the year ended December 31, 2002 and 2001, revenues to customers in Israel amounted to \$6,072 and \$4,444, respectively. Revenues to Italy and other non Israeli customers amounted to \$173 and \$6,157, respectively for the years ended December 31, 2002 and 2001. Generally, the Company is not dependent upon any single customer or group of customers. The nature of the Company's business is such that the Company performs 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 the system.

### COST OF REVENUES

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



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	YEARS ENDED DECEMBER 31,	
	2 0 0 2	2 0 0 1
	-----	-----
Cost of Materials and Inventory	\$2,042	\$2,920
Salaries, Subcontractors and Related Expenses	2,276	2,168
Cost of Service Abroad	87	622
Rent and Taxes	136	111
Vehicles and Transportation	284	332
Equipment Maintenance and Insurance	151	117
Depreciation and Amortization	206	153
Miscellaneous	36	124
	-----	-----
 COST OF REVENUES	 \$5,218	 \$6,547
	=====	=====

Cost of revenues has decreased by \$1.329 million (or 20%) to \$5.218 million in year 2002, from \$6.547 million in year 2001. Costs of revenues was negatively impacted due to management's strategy to absorb higher job costs associated with increasing Israeli market share.

-8-

Materials and inventory costs decreased by \$0.878 million from 2001 levels to \$2.042 million in year 2002. Material and inventory costs as a percentage of revenues was 32.7% in year 2002 as compared to 27.5% in year 2001.

Salaries and subcontractor costs increased by \$0.108 million in year 2002 to \$2.276 million versus \$2.168 million in 2001. Labor costs increased in 2002 despite the lower level of revenues as compared to the prior year. The average number of employees amounted to 114 and 83 in years 2002 and 2001, respectively. Subsequent to the first quarter of 2002, unfavorable business conditions resulted in a decline for the Company's products. The Company operates using a highly skilled labor force. As such, management delayed a decision to decrease its work force until the fourth quarter of 2002 to match appropriate revenue levels.

Costs of service abroad significantly decreased in year 2002 to \$0.087 million from \$0.622 million in year 2001 due to the lack of projects outside of Israel. A majority portion of revenues were earned in Israel in year 2002 while revenues in 2001 were generated substantially outside of Israel.

The average number of employees during year 2002 was 114 as compared to 83 for 2001. The Company increased hirings in early 2002 due to favorable business conditions. Subsequent to the first quarter, there was a decline in demand for the Company's systems, and the Company adjusted staffing to match.

Other variable costs have changed relative to the change in revenues.

GROSS PROFIT

Gross Profit has decreased by \$3.027 million to \$1.027 million in 2002 from \$4.054 million in 2001. The lower gross profit levels are principally due to the following factors: (i) the competitive pricing environment; (ii) the absorption of highly skilled labor costs as previously discussed; and (iii) the Company's

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ability to absorb its fixed production costs at a lower revenue volume. During the year 2002, a substantial portion of revenues were earned in Israel while revenues earned in the Year 2001 were generated substantially outside of Israel.

### SELLING, GENERAL AND ADMINISTRATIVE

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

	YEARS ENDED DECEMBER 31,	
	2 0 0 2	2 0 0 1
	-----	-----
Salaries and Related Expenses	\$ 782	\$ 694
Professional Fees	707	439
Telephone and Office Maintenance	293	306
Travel, Vehicles and Transportation	84	142
Depreciation and Amortization	110	68
Sales and Marketing	226	448
	-----	-----
TOTALS	\$2,202	\$2,097
	=====	=====

Selling, General and Administrative Expenses ("SG&A") increased \$0.105 million (or 5%) to \$2.202 million in 2002 from \$2.097 million in 2001. The increase is primarily attributable to the addition of certain executive management positions and increased professional fees in 2002 which were partially offset by cost reduction efforts; particularly in the sales and marketing departments.

### INTEREST EXPENSE

Interest expense increased by \$301 to \$442 in 2002 from \$141 in 2001. The increase is primarily attributable to a higher level of outstanding debt in 2002 as compared to 2001.

### OTHER INCOME (EXPENSE)

The increase in other expense of \$(340) in 2002 as compared to income of \$409 in 2001 is primarily the result of unfavorable foreign currency translation adjustments and losses of approximately \$72 from the sale of property and equipment in year 2002.

### LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2002, the Company had cash and cash equivalents of \$23 as compared to \$107 at December 31, 2001.

Net cash used in operating activities was \$1,168 for the year ended December 31, 2002 as compared to \$470 for the year ended December 31, 2001. The increase in net cash used in operating activities is primarily attributable to the significant decline in net operating results in 2002 versus 2001. These cash outflows were substantially offset by the decreases in inventory and costs in excess of billings and the increases in accounts payable and other liabilities.

Net cash used in investing activities was \$653 and \$891 for the years ended December 31, 2002 and 2001, respectively. The overall decrease was primarily due to the lower level of net purchases of property and equipment in 2002.

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Net cash provided by financing activities was \$1,737 and \$230 for the years ended December 31, 2002 and 2001, respectively. The increase was primarily due to the increased use of short-term bank loans and the issuance of convertible notes to fund working capital purposes.

The following summarizes certain financing outstanding as of December 31, 2002:

(a) Bank Line of Credit - The Company has a \$2,000 line of credit with the Industrial Development Bank of Israel (the "Bank"). Borrowings under the line of credit are collateralized by liens on company owned property and equipment and substantially all other assets. Sale or transfer of collateralized assets, outside the ordinary course of business, must be approved by the Bank. Interest on borrowings accrued at the Bank's prime rate plus 2-3% for advances made in U.S. dollars and prime plus 1.85% for advances in New Israeli Shekel ("NIS"). Substantially all advances are denominated in NIS. A total of approximately \$2,000 was outstanding under the line as of December 31, 2002. Borrowings under the line of credit are personally guaranteed by the Chairman of the Board of Directors.

(b) Convertible Notes - In November and December 2001, the Company issued \$240 in convertible notes. In year 2002, the Company issued additional convertible notes amounting to approximately \$1.0 million. 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 share, at any time from issuance until eighteen months have passed since issuance. At that date, 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.

-9-

(c) 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 December 31, 2002, the Bank had extended approximately \$378 in guarantees to four customers.

During 2003, the Company intends to pursue certain capital raising initiatives, however there can be no assurance that such capital raising efforts will be successful, or if capital is raised that it will be on favorable terms.

The Company currently has no material commitments for the next 12 months other than those under two operating lease arrangements. These arrangements consist primarily of lease arrangements for the Company's existing operations and our new research and development facility. The aggregate required payments for the next 12 months under these arrangements are approximately \$134. Additionally, the Company intends to invest up to \$500 in CSTI Italian Fiber SRL, and up to \$250 in property and equipment. Notwithstanding the above, the most significant non-contractual operating costs for the next 12 months are compensation and benefit costs, material costs, insurance costs and general overhead costs such as telephone and utilities.

Assuming there is no significant change in the business, the Company believes

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that additional funding such as described above and cash flow from operations and will be sufficient to fund its needs for at least the next twelve months.

### ITEM 7. FINANCIAL STATEMENTS

See pages beginning on page F-1.

### ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

NONE.

-10-

## PART III

### ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

The officers and directors of the Company and of its wholly-owned subsidiary CSTI Hi-Tec, and further information concerning them, are as follows:

#### OFFICERS AND DIRECTORS OF CSTI:

NAME	AGE	POSITION
Jacob Lustgarten	47	Chairman of the Board and Chief Executive Officer
Yona Liebowitz	60	Chief Financial Officer
Meir Elazar	42	Secretary and Director
Louis J. Pearlman	49	Director

#### OFFICERS OF CSTI HI-TEC:

NAME	AGE	POSITION
Yoav Sachar	45	Chief Executive Officer
Yitzchak Ben-Avi	42	Executive Vice President
Sami Zandberg	47	Executive VP of Business Development
Yossi Zandberg	42	Executive VP of Operations

JACOB LUSTGARTEN is the founder of CSTI and has been the Chairman and President of CSTI since its inception in 1995. In 1993, Mr. Lustgarten co-founded FEI Company, a company that deals with designing, manufacturing and installation of ultra high purity systems, FEI Company mainly provided its services to Intel FAB 8 in Jerusalem, Israel. From 1993 to 1995, Mr. Lustgarten worked as an independent consultant for Intel FAB 8, where he was responsible for all gas pad and gas systems installation, upgrading and maintenance. In 1992, Mr. Lustgarten became the supervisor of all Ultra-High Purity installations at Intel FAB 8 supervising approximately 50 employees. From 1990 to 1991 Mr. Lustgarten was the Technical Manager for SEMEL Company, which supported Intel FAB 8 in their gas

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systems in Israel. From 1981 to 1990 Mr. Lustgarten was employed by RAFAEL, the Israeli Government Armament Development Authority, as Chief Technician R&D of semiconductor devices. From 1975 to 1981, Mr. Lustgarten served in the Israeli Air Force. Mr. Lustgarten is a graduate of the A. Shuv School of Technicians in Haifa, Israel.

YONA LIEBOWITZ has been the Chief Financial Officer of the Company since 1999. From 1973 to 1983 Mr. Liebowitz was Chief Financial Officer for Eilat Ashkelon Pipe-line Co., a shipping and oil company. From 1988 to 1990, Mr. Liebowitz was a Chief Financial Officer for Helen Curtis a subsidiary of Koor Industries, a cosmetics company. From 1990 to 1996, Mr. Liebowitz was the financial officer and secretary of the Israel national public oil corporation. From 1996 to 1999 Mr. Liebowitz acted as a financial consultant to several Israeli companies. Mr. Liebowitz is a certified public accountant in Israel and has twenty-five years experience in managing large financial systems. Yona Liebowitz graduated from the Tel-Aviv branch of the University of Jerusalem in 1967 with a degree of Bachelor in Economics.

MEIR ELAZAR has been the Company's secretary and a Director since 2001. Mr. Elazar is a senior partner with the law firm of Mena, Shani, Elazar and Co. From 1991 to the beginning of 2001, Mr. Elazar was a senior partner at the law firm of Alan, Orrelle, Elazar and Co. Mr. Elazar has acted as the Company's outside legal counsel since 1999. Prior to Mr. Elazar's practice as a lawyer, from 1984 to 1991 Mr. Elazar was employed by the Israeli government and from 1979 to 1984, Mr. Elazar served at the IDF and retired from the army as a captain. Mr. Elazar graduated from the Tel-Aviv University Law School in 1990 with an LLB law degree.

YOAV SHAHAR joined CSTI as a CEO in January 2003. He has 17 years experience in managing companies that deal with pipe systems. From 1986 to 2003, Mr. Shahar managed the Combe Group, a company that deals with designing and installing of electromechanical pipe systems in the food industry, the microelectronics and the pharmacy industries. During this period, Mr. Shahar spent two years in Berlin, where he specialized in installing of complicated pipe systems. Between the years 1982 and 1986, Mr. Shahar studied at the Wingate College, specialized in biomechanics and graduated with a B.E.D. in 1982, Mr. Shahar left the Israeli Marine as a Major.

YITZCHAK BEN-AVI was previously the Chief Executive Officer of CSTI Hi-Tec from 2001 through January 2003 and is currently Executive Vice President. From 1990 to 1994, Mr. Ben-Avi worked as a Development Manager for Bio-Dalia a company that develops environmental products. From 1994 to 2001, Mr. Ben-Avi worked for Netafim, an Israeli company, as a project manager in charge of planning, financing and budget control. Mr. Ben-Avi received a B.A. in Agriculture from the Hebrew University in Jerusalem in 1989.

SAMI ZANDBERG has been the Executive Vice President of Business Development of CSTI Hi-Tec since November 2001. Prior to this he established S.Y. Zandberg with his brother Yossi in 1985. S.Y. Zandberg is a company that supplied, installed and processed industrial pipe systems, clean room construction, move in process tools and metal works. Mr. Zandberg has 22 years of experience in this industry. S.Y. Zandberg undertook projects in Intel, Tower Semiconductor, Teva and Rafael. From 1982 to 1985 he was a subcontractor for Palas & Regev as a site manager of company projects for Intel FAB 8.

YOSSI ZANDBERG has been the Executive Vice President of Operations of CSTI Hi-Tec since November 2001. Prior thereto he established S.Y. Zandberg with his brother Sami in 1985. Zandberg is a company that supplied, installed and processed industrial pipe systems, clean room construction, move in process tools and metal works. Mr. Zandberg has 17 years of experience in this industry. S.Y. Zandberg undertook projects in Intel, Tower Semiconductor, Teva and Rafael. Prior to the formation of S.Y. Zandberg he was an electronic technician in the

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Israeli Navy.

LOUIS J. PEARLMAN acted as Chairman of the Board, President, Chief Executive and Operating Officer and Treasurer of Entertainment International Ltd. from June 1982 through October 17, 2001. Mr. Pearlman is Chairman, President and CEO of Trans Continental Records, Inc., the company responsible for discovering and developing music groups Backstreet Boys, \*NSYNC, LFO, Natural and O-Town.

Sami Zanberg and Yossi Zandberg, both executive officers of the Company's CSTI Hi-Tec subsidiary, are brothers.

Under the securities laws of the United States, the Company's directors, its executive (and certain other) officers, and any persons holding ten percent or more of the Company's Common Stock must report on their ownership of the Company's Common Stock and any changes in that ownership to the Securities and Exchange Commission and to the National Association of Securities Dealers, Inc.'s Automated Quotation System. Specific due dates for these reports have been established. During the year ended December 31, 2002, the Company believes all reports required to be filed by Section 16(a) were filed on a timely basis.

-11-

### ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth all cash compensation for services rendered in all capacities to the Company, for the year ended December 31, 2002 (referred to as "2002" in this table), the year ended December 31, 2001 (referred to as "2001" in this table), and the year ended December 31, 2000 (referred to as "2000" in this table) paid to the Company's Chief Executive Officer and the other most highly compensated individuals.

#### SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	SALARY (US\$)	ALL OTHER COMPENSATION
Jacob Lustgarten	2002	160,000	-0-
Chairman and CEO	2001	235,000 (1)	-0-
	2000	168,000	-0-
Yitzchak Ben-Avi	2002	78,000	-0-
Former CEO of CSTI Hi-Tec	2001	37,000	-0-

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(1) Includes the value of health insurance, car allowance and other social benefits as provided in Mr. Lustgarten's employment agreement.

#### EMPLOYMENT AGREEMENTS

The Company's subsidiary, CSTI Hi-Tec has entered into an employment agreement with Jacob Lustgarten. The employment agreement is for a period of ten years beginning January 1, 2000 and provides for an annual salary of \$196,000 (as adjusted annually, based on the consumer price index published by the Central

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Statistics Bureau). Mr. Lustgarten is also entitled to a bonus of 5% of the pre-tax profits of CSTI Hi-Tec, which he waived for the fiscal year ended December 31, 2001.

### STOCK OPTION PLAN

#### 1994 Employee Share Purchase Plan

The Company has an employee share purchase plan (the "Plan") for employees of the Company and any present or future "subsidiary corporations", which was established by ENTI. The Company intends for the Plan to be an "employee stock purchase plan" as defined in Section 423 of the Internal Revenue Code of 1986, as amended (the "Code"). The Plan, approved by the Company's shareholders on April 11, 1995, was effective November 1, 1994. All employees are eligible to participate in the Plan, except that the Company's appointed committee may exclude any or all of the following groups of employees from any offering: (i) employees who have been employed for less than 2 years; (ii) employees whose customary employment is 20 hours or less per week; (iii) employees whose customary employment is not more than 5 months in any calendar year; and (iv) highly compensated employees (within the meaning of Code Section 414(q)). The shares issuable under the Plan shall be common shares of the Company subject to certain restrictions up to a maximum of 1,000,000 shares. The committee shall determine the length of each offering but no offering may exceed 27 months.

The Company has no remaining shares available for sale to its employees under the Plan.

-12-

### ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of March 31, 2003 with respect to each beneficial owner of five percent (5%) or more of the outstanding shares of common stock of CSTI, each officer and director of CSTI, officers of CSTI Hi-Tec and all officers and directors as a group. The table does not include securities exercisable into common stock that have not yet vested or are not exercisable within 60 days of the date hereof. Unless otherwise indicated, the address of each such person or entity is 4 Ashlagan St., P.O. Box 8624, Kiryat Gat 82021, Israel.

NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED (1)	PERCENTAGE OF COMMON STOCK
Jacob Lustgarten (2)	25,834,014	61.6%
Louis J. Pearlman	931,800	2.3%
Outlets Ltd. (3)	3,255,085	7.0%
Yitchak Ben-Avi	-0-	0.0%

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Yoav Sachar	-0-	0.0%
Yona Liebowitz	-0-	0.0%
Meir Elazar	-0-	0.0%
Sami Zandberg	-0-	0.0%
All officers and directors as a group (7 persons) (2) (3)	26,765,814	64.0%

-----  
(1) Pursuant to the rules and regulations of the Securities and Exchange Commission, shares of Common Stock that an individual or group has a right to acquire within 60 days pursuant to the exercise of options or warrants are deemed to be outstanding for the purposes of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purposes of computing the percentage ownership of any other person shown in the table.

(2) Mr. Lustgarten owns all of the issued and outstanding capital stock of Link Business Solutions and Liel Hi-Tech Systems Ltd., each of which owns 12,917,007 shares of the Company's common stock. The address for Link Business Solutions and Liel Hi-Tech Systems, Ltd. is Waterloo Office Park, Dr. Richelle 161, 1410 Waterloo, Belgium.

(3) The address for Outlets, Ltd. is c/o Gainsford Bell, SKL House, 111 Arlozorov Street, Tel Aviv, 62098.

### EQUITY COMPENSATION PLAN INFORMATION

The Company does not have any options, warrants or rights outstanding pursuant to any equity compensation plans.

### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Mr. Lustgarten has personally guaranteed a \$2,000,000 line of credit from the Industrial Development Bank of Israel ("IDB"). During 2002 the IDB encountered financial difficulties and as a result will shut down all of its activities as a commercial bank during the next few years. CSTI reached a settlement agreement with IDB as follows:

1. By December 31st 2002, the credit will be decreased (paid down) by NIS 1,000,000 to NIS 8,500,000 (eight million and five hundred thousand NIS).
2. In the year 2003, the Company will pay an aggregate of NIS 2,150,000 in four equal quarterly installments, in addition to the interest due, at the end of each quarter.
3. The balance of the credit will be paid within two years, starting at January 1st 2004, in quarterly installments, in addition to the interest due, at the end of each quarter.
4. The Company has the right to prepay any or all installments.
5. The Bank will credit payments made in the form of receivables from the Galil Engineering contract and for any new contracts that will be assigned by the Company.

Mr Lustgarten has personally guaranteed the terms of the settlement agreement.

In 2003, Mr. Yoav Shachar, the CEO of CSTI granted CSTI a loan in the amount of \$100,000 with a repayment date of December 2003 bearing interest equal to Bank



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Leumi's rates for US dollars.

Other than the above, during the year ended December 31, 2002 there were no substantial transactions between the Company and any of its directors, officers or 5% shareholders, such as loans, guarantees or payments for services.

All future transactions, including any loans between CSTI and any of its officers, directors, principal stockholders and their affiliates will be approved by a majority of CSTI's board of directors and will be on terms no less favorable to CSTI than could be obtained from unaffiliated third parties.

### ITEM 13. EXHIBITS, LISTS AND REPORTS ON FORM 8- K

#### (A) EXHIBITS

\*10.1 Stock Purchase Agreement dated as of the 21st day of August, 2001, by and among Entertainment International Ltd., a New York corporation ("ENTI"), ENTI Acquisition I Corp., a New York corporation and a wholly-owned subsidiary of ENTI (the "Buyer"), CSTI and the shareholders of CSTI as set forth in Schedule 2.1(a), (collectively, the "Sellers," and individually each a "Seller").

\*Incorporated herein by reference to the Company's Form 8-K dated October 31, 2001.

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

-13-

#### (B) REPORTS ON FORM 8-K.

There were no reports filed on Form 8-K during the fourth quarter ended December 31, 2002.

### ITEM 14. CONTROLS AND PROCEDURES

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

-14-

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-KSB to be signed on its behalf by the undersigned, thereunto duly authorized.

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

By: /s/ Jacob Lustgarten  
 -----  
 Name: Jacob Lustgarten  
 Title: Chief Executive Officer and  
 Chairman of the Board

In accordance with the Exchange Act, this report has been signed below by the following persons and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ Jacob Lustgarten Jacob Lustgarten	Chief Executive Officer and Chairman of the Board	April 30, 2003
/S/ YONA LEIBOWITZ Yona Leibowitz	Chief Financial Officer	April 30, 2003
/S/ MEIR ELAZAR Meir Elazar	Secretary and Director	April 30, 2003
----- Louis J. Pearlman	Director	April __, 2003

-15-

CERTIFICATION BY JACOB LUSTGARTEN PURSUANT TO SECURITIES EXCHANGE ACT  
 RULE 13A-14

I, Jacob Lustgarten, certify that:

1. I have reviewed this annual report on Form 10-KSB of Clean Systems Technology

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Group, Ltd.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

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

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

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

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

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

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

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

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

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

Date: April 30, 2003\_

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/s/ JACOB LUSTGARTEN

-----  
CHIEF EXECUTIVE OFFICER AND DIRECTOR

-16-

CERTIFICATION BY YONA LEIBOWITZ PURSUANT TO  
SECURITIES EXCHANGE ACT RULE 13A-14

I, Yona Leibowitz, certify that:

1. I have reviewed this annual report on Form 10-KSB of Clean Systems Technology Group, Ltd.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

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

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

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

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

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

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process,

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summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

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

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

Date: April 30, 2003

/S/ YONA LEIBOWITZ  
CHIEF FINANCIAL OFFICER

-17-

### CERTIFICATION BY MEIR ELAZAR PURSUANT TO SECURITIES EXCHANGE ACT RULE 13A-14

I, Meir Elazar, certify that:

1. I have reviewed this annual report on Form 10-KSB of Clean Systems Technology Group, Ltd.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

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

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

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

b) evaluated the effectiveness of the registrant's disclosure controls and

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procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

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

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

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

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

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

Date: April 30, 2003

/S/ MEIR ELAZAR  
SECRETARY AND DIRECTOR

-18-

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

INDEX

Report of Independent Auditor.....	F-1
Consolidated Balance Sheet as of December 31, 2002.....	F-2
Consolidated Statements of Operations for the years ended December 31, 2002 and 2001.....	F-3
Consolidated Statements of Shareholders' Equity (Deficit) for the years ended December 31, 2002 and 2001.....	F-4

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Consolidated Statements of Cash Flows for the years ended December 31, 2002 and 2001.....	F-5
Notes to Consolidated Financial Statements.....	F-7

\* \* \* \* \*

## REPORT OF INDEPENDENT AUDITOR

To the Board of Directors and Shareholders  
Clean Systems Technology Group, Ltd.

We have audited the accompanying consolidated balance sheet of Clean Systems Technology Group, Ltd. and subsidiaries as of December 31, 2002, and the related consolidated statements of operations, shareholders' equity (deficit), and cash flows for each of the two years in the period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Clean Systems Technology Group, Ltd. and subsidiaries as of December 31, 2002, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

MOORE STEPHENS, P. C.  
Certified Public Accountants.

New York, New York  
April 25, 2003

F-1

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

-----  
 CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2002.  
 (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)  
 -----

ASSETS:

CURRENT ASSETS:

Cash and Cash Equivalents	\$ 23
Accounts Receivable - Net	1,727
Inventory	2,407
Refundable Value Added Tax	124
Employee Advances	21
Deferred Taxes	37
Other	102
	-----

TOTAL CURRENT ASSETS	4,441
----------------------	-------

PROPERTY AND EQUIPMENT - NET	1,775
------------------------------	-------

OTHER ASSETS	243
	-----

TOTAL ASSETS	\$ 6,459
	=====

LIABILITIES AND SHAREHOLDERS' (DEFICIT):

CURRENT LIABILITIES:

Bank Line of Credit	\$ 2,495
Accounts Payable	1,728
Accrued Compensation	736
Accrued Expenses	342
Short-Term Loans	93
Other	48
	-----

TOTAL CURRENT LIABILITIES	5,442
	-----

CONVERTIBLE NOTES	1,336
	-----

COMMITMENTS AND CONTINGENCIES [10]	--
	-----

SHAREHOLDERS' (DEFICIT):

Common Stock, \$.01 Par Value, 110,000,000 Shares Authorized,



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42,766,087 Issued And Outstanding	428
Additional Paid-in Capital	428
Accumulated Deficit	(1,175)
	-----
TOTAL SHAREHOLDERS' (DEFICIT)	(319)
	-----
TOTAL LIABILITIES AND SHAREHOLDERS' (DEFICIT)	\$ 6,459
	=====

The Accompanying Notes Are An Integral Part of These Consolidated Financial Statements.

F-2

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

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

-----

	YEARS ENDED DECEMBER 31,	
	2 0 0 2	2 0 0 1
	-----	-----
REVENUES	\$ 6,245	\$ 10,601
COST OF REVENUE	5,218	6,547
	-----	-----
GROSS PROFIT	1,027	4,054
OPERATING EXPENSES:		
Selling, General and Administrative	2,202	2,097
	-----	-----
(LOSS) INCOME FROM OPERATIONS	(1,175)	1,957
INTEREST EXPENSE	(442)	(141)
OTHER (EXPENSE) INCOME	(340)	409
	-----	-----

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(LOSS) INCOME BEFORE PROVISION FOR INCOME TAXES	(1,957)	2,225
PROVISION FOR INCOME TAXES	24	58
	-----	-----
NET (LOSS) INCOME	\$ (1,981)	\$ 2,167
	=====	=====
NET (LOSS) INCOME PER SHARE - BASIC	\$ (.05)	\$ .05
	=====	=====
NET (LOSS) INCOME PER SHARE - DILUTED	\$ (.05)	\$ .05
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES - BASIC	42,766,087	42,766,087
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES - DILUTED	42,766,087	43,040,373
	=====	=====

The Accompanying Notes Are An Integral Part of These Consolidated Financial Statements.

F-3

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)  
-----

	COMMON STOCK NUMBER OF SHARES -----	AMOUNT -----	ADDITIONAL PAID-IN CAPITAL -----	PAID-IN ON UNISSUED SHARES -----	
BALANCE - DECEMBER 31, 2000	36,354,663	\$ 364	\$ 175	200	\$
Acquired Equity of Shell in Stock Acquisition (1)	5,479,850	55	(55)	--	
Issuance of Common Stock	51	--	200	(200)	
Issuance of Common Stock (11)	931,574	9	153	--	
Cost of Issuance of Share Capital in Local Jurisdiction	--	--	(45)	--	
Net Income	--	--	--	--	
Recapitalization					

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Adjustment (1)	(51)	--	--	--	
	-----	-----	-----	-----	-----
BALANCE - DECEMBER 31, 2001	42,766,087	428	428	--	
Net Loss	--	--	--	--	
	-----	-----	-----	-----	-----
BALANCE - DECEMBER 31, 2002	42,766,087	\$ 428	\$ 428	--	\$
	=====	=====	=====	=====	=====

The Accompanying Notes Are An Integral Part of These Consolidated Financial Statements.

F-4

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

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

	YEARS ENDED	
	DECEMBER 31,	
	2 0 0 2	2 0 0 1
	-----	-----
OPERATING ACTIVITIES:		
Net (Loss) Income	\$ (1,981)	\$ 2,167
Adjustments to Reconcile Net (Loss) Income to Net Cash (Used For) Operating Activities:		
Depreciation and Amortization	316	221
Loss from the Sale of Property and Equipment	72	9
Other	(1)	(21)
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable - Net	(236)	38
Accounts Receivable - Related Party	129	(129)
Inventory	(110)	(1,467)
Costs Incurred in Excess of Billings	337	(1,207)
Refundable Value Added Tax	(52)	150
Employee Advances	9	3
Other Current Assets	(79)	(3)
Deferred Taxes	(3)	(34)
Increase (Decrease) in:		
Accounts Payable	87	(429)
Accrued Compensation	300	158
Accrued Expenses	51	207

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Other Liabilities	(7)	(133)
	-----	-----
NET CASH - OPERATING ACTIVITIES - FORWARD	(1,168)	(470)
	-----	-----
INVESTING ACTIVITIES:		
Acquisition of Property and Equipment	(739)	(870)
Proceeds from Sale of Property and Equipment	224	33
Investment in Unconsolidated Subsidiary	(128)	--
Increase in Long-Term Deposits	(10)	(54)
	-----	-----
NET CASH - INVESTING ACTIVITIES - FORWARD	(653)	(891)
	-----	-----
FINANCING ACTIVITIES:		
Proceeds from Short-Term Loans	865	330
Repayment of Short-Term Loans	(556)	(168)
Proceeds from Convertible Notes	1,009	240
Repayment of Shareholder Loans	--	(78)
Changes in Bank Line of Credit - Net	463	(211)
Issuance of Common Stock	--	162
Cost of Issuance of Share Capital in Local Jurisdiction	--	(45)
Deferred Loan Costs - Net	(44)	--
	-----	-----
NET CASH - FINANCING ACTIVITIES - FORWARD	\$ 1,737	\$ 230

The Accompanying Notes Are An Integral Part of These Consolidated Financial Statements.

F-5

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

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

	2 0 0 2	2 0 0 1
	-----	-----
NET CASH - OPERATING ACTIVITIES - FORWARDED	\$ (1,168)	\$ (470)
NET CASH - INVESTING ACTIVITIES - FORWARDED	(653)	(891)
NET CASH - FINANCING ACTIVITIES - FORWARDED	1,737	230

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	-----	-----
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(84)	(1,131)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEARS	107	1,238
	-----	-----
CASH AND CASH EQUIVALENTS - END OF YEARS	\$ 23	\$ 107
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	\$ 363	\$ 135
Income Taxes	\$ 56	\$ 58

The Accompanying Notes Are An Integral Part of These Consolidated Financial Statements.

F-6

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

-----

(1) BASIS OF PRESENTATION

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 from October 17, 2001 through December 31, 2002. The consolidated financial statements prior to October 17, 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

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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").

The Company designs, engineers, manufactures and installs ultra high purity systems for gases and liquids for companies in the processing industries. CSTI provides its products and services to customers in several countries around the world including Israel, Italy, India and the Scandinavian countries. CSTI Hi-Tec Ltd., the Company's main operating subsidiary, was formed under the laws of the state of Israel in 1995.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include the operations of the Company and its subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements are presented in United States ("U.S.") dollars. 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.

### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES - The preparation of consolidated 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 revenue 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.

CASH AND CASH EQUIVALENTS - The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

ALLOWANCE FOR DOUBTFUL ACCOUNTS - The allowance for doubtful accounts is determined in respect of specific balances whose collection is doubtful.

F-7

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

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### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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PROPERTY AND EQUIPMENT - Property and equipment are stated at cost. Depreciation and amortization are provided using the straight-line method over the estimated economic lives of assets, which are three to fifteen years for office furniture and equipment, five to fifteen years for machinery and equipment, ten years for leasehold improvements, or the term of the lease, whichever is shorter, and six years for vehicles.

Maintenance and repairs are charged to expense as incurred, whereas the costs of property and equipment additions and improvements are capitalized.

IMPAIRMENT - Certain long-term assets of the Company are reviewed when changes in circumstances require as to whether their carrying value has become impaired, pursuant to guidance established in Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Management considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations (undiscounted and without interest charges). If impairment is deemed to exist, the asset will be written down to fair value. Management also reevaluates the period of amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives. As of December 31, 2002, management expects those assets related to its operations to be fully recoverable.

FAIR VALUE OF FINANCIAL INSTRUMENTS - SFAS No.107, "Disclosure About Fair Value of Financial Instruments," requires certain disclosures regarding the fair value of financial instruments. In assessing the fair value of these financial instruments, the Company has used a variety of methods and assumptions, which were based on estimates of market conditions and risks existing at that time. For all instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, it was estimated that the carrying amount approximated fair value due to the short-term maturities of these instruments. The fair value of debt also closely approximates its carrying value.

STOCK-BASED COMPENSATION - The Company accounts for stock-based compensation using the intrinsic value method presented in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations. The Company's policy is to grant options with an exercise price equal to the quoted market price of its stock on the grant date.

CONCENTRATION OF CREDIT RISKS - Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents and accounts receivable. The Company places its investments with high quality governmentally-owned financial institutions. Accounts receivables are derived from sales to customers located primarily in Italy, India and Israel. The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral. To date, the Company has not experienced any material losses related to its credit policy. Certain customers accounted for more than 10% of accounts receivable and revenue in 2002 and 2001 (See Note 12).

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DATA OR AS OTHERWISE NOTED)

-----

### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**FOREIGN OPERATIONS RISK** - The Company's main operating subsidiary is incorporated under the laws of the State of Israel, and its principal executive offices and manufacturing and research and development facilities are located in the State of Israel. Accordingly, the Company is directly affected by political, economic and military conditions in Israel.

Continued hostilities in Israel may have a significant adverse effect on the Company's business. All male adult citizens and permanent residents of Israel under the age of 45 are, unless exempt, obligated to perform up to 30 days of military reserve duty annually. Additionally, all such residents are subject to being called to active duty at any time under emergency circumstances. Increased military reserve service by Company employees may have a material adverse effect on the Company's business.

The Israeli government's monetary policy contributed to relative price and exchange rate stability in recent years, despite fluctuating rates of economic growth and a high rate of unemployment. There can be no assurance that the Israeli government will be successful in its attempts to keep prices and exchange rates stable. Price and exchange rate instability may have a material adverse effect on the Company.

**ADVERTISING EXPENSES** - Advertising expenses are charged to the statement of operations as incurred. Advertising expenses were immaterial for all periods presented.

**COMPREHENSIVE INCOME** - The Company has adopted provisions of SFAS No. 130, "Reporting Comprehensive Income." The Company has no items of other comprehensive income or loss in any of the periods presented and, therefore, net income (loss) equals comprehensive income (loss) for all periods presented.

**SEGMENT INFORMATION** - The Company follows SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." SFAS 131 establishes standards for the way that public business enterprises report financial and descriptive information about reportable operating segments in annual financial statements and interim financial reports issued to shareholders. SFAS 131 also establishes standards for related disclosures about products and services, geographic areas and major customers. During each of the two years ended December 31, 2002 and 2001, the Company's management considered its business activities to be focused on its products and related services to end user customers. Since management's primary form of internal reporting is aligned with the offering of products and services, the Company believes it operates in one segment. Information related to geographic segments is included in Note 12.

**NET (LOSS) 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 years ended December 31, 2002 and 2001, the shares issued in the Transaction are treated as outstanding for all periods presented. For the year ended December 31, 2001, dilutive potential common shares outstanding reflect shares issuable under convertible notes (See Note 7). Share and per share amounts reflect the effect of the one for twenty reverse stock split in October 2001.

**INCOME TAXES** - The Company follows the provisions of Statement of Financial



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Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." Deferred taxes arise primarily from the recognition of revenues and expenses in different periods for income tax and financial reporting purposes.

F-9

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

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### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES (CONTINUED) - Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Taxes which would apply in the event of disposal of investments in subsidiaries have not been taken into account in computing deferred taxes, as it is the Company's policy to hold these investments, not to realize them and not to cause distributions of taxable dividends.

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 is shown as a current liability.

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

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangibles" ("SFAS No. 142"). SFAS No. 142 specifies the financial accounting and reporting for acquired goodwill and other intangible assets. Goodwill and intangible assets with indefinite useful lives will not be amortized but rather will be

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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, 2002, the Company had no recorded goodwill or indefinite lived intangibles. Therefore, the adoption of SFAS No. 142 did not have a material impact on the Company's financial statements.

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.

F-10

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

### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (CONTINUED) - In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses the accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of" and APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." The objective of SFAS No. 144 is to establish one accounting model for long-lived assets to be disposed of by sale as well as resolve implementation issues related to SFAS No. 121. The Company adopted SFAS No. 144 effective January 1, 2002 with no material impact on its financial position or results of operations.

On April 30, 2002, the Financial Accounting Standards Board (FASB) issued Statement No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections.

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

Statement 145 amended Statement 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted

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for in the same manner as sale-leaseback transactions. This amendment is consistent with the FASB's goal of requiring similar accounting treatment for transactions that have similar economic effects.

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

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

The Company does not expect the adoption of recently issued accounting pronouncements to have a significant impact on the Company's financial position, results of operations, or cash flow.

### (3) ACCOUNTS RECEIVABLE

The following table shows the component elements of accounts receivable:

	DECEMBER 31, 2 0 0 2
Amounts Billed	\$ 1,006
Recoverable Costs and Accrued Profits on Units Delivered - Not Billed	740 -----
Totals	1,746
Less: Allowance for Doubtful Accounts	(19) -----
 TOTALS	 \$ 1,727 =====

Recoverable costs and accrued profits on units delivered not billed principally comprise amounts of revenue recognized on contracts for which invoices had not been billed at balance sheet date.

F-11

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

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### (4) INVESTMENT IN UNCONSOLIDATED SUBSIDIARY - AT COST

In 2002, the Company paid \$128 for a nineteen percent [19%] interest in Altan Systems, Ltd., a private Israeli Company whose processes and technology may enhance the Company's product line. This investment is carried at cost as a component of Other Assets.

### (5) PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

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	LAND IMPROVEMENTS	LEASEHOLD EQUIPMENT	MACHINERY AND EQUIPMENT	OFFICE FURNITURE AND VEHICLES	INTANGIBLE ASSETS	TOTAL	
-----							
December 31, 2002 -							
At Cost	\$ 137	\$ 322	\$2,001	\$ 247	\$ 235	\$ 6	\$2,948
Accumulated Depreciation	--	112	835	126	98	2	1,173
	-----	-----	-----	-----	-----	-----	-----
BALANCE AS OF DECEMBER 31, 2002	\$ 137	\$ 210	\$1,166	\$ 121	\$ 137	\$ 4	\$1,775
	=====	=====	=====	=====	=====	=====	=====

Depreciation expense amounted to \$316 and \$221 for the years ended December 31, 2002 and 2001, respectively.

(6) SHORT-TERM LOANS

The Company from time to time borrows funds using short-term loans for working capital needs. The loans are usually for a period of approximately six months and bears interest at the six-month LIBOR rate (1.31% at December 31, 2002 and 1.88% at December 31, 2001) plus 2.5%. These loans are unsecured. The Company's short-term loans outstanding amounted to \$93 at December 31, 2002.

(7) CONVERTIBLE NOTES

In November and December 2001, the Company issued \$240 in convertible notes. During year 2002, the Company issued additional convertible notes of \$1,009. 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 share, at any time from issuance until eighteen months have passed since issuance. After eighteen months, 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 December 31, 2002, the outstanding balance plus accrued interest aggregated \$1,336.

F-12

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

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### (8) BANK LINE OF CREDIT

The Company has a \$2,000 line of credit with the Industrial Development Bank of Israel (the "Bank"). The Bank is a Company shareholder. Borrowings under the line of credit are collateralized by liens on company owned property and equipment and substantially all other assets. Sale or transfer of collateralized assets, outside the ordinary course of business, must be approved by the Bank. Interest on borrowings accrued at the Bank's prime rate plus 2%-3% for advances made in U.S. dollars and prime plus 1.85% for advances in New Israeli Shekel ("NIS"). Substantially all advances are denominated in NIS. At December 31, 2002, the Bank's prime rate was 10.4% and 5.3% at December 31, 2001. As of December 31, 2002 and 2001, the weighted average interest rate was approximately 10% for all borrowings with the bank. A total of approximately \$2,000 was outstanding under the line as of December 31, 2002. Interest expense on borrowings under the line amounted to approximately \$200 and \$141 for the years ended December 31, 2002 and 2001, respectively. Borrowings under the line of credit are personally guaranteed by the Chairman of the Board of Directors.

In year 2002, the Company was granted a second credit line by another bank up to a limit of \$338. The line of credit accrues interest on borrowings at prime plus 1.5% per annum (prime - 10.4% at December 31, 2002). Collateral for the credit line is the assignment of billings due from a specific customer. At December 31, 2002, the outstanding balance under the credit line amounted to \$172.

Beginning in year 2002, the Company utilized a credit facility to borrow funds at an interest rate of 15% per annum. These loans are repayable usually within a three month time frame. The Company has pledged certain customer account payments as collateral under these borrowings. At December 31, 2002, the Company's outstanding balance amount to \$366.

### (9) RETIREMENT AND SEVERANCE FUNDS

The Company makes regular payments into recognized severance and retirement funds as follows:

(A) RETIREMENT - Employers and employees contribute 5% of employee compensation to recognized funds for retirement benefits. These amounts may be paid to the employee upon retirement as a lump sum or annuity. The amounts so funded are not reflected on the balance sheet since they are controlled by the fund trustees and are not under the control and management of the Company.

(B) SEVERANCE - The liability for severance pay benefits, as determined by Israeli law, is based upon length of service and the employee's most recent monthly salary. The Company contributes to recognized funds based upon this liability amount at any one time. At December 31, 2002, the excess of the liability as determined at that date, and the amount of company contributions is recognized as a liability of the Company. The Company has chosen to deposit monies into the central savings account for severance pay to cover a portion of the liability. Such amount has been netted against the liability recognized. The amounts which have been contributed to the fund are not recognized on the balance sheet, similar to the retirement amounts.

	DECEMBER 31,
	2 0 0 2
Accrued Severance Pay	\$ 71
	=====

Once the contributions have been made to the severance and retirement funds, the liability to make retirement and severance payments rests with the funds, not

the Company.

F-13

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA  
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(10) COMMITMENTS AND CONTINGENCIES

The Company leases its Israel-based facilities under an operating lease that expires in December 2003. The future commitments under the lease amount to \$90 in 2003. The lease does not include an option to renew, but the Company anticipates extending the lease if favorable terms can be obtained.

In year 2002, the Company leased an additional Israel based facility in the north of Israel under a five year operating lease starting April 2002. The yearly lease amount is \$44.

The Company is subject to lawsuits arising in the ordinary course of business. Management, after review and consultation with counsel, believes it has meritorious defenses and considers that any potential outcome from these matters would not materially affect the Company's consolidated financial position or consolidated statement of operations.

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 December 31, 2002, the Bank had extended approximately \$378 in guarantees to five customers.

The Company's subsidiary, CSTI Hi-Tec, has entered into an employment agreement with Jacob Lustgarten. The employment agreement is for a period of ten years beginning January 1, 2000. Mr. Lustgarten shall be entitled to an annual salary of \$196, increased yearly based on the consumer price index published by the Central Statistics Bureau. Mr. Lustgarten is also entitled to a bonus of 5% of the pre-tax profits of CSTI Hi-Tec. There was no bonus accrual in year 2002 due to the Company operating losses. In year 2001, Mr. Lustgarten waived the receipt of his bonus accrual.

(11) CAPITAL STOCK

The Company is authorized to issue 110,000,000 shares of common stock, \$.01 par value per share.

The Company issued 931,574 shares of its common stock to the Bank on December 31, 2001. The shares were issued upon the exercise of an option granted the Bank by CSTI Hi-Tec on March 8, 1999.

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

(12) GEOGRAPHIC REPORTING

Revenues by geographic classifications are as follows:

	(IN U.S. \$ THOUSANDS)				
	ISRAEL	ITALY	INDIA	OTHER	TOTAL
For the year ended December 31, 2002	\$ 5,925	\$ 295	\$ 18	\$ 7	\$ 6,245
	=====	=====	=====	=====	=====
For the year ended December 31, 2001	\$ 461	\$ 7,969	\$ 2,004	\$ 167	\$10,601
	=====	=====	=====	=====	=====

Major customers (in dollars and as percentage of total revenues):

	YEARS ENDED DECEMBER 31,			
	2 0 0 2		2 0 0 1	
	-----		-----	
Customer A	\$ 437	7%	\$7,527	71%
Customer B	1,624	26%	106	1%
Customer C	--	--	1,908	18%
Customer D	1,624	26%	--	--
Customer E	1,124	18%	--	--
Customer F	874	14%	--	--
Other	562	9%	1,060	10%

In general, the Company is not dependent upon any single customer or several customers. However, in 2001, approximately 90% of revenues came from two customers. The nature of the Company's business is that it works on several large contracts at any one time and therefore several customers may comprise a significant portion of the Company's revenues and net income during any fiscal year. Once the Company installs a system for its customer, the customer is generally dependent on the Company for future upgrades of the system.

(13) COST OF REVENUES

YEARS ENDED DECEMBER 31,	
2 0 0 2	2 0 0 1
-----	-----

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Materials:

Inventory - Beginning of the Years	\$ 2,197	\$ 830
Materials - Purchased	2,252	4,387
Inventory - End of The Years	(2,407)	(2,297)
	-----	-----
	2,042	2,920
	-----	-----
Salaries, Subcontractors and Related Expenses	2,276	2,168
Cost of Service Abroad	87	622
Rent and Taxes	136	111
Vehicles and Transportation	284	332
Equipment Maintenance and Insurance	151	117
Depreciation and Amortization	206	153
Miscellaneous	36	124
	-----	-----
	3,176	3,627
	-----	-----
TOTALS	\$ 5,218	\$ 6,547
	=====	=====

F-15

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE  
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(14) SELLING, GENERAL AND ADMINISTRATIVE

	YEARS ENDED	
	DECEMBER 31,	
	2 0 0 2	2 0 0 1
	-----	-----
Salaries and Related Expenses	\$ 782	\$ 694
Professional Fees	707	439
Telephone and Office Maintenance	193	306
Travel, Vehicles and Transportation	184	142
Depreciation and Amortization	110	68
Sales and Marketing	226	448
	-----	-----
TOTALS	\$2,202	\$2,097
	=====	=====

(15) TAXES

The provision (benefit) for income taxes consists of the following:

	YEARS ENDED	
	DECEMBER 31,	
	2 0 0 2	2 0 0 1



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	-----	-----
Current Taxes	\$ 8	\$ 92
Deferred Taxes	16	(34)
	----	----
TOTALS	\$ 24	\$ 58
	====	====

The reconciliation of reported income tax expense to the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income is as follows:

	2 0 0 2	2 0 0
	-----	-----
(Loss) Income Before Taxes on Income as Reported in the Consolidated		
Statements of Operations	\$ (1,957)	\$ 2,
	=====	=====
Statutory Tax [Benefit] Expense on the Above Amount	\$ (705)	\$
Increase in Taxes Resulting from Different Tax Rates		
Applicable to Foreign Subsidiaries	75	
Increase in Taxes Resulting from Permanent Differences - Net	26	
Tax Benefit Arising from Reduced Tax Rate as an "Approved Enterprise"	--	(
Decrease in Taxes Resulting from Utilization, in the Reported Year, of		
Carryforward Tax Losses	--	(
Other	--	
Subtotals	(604)	
Valuation Allowance	628	
	-----	-----
TOTALS	\$ 24	\$
	=====	=====

At December 31, 2002, CSTI Hi-Tec, Ltd. had unused net operating losses related to operations in Israel of approximately \$11,000 for which there is no expiration date.

F-16

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE  
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(15) TAXES (CONTINUED)

Deferred income taxes reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts. The tax effect of significant temporary differences

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representing deferred tax assets and liabilities is as follows:

	DECEMBER 31,	
	2 0 0 2	2 0 0 1
Deferred Tax Assets:		
Net Operating Losses	\$ 628	\$--
Vacation Pay Accrual	83	94
Other	10	10
	721	104
Deferred Tax Liabilities:		
Tax Depreciation in Excess of Book	(56)	(70)
	665	34
Net Deferred Tax Assets Before Valuation Allowance	665	34
Valuation Allowance	(628)	--
	\$ 37	\$ 34
NET DEFERRED TAX ASSET	=====	=====

At December 31, 2002, the Company had available U.S. net operating loss carry-forwards of approximately \$416 for federal income tax purposes. The net operating loss carry-forwards expire at various dates through 2022.

Section 382 of the Internal Revenue Code provides that when a corporation undergoes an "ownership change," the corporation's use of its net operating losses is limited in each subsequent year. An "ownership change" occurs when, as of any testing date, the sum of the increases in ownership of each shareholder that owns five percent or more of the value of a company's stock as compared to that shareholder's lowest percentage ownership during the preceding three-year period exceeds fifty percentage points. For purposes of this rule, certain shareholders who own less than five percent of a company's stock are aggregated and treated as a single five-percent stockholder.

The Transaction may have involved an "ownership change" and thus the Company may be unable to use a material portion of its available federal net operating loss carry-forwards. Furthermore, in the ordinary course of the Company's future business operations, it could become necessary to issue shares in conjunction with acquisitions or additional financing, in order to meet the Company's growth objectives and liquidity constraints. The issuance of a significant number of shares of common stock could result in an "ownership change." If the Company were to experience such an "ownership change," it might not be able to use a substantial amount of its available federal net operating loss carry-forwards to reduce future taxable income.

On August 1, 2001, CSTI Hi-Tec was granted a status of "Approved Enterprise" in accordance with the Law for the Encouragement of Capital Investments 1959. Under that law, by virtue of an "Approved Enterprise" status, CSTI Hi-Tec will be granted various tax benefits as follows:

(1) Tax exemption on part of the income from its approved enterprise for a period of 10 years. CSTI Hi-Tec has elected the "alternative benefits" (involving waiver of investment grants). In the event of distribution of cash dividends out of income, that was tax exempt as above, CSTI Hi-Tec would have to pay corporate tax at the rate 25% of the amount distributed. In general, Israeli companies are currently subject to a corporate tax at the rate of 36% of taxable income.

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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(15) TAXES (CONTINUED)

(2) CSTI Hi-Tec is entitled to claim accelerated depreciation for five tax years commencing in the first year of operation of each asset, in respect of property and equipment used by the approved enterprise.

The entitlement to the above benefits are conditional upon CSTI Hi-Tec fulfilling the conditions stipulated by the law, regulations published thereunder, and the instruments of approval for the specific investments in the approved enterprise. In the event of failure to comply with these conditions, the benefits may be cancelled and CSTI Hi-Tec may be required to refund the amount of the benefits, in whole or in part, plus interest.

(16) OTHER (EXPENSE) INCOME

Aggregate amounts in other (expense) income are primarily the results of foreign currency translation adjustments and capital losses on the sale of property and equipment. Substantially all of the Company's sales are made in U.S. dollars. In addition, a substantial unfavorable currency 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.

In year 2002, certain assets and liabilities were denominated in NIS while the payment to suppliers were linked to the U.S. dollar which caused a substantial unfavorable currency translation adjustment due to the relative weakness of the U.S. dollar to the New Israeli shekel.

(17) TRANSACTIONS WITH RELATED PARTIES

Related party transactions are as follows:

(I) Employee Advances - Employee advances are made on a short-term basis and are repaid through salary.

(II) Bank - The Industrial Development Bank of Israel is a Company shareholder (See Note 8).

(III) U.S. Offices - Certain office space in Florida and New York has been made available by an affiliate of a Company director at no cost.

(18) SUBSEQUENT EVENT

In 2003, Mr. Yoav Shachar, an executive officer of the Company, loaned the Company \$100,000. Principal and interest are due in December 2003.

F-18