TANKLESS SYSTEMS WORLDWIDE INC
Form 10QSB
September 01, 2004

.U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 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: 000-27549

TANKLESS SYSTEMS WORLDWIDE, INC.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (Zip Code)

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity. As of June 30, 2004 12,293,432 shares, $0.001 par value.

Transitional Small Business Disclosure Format (check one): YES [ ] NO {X}

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

<u>Report of Independent Registered Public Accounting Firm</u>

To the Board of Directors and Audit Committee

Tankless Systems Worldwide, Inc.

We have reviewed the accompanying consolidated interim balance sheets of Tankless Systems Worldwide, Inc., as of June 30, 2004, and December 31, 2003 and the associated consolidated statements of operations, stockholders equity and cash flows for the three-and six month periods ended June 30, 2004 and June 30, 2003. These interim financial statements are the responsibility of the Company s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with U.S. generally accepted accounting principles.

Shelley International, CPA

Mesa, Arizona, U.S.A.

August 31, 2004

Tankless Systems Worldwide, Inc.

CONSOLIDATED BALANCE SHEETS

ASSETS

		June 30, 2004 (Unaudited)		December 31, 2003
CURRENT ASSETS				
Cash	$	38,446	$	412
Accounts Receivable, Net		72,156		58,726
Inventory at Cost		91,690		98,813
Prepaid Expenses		75,282		50,660
Total Current Assets		277,574		208,611
EQUIPMENT, NET		77,797		73,327
OTHER ASSETS				
Patents and Software, Net		83,493		63,463
Investment in Subsidiary		250,000		250,000
Deposits		7,514		7,514
Total Other Assets		341,007		320,977
Total Assets	$	696,378	$	602,915

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES				
Accounts Payable	$	648,353	$	673,612
Accrued Interest Payable		86,496		72,708
Other Payables		10,000		46,799
Notes Payable		1,457,317		876,579
Customer Deposits		19,619		43,643
Original Issue Discount		(92,750)		
Total Liabilities		2,129,035		1,713,341
STOCKHOLDERS' EQUITY				
Common Stock authorized is 100,000,000 shares at $0.001par value. Issued and outstanding on June 30,				

2004 is 12,293,432 shares and on December 31, 2003 is 11,374,456 shares.	12,293	11,374
Paid in Capital	789,528	496,196
Retained (Loss)	(2,234,478)	(1,617,996)
Total Stockholders' Equity	(1,432,657)	(1,110,426)
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 696,378	$ 602,915

The accompanying notes are an integral part of these statements

Tankless Systems Worldwide, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
INCOME				
Product Sales	$ 61,235		$ 216,440	
Other Income	80		159	
Total Revenue	61,315	-	216,599	-
Less Cost of Goods Sold	46,232		146,735	
Gross Profit	15,083	-	69,864	-
EXPENSES				
Legal and Professional	19,384	16,479	69,646	
General and Administrative	290,117	7,153	547,772	89,116

Research and Development	(19,750)		750	
Advertising	924		10,292	
Depreciation	-		7,032	
Amortization	-		2,133	
Interest Expense	13,154	4,063	48,721	8,125
Total Expenses	303,829	27,695	686,346	97,241
Net (Loss) before Income Taxes	(288,746)	(27,695)	(616,482)	(97,241)
Provision for Income Taxes				
NET (LOSS)	$ (288,746)	$ (27,695)	$ (616,482)	$ (97,241)
Basic and diluted (loss) per share	$ (0.02)	$ (0.00)	$ (0.05)	$ (0.01)
Weighted Average Number of Common Shares Outstanding	11,657,120	6,761,856	11,657,120	6,761,856

The accompanying notes are an integral part of these statements

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Tankless Systems Worldwide, Inc.

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(Unaudited)

for the period December 31, 2001 to June 30, 2004

	Common Stock Shares	Amount	Paid in Capital	Accumulated (Loss)	Total Equity
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)
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
(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	813,000	813	231,737		232,550
Common Shares issued to retire Debt and interest of $39,034.	39,309	39	38,995		39,034
Common Shares issued for cash	66,667	67	16,600		16,667
Common Stock Options issued for services			6,000		6,000
Net (Loss)				(616,482)	(616,482)
Balance June 30, 2004	12,293,432	$ 12,293	$ 789,528	$ (2,234,478)	$ (1,432,657)

The accompanying notes are an integral part of these statements

Tankless Systems Worldwide, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Operating Activities		
Net (Loss)	$ (616,482)	$ (97,241)
Significant Non-Cash Transactions:		
Common Share Options issued for service	6,000	94,000
Shares issued for services rendered.	232,550	
Shares issued to retire debt and interest.	39,034	
Amortization of intangible assets.	2,133	
Depreciation Expense.	7,032	
Notes Payable	30,000	
Original Issue Discount	(92,750)	
Changes in assets and liabilities:		
Inventory	7,123	
Accounts Receivable	(13,430)	
Prepaid Expense	(24,622)	(5,378)
Accrued Interest Payable	13,788	8,125
Accounts Payable	(62,058)	(123)
Net Cash Provided by Operating Activities	(471,682)	(617)
Investing Activities		
Purchase of Patents and Software	(11,502)	
Purchase of Equipment	(22,163)	
Net Cash (Used) by Investing Activities	(33,665)	
Financing Activities		
Proceeds Received from sale of stock	16,667	
Customer Deposits	(24,024)	
Principle Received on convertible debentures	550,738	
Cash Provided by Financing Activities	543,381	
Net Increase/(Decrease) in Cash	38,034	(617)

Cash, Beginning of Period		412		617
Cash, End of Period	$	38,446	$	-

Significant Non-Cash Transations:

For the six Months ended June 30, 2004 Common Shares issued included 813,000 shares for services rendered valued at $232,550; 39,309 shares to retire $39,034 debt and associated interest; 66,667 shares for $16,667 Cash and the issued of 300,000 Common Share Options, valued at $6,000

Supplemental Information:

Interest Expense is:	$	48,721	$	4,063

The accompanying notes are an integral part of these statements

Tankless Systems Worldwide, Inc.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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 June 11, 2002, the Company entered into an Agreement and Plan of Merger with Elution Technologies, Inc., a private Arizona corporation (Elution Arizona). The Company agreed to acquire all of the issued and outstanding shares of stock of Elution Arizona in exchange for an equal number of shares of Common Stock of the Company. The proposed merger was formally terminated on April 25, 2003 with approval of the Directors of both companies.

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.

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.

Note 1. THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES, continued

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 June 30, 2004, and December 31, 2003, and the related statements of operations, stockholders equity, and cash flows for the periods ended June 30, 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 June 30, 2004 and its subsidiary ION from inception (January 2004) to June 30, 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

In the past the Company expensed product research and development costs as they were 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 has capitalized research and development costs 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.

Note 1. THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES, continued

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:

Accounts Receivable	$75,311
Less Allowance for Doubtful Accounts	(6,956)
Net Accounts Receivable	$68,355

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 six months ending June 30, 2004 and June 30, 2003, $10,292 and $0.00 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:

	6/30/04	12/31/03
Tooling, machinery, furniture And fixtures	$192,861	$181,358
Less: Accumulated depreciation	(115,064)	(108,031)
Total	$77,797	$73,327

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.

	6/30/04	12/31/03
Patents and heater software	$154,437	$132,274
Accumulated Amortization	(70,943)	(68,811)
Net Patents and Heater Software	$83,493	$63,463

Note 1. THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES, continued

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. The warrants and convertible debt are all 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.

Note 3.

NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS:

Notes payable and capital lease obligations consist of the following:

6/30/04

12/31/03

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

are exercisable on the same basis, notes have not

been converted and are in default.

$100,000

$100,000

Convertible Note, Unsecured, Matured October

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. Note

has been converted.

30,000

Promissory Notes, Unsecured, Mature March

2005, bear 10% Interest

550,000

Capital Lease Purchase Note

16% Interest, Payable Monthly

1,097

Demand Note

No Interest, Payable Monthly

54,336

54,336

Demand Note

Per Share, 6% Interest

35,000

35,000

Demand Note with Attorneys

6% Interest, Secured by all

Assets of Subsidiary - Envirotech

144,810

82,653

Demand Note, Repurchase Distributorship

Territory, 7% Interest

519,074

520,500

Demand Note

10% Interest, Payable Quarterly

42,215

41,113

Demand Note

10%, Interest, Payable Monthly

11,880

11,880

Total Notes Payable

$1,457,315

$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 June 30, 2004 and December 31, 2003 common stock issued and outstanding were 12,293,432 and 11,374,456 shares respectively.

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. These warrants expire in October 2005.

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 expires in October 2004 and was booked at a value of $6,300 using the Black-Scholes model.

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.

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.

Note 4.

STOCKHOLDERS EQUITY, Continued

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 June 30, 2004, the Company has issued all of the shares covered by the 2003 Stock Incentive Plan adopted by the Company on December 1, 2003

The Company was initially capitalized November 30, 1993 with the issue of 500,000 shares for $5,000 afterward, 3,024,155 common shares were issued for services valued at $1,039,745; 231,454 common shares were issued to retire $478,005 of debt; 671,445 common shares were sold for $118,667; and 8,366,378 common shares were issued for a business acquisition valued at $250,000 plus negative capital of $1,125,661.

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 $359,909, as of 11/07/03, which is calculated by multiplying a 22% estimated tax rate by the cumulative NOL of $1,635,951. The total valuation allowance is a comparable $359,909.

	12/31/03	12/31/02	12/31/01
Deferred Tax Asset	$79,335	$253,976	$26,598

Valuation Allowance

(79,335)

(253,976)

(26,598)

Current Taxes Payable

0.00

0.00

0.00

Income Tax Expense

$ 0.00

$ 0.00

$ 0.00

Note 5.

INCOME TAXES, Continued:

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

120,900

2023

Note 6.

LEASES AND OTHER COMMITMENTS:

The office rent is month to month. 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:

Note 7.

GOING CONCERN, Continued

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 pay consulting fees totaling $20,000 per month for a period of four months and $7,500 per month for the subsequent eight months. In addition, the Company has agreed to issue 700,000 shares of common stock and has granted options to purchase an additional 600,000 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.

Envirotech has also been named in two separate lawsuits for unpaid legal and consulting fees totaling $155,500. Envirotech believes it has meritorious defenses to each of these suits and has engaged legal counsel to defend it. Any settlements of these suits will be reflected as a charge in the year of the settlement.

Note 9. 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 146

Accounting for Costs Associated with Exit or Disposal Activities

This statement requires companies to recognize costs associated with exit or disposal activities, other than SFAS 143 costs, when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of these costs are lease termination costs, employee severance costs associated with restructuring, discontinued operation, plant closing, or other exit or disposal activity. This statement is effective after December 15, 2002.

SFAS 147

Acquisitions of Certain Financial Institutions an amendment of FASB Statement No. 72 and 144 and FASB Interpretation No. 9.

This statement makes the acquisition of financial institutions come under the statements 141 and 142 instead of statement 72, 144 and FASB Interpretation No. 9. This statement is applicable for acquisition on or after October 1, 2002.

Note 9. THE EFFECT OF RECENTLY ISSUED ACCOUNTING STANDARDS. Continued

SFAS 148

Accounting for Stock-Based Compensation Transition and Disclosure

Amends FASB 123 to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation.

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.*

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

SUBSEQUENT EVENTS

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. SUBSEQUENT EVENTS, Continued

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 alleges 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 is seeking relief, which includes, but is not limited to, Damages, Constructive Trust, Rescission and Injunctive Relief

On August 16, 2004, the Company began efforts to complete $500,000 private placement financing 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. As of August 16, 2004, the amount of debentures sold and paid for is $45,000. The Company expects to complete the financing by October 31, 2004.

The Company will use this $500,000 financing, after expenses and commissions, to complete research and development on new products and for working capital purposes.

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

The following Discussion and Analysis should be read in conjunction with the financial statements and notes included in this Form 10-QSB and the Registrant's annual report on Form 10-KSB for the year ended December 31, 2003.

(a)

Plan of Operation.

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 Envirotech 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.

As a result of the completion of the acquisition of Envirotech, 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.

On January 14, 2004, the Company issued a Private Placement Memorandum for the sale of $500,000 in 10% senior notes due one year from date of issue and 250,000 shares of common stock. The proceeds from this Offering, less the expense of the Offering, were intended to be used to pursue research and development of new products, proceed with marketing, manufacturing and sales of existing products through Envirotech, hire additional personnel as needed, and to establish a working capital reserve. The Offering was successfully completed and closed on May 20, 2004. As planned, the Company formed a new subsidiary, ION Tankless, Inc., through which it is presently conducting research and development for new products.

On June 3 and June 15, 2004, the Company issued Private Placement Memorandums for the sale of $500,000 and $50,000, respectively, in 10% senior notes due one year from date of issue and 250,000 and 25,000 shares of common stock, respectively. The proceeds from these Offerings, less the expense of the Offerings, are intended to be used to pursue research and development of new products, proceed with marketing, manufacturing and sales of existing products through Envirotech, hire additional personnel as needed. The $50,000 Offering was successfully completed and closed on May 29, 2004. The $500,000 Offering remains open and $100,000 has been raised. Management anticipates that the $500,000 Offering will be successfully completed by September 15, 2004.

Envirotech Systems Worldwide, Inc., a wholly-owned subsidiary of the Company, has been named as a Defendant in a law suit filed 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 upon patent rights of others and seeks damages and an order to cease and desist. Envirotech has engaged counsel to represent it in the matter. Management believes the suit is without merit and that Envirotech will prevail in the matter. Nonetheless, the Company must contend with the allegation and the outcome remains unknown. No contingent liability has been recorded nor contemplated at this point.

Subsequent to December 31, 2003, one of the Company s subsidiaries, Envirotech Systems Worldwide, Inc., has been named in three separate law suits for unpaid legal and consulting fees totaling $268,000. On April 14, 2004, Envirotech settled one of these suits claiming fees of $112,500. 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, judgments have been granted in the aggregate amount of approximately $155,500. The settlement, and any settlements of the other suits, will be reflected as a charge in the year of the settlement.

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.

Management of Envirotech believes that it will be able to prepare a plan of reorganization that will be acceptable to all the creditors of Envirotech. During the pendency of the Bankruptcy proceedings, Envirotech plans to continue manufacturing and selling its popular water heater products.

The filing of the Bankruptcy Petition by Envirotech is not expected to adversely affect the ongoing operations of the Tankless or the Company s Research and Development subsidiary, ION Tankless, Inc.

As of December 31, 2003, 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 an amended lease agreement which expires on June 30, 2005. Envirotech has an optional to extend the lease an additional one year period expiring on June 30, 2006, upon notice to landlord on or before March 31, 2005. 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, 2003, 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.

The foregoing Plan of Operation may contains "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."

(b) Liquidity and Capital Resources

As of June 30, 2004 the Company had established source of revenue from sales of water heater units. Nonetheless, it has a negative working capital of $1,432,657 and has accumulated losses of $2,234,478. Without realization of additional capital, it would be unlikely for the Company to continue as a going concern.

ITEM 3. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Principal Accounting Officer (the Certifying Officer) is responsible for establishing and maintaining disclosure controls and procedures for the Company. The Certifying Officer has designed such disclosure controls and procedures to ensure that material information is made known to him, particularly during the period in which this report was prepared. The Certifying Officer has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report and believes that the Company s disclosure controls and procedures are effective based on the required evaluation. During the period covered by this report, there were no changes in internal controls that materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II

ITEM 1. 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.

Prior to the acquisition of Envirotech by the Company, Envirotech was the defendant in a law suit 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. 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.

Envirotech is also the defendant in a suit filed 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 has engaged legal counsel to represent it in this matter. Management believes the suit is without merit and that Envirotech will prevail in the matter. Nonetheless, Envirotech must contend with the allegations and the outcome remains unknown. 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.

Subsequent to December 31, 2003, one of the Company s subsidiaries, Envirotech Systems Worldwide, Inc., has been named in three separate law suits for unpaid legal and consulting fees totaling $268,000. Envirotech believes it has meritorious defenses to each of these suits and has engaged legal counsel to defend it. On April 14, 2004, Envirotech settled one of these suits claiming fees of $112,500. 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. The settlement, and any settlements of the other suits, will be reflected as a charge in the year of the settlement. In the other two suits judgments have been granted in the aggregate amount of approximately $155,500.

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.

On August 13, 2004, Tankless filed a verified complaint in the United States District Court in and for the District of Arizona against Gary Bruce Gordon, Jamie L. Gordon, Steven James Onder, Carol Onder, Andrew Hruska, Roseanne Hruska, Ronald Jay Edwin, a/k/a Ryan Edelstein, Kathleen M. Edwin, and First American Stock Transfer, Inc. Messrs. Gordon, Hruska and Onder were former officers, directors and principal shareholders of Envirotech. The suit alleges, 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 is seeking relief which includes, but is not limited to, Damages, Constructive Trust, Rescission and Injunctive Relief. A copy of this Complaint is available upon request made to the Company.

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 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

(a) During the year ended December 31, 2000, the Company issued five convertible notes payable, totaling $100,000, which matured in March 2001. These notes bear interest at the rate of 12.5% per annum. Each note is subject to automatic conversion at the maturity date. As of the date of this filing, the notes have not yet been converted and are in default.

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

None

ITEM 5. OTHER INFORMATION

None

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a)

Exhibits

31.1

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

32.1

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

(b)

Reports on 8-K

1.

8-K, filed February 24, 2004, giving notice that the Registrant had sent to the Securities and Exchange Commission its Form D, Rule 506 Notice regarding its Five Hundred Thousand Dollar ($500,000.00) private placement financing to accredited investors dated January 14, 2004. The investor receives a one year debenture with an interest rate of Ten percent (10%) per year, payable quarterly. Further the investor receives One (1) share of the restricted stock of the Registrant for each Two Dollars ($2.00) of debentures purchased, which report is incorporated herein by reference.

2.

8-K/A, filed May 13, 2004, stating that as of May 12, 2004 the amount of debentures sold and paid for pursuant to the $500,000 private placement dated January 14, 2004, was the sum of Four Hundred Forty Eight Thousand Seven Hundred Fifty Dollars ($448,750.00), which report is incorporated herein by reference.

3.

8-K/A, filed May 20, 2004, stating that as of May 20, 2004 the amount of debentures sold and paid for pursuant to the $500,000 private placement dated January 14, 2004, was the sum of Five Hundred Thousand Dollars ($500,000.00) which report is incorporated herein by reference. The Registrant has now completed the financing.

4.

8-K, filed August 17, 2004, giving notice that Registrant had sent to the Securities and Exchange Commission its Form D, Rule 506 Notice regarding its Five Hundred Thousand Dollar ($500,000.00) private placement financing to accredited investors dated June 3, 2004. The investor receives a one year debenture with an interest rate of Ten percent (10%) per year, payable quarterly. Further the investor receives One (1) share of the restricted stock of the Registrant for each Two Dollars ($2.00) of debentures purchased. Registrant stated that as of the date of filing, the amount of debentures sold and paid for pursuant to this private placement was the sum of Forty Five Thousand Dollars ($45,000.00). Registrant also gave notice that its subsidiary, Envirotech Systems Worldwide, Inc., had filed for protection under Chapter 11 of the United States Bankruptcy Code in Phoenix, Arizona, on August 6, 2004. This report is incorporated herein by reference.

5.

8-K, filed August 25, 2004, giving notice that Registrant, on August 13, 2004, filed a verified complaint in the United States District Court in and for the District of Arizona against Gary Bruce Gordon, Steven James Onder and Andrew Hruska, three of the former officer, directors and principal shareholders of its subsidiary, Envirotech, and others. The suit alleges, 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 Registrant is seeking relief which includes, but is not limited to, Damages, Constructive Trust, Rescission and Injunctive Relief. This report is incorporated herein by reference.

SIGNATURES

In accordance with Section 13 of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, hereunto duly authorized

TANKLESS SYSTEMS WORLDWIDE, INC.

(formerly Elution Technologies, Inc.)

Date: September 1, 2004

By: /s/ Thomas Kreitzer

Thomas Kreitzer,

Chief Executive Officer

and Principal Accounting Officer