

TANKLESS SYSTEMS WORLDWIDE INC
Form 10KSB
May 02, 2005

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ____ TO ____

COMMISSION FILE NUMBER: 000-28083

TANKLESS SYSTEMS WORLDWIDE, INC.

(Exact name of registrant as specified in its charter)

NEVADA **88-0362112**
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

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7650 E. Evans Rd., Suite C, Scottsdale Arizona 85260

(Address of principal executive offices) (Zip Code)

Registrant's telephone number: (480) 609-7575

Elution Technologies, Inc.

2920 E. Camelback Rd., Suite 190, Phoenix, AZ 85016

(Former Name and Address)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$0.001 Par Value

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) been subject to such filing requirements for the past 90 days. Yes [] No []

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 this Form 10-KSB [].

The Registrant had revenues for the fiscal year ended on December 31, 2004 in the amount of \$ 262,121.

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of April 29, 2005: Common Stock, par value \$0.001 per share \$10,083,663. As of April 29, 2005, the Registrant had 13,267,977 shares of common stock issued and outstanding.

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PART I.

ITEM 1. BUSINESS.

A.

Business Development.

Tankless Systems Worldwide, Inc., a Nevada corporation ("Company"), was originally organized on November 23, 1993 as Amexan, Inc.; the name was changed on June 1, 1998 to Nostalgia Motorcars, Inc. Prior to the name change, Amexan was an inactive company from the date of incorporation. On June 11, 2002, the Company changed its name to Elution Technologies, Inc., and on June 4, 2003, it changed its name to Tankless Systems Worldwide, Inc.

On March 31, 2003, the Company entered into an Agreement of Share Exchange and Plan of Reorganization with Envirotech Systems Worldwide, Inc., a private Arizona corporation (Envirotech) pursuant to which the Company agreed to acquire all of the issued and outstanding shares of stock of Envirotech in exchange for an equal number of shares of Common Stock of the Company (the Envirotech Agreement). Following the due diligence permitted by the agreement, the parties cancelled that agreement and on November 4, 2003, entered into a new agreement pursuant to which the Company proposed to acquire all of the issued and outstanding common stock of Envirotech by issuing the equivalent amount of the Company s common stock. As of the close of business on November 7, 2003, Tankless issued 8,366,778 shares of its common stock, \$0.001 par value, in a one-for-one stock exchange. Subsequently, Envirotech is held and operated as a wholly-owned subsidiary of Tankless.

Envirotech was organized December 9, 1998 and has a limited history of operations. The initial period of its existence involved research and development of a line of electronic, tankless water heaters. The first sales of its products occurred in calendar year 2000. Audited financial statements for Envirotech at the date of acquisition, November 7, 2003, and the period then ending, indicate cumulative losses of \$4,043,572, \$489,658 of which is attributable to a repurchase of a distributorship in a major market where Envirotech believed the distributor was not performing well as the market would justify.

In 2002, Envirotech was named as a defendant in a patent infringement suit alleging that Envirotech s product infringed upon a patent owned by David Seitz and Microtherm, Inc. Mr. Seitz and Microtherm filed the suit in the United States District Court for the Southern District of Texas, Houston Division. Envirotech s counsel withdrew and due to a lack of funds, Envirotech was unable to obtain new counsel. The Court ordered Envirotech to appear with new counsel by August 9, 2004 or default would be entered against it. In order to avoid an entry of default, which

would have found that Envirotech's product infringed upon the patent of Mr. Seitz and Microtherm, Envirotech filed for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Arizona, on August 6, 2004.

The filing of the petition with the Bankruptcy Court stayed all existing litigation, judgments and efforts to collect on judgments entered against Envirotech. With the exception of a guarantee to one critical supplier in the current amount of approximately \$42,500, the Company did not assume any liability for the obligations of Envirotech. As of the date of the filing of the Chapter 11 Bankruptcy Petition, Envirotech had liabilities of approximately \$1.6 million. During the pendency of the bankruptcy proceedings, Envirotech continued manufacturing and selling its water heater products. Subsequently, in the first quarter of 2005, due to the lack of working capital and other factors, Envirotech has ceased production of its products. The filing of the bankruptcy petition by Envirotech did not adversely affect the ongoing operations of the Company or its research and development subsidiary, ION Tankless, Inc.

During 2004, the Company sold \$1,075,000 principal amount of 10% senior notes due one year from date of issue and 537,500 shares of common stock in private placements. We used the net proceeds from the offerings to pursue research and development of new products, proceed with marketing, manufacturing and sales of existing products through Envirotech; hire additional personnel and engage consultants as needed; and for general working

capital purposes. As planned, we formed a new subsidiary, ION Tankless, Inc., in January 2004, through which we are presently conducting research and development for new products.

B.

Business of the Company.

As a result of the completion of the acquisition of Envirotech and the formation of ION Tankless, Inc., both wholly-owned subsidiaries of the Company, the Company is in the business of designing, developing, manufacturing and marketing several models of an electronic, tankless water heater. The water heater is small, easy to install and supplies endless amounts of hot water with energy savings. The unit is a microprocessor controlled electric water heater contained in a compact unit (13.5 (W) x 16 (H) x 3.5 (D)), eliminating the space demands of conventional water heaters. It incorporates automatic, precise temperature controls. It saves energy, space, and water and is suitable to all areas of the U.S. and worldwide.

As of December 31, 2004, the business office of the Company was located at 7650 E. Evans Rd., Suite C, Scottsdale, Arizona 85260. These offices are leased by Envirotech pursuant to a lease agreement which expires on June 30, 2005. In April, 2005, Envirotech and the landlord have agreed to extend the lease for an additional one year period expiring on June 30, 2006. Prior to removal of the offices of the Company to the above location, the Company occupied space at 2920 E. Camelback Rd., Suite 150, Phoenix, Arizona 85016. These offices were leased by an unrelated party, subleased to Messrs. Thomas and David Kreitzer and made available by them to the Company on a month-by-month basis at no cost. The Company's fiscal year ends on December 31. At December 31, 2004, the Company had two part time employees (Thomas Kreitzer and David Kreitzer) both of whom served without compensation and Envirotech, its subsidiary, had six full-time employees. The Company anticipates adding several full time employees in the near future in management and for administrative and technical support.

ITEM 2. PROPERTIES.

At December 31, 2004, the Company owned no real property. Its subsidiary, Envirotech, leases space at 7650 E. Evans Rd., Suite C., Scottsdale, Az. 85260. This office space consists of approximately 1,464 square feet and includes both office and warehouse space. Envirotech and the landlord have agreed to extend the lease on this space from June 30, 2005 to June 30, 2006. Envirotech maintains adequate insurance coverage on the assets of the Company at this location.

Envirotech has been granted a patent by the United States Patent Office for its Modular Tankless Electronic Water Heater (ETWH) (Patent No. US 6,389,226 B1). The Founders of Envirotech and Steve Onder, and each of the contractors or consultants who have performed research and development services for and on behalf of Envirotech have made written assignments to Envirotech of proprietary and intellectual property rights relating to the ETWH and such research and development, and have signed non-disclosure, non-competition agreements with Envirotech. In January 2004, the Company formed another subsidiary company, ION Tankless, Inc., through which it now conducts all research and development activities undertaken by the Company.

ITEM 3. LEGAL PROCEEDINGS.

The Registrant is a defendant in a lawsuit filed by a law firm that formerly represented the Registrant. The suit claims legal fees owed in the amount of approximately \$7,500. The Company disputes this claim and expects to prevail in the matter.

Envirotech Systems Worldwide, Inc. (Envirotech), is a wholly-owned subsidiary of the Company. Prior to the acquisition of Envirotech, by the Company, Envirotech was the defendant in a lawsuit filed by a former distributor alleging a breach of a Distributor Agreement entered into with Envirotech in May, 1998. On August 13, 2003, Envirotech entered into a Settlement Agreement and Release pursuant to which Envirotech agreed to pay the distributor the sum of \$520,500 in installments over a period of ten years. The obligations under this Settlement

Agreement are secured by a Security Agreement covering all assets of Envirotech except its intellectual properties, as defined therein, subordinated, however, to a first lien on such assets granted to the law firm of Jennings, Strouss & Salmon in 2001 and 2002 by Envirotech to secure two promissory notes given in satisfaction of legal fees. As part of the settlement, Envirotech granted the distributor a Stipulated Judgment which was not to be filed of record so long as no default existed. On April 14, 2004, the distributor claimed a breach and filed the Stipulated Judgment.

Management believes no default existed to warrant the filing of the judgment. Nonetheless, the filing of that judgment was a material consideration to the filing of the Chapter 11 Bankruptcy Petition discussed below.

Envirotech is also the defendant in a suit filed in 2002 in the U.S. District Court, for the Southern District of Texas, Houston, Texas (Civil Action No. H-02-4782, David Seitz and Microtherm, Inc., vs. Envirotech Systems Worldwide, Inc., and Envirotech of Texas, Inc. The Company is not affiliated with Envirotech of Texas, Inc. The suit alleges that Envirotech has infringed on the patent rights of others and seeks damages and an order to cease and desist. Envirotech engaged legal counsel to represent it in this matter. Management believes the suit is without merit and that Envirotech will prevail in the matter. In 2004 Envirotech's counsel withdrew and due to a lack of funds, Envirotech was unable to obtain new counsel. The Court ordered Envirotech to appear with new counsel by August 9, 2004 or default would be entered against it. In order to avoid an entry of default, which would have found that Envirotech's product infringed upon the patent of Mr. Seitz and Microtherm, Envirotech filed for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Arizona, on August 6, 2004. The obligations of Envirotech under this Settlement Agreement remain the sole liability of Envirotech and the parent company, Tankless, has not assumed any portion of such obligations. The filing of the petition with the Bankruptcy Court stayed all existing litigation, judgments and efforts to collect on judgments entered against Envirotech.

In 2004 Envirotech was named in three separate lawsuits for unpaid legal and consulting fees totaling \$268,000.

Envirotech believed it had meritorious defenses to each of these suits. On April 14, 2004, Envirotech settled one of these suits, considering it a nuisance claim. In connection with that settlement, Envirotech reimbursed the plaintiff for alleged out-of-pocket expenses and the Company issued 10,000 shares of common stock, restricted under Rule 144, to the plaintiff on the basis of a loan from the Company to Envirotech. In the other two suits Envirotech elected not to spend funds to defend the action and judgments were granted in the aggregate amount of approximately \$155,500.

These judgments have been stayed through Bankruptcy Petition.

On August 6, 2004, Envirotech filed a Voluntary Petition for protection under Chapter 11 of the United States Bankruptcy Code in Phoenix, Arizona. The filing of this Petition with the Bankruptcy Court has stayed all existing litigation, judgments and efforts to collect on the judgments. Envirotech was acquired by the Company in November 2003 in a stock-for-stock transaction and has been held and operated by the Company as an operating subsidiary. With the exception of a guarantee to one critical supplier in the current amount of approximately \$42,500, the Company has not assumed any liability for the obligations of Envirotech. As of the date of the filing of the Chapter 11 Bankruptcy Petition, Envirotech had liabilities of approximately \$1.6 million. Several creditors, not related to the supply of parts or the assembly of products, have obtained judgments against Envirotech and an action was pending in the U.S. District Court, Southern District of Texas, alleging patent infringement. All claims of creditors, including the above mentioned judgments, and efforts to collect same, together with the litigation pending in the U.S. District Court in Houston, have been stayed during the pendency of the Bankruptcy proceedings. Envirotech filed a Plan of Reorganization and Disclosure Statement in December 2003 and the outcome of that plan is inconclusive as of the

date of this filing. The Plan did not receive the required creditor approval and further hearings have been scheduled to address the matter.

On August 13, 2004, Tankless filed a verified complaint in the United States District Court in and for the District of Arizona against three former officers, directors and principal shareholders of Envirotech, and Ronald Jay Edwin, a/k/a Ryan Edelstein, and others. The suit alleged, against various defendants, Breach of Fiduciary Duty, Aiding and Abetting Breach of Fiduciary Duty, Breach of Contract, Breach of Implied Covenant of Good Faith and Fair Dealing, Fraud and Intentional Misrepresentation, Conspiracy to Defraud, Arizona Securities Fraud, Federal Securities Fraud, Negligent Misrepresentation, Misappropriation of Trade Secrets and Confidential Business Information, Conversion/Embezzlement, Intentional Interference with Business Relations and Prospective Economic

Advantage, Unjust Enrichment, and Promissory Estoppel. The Company sought various forms of relief including, but not limited to, Damages, Constructive Trust, Rescission and Injunctive Relief. A copy of this Complaint is available upon request made to the Company. Subsequently, the suit was voluntarily dismissed by the Company to facilitate settlement negotiations with each of the defendant parties. A settlement has been signed with Ronald J. Edwin the terms of which include, among other things, a permanent injunction against Mr. Edwin for the actions alleged.

Settlements with each of the remaining defendants were achieved in the fourth quarter of 2004, resulting in the return and cancellation of 2,075,000 shares of common stock of the Company that had been issued in connection with the acquisition of Envirotech. In addition, all three defendants entered into non-compete agreements with the Company and agreed to various other terms sought by the Company. In connection with one of the settlements where the defendant returned a substantial block of his shares, the defendant was granted an option by the Company to acquire up to 100,000 shares of common stock at a price of \$0.55, for a period of one year. The option expires December 31, 2005.

Except as noted above, to the best knowledge of the officers and directors of the Company, neither the Registrant nor its subsidiaries, nor any of their respective officers or directors is a party to any material legal proceeding or litigation.

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

On June 11, 2002, the Company filed an Amendment of Articles of Incorporation of Nostalgia Motorcars, Inc., with the Secretary of State for the State of Nevada. The number of shares of the Company outstanding and entitled to vote on an amendment to the Articles of Incorporation was 7,945,000. The June 11, 2002 amendment was consented to and approved by a majority vote of the stockholders holding a majority of the stock entitled to vote thereon. The amendment effected the following changes to the Company's Articles of Incorporation: (1) changed the name of the Company to Elution Technologies, Inc., (2) reclassified the shares of the Company to provide that each share outstanding was changed into a one-tenth (1/10th) of a share, effecting a 1:10 rollback of the number of shares of Common Stock issued and outstanding, and (3) increased the total number of shares which the Company was authorized to issue from 50,000,000 to 100,000,000. A copy of this Amendment was attached as an Exhibit to the Form 10-QSB filed by the Company for the period ending June 30, 2002 and is incorporated herein by this reference.

On June 4, 2003, the Company filed an Amendment of Articles of Incorporation of Elution Technologies, Inc., with the Secretary of State for the State of Nevada. The June 4, 2003 amendment was consented to and approved by a majority vote of the stockholders holding a majority of the stock entitled to vote thereon. The amendment changed the name of the Company to Tankless Systems Worldwide, Inc. A copy of this Amendment was attached as an Exhibit to the Form 10-QSB filed by the Company for the period ending June 30, 2003 and is incorporated herein by this reference.

On September 18, 2003, the Company's 2003 Stock Incentive Plan was consented to and approved by a majority vote of the stockholders holding a majority of the stock entitled to vote thereon.

On November 6, 2003, the agreement to acquire Envirotech (see ITEM 1. BUSINESS. A. Business Development, above) was consented to and approved by a majority vote of the stockholders holding a majority of the stock entitled to vote thereon.

On December 1, 2003, the Board of Directors approved the adoption of the 2003 Stock Incentive Plan #2 by the Company. On January 14, 2004, this Plan was consented to and approved by a majority vote of the stockholders holding a majority of the stock entitled to vote thereon.

PART II.

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

(a)

Market Information.

From June 15, 1998 the Company's common stock was traded on the Over the Counter Bulletin Board (symbol CRRZ). On three separate occasions, October 21, 1999, May 5, 2001, and May 26, 2002, quotation of the shares of the Company was temporarily suspended on the Over the Counter Bulletin Board and its shares were listed on the National Quotation Bureau's "Pink Sheets" since the Registrant had not complied with the new eligibility rules of the Bulletin Board requiring that all companies be reporting companies, or had not timely filed its Annual Report with the Securities and Exchange Commission. In each instance, the quotation of the shares of the Company on the Bulletin Board was reinstated after compliance. In September 2002, the Registrant's common stock was listed on the Bulletin Board under the symbol ELUT, and in June 2003 its symbol was changed again to TSYW as a result of the change of the name of the Company.

The range of closing prices shown below is reported while trading on the Bulletin Board. During 2004 the Registrant was current and was traded on the Over the Counter Bulletin Board. The quotations shown reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Per Share Common Stock Bid Prices by Quarter

For the Fiscal Year Ending on December 31, 2004

High

Low

Quarter Ended December 31, 2004

0.91

0.88

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Quarter Ended September 30, 2004

0.73

0.73

Quarter Ended June 30, 2004

0.80

0.65

Quarter Ended March 31, 2004

1.05

1.20

Per Share Common Stock Bid Prices by Quarter

For the Fiscal Year Ending on December 31, 2003

High

Low

Quarter Ended December 31, 2003

1.17

1.09

Quarter Ended September 30, 2003

1.65

1.40

Quarter Ended June 30, 2003

0.97

0.90

Quarter Ended March 31, 2003

0.83

0.75

(b)

Holder of Common Equity.

As of December 31, 2004, there were not less than 248 shareholders of record of the Registrant's Common Stock and there were 13,125,977 shares of Common Stock issued and outstanding. As of April 29, 2005, there were a minimum of 338 shareholders of record of the Registrant's Common Stock and there were 13,267,977 shares of Common Stock issued and outstanding.

(c)

Dividends.

The Registrant has not declared or paid a cash dividend to stockholders since it became a "C" corporation. The Board of Directors presently intends to retain any earnings to finance Registrant operations and does not expect to authorize cash dividends in the foreseeable future. Any payment of cash dividends in the future will depend upon the Registrant's earnings, capital requirements and other factors.

(d)

Securities Authorized for Issuance Under Equity Compensation Plans.

Equity Compensation Plan Information

| Plan category | Number of securities to be issued upon exercise of outstanding options warrants and rights (a) | Weighted average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance (c) |
|--|---|--|---|
| Equity compensation plans approved by security holders | -0- | -0- | -0- |
| Equity compensation plans not approved by security holders | 700,000 | \$0.51 | -0- |
| Total | 700,000 | \$0.51 | -0- |
| | 300,000 | | -0- |

The Company has granted options to various consultants to purchase 600,000 shares of common stock at an exercise price of \$0.50 per share. The option may be exercised, in whole or in part, at any time within a five-year period beginning February 11, 2004 and ending February 11, 2009. The options are fully exercisable as of the grant date, February 11, 2004, and require that the exercise price be paid in cash. The number of shares purchasable upon exercise of the option are subject to certain adjustments, and in certain circumstances the price per share may also be adjusted. The grantees have unlimited piggy-back registration rights to have shares purchased pursuant to the option included in any registration statement filed by the Company

In connection with the settlement of claims asserted against one of the principal officers and directors of Envirotech, the Company and granted a one-year option to purchase up to 100,000 shares of common stock of the Company at a price of \$0.50 per share. The option does not grant any registration rights to the grantee and there are no provisions

for adjustments either in number of shares or price. This option will expire on December 31, 2005.

(e)

Equity Securities Sold Without Registration.

For the year ended December 31, 2004, the Company sold \$1,075,000 principal amount of 10% senior notes due one year from date of issue and 537,500 unregistered common shares of common stock in private placements. The shares were restricted pursuant to the provisions of Section 144 of the Securities Exchange Act of 1933. The securities were sold only to persons who met the Accredited Investor requirements and other requirements set forth in the offering memorandum. In addition, in 2004 the Company issued 172,354 unregistered shares to retire \$90,911 in debt and associated interest; 66,667 shares for \$16,667; and 2,945,000 shares for services rendered and prepaid services to consultants and employees valued at \$258,830. The Company also granted options to purchase 700,000 common shares at an average price of \$0.51, valued at \$6,000. All shares issued were subject to the restrictions set forth in Section 144 of the Securities Exchange Act of 1933.

For the year ended December 31, 2003, issued unregistered Common Shares included 8,366,378 shares for the purchase of a subsidiary, Envirotech, in a stock exchange valued at \$250,000 plus negative capital of \$1,125,661; 142,855 shares for services rendered valued at \$7,945; 49,645 shares for retirement of notes payable and accumulated interest of \$27,865. The Company also issued warrants entitling the holders the right to purchase up to 66,667 common share at \$0.75 per share. These warrants were scheduled to expire in October 2005, and were exercised in 2004. In connection with the acquisition of Envirotech Systems Worldwide, Inc., the Company issued an Option to one of the principal shareholders of Envirotech granting that individual the right to purchase 300,000 shares of common stock of the Company at \$0.55 per share. This option was booked at a value of \$6,300 using the Black-

Scholes model. No shares were issued pursuant to the option and it expired in October 2004. Common Shares cancelled included 5,525,944 shares for termination of a business acquisition that included cancellation of \$852,261 in accrued accounts payable, and the cancellation of 162,500 shares issued in 2002 for prepaid services valued at \$16,250.

For the year ended December 31, 2002, unregistered Common Shares issued included 78,300 shares for services rendered valued at \$54,570; 104,778 shares for \$97,000 in private placements; 60,000 shares to retire a convertible note and accrued interest totaling \$200,730; 22,500 shares for \$23,294 debt settlement; and 5,525,944 shares for a proposed business acquisition which were returned to the Company and cancelled in 2003 when the transaction was abandoned.

ITEM 6. PLAN OF OPERATION.

The following Plan of Operation should be read in conjunction with the financial statements and accompanying notes included in this Form 10-KSB.

(a)

Plan of Operation.

Prior to the acquisition of Envirotech Systems Worldwide, Inc., on November 7, 2003, the Company had not commenced business operations. Following completion of the acquisition of Envirotech and the formation of another subsidiary, ION Tankless, Inc., the Company is in the business of designing, developing, manufacturing and marketing several models of an electronic, tankless water heater. The water heater is small, easy to install and supplies endless amounts of hot water with energy savings. The unit is a microprocessor controlled electric water heater contained in a compact unit (13.5 (W) x 16 (H) x (3.5 D), eliminating the space demands of conventional water heaters. It incorporates automatic, precise temperature controls. It saves energy, space, and water and is suitable to all areas of the U.S. and worldwide.

(b)

Liquidity and Capital Resources

As of December 31, 2004 the Company's only source of established revenue was from the sales of product through its subsidiary, Envirotech. The consolidated financial statements for the Company disclosed that the Company has working capital deficiency of \$2,659,473, and has accumulated losses of \$3,319,173. Without realization of additional capital, it would be unlikely for the Company to continue as a going concern.

(c)

Forward Looking Statements.

The foregoing Plan of Operation may contain "forward looking statements" within the meaning of Rule 175 under the Securities Act of 1933, as amended, and Rule 3b-6 under the Securities Act of 1934, as amended, including statements regarding, among other items, the Registrant's business strategies, continued growth in the Registrant's markets, projections, and anticipated trends in the Registrant's business and the industry in which it operates. The words "believe," "expect," "anticipate," "intends," "forecast," "project," and similar expressions identify forward-looking statements. These forward-looking statements are based largely on the Registrant's expectations and are subject to a number of risks and uncertainties, certain of which are beyond the Registrant's control. The Registrant cautions that these statements are further qualified by important factors that could cause actual results to differ materially from those in the forward looking statements, including, among others, the following: reduced or lack of increase in demand for the Registrant's products, competitive pricing pressures and the level of expenses incurred in the Registrant's operations. In light of these risks and uncertainties, there can be no assurance that the forward-looking information contained herein will in fact transpire or prove to be accurate. The Registrant disclaims any intent or obligation to update "forward looking statements."

ITEM 7. FINANCIAL STATEMENTS.

Financial statements as of and for the year ended December 31, 2004, and for the year ended December 31, 2003 are presented in a separate section of this report following Part IV.

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

The accountants for the Registrant is the firm of Shelley International CPA, 161 East 1st Street, Suite 1, Mesa, AZ 85201 who were engaged on March, 2004. Prior to that, the accountants for the Registrant was the firm of Amisano Hanson Chartered Accountants, 750 West Pender Street, Suite 604, Vancouver, B.C., Canada, who were engaged by the Company in March, 2003. The decision to change accountants was made by the Board of Directors following the acquisition of Envirotech. Shelley International CPA was the independent auditor for Envirotech and it was believed by the Board that it was in the best interest of the consolidated entity to continue with Shelley International CPA who had performed prior audits for Envirotech.

Prior to the engagement of Amisano Hanson, Chartered Accountants, the accountants for the Registrant was the firm of Merdinger, Fruchter, Rosen & Company, P.C., Certified Public Accountants, 888 Seventh Avenue, New York, NY 10106. The decision to change accountants was mandatory as Merdinger, Fruchter & Rosen P.C. has discontinued providing S.E.C. audits to all clients as of December 2002. The auditing firm of Amisano Hanson was recommended by the Company's Board of Directors upon receipt of the resignation notice to the Registrant by Merdinger, Fruchter & Rosen. Merdinger, Fruchter & Rosen P.C. had been the Company's independent certified accountants since approximately the year 2000. The Company dismissed Merdinger, Fruchter & Rosen as its certified accountants on March 19, 2003.

The report of the Company's former independent certified accountants, Merdinger, Fruchter & Rosen P.C. covering the fiscal year ended December 31, 2001 and Amisano Hanson, Chartered Accountants for the fiscal year ended December 31, 2002 did not include an adverse opinion or disclaimer of opinion, and was not qualified as to the audit scope or accounting principles.

In connection with the audits of the two most recent fiscal years and during any subsequent interim period preceding the resignation of Merdinger, Fruchter & Rosen P.C. and the discontinuance of the firm of Amisano Hanson as the auditor for the Company, there did not develop any disagreement on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure between such former independent certified accountants and management of the Company or other reportable events which have not been resolved to the Company's former independent certified accountants' satisfaction.

ITEM 8A. CONTROLS AND PROCEDURES

(a)

Evaluation of disclosure controls and procedures

Based on an evaluation carried out under the supervision, and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer during the 90 day period prior to the filing of this report, the Company's Chief Executive Officer and Chief Financial Officer believes the Company's disclosure controls and procedures, as defined in Securities Exchange Act Rules 13a-14 and 15d-14, are to the best of their knowledge, effective.

(b)

Changes in internal controls

Subsequent to the date of this evaluation, the Chief Executive Officer and Chief Financial Officer is not aware of any significant changes in the Company's internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses, or in other factors that could significantly affect these controls to ensure that information required to be disclosed by the Company, in reports that it files or submits under the Securities Act of 1934, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and regulations.

PART III.

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS AND COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

(a)

Officers and Directors as of December 31, 2004:

The names, ages, and respective positions of the directors and officers of the Company are set forth below. As of December 31, 2004, Mr. Thomas Kreitzer has held his respective positions since June 13, 2002 and Mr. David Kreitzer has held his respective positions since July 25, 2002. Messrs. Thomas Kreitzer and David Kreitzer will serve until the next annual meeting of the Registrant's stockholders or until their respective successors are duly elected and have qualified. Directors will be elected for a one-year term at the annual stockholders' meeting. Officers will hold their positions at the will of the board of directors, absent any employment agreement, of which none currently exist or are contemplated. There are no arrangements, agreements or understandings between non-management shareholders and management under which non-management shareholders may directly or indirectly participate in or influence the management of the Registrant's affairs.

Thomas Kreitzer, Interim Chief Executive Officer/Chief Financial Officer/ Secretary/Treasurer/Director.

Thomas Kreitzer, age 38, graduated from Indiana University in 1989. In 1993 he co-founded Enanti Software Ltd., a software development company geared toward the development of customized application specific software. In 1996 Mr. Kreitzer along with his brother David Kreitzer acquired fifty percent interest in Designer Products, a Phoenix based industrial design firm which has grown to be well known in the hardware industry for its revolutionary product designs. Designer Products develops and patents innovative products, then coordinates manufacturing of the products overseas for distribution through industry recognized corporations. Key accounts include Stanley Tool Company, 3M Corporation, Bondex International, American Tool Company, RPM Group, Ames, Bay Mills Company, BreathRight, DAP and numerous others. In 2003 the Kreitzer s sold their equity in Designer Products and formed a new company Hause Products Ltd. of which they are the majority shareholders. Hause provides product design and contract manufacturing services. Thomas Kreitzer also is a stockholder and Director of Gold Coast Holding, Inc. a Delaware company that does celebrity licensing to promote various products. The company currently holds the rights to Darrell Waltrip s meat line.

David Kreitzer, Interim President/Interim Chief Operating Officer/Director.

David Kreitzer, age 38, graduated with an Industrial Design degree from the University of Illinois in 1989. In 1993 he co-founded Enanti Software Ltd., a software development company geared toward the development of customized application specific software. In 1996 Mr. Kreitzer along with his brother Thomas Kreitzer acquired fifty percent interest in Designer Products, a Phoenix based industrial design firm which has grown to be well known in the hardware industry for its revolutionary product designs. Designer Products develops and patents innovative products, then coordinates manufacturing of the products overseas for distribution through industry recognized corporations.

Key accounts include Stanley Tool Company, 3M Corporation, Bondex International, American Tool Company, RPM Group, Ames, Bay Mills Company, BreathRight, DAP and numerous others. In 2003 the Kreitzers sold their equity in Designer Products and formed a new company Hause Products Ltd. of which they are the majority shareholders. Hause provides product design and contract manufacturing services. David Kreitzer also is a stockholder and Director of Gold Coast Holding, Inc. a Delaware company that does celebrity licensing to promote various products. The company currently holds the rights to Darrell Waltrip's meat line.

(b)

Compliance with Section 16(a) of the Exchange Act.

Section 16(a) of the Securities Exchange Act of 1934 requires executive officers and directors, and persons who beneficially own more than 10% of any class of the Registrant's equity securities to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission ("SEC"). Executive

officers, directors and beneficial owners of more than 10% of any class of the Registrant's equity securities are required by SEC regulations to furnish the Registrant with copies of all Section 16(a) forms they file.

Based solely on a review of the copies of such forms furnished to the Registrant during or with respect to fiscal 2001, and certain written representations from executive officers and directors, the Registrant is aware that each such reporting persons inadvertently failed to file a Form 3 at the time the Registrant became registered under Section 12 of such act (December 4, 1999). Such forms have not been prepared and filed to date.

ITEM 10. EXECUTIVE COMPENSATION.

The following table sets forth executive compensation for the years ending December 31, 2002 and 2002.

SUMMARY COMPENSATION TABLE

| Position | Year | ANNUAL COMEPNSATION | | | LONG TERM COMPENSATION | | | |
|-----------|------|---------------------|---------|---------------------------------|-----------------------------------|--------------------|---------------------|------------------------------|
| | | Salary(\$) | Bonuses | Other Annual Compensation | Restricted Stock Awards(\$) | Options SARs(#) | LTIP Payouts(\$) | All Other Compensation |
| Thomas | 2003 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$5,550 |
| Kreitzer | 2004 | \$0 | \$0 | \$0 | \$17,550 | \$0 | \$0 | \$6,000 |
| CEO, Sec | | | | | | | | |
| David | 2003 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Kreitzer, | 2004 | \$0 | \$0 | \$0 | \$7,000 | \$0 | \$0 | \$6,000 |
| President | | | | | | | | |

Other Compensation.

(a) There are no annuity, pension or retirement benefits proposed to be paid to officers, directors, or employees of the Registrant in the event of retirement at normal retirement date, as there is no existing plan provided for or contributed to by the Registrant.

(b) No remuneration is proposed to be paid in the future directly or indirectly by the Registrant to any officer or director since there is no existing plan which provides for such payment, including a stock option plan.

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

The following table sets forth information regarding the beneficial ownership of shares of the Registrant's common stock as of December 31, 2004 (13,125,977 issued and outstanding) by (i) all stockholders known to the Registrant to be beneficial owners of more than 5% of the outstanding common stock; and (ii) the officers and directors of the Company (each person has sole voting power and sole dispositive power as to all of the shares shown as beneficially owned by them):

Name and Address of

Amount of

Percent

Title of Class

Beneficial Owner (2)

Ownership

of Class

Common Stock

Thomas Kreitzer

5,000

0.038%

101 N. 69th Place

Paradise Valley, Arizona 85253

Common Stock

David Kreitzer

5,000

0.038%

101 N. 69th Place

Paradise Valley, Arizona 85253

Common Stock

Sundance Financial Corp.

1,173,478

(1)

8.940%

And Options

and Affiliated Entities and Persons

13470 N. 85th Place

Scottsdale, AZ 85260

(1)

Sundance Financial Corp., and affiliated persons own 873,478 shares of Common Stock of the Company. Lawrence G. Ryckman, Chairman and Director of ION Tankless, Inc., a subsidiary of the Company, is a director of Sundance Financial Corp. Sundance has the right to acquire up to 300,000 shares of common stock pursuant to Options granted February 2004 at any time prior to February 11, 2009, at an exercise price of \$0.55 per share.

(2)

On December 24, 2004 the Company issued 2,250,000 shares of common stock for \$112,500 subscription receivable in anticipation of executing various consulting agreements. These shares are reported in the financial statements as stock subscribed. However, the anticipated agreements have not yet been executed therefore the conditions that give rise to their issuance have not been satisfied. The Company does not consider these shares to be owned by the certificate holders.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Other than as set forth below, there are no relationships, transactions, or proposed transactions to which the registrant was or is to be a party, in which any of the named persons set forth previously had or is to have a direct or indirect material interest.

(a)

Accrued Salaries and other Expenses to Officers and Directors:

During the year ended December 31, 2004 and 2003, the Company had incurred the following charges with directors and officers of the Company or companies with common directors:

| | <u>2004</u> | <u>2003</u> |
|-------------------------------|-------------|-------------|
| General and Administrative \$ | \$ | |
| Accounting | | |
| Consulting | 36,550 | 5,500 |
| Rent | | |
| Salaries | | |
| | ----- | ----- |
| | \$ 36,550 | \$ 5,500 |
| | ===== | ===== |

These charges were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

(b)

Accounts Payable to Related Parties

Included in accounts payable at December 31, 2004, is \$Nil (2003: \$Nil) due to a director of the Company for unpaid salaries. The amounts due to related parties are due to companies with common directors and are unsecured, non-interest bearing and have no specific terms of repayment.

(c)

Contributions by Principal

None

(d)

Loans by Principal and Former Principal

None

(e)

Office Space.

As of December 31, 2004, the Company owns no real property. The business office of the Company was located at 7650 E. Evans Rd., Suite C, Scottsdale, Arizona 85260. These offices are leased by Envirotech pursuant to a lease agreement which expires on June 30, 2005. Envirotech and the landlord have agreed to extend the lease for an additional one year period expiring on June 30, 2006. Prior to removal of the offices of the Company to the above location, the Company occupied space at 2920 E. Camelback Rd., Suite 150, Phoenix, Arizona 85016. These offices were leased by an unrelated party, subleased to Messrs. Thomas and David Kreitzer and made available by them to the Company on a month-by-month basis at no cost. See "Item 2. Properties."

PART IV.

ITEM 13. EXHIBITS

(a) Index to Financial Statements and Schedules

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Statement of Stockholders' Deficiency

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Statements of Cash Flows

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Notes to Financial Statements

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(b) Exhibits included or incorporated by reference herein

Exhibit

No.

Description

3.1

Article of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Form 10-SB/A filed on December 8, 1999).

3.2

Certificate of Amendment of Articles of Incorporation (incorporated by reference to Exhibit 3.2 of the Form 10-SB/A filed on December 8, 1999).

3.3

Bylaws of the Registrant (incorporated by reference to Exhibit 3.3 of the Form 10-SB/A filed on December 8, 1999).

3.4

Certificate of Amendment of Articles of Incorporation, dated June 11, 2002, (incorporated by reference to Exhibit 3.4 of the Form 10-KSB filed on May 15, 2003).

3.4

Certificate of Amendment of Articles of Incorporation dated June 4, 2003 (incorporated by reference to Exhibit 3.5 of the Form 10-QSB filed on August 21, 2003).

10.1

Agreement to Provide Services for Certification between the Registrant and LPC of New York, Inc., dated September 28, 1999 (incorporated by reference to Exhibit 10.1 of the Form 10-SB/A filed on December 8, 1999).

10.2

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Promissory Note made by Registrant in favor of Brad Randolph, dated June 11, 1999 (incorporated by reference to Exhibit 10.2 of the Form 10-SB/A filed on December 8, 1999).

10.3

Promissory Note made by Registrant in favor of Anoop Pittalwala, dated June 11, 1999 (incorporated by reference to Exhibit 10.3 of the Form 10-SB/A filed on December 8, 1999).

10.4

Agreement of Share Exchange and Plan of Reorganization, dated November 4, 2003, between Registrant and Envirotech Systems Worldwide, Inc., (incorporated by reference to Exhibit 2.1 of the Form 8K Current Report filed on November 7, 2003).

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Tankless Systems Worldwide, Inc. Code of Ethics (incorporated by reference to Exhibit 14 of the Form 10-KSB filed on April 21, 2003).

23.1

Consent of Shelley International CPA, auditors

31.1

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1

Certification Pursuant to 18 U.S.C. Section 1350

ITEM 14 PRINCIPAL ACCOUNTING FEES AND SERVICES.

The following is a summary of the aggregate fees billed to Registrant by its principal accountant(s) for professional services rendered for the fiscal years ended December 31, 2004 and 2003.

| | Fiscal 2004 Fees | Fiscal 2003 Fees |
|---------------------------------|-------------------------|-------------------------|
| Fee Category | (\$) | (\$) |
| Audit Fees ¹ | 18,000 | 11,500 |
| Audit-Related Fees ² | 0 | 0 |
| Tax Fees ³ | 0 | 0 |
| All Other Fees ⁴ | 0 | 0 |
| Total Fees | 18,000 | 11,500 |

1.

Audit Fees. Consists of fees billed for professional services rendered for the audits of Registrant's financial statements for the fiscal years ended December 31, 2004 and 2003, and for review of the financial statements included in Registrant's Quarterly Reports on Form 10-QSB for those fiscal years.

2.

Audit-Related Fees. Consists of fees billed for services rendered to Registrant for audit-related services, which generally include fees for audit and review services in connection with a proposed spin-off transaction, separate audits of employee benefit and pension plans, and ad hoc fees for consultation on financial accounting and reporting standards.

3.

Tax Fees. Consists of fees billed for services rendered to Registrant for tax services, which generally include fees for corporate tax planning, consultation and compliance.

4.

All Other Fees. Consists of fees billed for all other services rendered to Registrant, which generally include fees for consultation regarding computer system controls and human capital consultations. No services were performed related to financial information systems design and implementation for the fiscal years ended December 31, 2004 and 2003.

None of the "audit-related," "tax" and "all other" services in 2003, as defined above, were approved by the Audit Committee in reliance on the *de minimus* exception to the pre-approval requirements under federal securities laws and regulations.

Pre-Approval of Services of Principal Accounting Firm

The Audit Committee's written policy is to pre-approve all audit and permissible non-audit services provided by Registrant's principal accounting firm (independent auditor). These services may include audit services, audit-related services, tax services and other permissible non-audit services. Any service incorporated within the independent auditor's engagement letter, which is approved by the Audit Committee, is deemed pre-approved. Any service identified as to type and estimated fee in the independent auditor's written annual service plan, which is approved by the Audit Committee, is deemed pre-approved up to the dollar amount provided in such annual service plan.

During the year, the principal accounting firm may also provide additional accounting research and consultation services required by, and incident to, the audit of Registrant's financial statements and related reporting compliance. These additional audit-related services are pre-approved up to the amount approved in the annual service plan approved by the Audit Committee. The Audit Committee may also pre-approve services on a case-by-case basis during the year.

The Audit Committee's approval of proposed services and fees are noted in the meeting minutes of the Audit Committee and/or by signature of the Audit Committee on the engagement letter. The principal accounting firm of Registrant and management are periodically requested to summarize the principal accounting firm services and fees paid to date, and management is required to report whether the principal accounting firm's services and fees have been pre-approved in accordance with the required pre-approval process of the Audit Committee.

Non-Audit Services

The Audit Committee of the Board of Directors has considered whether the provision of non-audit services by the Registrant's principal accountants is compatible with maintaining auditor independence.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TANKLESS SYSTEMS WORLDWIDE, INC.

(Formerly Elution Technologies, Inc.)

Dated: April 29, 2005

By: /s/ Thomas Kreitzer

Thomas Kreitzer

Chief Executive Officer,

Principal Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated:

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|----------------------------|-------------------------------|----------------|
| <u>/s/ Thomas Kreitzer</u> | Chief Executive Officer, | April 29, 2005 |
| Thomas Kreitzer | Principal Accounting Officer, | |

Director

/s/ David Kreitzer

President and Chief Operating

April 29, 2005

David Kreitzer

Officer, Director

TANKLESS SYSTEMS WORLDWIDE, INC.

(formerly Elution Technologies, Inc.)

REPORT AND FINANCIAL STATEMENTS

December 31, 2004

F-1

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Audit Committee

Tankless Systems Worldwide, Inc.

We have audited the accompanying consolidated balance sheets of Tankless Systems Worldwide, Inc. as of December 31, 2004, and 2003 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Tankless Systems Worldwide, Inc., as of December 31, 2004, 2003 and the consolidated related statements of operations, stockholders' equity, and cash flows for the years ended December 31, 2004 and 2003 are in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the company will continue as a going concern. The Company has experienced losses since inception. This raises substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from this uncertainty.

/s/ Shelley International CPA

Shelley International CPA

Mesa, Arizona, U.S.A.

April 28, 2005

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Tankless Systems Worldwide, Inc.
CONSOLIDATED BALANCE SHEETS

ASSETS

| | December 31, 2004 | December 31, 2003 |
|---------------------------|----------------------|----------------------|
| CURRENT ASSETS | | |
| Cash | \$ 18,690 | \$ 412 |
| Accounts Receivable, Net | 110,721 | 58,726 |
| Inventory at Cost | 76,131 | 98,813 |
| Prepaid Expenses | 2,782 | 50,660 |
| Total Current Assets | 208,324 | 208,611 |
| EQUIPMENT, NET | 62,282 | 73,327 |
| OTHER ASSETS | | |
| Patents and Software, Net | 43,778 | 63,463 |
| Investment in Subsidiary | 250,000 | 250,000 |
| Deposits | 7,514 | 7,514 |
| Total Other Assets | 301,292 | 320,977 |
| Total Assets | \$ 571,898 | \$ 602,915 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|--------------------------|---------------|---------------|
| LIABILITIES | | |
| Accounts Payable | \$ 618,155 | \$ 673,612 |
| Other Payables | 76,125 | 46,799 |
| Notes Payable | 1,952,258 | 876,579 |
| Accrued Interest Payable | 100,891 | 72,708 |
| Customer Deposits | 120,368 | 43,643 |
| Total Liabilities | 2,867,797 | 1,713,341 |

STOCKHOLDERS' EQUITY

Common Stock authorized is

100,000,000 shares at \$0.001par value.

Issued and outstanding on December 31,

2004 is 13,125,977 shares, December 31,

2003 is 11,374,456.

| | | |
|--|--------|--------|
| | 13,126 | 11,374 |
|--|--------|--------|

| | | |
|-----------------|-----------|---------|
| Paid in Capital | 1,122,648 | 496,196 |
|-----------------|-----------|---------|

| | | |
|--------------------------|-----------|--|
| Subscriptions Receivable | (112,500) | |
|--------------------------|-----------|--|

| | | |
|-----------------|-------------|-------------|
| Retained (Loss) | (3,319,173) | (1,617,996) |
|-----------------|-------------|-------------|

| | | |
|----------------------------|-------------|-------------|
| Total Stockholders' Equity | (2,295,899) | (1,110,426) |
|----------------------------|-------------|-------------|

TOTAL LIABILITIES AND

| | | |
|---------------------|------------|------------|
| STOCKHOLDERS EQUITY | \$ 571,898 | \$ 602,915 |
|---------------------|------------|------------|

The accompanying notes are an integral part of these statements

Tankless Systems Worldwide, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS

| | Year Ended December 31, 2004 | Year Ended December 31, 2003 |
|---|---------------------------------------|---------------------------------------|
| INCOME | | |
| Product Sales | \$ 261,870 | \$ 90,893 |
| Other Income | 251 | 1,621 |
| Total Income | 262,121 | 92,514 |
| Less Cost of Goods Sold | 183,527 | 72,521 |
| Gross Income | 78,594 | 19,993 |
| EXPENSES | | |
| Legal and Professional | 159,332 | 36,125 |
| General and Administrative | 1,082,682 | 279,067 |
| Research and Development | 285,544 | 21,378 |
| Advertising | 27,431 | 7,039 |
| Loss on Sale of Assets | | |
| Depreciation | 20,438 | 14,065 |
| Amortization | 21,685 | 4,265 |
| Interest Expense | 182,659 | 24,967 |
| Total Expenses | 1,779,771 | 386,906 |
| Net (Loss) before Income Taxes | (1,701,177) | (366,913) |
| Income Tax Expense | - | - |
| NET (LOSS) | \$ (1,701,177) | \$ (366,913) |
| Basic and diluted (loss) per share | \$ (0.14) | \$ (0.09) |

Weighted Average Number
of Common

| | | |
|--------------------|------------|-----------|
| Shares Outstanding | 12,016,132 | 4,152,144 |
|--------------------|------------|-----------|

The accompanying notes are an integral part of
these statements

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Tankless Systems Worldwide, Inc.
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
For the period December 31, 2000 to December 31, 2004

| | Common Stock Shares | Common Stock Amount | Paid in Capital | Subscriptions Receivable | Accumulated (Loss) | Total Equity |
|--|------------------------|------------------------|--------------------|-----------------------------|-----------------------|-----------------|
| Balance December 31, 2000 | 580,000 | \$ 580 | \$ 333,920 | \$ - | \$ (828,006) | \$ (493,506) |
| Common Shares issued for Services | 52,500 | 53 | 52,447 | | | 52,500 |
| Contribution to Capital | | | 24,265 | | | 24,265 |
| Common Shares issued to retire Convertible Note and accrued Interest | 60,000 | 60 | 187,022 | | | 187,082 |
| Net (Loss) | | | | | (120,900) | (120,900) |
| Balance December 31, 2001 | 692,500 | 693 | 597,654 | - | (948,906) | (350,559) |
| Common Shares issued for cash | 104,778 | 105 | 96,895 | | | 97,000 |
| Common Shares issued for services | 455,800 | 455 | 110,045 | | | 110,500 |
| Common Shares issued for prepaid service | 162,500 | 163 | 16,087 | | | 16,250 |
| Common Shares issued for proposed | | | | | | |

| | | | | | | |
|--|-----------|-------|-----------|---|-------------|-------------|
| business acquisition | 5,525,944 | | | | | |
| Common Shares issued to retire convertible note and accrued Interest | 60,000 | 60 | 200,670 | | | 200,730 |
| Common Shares issued to retire debt | 22,500 | 22 | 23,272 | | | 23,294 |
| Net (Loss) | | | | | (1,154,438) | (1,154,438) |
| Balance December 31, 2002 | 7,024,022 | 1,498 | 1,044,623 | - | (2,103,344) | (1,057,223) |

(Continued on following page)

The accompanying notes are an integral part of these statements

Tankless Systems Worldwide, Inc
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY, Continued
For the period December 31, 2000 to December 31, 2004

| | Common Stock | | Paid in Capital | Subscriptions Receivable | Accumulated (Loss) | Total Equity |
|--|--------------|--------|--------------------|-----------------------------|-----------------------|-----------------|
| | Shares | Amount | | | | |
| Balance December 31, 2002 | 7,024,022 | 1,498 | 1,044,623 | - | (2,103,344) | (1,057,223) |
| Common Shares cancelled and retained earnings adjustment for termination of business acquisition | (5,525,944) | | | | 852,261 | 852,261 |
| Common Shares cancelled for unused prepaid service | (162,500) | (163) | (16,087) | | | (16,250) |
| Common Shares issued to retire Debt in the amount of \$27,205 | 49,645 | 50 | 27,815 | | | 27,865 |
| Common Shares issued for services | 1,622,855 | 1,623 | 317,572 | | | 319,195 |
| Common Shares issued for business acquisition including purchase of | 8,366,378 | 8,366 | 241,634 | | | 250,000 |

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| | | | | | | |
|---|-------------|-----------|--------------|--------------|----------------|----------------|
| (Negative) | | | | | | |
| Capital | | | (1,125,661) | | | (1,125,661) |
| Common Stock Options issued for services | | | 6,300 | | | 6,300 |
| Net (Loss) | | | | | (366,913) | (366,913) |
| Balance December 31, 2003 | 11,374,456 | 11,374 | 496,196 | - | (1,617,996) | (1,110,426) |
| Common Shares issued for services | 1,337,500 | 1,338 | 387,418 | | | 388,756 |
| Common Shares issued to retire Debt and interest of \$91,281 | 172,354 | 172 | 91,109 | | | 91,281 |
| Common Shares issued for cash through exercise of warrants | 66,667 | 67 | 16,600 | | | 16,667 |
| Common Shares cancelled in acquisition settlement | (2,075,000) | (2,075) | 2,075 | | | - |
| Common Stock Options issued for services | | | 19,000 | | | 19,000 |
| Common Stock issued for subscriptions receivable | 2,250,000 | 2,250 | 110,250 | (112,500) | | - |
| Net (Loss) | | | | | (1,701,177) | (1,701,177) |
| Balance December 31, 2004 | 13,125,977 | \$ 13,126 | \$ 1,122,648 | \$ (112,500) | \$ (3,319,173) | \$ (2,295,899) |

The accompanying notes are an integral part of these statements

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Tankless Systems Worldwide, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended December 31, 2004 | Year Ended December 31, 2003 |
|--|---------------------------------------|---------------------------------------|
| Operating Activities | | |
| Net (Loss) | \$ (1,701,177) | \$ (366,913) |
| Purchased (Negative) Capital from business acquisition. | | (1,125,661) |
| Shares cancelled for terminated service. | | (16,250) |
| Common Share Options issued for service | 19,000 | 6,300 |
| Shares issued for business acquisition. | | 250,000 |
| Shares issued for services rendered. | 388,756 | 319,195 |
| Shares issued to retire debt and interest. | 91,281 | 27,865 |
| Amortization of intangible assets. | 21,685 | 4,265 |
| Depreciation Expense. | 20,438 | 14,065 |
| Loss on disposal of capital assets. | | |
| Changes in assets and liabilities: | | |
| Inventory | 22,682 | (98,813) |
| Accounts Receivable | (51,995) | (58,726) |
| Prepaid Expense | 47,878 | (41,924) |
| Accrued Interest Payable | 28,183 | 32,161 |
| Accounts Payable | (26,131) | 669,129 |
| Notes Payable | | 746,579 |
| Customer Deposits | 76,725 | 43,643 |
| Net Cash Provided by Operating Activities | (1,062,675) | 404,915 |
| Investing Activities | | |
| Investment in Subsidiary | | (250,000) |
| Purchase of Patents and Software | (2,000) | (67,728) |
| Purchase of Equipment | (9,393) | (87,392) |
| Net Cash (Used) by Investing Activities | (11,393) | (405,120) |

Financing Activities

| | | | |
|--|------------|----|--------|
| Principle Received on convertible debentures | 1,075,679 | | |
| Proceeds from sale of Common Stock | 16,667 | | |
| Cash Provided by Financing Activities | 1,092,346 | | |
| Net Increase/(Decrease) in Cash | 18,278 | | (205) |
| Cash, Beginning of Period | 412 | | 617 |
| Cash, End of Period | \$ 18,690 | \$ | 412 |
| Supplemental Information: | | | |
| Taxes | \$ - | \$ | - |
| Interest | \$ 182,659 | \$ | 24,967 |

The accompanying notes are an integral part of these statements

Tankless Systems Worldwide, Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and December 31,2003

Note 1. THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES

The Company

Tankless Systems Worldwide, Inc., a Nevada corporation (Company), was originally organized on November 23, 1993 as Amexan, Inc., and then on June 1, 1998 the name was changed to Nostalgia Motorcars, Inc. On June 11, 2002, the Company changed its name to Elution Technologies, Inc., and on June 4, 2003, it changed its name to Tankless Systems Worldwide, Inc.

On November 7, 2003, the Company acquired Envirotech Systems Worldwide, Inc. (Envirotech), a private Arizona corporation, as a wholly owned subsidiary. The acquisition was accounted for using purchase accounting. The purchase was made in a one-for-one stock exchange of 8,366,778 shares of the Company's common stock for all of the issued and outstanding shares of Envirotech. For more details of this acquisition see Note 2.

Envirotech was organized December 9, 1998 and has a limited history of operations. The initial period of its existence involved research and development of a line of electronic, tankless water heaters. The first sales of its products occurred in calendar year 2000.

With the acquisition of Envirotech, the Company is in the business of designing, developing, manufacturing and marketing several models of an electronic, tankless water heaters.

During January 2004 the Company organized ION Tankless, Inc. an Arizona Corporation as a wholly owned subsidiary. ION is organized to do research, development and marketing of new tankless technologies.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in the Company's financial statements and the accompanying notes. Actual results could differ from those estimates.

The accompanying balance sheets of December 31, 2004, and December 31, 2003, and the related statements of operations, stockholders' equity, and cash flows for the periods ended December 31, 2004, and 2003 consolidate the activity of the Company for all reported periods with the activity of its subsidiary Envirotech from the date of purchase November 7, 2003, to December 31, 2004 and its subsidiary ION from inception (January 2004) to December 31, 2004.

Financial Instruments

The carrying value of the Company's financial instruments, consisting of cash, accounts payable, accrued liabilities, and accrued interest payable approximate their fair value due to the short-term maturity of such instruments. The carrying value of convertible debt approximates fair value as the related interest rate is variable and approximates market rates. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Research and Development

The Company expensed product research and development costs as they are incurred. The Company had one product with variations in capacity based on the flow of electricity. With the organization of its new subsidiary ION, the Company continues to expense research and development costs as incurred in developing additional products based on new technology.

Marketing Strategy

The Company sells directly to individuals through the Internet, through distributorships, and through high volume retailers. The Company periodically advertises on cable television stations, trade shows and trade magazines and maintains an extensive website.

Revenue Recognition

The Company usually sells its units through credit card sales to individuals and normally does not maintain receivables. However, the Company does sell on credit to distributors. Credit card sales are recognized upon shipment of the product to the customer. All shipments are FOB shipping point. Sales to distributorships are sold FOB shipping point with 30-day terms on receivables.

Accounts Receivable

Accounts receivable is recorded when an order is received from a distributor. An allowance for doubtful accounts was set up based on the actual rate of uncollected accounts. Net accounts receivable is as follows:

Year Ended December 31

2004

2003

Accounts Receivable

\$69,774

\$63,490

Employee Advances

47,903

91,402

Less Allowance for Doubtful Accounts

(6,956)

(6,956)

Net Accounts Receivable

\$110,721

\$118,079

Advertising

Advertising expense included the cost of sales brochures, print advertising in trade publications, displays at trade shows and maintenance of an Internet site. Advertising is expensed when incurred. Advertising expense for the year ending December 31, 2004 and December 30, 2003 is \$27,431 and \$10,471 respectively.

Inventory

The Company contracts with a third party to manufacture the units and is not billed for nor obligated for any work-in-process. The Company only supplies certain parts and materials and is then billed for completed products. Parts and material inventory is stated at the lower of cost (first-in, first-out) or net realizable value.

Equipment

Equipment is depreciated using the straight-line method over the estimated useful lives, which range from two to seven years. Fixed assets consist of the following:

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Year Ended December 31

2004

2003

Tooling, machinery, furniture

and fixtures

\$192,861

\$192,861

Less: Accumulated depreciation

(130,579)

(121,400)

Total

\$ 62,282

\$ 71,461

Patents

Patent and software costs include direct costs of obtaining patents. Costs for new patents are capitalized and amortized over the estimated useful lives of seventeen years and software over five years.

Year Ended December 31

2004

2003

Patents and heater software

\$134,274

\$132,274

Accumulated Amortization

(90,496)

(68,811)

Net Patents and Heater Software

\$43,778

\$63,463

Earnings per Share

The basic (loss) per share is calculated by dividing the Company's net income available to common shareholders by the weighted average number of common shares during the year.

The Company has no potentially dilutive securities outstanding at the end of the statement periods. Therefore, the basic and diluted earnings (loss) per share are presented on the face of the statement of operations. All outstanding warrants were either exercised or cancelled and convertible debt is anti-dilutive.

Stock Based Compensation

The Company accounts for its stock based compensation based upon provisions in SFAS No. 123, *Accounting for Stock-Based Compensation*. In this statement stock based compensation is divided into two general categories, based

upon who the stock receiver is, namely: employees/directors and non-employees/directors. The employees/directors category is further divided based upon the particular stock issuance plan, namely compensatory and non-compensatory. The employee/directors non-compensatory securities are recorded at the sales price when the stock is sold. The compensatory stock is calculated and recorded at the securities fair value at the time the stock is given. SFAS 123 also provides that stock compensation paid to non-employees be recorded with a value which is based upon the fair value of the services rendered or the value of the stock given, whichever is more reliable. The common stock paid to non-employees was valued at the value of the services rendered.

Warranty and Right of Return

Upon the sale of a system, the Company gives a 30-day money back guarantee less a 6% restocking charge. After the 30 days the Company gives an additional five years warranty on replacement of parts. The tank chamber is warranted not to leak for 20 years.

Note 2.

ACQUISITION OF SUBSIDIARY

On November 7, 2003, the Company acquired Envirotech Systems Worldwide, Inc. a private Arizona corporation (Envirotech), as a wholly owned subsidiary. The purchase was made in a one-for-one stock exchange of 8,366,778 shares of the Company's common stock for all of the issued and outstanding shares of Envirotech.

At the time of purchase the balance sheet of Envirotech was as follows:

Total Assets

\$ 328,900

Liabilities

1,451,561

Stockholders (Negative) Equity

(1,125,661)

Total Liabilities and Stockholders' Equity

\$ 328,900

Per the purchase agreement Tankless acquired goodwill/client files valued at \$250,000 and the negative equity of \$1,125,661. The purchased client files will assist in future marketing and the Company considers the goodwill value unchanged.

Note 3.

NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS:

During the year ended December 31, 2004, the Company received \$1,075,000 through private placements to accredited investors. The investor receives a one-year debenture with an interest rate of 10% per year, payable, quarterly. Additionally, the investor receives one (1) share of the Company's restricted common stock for each Two Dollars (\$2.00) of debentures purchased. The principle and unpaid interest is convertible to common stock at the rate of one share of stock for every \$1.00 outstanding. During 2004 a \$30,000 and a \$50,000 note including associated interest were converted to common stock.

Notes payable and capital lease obligations consist of the following:

Year Ended December 31

2004

2003

Convertible Notes, Unsecured, Matured March

2001 bear 12.5% Interest, principle and interest

convertible into one common share and one

warrant at 75% of the average closing price over

the 10-day period prior to conversion. Warrants

have expired and notes have not been

converted and are in default.

\$100,000

\$100,000

Convertible Notes, Unsecured, Matured March

2002 bear 12.5% Interest, principle and interest

convertible into one common share and one
warrant at 75% of the average closing price over
the 10-day period prior to conversion. Warrants
have expired and note has been converted.
\$30,000

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Year Ended December 31

2004

2003

Convertible Notes, Unsecured, Matured one-year from issue date, bear 10% Interest payable quarterly, principle and interest convertible into one common share for each outstanding \$1.00. Thirty-six notes are outstanding that were issued between January 23 and December 14, 2004. Aggregate Amount:

1,025,000

Accrued Interest Payable 2004

81,626

Aggregate amount of principle and interest on notes payable of Subsidiary Envirotech listed in Chapter 11 Bankruptcy

846,523

746,579

Total Notes Payable

\$2,053,149

\$876,579

Note 4.

STOCKHOLDERS EQUITY

As of June 30, 2004, the Company has 100,000,000 shares of common stock authorized at a par value of \$0.001. On December 31, 2004 and 2003 common stock issued and outstanding were 13,125,977 and 11,374,456 shares respectively.

On July 25, 2002, the Company adopted an employee stock incentive plan setting aside 1,000,000 shares of the Company's common stock for issuance to officers, employees, directors and consultants for services rendered or to be rendered. The proposed maximum offering price of such shares is \$1.00 per share.

A compensation committee appointed by the Board of Directors who shall have the right to grant awards or stock options administers the plan.

On October 15, 2002, the Company filed a Registration on Form S-8 with the Securities Exchange Commission covering the 1,000,000 shares provided by this plan, at a maximum offering price of \$1.00 per share.

As of December 31, 2002, 540,000 shares of common stock have been issued at \$0.10 per share under this plan leaving a balance of 460,000 shares available under the plan, all of which were subsequently issued in 2003.

On August 19, 2003, the Company adopted an employee stock incentive plan setting aside 960,000 shares of the Company's common stock for issuance to officers, employees, directors and consultants for services rendered or to be rendered. The proposed maximum offering price of such shares is \$1.00 per share.

A compensation committee appointed by the Board of Directors who shall have the right to grant awards or stock options administers the plan.

On September 12, 2003, the Company filed a Registration on Form S-8 with the Securities Exchange Commission covering the 960,000 shares provided by this plan, at a maximum offering price of \$1.00 per share.

From the date of adoption of the Plan to November 7, 2003, the Company issued all of the shares covered by this Plan.

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On December 1, 2003, the Company adopted an employee stock incentive plan setting aside 165,000 shares of the Company's common stock for issuance to officers, employees, directors and consultants for services rendered or to be rendered. The proposed maximum offering price of such shares is \$1.00 per share.

A compensation committee appointed by the Board of Directors who shall have the right to grant awards or stock options administers the plan.

On December 19, 2003, the Company filed a Registration on Form S-8 with the Securities Exchange Commission covering the 165,000 shares provided by this plan, at a maximum offering price of \$1.00 per share.

As of March 31, 2004, the Company has issued all of the shares covered by the 2003 Stock Incentive Plan adopted by the Company on December 1, 2003

On December 23, 2004, the Company accepted the return and cancellation of 2,075,000 common shares in settlement of action taken by the company against prior shareholders of Envirotech in connection with claims made during its purchase.

The Company was initially capitalized November 30, 1993 with the issue of 500,000 shares for \$5,000 and at December 31, 2000 had 580,000 common shares outstanding. Since December 31, 2000 the Company has issued 5,718,655 common shares for services valued at \$983,451; 364,499 common shares were issued to retire \$530,252 of debt; 171,445 common shares were sold for \$113,667; and 6,291,378 common shares were issued for a business acquisition valued at \$250,000 plus negative capital of \$1,125,661.

Warrants: On December 31, 2003 there were 66,667 share purchase warrants outstanding entitling the holders the right to purchase one common share for each warrant held at \$0.75 per share. On May 19, 2004, the Company revised the exercise price to \$0.25 per share and accepted \$16,667 in exercise of these warrants for 66,667 common shares. No additional warrants are outstanding.

Stock Options: In connection with the acquisition of Envirotech Systems Worldwide, Inc., the Company issued immediately vested stock options on October 29, 2003 to one of the principal shareholders of Envirotech. He was granted the right to purchase 300,000 restricted common shares at \$0.55 per share until October 29, 2004 (extended to December 31, 2004 and now expired).

On February 11, 2004 the company granted 5-year stock options to purchase 600,000 shares of restricted common stock at \$0.50 per share to consultants assisting in company operations. Using a discounted stock price of \$0.43, exercise price of \$0.50, 5-year option, risk-free rate of 4.1% and a volatility rate of .038 the value of these options is calculated at \$0.03 using the Black-Scholes model. The aggregate value of 600,000 options is \$18,000.

On December 31, 2004 options to purchase 100,000 restricted common shares were granted as part of a settlement agreement. The options are immediately vested and the holder has the right to purchase 100,000 restricted shares at an exercise price of \$0.55 per share and will expire in one year (December 31, 2005). Using a discounted stock price of \$0.44, exercise price of \$0.55, 1-year option, risk-free rate of 4.1% and a volatility rate of .038 the value of these options is calculated at \$0.01 using the Black-Scholes model. The aggregate value of 100,000 options is \$1,000.

Outstanding stock options are as follows:

Shares

Balance, December 31, 2003

300,000

Granted

700,000

Canceled

(300,000)

Balance, December 31, 2004

700,000

Note 5.

INCOME TAXES:

The Company provides for income taxes under Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. SFAS No. 109 requires the use of an asset and liability approach in accounting for income taxes. Deferred tax assets and liabilities are recorded based on the differences between the financial statement and tax bases of assets and liabilities and the tax rates in effect currently.

SFAS No. 109 requires the reduction of deferred tax assets by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. In the Company's opinion, it is uncertain whether they will generate sufficient taxable income in the future to fully utilize the net deferred tax asset. Accordingly, a valuation allowance equal to the deferred tax asset has been recorded. The total deferred tax asset is \$735,555, as of 12/31/04, which is calculated by multiplying a 22% estimated tax rate by the cumulative NOL of \$3,343,434. The total valuation allowance is a comparable \$735,555.

Year Ended December 31

2004

2003

2002

Deferred Tax Asset

374,259

\$80,722

\$253,976

Valuation Allowance

(374,259)

(80,722)

(253,976)

Current Taxes Payable

0.00

0.00

0.00

Income Tax Expense

\$ 0.00

\$ 0.00

\$ 0.00

Below is a chart showing the estimated federal net operating losses and the years in which they will expire.

Year

Amount

Expiration

2001

120,900

2021

2002

1,154,438

2022

2003

366,919

2023

2004

1,701,177

2024

Total

\$3,343,434

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Note 6.

LEASES AND OTHER COMMITMENTS:

The Company occupies space leased by Envirotech. The lease extends to June 30, 2006. The numbers shown below assume that the Company will remain in its current office space.

Year 1

Year 2

Year 3

Year 4

Year 5

Office Lease

25,435

25,435

25,435

25,435

25,435

Note 7.

GOING CONCERN

Listed below are some of the challenges which the Company is facing, and why these raise a question as to the Company's ability to continue as a going concern. Also described are management's plans to turn the Company around.

Company's Challenges

The Company has a substantial deficit in retained earnings from losses for the previous years. Its subsidiary, Envirotech has not been able to generate enough sales to cover annual expenses and has survived only by raising funds. The Company must continue to raise funds in the near future to survive. Management has been successful in the past in raising these funds. There is no assurance that management can continue to find investors to cover the losses generated.

Management's Plans

Management feels that the trends are encouraging because its subsidiary has increased sales each year of operation. Advertising will continue through the printed media, cable television and the Internet. As new homebuilders become aware of the product it will be included in original house plans. Management has placed the unit in large retail stores which is driving much of the upward sales trend.

On February 1, 2004, the company initiated its management transition plan as a result of its acquisition of its subsidiary Envirotech. The Company entered into several consulting agreements to assist in day-to-day operations and provide financial, management and other consulting services to the Company and its subsidiaries. These persons will serve as part of the management team during the periods of their engagement and will perform a variety of services to include:

1.

The evaluation of potential business opportunities

2.

The business operations and management

3.

The development of business strategies

4.

Raising public and private capital

Pursuant to these agreements, the company has committed to issue 700,000 shares of common stock and has granted options to purchase an additional 600,000 restricted shares at a price of \$0.50 per share at any time prior to February

1, 2009. All stock issued or to be issued is subject to the limitations imposed by Rule 144. Management believes these individuals and entities are crucial to the future of the Company and that the consideration paid for their services is fair and reasonable.

Note 8.

PENDING LITIGATION

The Company's subsidiary Envirotech is currently a defendant in a patent infringement lawsuit. Management feels that this action is baseless and that the Company will prevail. No contingent liability has been recorded nor contemplated at this point. Action has been stayed through Bankruptcy Petition.

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In 2004 Envirotech was named in three separate lawsuits for unpaid legal and consulting fees totaling \$268,000.

Envirotech believed it had meritorious defenses to each of these suits. On April 14, 2004, Envirotech settled one of these suits, considering it a nuisance claim. In connection with that settlement, Envirotech reimbursed the plaintiff for alleged out-of-pocket expenses and the Company issued 10,000 shares of common stock, restricted under Rule 144, to the plaintiff on the basis of a loan from the Company to Envirotech. In the other two suits Envirotech elected not to spend funds to defend the action and judgments were granted in the aggregate amount of approximately \$155,500.

These judgments have been stayed through Bankruptcy Petition (see Note 9). Any settlements of these suits will be reflected as a charge in the year of the settlement.

On August 13, 2004, the Company filed a verified complaint in the United States District Court in and for the District of Arizona against certain key individuals who were principles of Envirotech prior to its acquisition. The action alleged against various defendants, Breach of Fiduciary Duty, Aiding and Abetting Breach of Fiduciary Duty, Breach of Contract, Breach of Implied Covenant of Good Faith and Fair Dealing, Fraud and Intentional Misrepresentation, Conspiracy to Defraud, Arizona Securities Fraud, Federal Securities Fraud, Negligent Misrepresentation, Misappropriation of Trade Secrets and Confidential Business Information, Conversion/Embezzlement, Intentional Interference with Business Relations and Prospective Economic Advantage, Unjust Enrichment, and Promissory Estoppel. The Company sought relief, which included, but was not limited to, Damages, Constructive Trust, Rescission and Injunctive Relief. This action has been settled with the return and cancellation of 2,075,000 shares of common stock and the agreement of the defendants to other conditions, including agreements not to compete for specified periods of time.

Note 9.

SUBSIDIARY BANKRUPTCY

On August 6, 2004, Envirotech Systems Worldwide, Inc., a wholly-owned subsidiary of the Company, filed for protection under Chapter 11 of the United States Bankruptcy Code in Phoenix, Arizona. Envirotech was acquired by the Company in November 2003 in a stock-for-stock, one-for-one transaction, and has been held and operated by the Registrant as an operating subsidiary. With the exception of a guarantee to one critical supplier in the current amount of approximately \$42,500, the Registrant has not assumed any liability for the obligations of Envirotech. As of the date of the filing of the Chapter 11 Bankruptcy Petition, Envirotech had liabilities of approximately \$1.6 million.

Several creditors not related to the supply of parts or the assembly of products have obtained judgments against Envirotech and an action was pending in the U.S. District Court, Southern District of Texas, alleging patent infringement. The filing of the Bankruptcy Petition has stayed all creditors and suits.

Note 10.

THE EFFECT OF RECENTLY ISSUED ACCOUNTING STANDARDS

Below is a listing of the most recent accounting standards SFAS 146-150 and their effect on the Company.

SFAS 149

Amendment of Statement 133 on Derivative Instruments and Hedging Activities

This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

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SFAS 150

Financial Instruments with Characteristics of both Liabilities and Equity

This statement requires that such instruments be classified as liabilities in the balance sheet. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003.

Interpretation No. 46 (FIN 46)

Effective January 31, 2003, The Financial Accounting Standards Board requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a continuing financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Company has not invested in any such entities, and does not expect to do so in the foreseeable future.

The adoption of these new Statements is not expected to have a material effect on the Company's current financial position, results or operations, or cash flows.

Note 10.

SUBSEQUENT EVENTS

On December 24, 2004 the Company issued 2,250,000 shares of common stock for \$112,500 subscription receivable in anticipation of executing various consulting agreements. These shares are reported in the financial statements as stock subscribed. However, the anticipated agreements have not yet been executed therefore the conditions that give rise to their issuance have not been satisfied. The Company does not consider these shares to be owned by the certificate holders.

The Company's transfer agent (First American Stock Transfer, Inc.) confirms a hold notification on the subject shares and that no transfers have been made or attempted with respect to these certificates.

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