SKYE INTERNATIONAL, INC
Form 10QSB
May 21, 2007

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

xQUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2007

o 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

SKYE INTERNATIONAL, INC.
(Exact name of Company as specified in its charter)

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

7701 E. Gray Road, Suite 4 Scottsdale, AZ 85260
(Address of principal executive offices) (Zip Code)

Company's telephone number: (480) 993-2300

7650 E. Evans Road, Suite C Scottsdale, AZ 85260
(Former name, address and phone number if changed since last report)

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 Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x Noo

Indicate by check mark whether the registrant is an accelerated filer (as defined in exchange A Rule 12b-2)
Yes ¨ No x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity:

As of March 31, 2007 - 22,569,243 common shares of $0.001 par value.

Transitional Small Business Disclosure Format (check one): YES o NO x

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PART I. FINANCIAL INFORMATION

ITEM 1 Financial Statements (unaudited)

Skye International, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	March 31 2007 (Unaudited)	December 31 2006 (Audited)
ASSETS		
CURRENT ASSETS		
Cash	36,272	8,672
Accounts Receivable, Net	-	-
Inventory at Cost	163,010	163,062
Prepaid Expenses	99,379	99,379
Total Current Assets	298,661	271,112
EQUIPMENT, NET	42,554	43,921
OTHER ASSETS		
Patents and Software, Net	-	-
Deposits	-	-
Intangible Assets	-	-
Total Other Assets	-	-
Total Assets	341,215	315,034
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Accounts Payable	2,061,671	2,160,624
Other Payables	23,649	31,132
Notes Payable	1,198,512	1,053,615
Accrued Interest Payable	76,267	72,917
Warranty Accrual	34,570	34,570
Customer Deposits	103,371	103,371
	3,498,040	3,456,228
Total Liabilities	3,498,040	3,456,228

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CONSOLIDATED BALANCE SHEETS - continued

STOCKHOLDERS' EQUITY		
Common Stock authorized is		
100,000,000 shares at $0.001par value.		
Issued and outstanding on December 31,		
2006 were 22,569,243 shares, December 31,		
2006 were 21,622,243 shares, December 31,	22,569	21,622
Common Stock Subscribed	108,675	108,675
Paid in Capital	9,444,761	9,256,308
Accumulated Deficit	(12,732,830)	(12,527,800)
Total Stockholders' Equity (Deficit)	(3,156,824)	(3,141,194)
TOTAL LIABILITIES AND		
STOCKHOLDERS EQUITY	341,215	315,034

The accompanying notes are an integral part of these statements.

Skye International, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
INCOME		
Product Sales	$ -	$ 8,032
Other Income	-	2,600
Total Income	-	10,632
Cost of Goods Sold	24,142	1,074
Gross Income	(24,142)	9,558
EXPENSES		
Legal and Professional	109,035	456,941
General and Administrative	22,767	193,611
Research and Development	30,000	-
Advertising/Marketing	-	27,929
Loss on Disposal of Assets	-	-
Depreciation	2,761	1,906
Total Expenses	164,563	680,387
OTHER INCOME AND (EXPENSE):		
Interest Expense	18,478	8,631
GainonExtinguishment of Indebtedness	(2,153)	-
	16,325	689,018
Net (Loss) before Income Taxes	(205,030)	(679,460)
Income Tax Expense	-	-
NET (LOSS)	(205,030)	(679,460)
Basic and diluted (loss) per share	$ (0.01)	$ (0.04)
Weighted Average Number of Common Shares Outstanding	21,622,243	18,197,287

The accompanying notes are an integral part of these statements.

Skye international, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Mos. Ended March 31, 2007	Three Mos. Ended March 31, 2006
Operating Activities		
Net (Loss)	$ (205,030)	$ (679,460)
Depreciation Expense.	2,761	1,906
Changes in assets and liabilities:		
Inventory	52	(52,542)
Accounts Receivable	-	(7,127)
Prepaid Expense	-	(1,500)
Deposits	-	-
Accrued Interest Payable	3,350	2,070
Accounts Payable	(106,436)	-
Notes Payable	144,897	-
Customer Deposits	-	-
Net Cash Provided by Operating Activities	(160,406)	(263,744)
Investing Activities		
Purchase/Disposal of Assets	(1,394)	(986)
Net Cash (Used) by Investing Activities	(1,394)	(986)
Financing Activities		
Shares issued for services rendered.	188,400	205,500
Shares issued to retire debt and interest.	1,000	-
Stock Subscriptions	-	(155,000)
Proceeds from sale of Common Stock	-	210,000
Discount on Convertible Debt	-	-
Stock Options Granted	-	-
Net Cash Provided by Financing Activities	189,400	260,500
Net Increase/(Decrease) in Cash	27,600	(4,230)
Cash, Beginning of Period	8,672	2,711
Cash, End of Period	$ 36,272	$ (1,519)

Supplemental Information:				
Taxes		-		-
Interest Expense	$	18,476	$	10,510

The accompanying notes are an integral part of these statements.

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Skye International, Inc., and Subsidiaries
STATEMENT OF STOCKHOLDER'S DEFICIT
(Unaudited)

	Common Stock Shares	Common Stock Amount	Common Stock Subscribed	Paid in Capital	Accumulated Deficit	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	6,433,406	6,433		896,997		903,430
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)					-2,798,586	(2,798,586)
Balance December 31, 2002	7,931,484	$ 7,931		$ 1,941,620	$ (3,747,492)	$ (1,797,941)
Common Shares issued for Cash	434,894	435		967,925		968,360
	3,008,078	3,008		(166,940)		(163,932)

Common Shares issued in recapitalization					
Net (Loss)				(371,821)	(371,821)
Balance December 31, 2003	11,374,456	$ 11,374	$ 2,742,605	$ (4,119,313)	$ (1,365,334)
Common Shares issued for services	800,000	800	228,080		228,880
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 prepaid services	2,250,000	2,250	110,250		112,500
Common Shares valued at $159,876 Issued to obtain $1,075,000 debt	537,500	538	159,338		159,876
Net (Loss)				(1,893,330)	(1,893,330)
Balance December 31, 2004	13,125,977	$ 13,126	$ 3,369,057	$ (6,012,643)	$ (2,630,460)

STATEMENT OF STOCKHOLDER'S DEFICIT - continued

Balance December 31, 2004	13,125,977	$ 13,126		$ 3,369,057	$ (6,012,643)	$ (2,630,460)
Common Stock granted but not issued until 2006			275,000			275,000
Common Stock granted in 2004 but not earned by related party consulting agreements until 2005				945,000		945,000
Common Shares issued for consulting and outside services	260,525	261		237,162		237,423
Common Shares issued in conjunction with related party consulting contracts	391,832	392		414,129		414,521
Issuance of common stock for employee stock Awards	524,500	525		535,646		536,170
Issuance of common stock to reduce existing debt	78,067	78		52,266		52,344
Common Shares Issued in connection with Debt	50000	50		12450		12,500
Conversion of convertible bridge notes into common stock	842,511	843		462,539		463,382
Issuance of common stock in private placements	2,564,819	2,565		1,408,085		1,410,650
Net (Loss)					(4,051,870)	(4,051,870)
Balance December 31, 2005	17,838,231	$ 17,839	$ 275,000	$ 7,436,333	$ (10,064,513)	$ (2,335,340)
Common Shares issued in conjunction with related party consulting services and to employees for services	378,750	379		262,496		262,875
Common Shares issued for consulting and outside services	808,100	808		420,444		421,252
Common Shares issued in private placements, previously subscribed	370,000	370	-210,000	209,630		0

Common Shares subscribed			43,675			43,675
Common Stock options issued for services				32,216		32,216
Discount on Convertible Debt				15,922		15,922
Common Shares issued to retire debt and interest	412,902	413		226,080		226,493
Common Shares issued in private stock placements	1,814,260	1,814		653,186		655,000
Net (Loss)					(2,463,287)	(2,463,287)
Balance December 31, 2006	21,622,243	$ 21,623	$ 108,675	$ 9,256,308	$ (12,527,800)	$ (3,141,194)

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STATEMENT OF STOCKHOLDER'S DEFICIT - continued

Balance December 31, 2006	21,622,243	$	21,623	$	108,675	$ 9,256,308	$ (12,527,800)	$ (3,141,194)
Common Shares issued in conjunction with related party consulting services and to employees for services	192,000		192			38,208		38,400
Common Shares issued for consulting and outside services	750,000		750			149,250		150,000
Common Shares issued to retire debt and interest	5,000		5			995		1,000
Net (Loss)							(205,030)	(205,030)
Balance March 31, 2007	22,569,243	$	22,570	$	108,675	$ 9,444,761	$ (12,732,830)	$ (3,156,824)

The accompanying notes are an integral part of these statements.

SKYE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007 and December 31, 2006

Note 1. THE COMPANY

The Company

Skye International, Inc., a Nevada corporation, was originally organized on November 23, 1993 as Amexan, Inc. 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. It changed its name to Tankless Systems Worldwide, Inc. on June 4, 2003 and to Skye International, Inc. on October 21, 2005.

Skye has three subsidiary corporations, all wholly-owned:

- Envirotech Systems Worldwide, Inc., an Arizona corporation (“Envirotech”);
- ION Tankless, Inc., an Arizona corporation (“ION”); and
- Valeo Industries, Inc., a Nevada corporation (“Valeo”).

On November 7, 2003, the Company acquired Envirotech Systems Worldwide, Inc. (Envirotech), a private Arizona corporation, as a wholly owned subsidiary. Through this merger, the former shareholders of Envirotech acquired a controlling interest in Tankless Systems Worldwide, Inc. (Tankless) and, accordingly, the acquisition is accounted for as a reverse merger with Envirotech being the accounting acquirer 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. With the acquisition of Envirotech, the Company is in the business of designing, developing, manufacturing and marketing several models of electronic, tankless water heaters. With the adoption of the SKYE name in October 2005 the business of the Company was expanded to include the manufacture and sale of consumer lifestyle appliances, including tankless water heaters.

In January 2004, Skye formed ION to perform research, development and marketing of new heating technologies. In January 2005, it created Valeo to license ION technologies and to manufacture products using those technologies.

Nature of Business

The Company is in the business of designing, developing, manufacturing and marketing consumer lifestyle products, including, initially, several models of an electronic, tankless water heater. The Company’s products, together with a limited quantity of related parts purchased for resale, are sold primarily through manufacturer’s representatives and wholesale distributors in the United States and Canada. Based upon the nature of the Company’s operations, facilities and management structure, the Company considers its business to constitute a single segment for financial reporting purposes.

Basis of Consolidation

The accompanying consolidated financial statements reflect the operations, financial position and cash flows of the Company and include the accounts of the Company and its subsidiaries after elimination of all significant inter-company transactions in consolidation.

Basis of Presentation

The Consolidated Financial Statements of Skye International include all of its wholly owed subsidiaries.

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SKYE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007 and December 31, 2006

Note 1. THE COMPANY - continued

On August 6, 2004, Envirotech filed a voluntary petition with the United States Bankruptcy Court for the District of Arizona (Case No. 2:04-13908-RTB) seeking relief under Chapter 11 of the Bankruptcy Code as a means to resolve all existing litigation, judgments and efforts to collect on judgments entered against Envirotech. On December 2004, the Company filed its proposed plan of reorganization and disclosure statement with the Bankruptcy Court. This Plan was not approved and in January 2006, the Company's motion to withdraw its Chapter 11 filing was granted by the Bankruptcy Court for the District of Arizona without prejudice or relief from any of its liabilities previously classified as Subject to Compromise,

As such, the accompanying Consolidated Financial Statement for the three months ended March 31, 2007, March 31, 2006, and the year ended December 31, 2006 were not prepared in accordance with Statement of Position 90-7 ("SOP 90-7"), "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" (See Note 2) which requires that all pre-petition liabilities subject to compromise are segregated in the consolidated balance sheets as of end of the respective years and classified as Liabilities Subject to Compromise, at the estimated amount of allowable claims with liabilities not subject to compromise being separately classified.

These Consolidated Financial Statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, the financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern. As described more fully below, there is substantial doubt about the Company's ability to continue as a going concern which is predicated upon, among other things, the ability to generate cash flows from operations and, when necessary, obtaining financing sources sufficient to satisfy the Company's future obligations.

The accompanying comparative Consolidated Financial Statements for the three months ended March 31, 2007, March 31, 2006, and the year ended December 31, 2006 have been restated to reflect the Company's withdrawal of its bankruptcy court petition.

Recently Issued Accounting Standards

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

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. Where applicable, SFAS No. 157 simplifies and codifies related guidance within GAAP and does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier adoption is encouraged. The Company does not expect the adoption of SFAS No. 157 to have a significant effect on its financial position or results of operation.

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109", which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company does not expect the adoption of FIN 48 to have a material impact on its financial reporting, and the Company is currently evaluating the impact, if any, the adoption of FIN 48 will have on its disclosure requirements.

SKYE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007 and December 31, 2006

Note 1. THE COMPANY - continued

In March 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140." This statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in any of the following situations: a transfer of the servicer's financial assets that meets the requirements for sale accounting; a transfer of the servicer's financial assets to a qualifying special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale securities or trading securities; or an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates. The statement also requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable, and permits an entity to choose either the amortization or fair value method for subsequent measurement of each class of servicing assets and liabilities. The statement further permits, at its initial adoption, a one-time reclassification of available for sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available for sale securities under Statement 115, provided that the available for sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value and requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. This statement is effective for fiscal years beginning after September 15, 2006, with early adoption permitted as of the beginning of an entity's fiscal year. Management believes the adoption of this statement will have no immediate impact on the Company's financial condition or results of operations.

Note 2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates and Assumptions

The discussion and analysis of the Company's financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires making estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions or conditions. Critical accounting policies are defined as those that entail significant judgments and estimates, and could potentially result in materially different results under different assumptions and conditions.

Cash and Cash Equivalents

All highly liquid debt instruments with a maturity of six months or less at the time of purchase are considered to be cash equivalents. Cash equivalents are stated at cost, which approximates fair value because of the short-term maturity of these instruments.

Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, accounts payable, accrued expenses and short-term and long-term convertible debt obligations. Including promissory notes, and related party liabilities, the fair value of these financial instruments approximates their carrying amount as of March 31, 2007 and December 31, 2006 due to the nature of or the short maturity of these instruments.

Research and Development

The Company's research and development efforts concentrate on new product development, improving product durability and expanding technical expertise in the manufacturing process. The Company expenses product research and development costs as they are incurred. With the organization of its subsidiary ION, the Company continues to expense research and development costs as incurred in developing additional products based on new technologies.

SKYE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007 and December 31, 2006

Note 2. SIGNIFICANT ACCOUNTING POLICIES - continued

Marketing Strategy

The Company sells to large wholesale distributors through its network of manufacturer's representatives.. The Company has periodically advertised on cable television stations, at trade shows and through trade magazines and it maintains a website.

Revenue Recognition

The Company records sales when revenue is earned. The Company sells on credit to its distributors and manufacturer's representatives. Due to the Company's Warranty and Right of Return policy, six percent of the sales are recognized immediately and the balance is recognized 25 - 40 days after shipment of the product to the customer. All shipments are FOB shipping point. Sales to distributors and manufacturer's representatives are sold FOB shipping point with receivables recorded 25 to 40 days post shipping. In 2005, substantially all of the Company's gross revenues of $172,169 were generated by the Valeo subsidiary and were generated through sales of the ESI-2000 unit to individuals over the internet, the majority of whom paid in advance by credit card payments. The Company no longer manufactures the ESI-2000 product lines and so the Company plans to refund the purchase price paid for undelivered heaters or, alternatively, to ship new heaters to those customers that did not receive delivery of an ESI-2000 heater. The Company had no revenue from sales of products during 2006 or during the three-month period ended March 31, 2007.

Accounts Receivable

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

		Mar. 31, 2007		Dec. 31, 2006
Accounts Receivable	$	-0-	$	-0-
Less: Allowance for Doubtful Accounts		(-0-)		(-0-)
Net Accounts Receivable	$	-0-	$	$-0-

The Company maintains allowances for doubtful accounts for estimated probable losses resulting from inability of the company's customers to make the required payments. The company continues to assess the adequacy of the reserves for doubtful accounts based on the financial condition of the Company's customers and external factors that may impact collectability.

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 three months ended March 31, 2007 and the year ended March 31, 2006, was $-nil- and $27,929 respectively.

Inventory

The Company contracts with a third party to manufacture the units and is neither 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.

Property and Equipment

Property and equipment are depreciated or amortized using the straight-line method over their estimated useful lives, which range from two to seven years. Fixed assets consist of the following:

	Mar. 31, 2007	Dec. 31, 2006
Property, Equipment, furniture and Fixtures	$ 63,016	$ 61,622
Less: Accumulated Depreciation	(20,461)	(17,701)
Net Fixed Assets	$ 42,554	$ 43,921

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SKYE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007 and December 31, 2006

Note 2. SIGNIFICANT ACCOUNTING POLICIES - continued

Patents

We evaluate potential impairment of long-lived assets in accordance with FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." FAS No. 144 requires that certain long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable based on expected undiscounted cash flows that result from the use and eventual disposition of the asset. The amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. Patent and software costs include direct costs of obtaining patents. Costs for new patents are either expensed as they are incurred or capitalized and amortized over the estimated useful lives of seventeen years and software over five years.

Earnings per Share

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

The Company has 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. There are 600,000 options at $0.55 and 300,000 options at $0.50 per share available at this time. There are also $100,000 of outstanding convertible debentures which within 12 months may be converted into restricted common shares of the Company at a 30% discount to the then current 10-day moving average of the Company's common stock. All outstanding warrants were either exercised or cancelled and convertible debt is anti-dilutive.

Stock Based Compensation

In December 2004, the FASB issued FAS No. 123R, "Share-Based Payment." This statement is a revision to FAS No. 123, "Accounting for Stock-Based Compensation," and it supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends FAS No. 95, "Statement of Cash Flows." FAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. The Company uses the Black-Scholes pricing model for determining the fair value of stock based compensation.

Equity instruments issued to non-employees for goods or services are accounted for at fair value and are marked to market until service is complete or a performance commitment date is reached.

Warranty and Right of Return

In connection with the sale of each product, the Company provides a limited 30-day money back guarantee less a 6% restocking charge. After the 30 days the Company provides a five year warranty on replacement of parts. The tank chamber is warranted not to leak for 10 years. The Company has limited history with claims against its warranty. The Company defers a portion of the revenue as would generally be required for post-contract customer support ("PCS") arrangements under SOP 97-2. Accordingly, the revenue allocated to the warranty portion of such sales is deferred and recognized ratably over the life of the warranty. As of March 31, 2007 a total of $34,570 in refunds and warranty allowances were recorded against Product Sales.

Balance of Warranty Accrual for 2003	$	3,240
Balance of Warranty Accrual for 2004		9,725
Balance of Warranty Accrual for 2005		21,625
Balance of Warranty Accrual for 2006		0
Balance of Warranty Accrual for 2007		0
Total Warranty Accrual as of March 31, 2007	$	34,570

SKYE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007 and December 31, 2006

Note 3 NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS

In the third quarter of 2006 the Company received $100,000 of subscription funds in exchange for the issuance of $100,000 of principal 12% convertible debentures (the "Debentures"). The Debentures, together with accrued interest thereon are convertible at the option of the holder any time during the 12 months from issuance thereof into restricted common stock of the Company at a price equal to a 30% discount to the then current 10-day moving average of the Company's common stock. Additionally, the investor received one (1) share of the Company's restricted common stock for each One Dollar ($1.00) amount of debentures purchased. At the date of this report the Debenture shares had not yet been issued from treasury. When issued 100,000 shares will be delivered to investors.

Notes payable and capital lease obligations consist of the following:

	Three Mos. Ended Mar. 31 2006	Yr. Ended Dec. 31, 2006
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.	$ 70,000	$ 70,000
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. Forty notes were issued between January 23, 2004 and January 15, 2005. Of these notes, thirty six had been either repaid or converted at December 31, 2005. Of the remaining four notes, three were converted in April 2006; the fourth has not been converted or repaid and is in default. Aggregate Amount:	$ 15,000	$ 215,000
Demand Note with Attorneys, 6% Interest, All Assets of Subsidiary, Envirotech, pledged as Collateral; Note is in default. Note has been acquired by Envirotech's parent, Skye	$ 194,895	$ 194,895
Demand Note with Former Distributor of Subsidiary, Envirotech, in Settlement and Repurchase of Distributorship Territory, 7% Interest; Note is in default	$ 519,074	$ 519,074
Demand Note Made by Subsidiary, Envirotech, 10% Interest, Payable Monthly; Note is in default	$ 11,880	$ 11,880
Demand Note Made by Subsidiary, Envirotech, 6% Interest; Note is in default	$ 35,000	$ 35,000
	$ 72,391	$ 72,391

Demand Note Made by Subsidiary, Envirotech; Note is in default				
Demand Note Made by ION Tankless in favor of related party;	$	120,000	$	120,000-
Demand Note Made by Valeo in favor of related party;	$	13,000	$	13,000-
Demand Note Made by Skye in favor of related party;	$	65,000	$	65,000-
Convertible Notes, Unsecured, Issued March 2006, Matured March 2007, bear 5% Interest, principle and interest convertible into one common share $0.55 per share. Notes have not been converted and are now in default.	$	75,000	$	75,000
Demand Note Made by SKYE in favor of consultants; Note is in default	$	10,000	$	10,000

SKYE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007 and December 31, 2006

Note 4. STOCKHOLDERS' EQUITY

On March 24, 2005, the Company adopted an employee stock incentive plan setting aside 500,000 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 has the right to grant awards or stock options and administers the plan. On March 30, 2005, the Company filed a Registration on Form S-8 with the Securities Exchange Commission covering the 500,000 shares provided by this plan, at a maximum offering price of $1.00 per share. As of March 31, 2007 and December 31, 2006, the Company has issued 462,541 shares under the 2005 Stock Incentive Plan. No shares were issued under the Plan during the three months ended March 31, 2007. As of March 31, 2007, 37,459 shares remain unissued under this Plan.

The Company was initially capitalized on November 30, 1993 with the issue of 500,000 shares for $5,000. During 2005 the Company issued 652,357 shares for $651,943 in consulting services; 524,500 shares at $536,170 for employee stock awards; 78,067 shares for $54,647 in debt reduction; 842,511 shares to retire $881,536 in convertible notes; and 2,564,819 shares for $, 296,483 in cash in private placements.

During 2006, the Company issued 205,000 shares for consulting and legal services valued at $230,753; 370,000 shares previously subscribed for cash in private placements; 412,902 shares to retire principal and interest on outstanding bridge loans; 1,814,260 shares in private placements for $655,000; 110,000 shares for legal fees valued at $48,000; 600,000 shares for consultants for fees valued at $330,000; 50,000 shares for investment banking fees and services valued at $17,500; 173,750 shares for employees in lieu of pay and for signing bonuses valued at $57,375, and 100,000 shares to be issued in connection with the receipt of $100,000 in convertible bridge notes.

During the three months ended March 31, 2007, the Company issued 942,000 shares for consulting and legal services valued at 188,400, and 5,000 shares to retire debt in the amount of $3,153. The total common stock issued and outstanding at March 31, 2007 is 22,569,243, shares.

Warrants

No 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 which was extended to December 31, 2004. This option expired without exercise on December 31, 2005.

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. By amendment dated September 6, 2005, the option period has been extended for an additional 5 years, to expire February 11, 2014. At March 31, 2007 and December 31, 2006, none of the options have been exercised.

SKYE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007 and December 31, 2006

Note 4. STOCKHOLDERS' EQUITY - continued

In October 2005, the Company granted an option to its website developer to purchase 100,000 shares of common stock at a variable price based on market price, exercisable within one year. This option expired without having been exercised.

In September 2006, the Company granted options to each of its directors to purchase 50,000 shares at $0.50. In addition it granted an option to its Chairman, to purchase 150,000 shares at $0.50. The options may be exercised at any time within five (5) years of the date of grant. Using a discounted stock price of $0.49, exercise price of $0.50, 5-year option, risk-free rate of 5.35% and a volatility rate of .052 the value of these options is calculated at $0.03 using the Black-Scholes model. The aggregate value of 300,000 options is $32,216. At March 31, 2007 and December 31, 2006, none of the options have been exercised.

Outstanding stock options are as follows:

	Shares
Balance, December 31, 2004	700,000
Granted, 2005	0
Expired, 2005	(100,000)
Balance, December 31, 2005	600,000
Granted, 2006	300,000
Expired, 2006	0
Balance, December 31, 2006	900,000
Granted 2007	0
Expired 2007	0
Balance March 31, 2007	900,000

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. Under SFAS No. 109, deferred tax assets and liabilities are recognized based on temporary differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. SFAS No. 109 requires current recognition of net deferred tax assets to the extent that it is more likely than not such net assets will be realized. To the extent that the Company believes that its net deferred tax assets will not be realized, a valuation allowance must be recorded against those assets.

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 calculated by multiplying a 35% estimated tax rate by the cumulative Net Operating Loss of $12,732,830. The total valuation allowance is equal to the total deferred tax asset.

	Three Mos.	Year Ended

	Ended Mar 31, 2007	Dec. 31, 2006
Deferred Tax Asset	$ 4,456,491	$ 4,384,730
Valuation Allowance	$ (4,456,491)	$ (4,384,730)
Current Taxes Payable	$ 0	$ 0
Income Tax Expense	$ 0	$ 0

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SKYE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007 and December 31, 2006

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
1993-2003	$ 4,119,312	2013-2023
2004	$ 1,893,331	2024
2005	$ 4,051,870	2025
2006	$ 2,463,287	2026
2007	$ 71,760	2027
Total	$ 12,732,830	

Note 6. LEASES AND OTHER COMMITMENTS

The Company uses space provided at no cost by officers and directors.

Note 7. GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred net losses since inception with an accumulated deficit of $12,732,830 as of March 31, 2007. The Company has not generated meaningful revenues in the last 2 years. The Company has a working capital deficit of $3,199,379 as of March 31, 2007. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern.

Management's Plans

The Company has expended considerable efforts in working with its contract manufacturer in order to begin the production of its new line of products. The Company expects that the first units will be produced in 2007 with sales and delivery to also commence during such period. Despite commencing production, the Company expects that it may take up to one year for the production design and processes to stabilize. The Company has continued to focus development efforts on the commercialization of its patent pending *Paradigm*™ technology. To date the Company has not been successful in developing a cost effective means to commercialize the technology into a consumer product line. The Company is currently negotiating with a critical supplier to jointly complete the engineering and commercialization process and then subsequently engage in engineering for manufacturing phase. The Company has developed a sales and distribution network.

The Company is negotiating with several broker-dealers with a view to completing further private placements to fund our business strategy, but to date the Company has not yet concluded any such arrangement. The Company's business strategy requires it to raise in excess of $3 million over the next 12 month period in order to fully execute its business plan. Management believes that, in order to properly exploit the introduction of its products, it will be necessary to be positioned not only as a quality supplier of products, but also able to supply a sufficient volume of product to meet wholesale demand.

Note 8. PENDING LITIGATION

Distributor Suit . 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 all assets of Envirotech, tangible and intangible, granted to the Senior Secured Creditor 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 May 3, 2004, the distributor claimed a breach and filed the Stipulated Judgment. Management believes no default existed to warrant the filing of the judgment. With the filing of the Bankruptcy Petition by Envirotech (see below), this action was stayed. However, with the dismissal of the Chapter 11 Proceedings on February 28, 2006, this judgment is once again a claim against the assets of Envirotech, subject, however, to the claims and rights of the Senior Secured Creditor.

SKYE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007 and December 31, 2006

Note 8. PENDING LITIGATION - continued

Seitz Suit . In 2002, Envirotech was 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 “Seitz Suit”). 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. Management believes the suit is without merit. The suit was stayed pending the disposition of the Chapter 11 Bankruptcy Petition filed by Envirotech in August 2004. On September 30, 2005, however, the Bankruptcy Court allowed the plaintiff to re-open the Seitz Suit and he has done so. The suit is in the discovery stage and the Company is vigorously engaged in the process. On December 5, 2005, the Houston Court issued an injunction against Envirotech and its affiliated entities, including Skye, enjoining them from further marketing, advertising or offering for sale, or accepting any orders for (i) the Envirotech ESI 2000 heater, (ii) any other heater, regardless of its model, using parts of the Model ESI 2000 heater, and (iii) any other heater, regardless of model number, utilizing in whole any part any technology embodied in the Model ESI 2000 heater. On July 26, 2006 Envirotech retained the Dallas, TX firm Hemingway, Hansen, LLP to continue the defense and prosecution of this litigation. At a subsequent hearing on February 28, 2007, the Court indicated that it would reconsider and modify the wording on the scope of the preliminary injunction. This matter is still under review. Additionally, the Court allowed Seitz to amend his complaint. Seitz filed his amended complaint attempting to expand the complaint to also cover Skye, Valeo and the FORTIS™ product. Skye and Valeo have filed motions to dismiss Skye and Valeo which are being considered. In addition, Envirotech has filed a ten count counterclaim against Seitz. Envirotech continues to aggressively defend the Seitz suit and will pursue this litigation to conclusion.

Unpaid Legal Fees . Subsequent to December 31, 2003, Envirotech has been named in five separate lawsuits for unpaid legal and consulting fees totaling $280,000. These include the Myers and Jenkins Suit and the Sensor Technologies Suit discussed below. On May 3, 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 SEC 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 two of the other three suits judgments have been granted in the aggregate amount of approximately $155,500, both of which were stayed by the bankruptcy filing discussed above. The fourth suit is on behalf of a law firm that served as a contract arbitrator in Envirotech’s dispute with the Distributor noted above. With the dismissal of the Chapter 11 proceedings, the Company has received notice from the plaintiff that it intends to resume the suit, which seeks approximately $3,500 in fees.

Myers and Jenkins Suit . On May 24, 2006, Envirotech was served with a Motion for Entry of Default in connection with an action filed in Arizona Superior Court, case number CV-2006-003671 by Envirotech’s prior legal counsel, Myers and Jenkins. The motion seeks judgment for the payment of the principal sum of $103,830, together with interest and costs. Envirotech has not defended the action.

Sensor Technologies Suit . On May 24, 2006, Envirotech was served with an Application for Entry of Default in connection with an action filed in the Arizona Superior Court, case number CV-2006-0060632, by Sensor Technologies & Systems, Inc., an engineering firm that provided engineering consulting services in connection with Envirotech’s ESI-2000 product. The application seeks judgment for the payment of $72,391, together with interest and costs. Envirotech has not defended the action.

Bankruptcy Proceedings . 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 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, Skye 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 (see above). 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, were stayed during the pendency of the Bankruptcy Proceedings. Envirotech filed a Disclosure Statement and Plan of Reorganization on November 7, 2004 and the Court approved its request to submit the plan to the creditors for approval. The Plan, however, did not receive approval of the Court and Envirotech subsequently filed a Motion to Dismiss the Chapter 11 proceedings which was granted, with prejudice, on February 28, 2006. As a result of this dismissal, all claims and judgments of creditors of Envirotech may be renewed.

SKYE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007 and December 31, 2006

Note 8. PENDING LITIGATION - continued

Shareholder Inspection Claim . In April 2006 a shareholder purporting to have obtained consent from at least 15% of the Company's shareholders filed a lawsuit in the United States District Court for the District of Nevada (Case No. 2:06-CV-0541-RLH-GWF) seeking inspection of the Company's books and records pursuant to Nevada corporate law. The Court denied plaintiff's initial request. The Company has asserted several counterclaims against the plaintiff for tortious conduct and for abuse of the legal process in connection with the lawsuit. The matter is currently pending.

Shareholder Derivative Action. In May 2006 a small group of dissident shareholders (including the plaintiff from the Shareholder Inspection Claim) filed a lawsuit in the United States District Court for the District of Arizona (Case No. CV06-1291-PHX-ROS) as a derivative action seeking injunctive and declaratory relief. The Company was named as a nominal defendant and there are no claims for monetary damages against the Company. The primary claims involve the prior issuance of the Company's common stock to former consultants to the Company, as well as prior issuances of stock to certain members of current management. Among other things the plaintiffs seek to prevent these individuals from using their stock and related voting rights to solicit proxies and notice shareholder meetings, and have demanded that they return the shares to the Company. The costs likely to be incurred by the Company in connection with such indemnities will be significant. The Company has filed extensive counter and third party claims. The matter came before the Court in a Hearing on February 21-22, 2007 for a Temporary Restraining Order sought by the Plaintiff's.

On May 2, 2007, Judge Roslyn O. Silver of the United States District Court for the District of Arizona issued an Order rejecting the Plaintiffs' requested Preliminary Injunction relief in the pending Skye Shareholder's Derivative Lawsuit, *Stebbins v. Johnson,* Civil Action No. 06-1291-PHX-ROS. The Court also dissolved all restrictions imposed by a prior Temporary Restraining Order and Stipulated Order, which frees the Company to conduct its corporate business without any further interference or restraint by the Court or the Plaintiffs. In the Order, the District of Arizona found that none of the Plaintiffs' arguments were convincing, the Plaintiffs failed to present any evidence that would support a finding of corporate fraud or waste, and the Plaintiffs had made no showing of likelihood of success on the merits of their claims. During a ten month investigation into the matter following the filing of the lawsuit, the Company and its counsel determined that there was no merit to the claims made by Plaintiffs. After reporting the results of this investigation to the Board of Directors, the Company's Board of Directors took affirmative actions to ratify the Company's prior actions. After hearing the testimony from five of the Board of Directors and other Skye personnel and consultants at the Preliminary Injunction Hearing on February 21-22, 2007, the District of Arizona accepted the ratification actions of the Skye Board of Directors, which were based on the Board's reasonable investigation. As a summary of the case, the District of Arizona found that a vast majority of the Stebbins Plaintiffs' complaint has been rendered moot. Based on the Court's May 2, 2007 rulings, Judge Silver stated "it is not clear that Plaintiffs have any viable claims remaining" in this case.

Berry-Shino Claim . The Company has on several occasions during the past three years utilized the services of Berry-Shino Securities, Inc., Scottsdale, Arizona, in raising various forms of financing to further its business plan and operations. In the course of each of these engagements, the Company has paid Berry-Shino various fees and expenses and has issued a certain number of shares of its Common Stock to Berry-Shino. The Company has recently received correspondence from Berry-Shino stating that it believes it is entitled to be issued an additional 456,500 shares of Common Stock as additional consideration for its services. The Company has reviewed the validity of the entitlement and has negotiated a settlement of this matter with Berry-Shino resolving this matter.

Pending Arbitrations. The Company is party to two separate arbitrations. The first matter involves Skye and Lawrence K. White in an action first filed in Arizona State Court and later removed to arbitration. Mr. White seeks payment to him of fees in the amount of approximately $7,000, and punitive and other damages in an amount totalling approximately $100,000 in a matter related to certain accounting consulting services rendered to Skye in 2006. The second matter involves Skye and its former independent auditors, Semple & Cooper, LLP relating to unpaid audit and accounting fees in the amount of approximately $39,000. The Company intends to vigorously defend both actions and may file counterclaims in either or both actions. Both matters are pending and arbitrations are expected to be held before the end of the third quarter 2007.

Claim by Director William Papazian for Legal Defense and Indemnity. The Company is a party to an action seeking to require Skye to submit his claim for defense to the D&O carrier, and to both "defend" and "indemnify" Director William Papazian from and against costs and liabilities arising in connection with a third party claim filed by Skye against Mr. Papazian in connection with the Shareholder Derivative Action described above. Though filed by Mr. Papazian in Arizona State Court, the lawsuit has been removed to the jurisdiction of the Federal District Court. The Company seeks an interjudicial transfer of the matter to Federal Judge Roslyn O. Silver, the Judge hearing the Shareholder Derivative Action. The Company's motion is being opposed by Mr. Papazian and the matter remains pending. The Company's D&O insurance carrier has denied Mr. Papazian's claim for coverage.

Quick & Confidential Claim. On January 23, 2007, Skye was served with a complaint filed in Arizona State Court by Quick & Confidential Inc. who seeks the payment of fees to it in the amount of approximately $13,000 in connection with legal copying services. The Company intends to seek a settlement of this matter.

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

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following is a discussion of the Company's financial condition and results of operations for the three months ended March 31, 2007 and March 31, 2006. The following discussion may be understood more fully by reference to the financial statements, notes to the financial statements, and in the Company's Annual Report on Form 10-KSB filed on April 10, 2007, as well as with regard to the Company's other public filings with the United States Securities and Exchange Commission.

Forward-Looking Statements

This report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, are "forward-looking statements" for purposes of federal and state securities laws, including statements regarding, among other items, the Company's business strategies, continued growth in the Company's markets, projections, and anticipated trends in the Company's business and the industry in which it operates. Forward-looking statements generally can be identified by phrases such as the Company or its management "believes," "expects," "anticipates," "foresees," "forecasts," "estimates" or other words or phrases of si import. Similarly, statements in this report describe the Company's business strategy, outlook, objectives, plans, intentions or goals also are forward-looking statements. Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and subject to inherent risks and uncertainties. The factors impacting these risks and uncertainties include, but are not limited to: the substantial losses the Company has incurred to date; demand for and market acceptance of new products; successful development of new products; the timing of new product introductions and product quality; the Company's ability to anticipate trends and develop products for which there will be market demand; the availability of manufacturing capacity; pricing pressures and other competitive factors; changes in product mix; product obsolescence; the ability of our customers to manage inventory; the ability to develop and implement new technologies and to obtain protection for the related intellectual property; the uncertainties of litigation and the demands it may place on the time and attention of company management, general economic conditions and conditions in the markets addressed by the Company; as well as other risks and uncertainties, including those detailed from time to time in our other Securities and Exchange Commission filings. The forward-looking statements are made only as of the date hereof. The Company does not undertake any obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

For a detailed description of these and other factors that could cause actual results to differ materially from those expressed in any forward-looking statement, please see "Factors That May Affect Our Results of Operation" in this document.

Throughout this report, references to "we", "our", "us", "the Company", and similar terms refer to SKYE International Inc. and its 100% owned Envirotech Systems Worldwide Inc., Valeo Industries Inc. and ION Tankless Inc.

Business Development

Skye International, Inc., a Nevada corporation ("Skye"), 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 name was changed to Elution Technologies, Inc. On June 4, 2003, in connection with the pending acquisition of Envirotech Systems Worldwide, Inc., it changed its name to Tankless Systems Worldwide, Inc. On October 21, 2005, it changed its name to Skye International, Inc., as part of its overall plan to create a brand name for its revised business plan and expanded product lines.

Skye has three subsidiary corporations, all wholly-owned:

- Envirotech Systems Worldwide, Inc., an Arizona corporation (“Envirotech”);
- ION Tankless, Inc., an Arizona corporation (“ION”); and
- Valeo Industries, Inc., a Nevada corporation (“Valeo”).

On November 7, 2003, Skye acquired Envirotech in a one-for-one share exchange. On that date, Skye issued 8,366,778 shares of its common stock to the Envirotech shareholders. Subsequently, in December 2004, 2,075,000 of those shares were returned to Skye by the former principals of Envirotech and cancelled, and the number of Skye’s issued and outstanding shares was correspondingly reduced, pursuant to a settlement of litigation brought by Skye.

In January 2004, Skye formed ION to perform research, development and marketing of new heating technologies. In January 2005, it created Valeo to license ION technologies and to manufacture products using those technologies.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Except as otherwise specified, all references herein to the "Company", "we" our", "us" refer to Skye and its wholly-owned subsidiaries, Envirotech, ION and Valeo. The business office of the Company is located at 7701 E. Gray Rd., Suite 4 Scottsdale, Arizona 85260. The Company's fiscal year ends on December 31.

Envirotech

Envirotech was formed 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.

The United States Patent and Trademark Office granted a patent to Envirotech for its Modular Electronic Tankless Water Heater (ETWH) (Patent No. US 6,389,226). Proprietary rights to the design of the ETWH were Envirotech's principal assets. The existing patent and intellectual property of Envirotech were assigned as collateral security for debts owed by Envirotech for legal services arising prior to the acquisition of Envirotech by Skye.

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. (the "Seitz Suit"), discussed more fully in "Item 3. Legal Proceedings, Seitz Suit" below.

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 "Chapter 11 Proceedings"). The Seitz Suit was initially stayed pending the disposition of the Chapter 11 Proceedings, but on September 30, 2005, the Court allowed the plaintiff to re-open the suit. On December 5, 2005, the Court issued a preliminary injunction against Envirotech and its affiliated entities, including Skye, enjoining them from further marketing, advertising or offering for sale, or accepting any orders for (i) the Envirotech ESI 2000 heater, (ii) any other heater, regardless of its model, using parts of the Model ESI 2000 heater, and (iii) any other heater, regardless of model number, utilizing in whole any part (sic) any technology embodied in the Model ESI 2000 heater. At a hearing on February 28, 2007, the Court indicated that it would re-examine the wording of this injunction, and this remains under review by the Court. At a hearing on May 17, 2006 the Judge issued a direction to Skye requiring it to engage in the discovery process relative to the FORTIS™ and Paradigm™ products developed by Skye and Ion Tankless. Skye has complied with this direction for additional discovery. On May 16, 2006 the U.S. Patent and Trademark Office issued patent no. 7,046,922 to Ion Tankless, Inc. in connection with its modular tankless water heater technology.

The filing of the petition with the Bankruptcy Court stayed all then-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, Skye 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, which are reflected in the consolidated financial statements. During the pendency of the Chapter 11 Proceedings, Envirotech continued selling its water heater products. Subsequently, in the first quarter of 2005, due to the lack of working capital and other factors, Envirotech ceased production of its products. The Chapter 11 Proceedings were dismissed by the Court, with prejudice, on February 28, 2006, at the request of Envirotech. In connection with incurring legal fees to the law firm of Jennings Strouss & Salmon, PLC ("JSS"), Envirotech granted a security interest in all of its tangible and intangible assets in 2001 and 2002, including its intellectual property (the "Envirotech Security"), to JSS (the "Senior Secured Creditor"). After Envirotech filed for bankruptcy as noted above, JSS sold its claim and the related security interests to Sundance Financial Corporation. On June 1, 2006 Sundance Financial Corporation entered into an agreement with the Company's subsidiary, ION Tankless, in which it assigned the Envirotech Security to Ion Tankless, Inc. Because Envirotech has ceased operations, its only asset of any anticipated value is its intellectual property, including the patent as discussed above.

ION

Recognizing the dynamic state of the industry and the need for an improved product line, Skye made a decision in early 2004 to pursue its own research and development for new water heating technologies, out of which it could develop a completely new line of products. In January 2004, Skye formed a wholly-owned, non-operating subsidiary, ION Tankless, Inc., through which it has since conducted research and development of alternative heating technologies and products. Skye has invested heavily in a research and development program to develop new and innovative methods of heating water, which has resulted in the filing of several applications for patents with the U.S. Patent and Trademark Office involving dozens of claims. As of the date of this report, several patents have been issued to the company and several more remain pending in the United States and in certain foreign countries, all as more fully detailed elsewhere in this report.. While there can be no assurances that the other patents sought will be granted or that the technology will be considered proprietary to Skye or ION, the Company believes that its applications are meritorious and will be granted at least in part.

Recognizing the dynamic state of the industry and the need for an improved product line, Skye made a decision in early 2004 to pursue its own research and development for new water heating technologies, out of which it could develop a completely new line of products. In January 2004, Skye formed a wholly-owned, non-operating subsidiary, ION Tankless, Inc., through which it has since conducted research and development of alternative heating technologies and products. Skye has invested heavily in a research and development program to develop new and innovative methods of heating water, which has resulted in the filing of several applications for patents with the U.S. Patent and Trademark Office involving dozens of claims. In November 2005, the Company received notice from the USPTO that the first such patent request had been allowed, which was issued after year-end on May 16, 2006 as US Patent No. 7,046,922. While there can be no assurances that the other patents sought will be granted or that the technology will be considered proprietary to Skye or ION, the Company believes that its applications are meritorious and will be granted at least in part.

With the exception of one patent held by Envirotech (discussed above), ION holds all patents and intellectual property of the Company and it may license that property to an affiliated or third party entity for manufacturing and distribution. The assets of ION are included in the consolidated financial statements for the Company.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Valeo

Valeo was formed by Skye in January 2005 as a wholly-owned operating subsidiary. Valeo will license technology from ION and manufacture or contract for the manufacture of several lines of water heating products, as well as other products embodying ION patent technology. These new products, based on proprietary technology, are expected to serve as the foundation for the future growth of the Company.

Company Headquarters and Capitalization

The business office of the Company is located 7701 E. Gray Rd., Suite 4 Scottsdale, AZ 85260 where it occupies leased offices that commenced operation on May 1, 2007.

As of March 31, 2007 there were approximately 22,569,243 shares of common stock outstanding and the Company had approximately 259 shareholders of record on that date. As of January 8, 2007 the shares of common stock of the Company are traded on the OTC Bulletin Board under the ticker symbol SKYY. From June 5, 2006 through January 7, 2007 the shares of common stock of the Company were traded on the OTC Pink Sheets under the symbol SKYY. Prior to June 5, 2006, the shares of common stock of the Company were traded on the OTC Bulletin Board under the ticker symbols: SKYY, SKYYE, TSYW, TSYWE, CRRZ and ELUT.

Our Business and Prospects

The Company is in the business of designing, developing, manufacturing and marketing consumer lifestyle products, including, initially, several models of an electronic, tankless water heater. The tankless water heater is small, easy to install and supplies virtually endless amounts of hot water with energy savings. The unit is a microprocessor controlled electric water heater contained in a compact unit, eliminating the space demands of conventional water heaters. It incorporates automatic, precise temperature controls. It saves energy, space, and water and is suitable to most areas of the U.S. and worldwide. Prior to the development of new technology, which is discussed later in this section, the Company was dependent upon the operations of Envirotech for its revenue. Beginning in 2004 and continuing throughout 2005, Envirotech's production and sales steadily declined while the Company embarked on an aggressive research and development program to develop new technologies and products for the tankless water heater market. In January 2004, SKYE formed ION through which it has since conducted research and development on alternative heating technologies and products. SKYE has invested heavily in a concerted R&D program to develop new and innovative methods of heating water which has resulted in the filing of applications for several patents involving dozens of claims. As a result of the 20 month research and development program, several patents have been issued and other patent applications are pending, and new products have been developed and will be ready for limited production in mid-2007.

The Company has ceased to manufacture the ESI-2000 water heater line of products developed by Envirotech. Our *FORTIS*™ brand product line, which is expected to be delivered to the market during 2007, is the result of the R&D program discussed above. SKYE's *FORTIS*™ series is scalable from 40 amps to 120 amps of heating power and is a microprocessor-controlled electric water heater contained in a compact unit, which is designed to operate in most any climate. SKYE's new and innovative way of heating water for home and business is contained in a small and easy to install unit.. The *FORTIS*™ series saves energy, space, water, and is suitable for most areas of the world. SKYE uses advanced technology and high quality parts in the construction of the *FORTIS*™ series, which provides reliability and longevity. Most anywhere hot water is now being used, SKYE's electric instantaneous water heaters can likely perform the task more effectively than most other appliances. The *FORTIS*™ series will heat water only as long as you require hot water, and only at the temperature you desire. Electricity is only used when heated water is required, therefore the cost of heating water could be calculated to be reduced by as much as 20% - 40%. Because the *FORTIS*™ series is compact it can be easily installed close to where hot water is being used, and it is ideal for hotels, motels, apartments, and homes where space is at a premium. SKYE believes its *FORTIS*™ series heaters offers one of the most efficient solutions for on-demand hot water available today.

The Company has expended considerable efforts in working with its contract manufacturer, Jabil Circuit, Inc., in order to begin the production of the *FORTIS*™ line of products. As of March 31, 2007, much of the prepatory work to commence production has been completed and Jabil has completed the manufacturing work cell to commence production. The Company expects that the first *FORTIS*™ production units will be produced during 2007 with sales and delivery to commence thereafter. Despite commencing production, the Company expects that it may take up to one year for the production design and processes to stabilize. Once the production and processes have stabilized the Company anticipates that it will seek to move production of the *FORTIS*™ to a lower cost center in Mexico or China in order to gain additional margin.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

The Company has also continued to develop its new *Paradigm*™ technology. Although we have been very excited about the functionality that the *Paradigm*™ technology offers, we have not been successful in developing a cost effective means to commercialize the technology into a consumer product line. We are currently in final negotiations with a critical supplier to (i) jointly complete the engineering and commercialization process, and then (ii) engage in an engineering for manufacturing phase. As we have not yet completed our negotiations there can be no assurance that we will finalize any such agreement, or if we do finalize the agreement, that we will be successful in developing a commercialized product for distribution within a reasonable period of time.

Access to capital remains one of the most pressing considerations for the Company. We have recently funded our operations through the issuance of convertible notes to certain of the Company's officers and directors. Additionally, we have commenced a brokered private placement of convertible notes for total gross proceeds of up to $1.5 million. Our business strategy will require us to raise in excess of an additional $2 million over the next 12 month period in order to fully execute our current business plan. There can be no assurance that we will be able to raise such additional funding by way of either new debt or equity, and in the event we are unable to raise the funds necessary to fund our business plan it will be necessary to curtail such plans and this could have a detrimental impact on our business. Management believes that, in order to properly exploit the introduction of both the *FORTIS*™ and *Paradigm*™ technologies, it will be necessary that we be positioned not only as a quality supplier of products, but that we also be able to supply a sufficient volume of product to meet wholesale demand. We believe that, relative to the wholesale market, there is a very high expectation that product be available in a timely fashion when ordered. In order to meet this expectation we must be capable of not only producing our products in sufficient volume, but holding quantities of product in inventory as well. These things all require capital and we must be successful in our efforts to obtain this funding if we are to be successful in the wholesale sales and distribution channel.

Over the balance of the year we will continue to focus our efforts on initiating production of the *FORTIS*™ product line and in getting it into the market to be sold. We will continue to develop our markets and train installers and field service personnel in cooperation with our appointed manufacturer's representatives. This is no small task and it will require a significant effort on the part of our existing staff, as well as new staff that must be hired in order to provide sales and customer service to the field. We will also focus our efforts on completing the *Paradigm*™ technology and we are challenged by the opportunity to introduce this powerful technology to the US marketplace. While *Paradigm*™ will require a significant investment of time and capital in order to yield a line of marketable products, we are confident that products based on this technology will be amongst the most efficient and technologically advanced in the market. Many challenges remain and Skye's Board, Management and Staff are committed to the challenge.

Manufacturing

On February 15, 2006, SKYE entered into a Manufacturing Services Agreement with Jabil Circuit, Inc. ("Jabil") pursuant to which Jabil has agreed to manufacture certain components and to assemble SKYE's tankless water heater products as specified by SKYE from time to time. The agreement has an effective date of January 30, 2006. SKYE anticipates that Jabil will become SKYE's primary manufacturer and is currently completing the engineering for manufacturing. Additionally, SKYE is also actively negotiating with critical suppliers to quality them to supply *Paradigm*™ components, as well as potentially expedite the earlier market availability of products utilizing the new *Paradigm*™ technology.

Intellectual Property

In May 2002, Envirotech was granted a patent by the United States Patent Office for its Modular Electronic Tankless Water Heater (ETWH) (Patent No. US 6,389,226). 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 made written assignments to Envirotech of proprietary and intellectual property rights relating to the ETWH and that research and development, and have signed non-disclosure, non-competition agreements with Envirotech.

During the past two years, based on newly developed technology, ION has filed several applications for patents with the United States Patent and Trademark Office, and expects the products offered using this new technology to replace the products previously manufactured by Envirotech. All persons deemed inventors have executed written assignments to ION of proprietary and intellectual property rights relating to the inventions forming the basis of the various applications for patents and the attendant research and development. In November 2005, the Company received notice from the USPTO that the first such patent request has been allowed, which was issued on May 16, 2006 as US Patent No. 7,046,922. On August 8, 2006, the USPTO issued a method patent No, 7,088,915 to ION on the Company’s modular tankless water heater technology. On January 16, 2007, the Company was advised that its wholly owned subsidiary, ION Tankless, Inc., received US Patent No. 7,164,851 entitled "Modular Tankless Water Heater Control Circuitry and Method of Operation" as issued and published by the United States Patent and Trademark Office. On April 17, 2007, the Company received US Patent No. 7,206,506 entitled “Fluid Heating System”. The patent is related to a tube based fluid heating system developed in connection with the Company’s previously announced research and development program.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

While there can be no assurances that the other patents sought will be granted or that the technology will be considered proprietary to SKYE or ION, the Company believes that its applications are meritorious and will be granted at least in part.

Materials and Principal Suppliers.

SKYE has retained Jabil Circuit, Inc. (NYSE: JBL) to manufacture its FORTIS™ products, and, as such, is heavily dependent upon Jabil to perform satisfactorily so as to ensure the availability of product for sale. Jabil is required to buy components for SKYE's products from the market at large, as well as from an approved list of suppliers, including Siemens, AG (electrical components), Lake Monitors (flow sensors), Tru-Heat (heating elements), Hydro Aluminum (extruded heating chamber), and Arnold Bros. (stainless steel sheet metal and components). Although limited production experience has been obtained, SKYE is satisfied that Jabil has the necessary experience to avoid supplier delivery problems. In order to avoid losses associated with lack of production components, SKYE has worked closely with Jabil to identify suppliers that have traditionally performed well in addition to ensuring that multiple suppliers for most components are available. With the exception of certain proprietary components manufactured by Jabil, and the preferred vendors noted above, the balance of components are readily available from a variety of sources both domestically and internationally. SKYE is satisfied that it and Jabil have adequately planned to avoid production disruption resulting from a breakdown in its supply chain.

Research and Development

The Company conducts all of its research and development activities through ION. All employees, contractors and consultants engaged in the research and development process by ION were required to execute non-disclosure, non-competition agreements covering the subject, scope and work product of the program. The Company expended approximately $30,000 during the three-month period ended march 31, 2007; $26,878 in 2006 and $450,000 in 2005 on research and development.

Employees

At March 31, 2007, Skye had one full-time and one part-time employee. Additionally, the Company retained the services of consulting professionals to provide on-going management, legal, accounting and engineering research and development work. The Company anticipates adding several full time employees in the near future in management and for administrative and technical support. Additional employees are expected to be engaged as revenues from operations permit.

Dependence on Major Customer

Skye expects to commence the wholesale introduction of its products sometime during the second quarter 2007 or later. It has not developed a dependence upon any single customer or group of customers. By necessity, initial sales of Skye's products may be concentrated with certain distributors or retailers until a broader distribution network can be achieved. Skye will monitor its sales and distribution activities closely to avoid such reliances.

Costs of Environmental Compliance

Because Skye does not manufacture any of its products, it does not anticipate incurring material costs related to environmental compliance, which is the responsibility of the manufacturer.

Recent Developments

- On January 5, 2007, the Company was advised that its securities had been cleared by the compliance unit of the National Association of Securities Dealers ("NASD") for quotation on the OTC Bulletin Board. Accordingly, the Company commenced trading on the OTCBB under the trading symbol SKYY effective on the opening on January 8, 2007.

- On January 16, 2007, the Company was advised that its wholly owned subsidiary, ION, received US Patent No. 7,164,851 entitled "Modular Tankless Water Heater Control Circuitry and Method of Operation".

- On January 19, 2007 the Company issued a President's letter to shareholders providing shareholders with an update of events in 2006 and an outlook for 2007.

- On January 30, 2007, the Board of Directors of the Registrant filled two vacancies on the Board with the election of Mr. Perry Logan and Mr. Ted Marek. Both Mr. Logan and Mr. Marek will serve as directors until the next Annual General Meeting of the Registrant's shareholders. Mr. Logan and Mr. Marek were also appointed to serve as independent Directors on the Company's Audit Committee and Corporate Governance Committee and will serve in such capacity until the next Annual General Meeting of shareholders.

- On April 12, William Papazian resigned as a director.

- On April 17, 2007, the United States Patent and Trademark Office published the Registrant's patent entitled "Fluid Heating System" as US Patent No. 7,206,506. The patent is related to a tube based fluid heating system developed in connection with the Registrant's previously announced research and development program.

- In late April, 2007 the Company reached a settlement with Lawrence K. White after the completion of an arbitration of the dispute, but prior to a decision being rendered in the matter.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

- Effective may 1, 2007 the Company moved its principal offices to: 7701 E. Gray Rd., Suite 4 Scottsdale, AZ 85260

- At a meeting of the Registrant's Board of Directors on May 3, 2007 a management reorganization was approved that resulted in the appointment of Perry Logan as the Company's interim President and Chief Executive Officer. Mr. Logan replaced Ronald O. Abernathy, who stepped down as the Registrant's President to accept an appointment as the Registrant's Vice President.

- On May 2, 2007, Judge Roslyn O. Silver of the United States District Court for the District of Arizona issued an Order rejecting the Plaintiffs' requested Preliminary Injunction relief in the pending Skye Shareholder's Derivative Lawsuit, *Stebbins v. Johnson,* Civil Action No. 06-1291-PHX-ROS. The Court also dissolved all restrictions imposed by a prior Temporary Restraining Order and Stipulated Order, which frees the Company to conduct its corporate business without any further interference or restraint by the Court or the Stebbins Plaintiffs. As a summary of the case, the District of Arizona found that a vast majority of the Stebbins Plaintiffs' complaint has been rendered moot. Based on the Court's May 2, 2007 rulings, Judge Silver stated "it is not clear that Plaintiffs have any viable claims remaining" in this case. The District of Arizona also ruled on other matters, including a ruling that the prior Answer and Counterclaim filed by Skye did not comply with the proper form of such a pleading under Rule 8 of the Federal Rules of Civil Procedure.

Results of Operations

Results of Operations for the Three Months Ended March 31, 2007 and 2006 Compared.

The following table is a summary of our operations for the three months ended March 31, 2007 as compared to the three months ended March 31, 2006

	For the Three Months Ended Mar 31, 2007	For the Three Months Ended Mar. 31, 2006
Revenues	$ -	$ 10,632
Cost of Sales	$ 24,142	$ 1,074
General and Administrative Expenses	$ 131,802	$ 193,611
Research and development	$ 30,000	$ -
Total Operating Expenses	$ 164,563	$ 680,387
Net Income (Loss)	$ (205,030)	$ (679,460)

Revenues

For the Three months ended March 31:	2007	2006	Increase/(decrease) $	%
Revenue	$ -	$ 10,632	$ (10,632)	(100%)

Revenues for the three months ended march 31, 2007 were $NIL, compared to revenues of $10,632 in the three months ended March 31, 2006. The decreases in revenue is attributable to the cessation all sales of ESI-2000 products and parts pending the launch of the Company's FORTIS™ product line.

General and Administrative expenses

For the three months ended March 31:	2007	2006	Increase/(decrease) $	%
General & Administrative expenses	$ 131,802	$ 193,611	$ (61,809)	(32%)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

General and administrative expenses reduced by 32% reflecting the fact that the Company no longer made lease payments for its principal offices. During the period the Company's operations were conducted from sub-leased premises offered to the Company at no-charge. During the three month period ended March 31, 2007 the Company continued to operate at minimal staffing levels as it completed the balance of development work on its pending FORTIS™ product line. We anticipate an increase in the general and administrative expenses by the Company as we add more operational and administrative personnel, legal and other professional assistance with our continued efforts to execute our business plan and market our products in the US and Canada. We anticipate this transition to create up-front costs, as well as continuing costs for additional personnel.

Total Operating Expenses

For the three months ended March 31:	2007	2006	**Increase/(decrease)** $	%
Total operating expenses	$ 164,563	$ 680,387	$(515,824)	(76%)

Overall operating expenses decreased by approximately 76% as a result of decreased legal fees in connection with various legal matters described in this report. Additionally, minimal expenses were incurred during the first three months of 2007 as the Company focused its principal efforts on completing the FORTIS™ product line and readying it for production. Legal and professional fees accounted for $109,035 of the total operating expenses of $164,563.

Net Loss

For the three months ended March 31:	2007	2006	**Increase/(decrease)** $
Net Profit (Loss)	$ (205,030)	$ (679,460)	($474,430)

The net loss for the three months ended March 31, 2007 was $205,030, versus a net loss of $679,460 for the three months ended March 31, 2006. The significant decreases resulted from a reduction in legal expenses in connection with legal matters discussed elsewhere in this report, as well as a reduction for personnel and lease/occupancy costs while the company occupied sub-leased offices awaiting its move to its new offices effective May 1, 2007. The Company expects to commence sales of its FORTIS™ product during 2007.

Liquidity and Capital Resources at March 31, 2007 and December 31, 2006.

The following table summarizes total assets, accumulated deficit and stockholders' equity.

		March 31, 2007		December 31, 2006
Total Assets	$	341,215	$	315,034
Accumulated Deficit	$	(12,732,830)	$	(12,527,800)
Stockholders' Equity (Deficit)	$	(3,156,824)	$	(3,141,194)
Working Capital (Deficit)	$	(3,199,379)	$	(3,185,116)

A critical component of our operating plan impacting our continued existence is the ability to obtain additional capital through equity and/or debt financing. Since inception, we have financed our cash flow requirements through issuances of common stock and cash generated from our operations. As we continue our activities, we may continue to experience net negative cash flows from operations, pending receipt of significant revenues. The Company expects to commence limited sales of its FORTIS™ product line during the third quarter of 2007.

The Company expects that additional operating losses will occur until revenue is sufficient to offset the costs incurred for marketing, sales and product development. Until the Company has achieved a sales level sufficient to break even, it will not be self-sustaining or be competitive in the areas in which it intends to operate. The Company will require additional funds to complete the ramping up for production of the *FORTIS*™, and to fully implement its marketing plans and for continued operations. Additionally, the Company will also require further development funds in order to finalize a commercialized version of its consumer product utilizing the patented *Paradigm*™ technology. We anticipate obtaining additional financing to fund operations through common stock offerings, debt offerings and bank borrowings, to the extent available, or to obtain additional financing to the extent necessary to augment our working capital. In the event we cannot obtain the necessary capital to pursue our strategic plan, we may have to significantly curtail our operations. This would materially impact our ability to continue operations. There is no assurance that the Company will be able to obtain additional funding when needed, or that such funding, if available, can be obtained on terms acceptable to the Company.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

As of March 31, 2007, the existing capital and anticipated funds from operations were not sufficient to sustain normal operations, or the business plan over the next twelve months. We anticipate substantial increases in our cash requirements; which will require additional capital generated from either the sale of common stock, the sale of preferred stock, or debt financing. No assurance can be made that such financing would be available, and if available it may take either the form of debt or equity. In either case, the financing will likely have a negative impact on our financial condition and our stockholders.

We anticipate that we will incur operating losses in the next twelve months. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of development. Such risks for us include, but are not limited to, an evolving and unpredictable business model and the management of growth. To address these risks, we must, among other things, expand our customer base, implement and successfully execute our business and marketing strategy, respond to competitive developments, and attract, retain and motivate qualified personnel. There can be no assurance that we will be successful in addressing such risks, and the failure to do so can have a material adverse effect on our business prospects, financial condition and results of operations.

Critical Accounting Policies

We have identified the following policies as critical to our business operations and the understanding of our results of operations. The preparation of these financial statements require us to make estimates and assumptions that effect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates. The effect of these policies on our business operations is discussed below where such policies affect our reported and expected financial results.

Revenue Recognition. Our revenue recognition policy is significant because our revenue is a key component of our results of operations. We recognize revenue when delivery of the product has occurred or services have been rendered, title has been transferred, the price is fixed and collectability is reasonably assured. Sales of goods are final with no right of return.

Warranty Costs. We warrant our products against manufacturing defects for a period of five years on electrical components and 10 years on other components. Once sales of our new products commence, we expect to make an accrual for warranty claims based on our sales.

Intangible Assets. We have intangible assets in the form of patents issued and pending. Our estimate of the remaining useful life of these assets and the amortization of these assets will affect our gain from operations. Since we do not have a method of quantifying the estimated number of units that may be sold we have elected to amortize these intangibles over a seven year period beginning in the first quarter of 2006.

Purchase Accounting. Our purchase accounting policy is to record any acquisitions in accordance with current accounting pronouncements and allocate the purchase price to the net assets. The Company evaluates the fair market values of tangible and intangible assets based on current market conditions, and financial and economic factors. Intangible assets are valued using several cash flow projection models and financial models to establish a baseline for their respective valuations. The Company's policy is to expense in-process research and development costs at acquisition.

Stock Options. We have a stock option plan under which options to purchase shares of our common stock may be granted to employees, consultants and directors at a price no less than the fair market value on the date of grant. We account for grants to employees in accordance with the provisions of APB No. 25, *Accounting for Stock Issued to Employees* ("APB No. 25"). Under APB No. 25, compensation expense is based on the difference, if any, on the date of the grant between the fair value of our stock and the exercise price of the option and is recognized ratably over the vesting period of the option. Because our options must be granted with an exercise price equal to the quoted market value of our common stock at the date of grant, we recognize no stock compensation expense at the time of the grant in accordance with APB No. 25. On January 1, 2006 we adopted the fair value based method set forth in Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123"), we would recognize compensation expense based upon the fair value at the grant date for awards under the plans. The amount of compensation expense recognized using the fair value method requires us to exercise judgment and make assumptions relating to the factors that determine the fair value of our stock option grants. We account for equity instruments issued to non-employees in accordance with SFAS No. 123 and Emerging Issues Task Force Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services*.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Going Concern

The financial statements included in this filing have been prepared in conformity with generally accepted accounting principles that contemplate the continuance of us as a going concern. Our cash position may be inadequate to pay all of the costs associated with our operations. We intend to use borrowings and security sales to mitigate the effects of our cash position, however no assurance can be given that debt or equity financing, if and when required will be available. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should we be unable to continue existence.

Off-Balance Sheet Arrangements.

During the three-month period ended March 31, 2007, the Company did not enter into nor was it a party to any off-balance sheet arrangement other than as previously disclosed in prior filings, including the Company's Annual Report on form 10KSB for the period ending December 31, 2006. Other than as previously disclosed, we have no other off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

FACTORS THAT MAY AFFECT OUR RESULTS OF OPERATIONS

<u>Risks Relating To Our Business and Our Marketplace</u>

History of Operations and Dependence on Future Development.

SKYE International, Inc. ("SKYE") was organized November 23, 1993 and existed as a development stage company until its acquisition of Envirotech Systems Worldwide, Inc. ("Envirotech"), on November 7, 2003. Envirotech was organized December 9, 1998. Envirotech has a limited history of operations. The first sales of its products occurred in calendar year 2000. The Company, on an operating and consolidated basis, has continued to incur substantial losses from operations since the date of acquisition. The Company did not generate significant revenue from sales of its discontinued ESI-2000 product line and has not generated any revenues yet from the sale of other products, including FORTIS™, developed in conjunction with the Company's research and development initiatives.

Prior to the development of new technology, the Company was dependent upon the operations of Envirotech for its revenue. The Company expects that additional operating losses will occur until new product sales in the market commence and the resulting revenue is sufficient to offset the level of costs incurred for ongoing marketing, sales and product development. The Company is subject to all of the risks inherent in establishing a new business enterprise. Since the Company has a very limited record of operations, there can be no assurance that its business plan will be successful. The potential for success of the Company must be considered in light of the significant problems, expenses, difficulties, complications and delays experienced by the Company to date; and as are frequently encountered with the start-up of new businesses. A prospective investor should be aware that if the Company is not successful in achieving its goals and achieving profitability, any money invested in the Company will be lost. The Company's management team believes that its success depends on the Company's ability to complete product development and obtain regulatory approval, then in manufacturing, marketing and selling its products and, over the longer term, in developing new products for which larger markets are possible.

The Company has not had sufficient funds to date with which to even partially implement its business plans. We cannot be certain that our business strategy will be successful because these strategies are unproven. There can be no assurance that the Company will generate sufficient revenues to the extent necessary to render it profitable. There can be no assurance that management has accurately forecast the Company's performance or that planned operations will lead to profits in the future. In addition, outside of product know-how, intellectual property and contractual relationships, the Company has only very limited hard assets, the value of which is far less than the accrued payables of the Company as of the date of this report. If the Company is unable to develop marketable products, obtain customers and/or generate sufficient revenues so that it can profitably operate, the Company's business will not succeed. We will be particularly susceptible to the significant risks and uncertainties as described in these risk factors, and we will be more likely to incur the expenses associated with addressing such risks. Our business and prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in the early stages of development. These risks are particularly severe among companies in new and rapidly evolving markets such as those that we expect will serve as our target markets. Accordingly, purchasers of Units must be in a financial position to bear the risk of loss of their entire investment in the Company.

Awaiting SEC Response to Amended Financial Filings for the Year Ended December 31, 2004

On September 15, 2005 the Company received a letter from the U.S. Securities and Exchange Commission (“SEC”) relating to information provided by the Company in its financial filings for the year ended December 31, 2004 (the “2004 10KSB”), as well as the interim quarterly filings preceding such date. The SEC has requested, among other things, that we clarify and restate certain disclosures in the 2004 10KSB and possibly some related quarterly disclosures on form 10QSB during such year. On June 14, 2006 the Company filed an amended and restated 10KSB for the year ended December 31, 2004, and, to date, we have not received any comments thereon from the SEC. Other than filing an amended and restated financial as discussed above we have not formally responded in writing to the SEC, and thus we have not yet concluded such matters with the SEC and the Company may be required to undertake further actions or financial restatements as a result of further enquiries or actions by the SEC and the Company’s Board of Directors.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Limited Capital and Need for Additional Financing.

The Company does not have sufficient capital to execute its existing business plan and until the Company has achieved a sales and net margin level sufficient to break even, it will not be self-sustaining or be competitive in the areas in which it intends to operate. The Company will require additional funding for continued operations, and will therefore be dependent upon its ability to raise additional funds through bank borrowings, equity or debt financing, or asset sales. We expect to access the public and private equity or debt markets periodically to obtain the funds we need to support our operations and continued growth. There is no assurance that the Company will be able to obtain additional funding when needed, or that such funding, if available, can be obtained on terms acceptable to the Company. If we require, but are unable to obtain, additional financing in the future on acceptable terms, or at all, we will not be able to continue our business strategy, respond to changing business or economic conditions, withstand adverse operating results or compete effectively. If the Company cannot obtain needed funds, the Company may be forced to curtail or cease its activities. If additional shares are issued to obtain financing, current shareholders will suffer a dilutive effect on their percentage of stock ownership in the Company and this dilutive effect may be substantial. The Company has no commitments or plans for any additional funding at the present time. Insufficient financial resources may require the Company to delay or eliminate all or some of its development, marketing and sales plans, which will have a material adverse effect on the Company's business, financial condition and results of operations. There is no certainty that the expenditures to be made by the Company will result in a profitable business.

Lack of Diversification.

The size of the Company makes it unlikely that the Company will be able to commit its funds to diversify the business until it has a proven track record of profitable operations, and the Company may not be able to achieve the same level of diversification as larger entities engaged in this type of business.

Competition.

The water heater market is mature, highly concentrated and highly competitive, and steep discounts and rebates as high as 30% or more are standard. Some contractors are loyal to favorite brands and on occasion resistant to tankless systems, and the plumbing industry is on occasion also resistant to tankless systems, particularly electric powered tankless units. Pricing competition has increased in recent years, and major manufacturers are increasing their expenditures on research and development. Conventional water heaters (tank heaters) are slightly more efficient and reliable than conventional tank water heaters in previous years. There are several companies around the world who manufacture water heaters, conventional and tankless. It is reasonable to expect to encounter intense competition in all aspects of our business and that such competition would increase. Substantial competition could emerge at any time. Many of our competitors and potential competitors have longer operating histories and significantly greater experience, resources, and managerial, financial, technical, and marketing capabilities than us. In addition, many of these competitors offer a wider range of products and services than we contemplate offering. Many current and potential competitors also have greater name recognition, industry contacts and more extensive customer bases that could be leveraged to accelerate their competitive activity. Moreover, current and potential competitors have established and may establish future cooperative relationships among themselves and also with third parties to enhance their products and services in this space. Consequently, new competitors or alliances may emerge and rapidly acquire significant market share. We cannot assure you that we will be able to compete effectively with current or future competitors or that the competitive pressures faced by us will not harm our business. This intense competition, and the impact it has on the valuation of companies of this nature, could limit our opportunities and have a materially adverse effect on the Company's profitability or viability.

The Company believes that its primary competition will be the manufacturers of conventional tank water heaters, who are firmly established with the plumbing industry. There are a large number of manufacturers of tank water heaters, both domestic and foreign. The dominant manufacturers are five large, multinational, established companies with significantly more resources than the Company (Bradford-White, Rheem, A. O. Smith, State Industries and American Standard). Manufacturers of tank water heaters dominate the U.S. market, maintaining over 96% market share of residential water heater sales. The Company cannot predict the likelihood that it will take market share away from those manufacturers, or whether or how long it will take the Company to build up sales of its tankless product line. In addition, there can be no assurance that larger, more established companies with significantly more financial, technical, research, engineering, development and marketing resources; with established distribution networks and worldwide manufacturing capabilities; and with greater revenues and greater name recognition than the Company; will not develop competing systems and products which will surpass the Company's business.

Performance; Market Acceptance.

The quality of the Company's products, manufacturing capability, and marketing and sales ability, and the quality and abilities of its personnel, are among the operational keys to the Company's success. A primary management challenge will be to penetrate the market for water heaters, a mature, highly competitive and concentrated market. Also, distributors and users of water heaters may resist or be slow to accept an electric tankless water heater. Other important factors to the success of the Company will be the ability to complete the development process for new products in a timely manner and the ability to attract an adequate number of buyers, distributors and investors. There can be no assurance that the Company can complete development of new technology so that other companies possessing greater resources will not surpass it. There can be no assurance that the Company can achieve its planned levels of performance, or can be successful in establishing relationships with the number and quality of distributors it needs to be successful, in a timely way. If the Company is unsuccessful in these areas, it could have a material adverse effect on the Company's business, results of operations, financial condition and forecasted financial results.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Dependence on Intellectual Property - Design and Proprietary Rights.

Our success and ability to compete depend to a significant degree on our intellectual property. We will rely on patent, copyright and trademark law, as well as confidentiality arrangements, to protect our intellectual property. Even if legal actions are initiated by the Company to enforce our intellectual property rights however there can be no guarantee that such actions will be successful in protecting our intellectual property adequately.

Envirotech was granted a patent by the United States Patent and Trademark Office for its Modular Electronic Water Heater (ETWH) (Patent No. US 6,389,226 B1). Proprietary rights to the design of the ETWH were Envirotech's principal assets. The existing patent and intellectual property of Envirotech were assigned as collateral for debts owed by Envirotech for legal services arising prior to the acquisition of Envirotech by SKYE. Envirotech, in 2005, discontinued production of all models of the ESI-2000 tankless water heater previously manufactured by it. On December 5, 2005 by order of Judge Lee Rosenthal of the US District Court for the Southern District of Texas in Houston a preliminary injunction against the Company was issued in connection with the civil action H-02-4782 between David Seitz and Microtherm (as Plaintiff) and Envirotech (as Defendant and Plaintiff by counterclaim) enjoining the Company and others from manufacturing, assembling, selling or offering for sale, any Product (as defined in the order) including the Envirotech ESI-2000 heater, any other heater regardless of its model number utilizing parts from the ESI-2000 or any other heater, regardless of its model number, utilizing in whole any part any technology embodied in the ESI-2000 heater (sic). The Court has indicated that it is considering re-wording of the preliminary injunction, which is still under advisement.

The new line of tankless water heaters designed by the Company do not, in the opinion of the Company, utilize the technology embodied in the Envirotech patent or technology related to the ESI-2000 product, and are constructed using parts and operational methodologies distinct from the Envirotech ESI-2000 heater. The Company does not intend to produce any further ESI-2000 heaters and believes all future water heaters will embody designs and technologies related to newly developed intellectual property of the Company's research and design subsidiary Ion Tankless, Inc. There can, however, be no assurance that a third party may claim or continue to claim that the Company's products infringe any of such third party's patents or intellectual property. During the past year, based on newly developed technology, SKYE has filed several applications for patents with the United States Patent and Trademark Office, and expects that a range of products using this new technology will replace the products previously manufactured by Envirotech. In November 2005, the Company received notice from the USPTO that the first such patent request had been allowed, which was issued on May 16, 2006 as US Patent No. 7,046,922. On August 8, 2006, the USPTO issued a method patent (No, 7,088,915) to ION on the modular tankless water heater technology. On January 16, 2007, the Company was advised that its wholly owned subsidiary, ION Tankless, Inc., received US Patent No. 7,164,851 entitled "Modular Tankless Water Heater Control Circuitry and Method of Operation" as issued and published. On April 17, 2007, the United States Patent and Trademark Office published the Company's patent entitled "Fluid Heating System" as US Patent No. 7,206,506. The patent is related to a tube based fluid heating system developed in connection with the previously announced research and development program. The Company has filed other patent applications both within and outside the United States and such applications are currently pending before the United States Patent and Trademark Office, as well as other such regulatory bodies in other countries. While there can be no assurances that the other patents sought will be granted or that the technology will be considered proprietary to SKYE or ION, the Company believes that its applications are meritorious and will be granted at least in part. It is expected that further research and development undertaken by the Company through its subsidiary, ION Tankless, Inc., will result in the issuance of more patents. However, there is no guarantee that the concepts and technologies we use in the future will be patentable.

Effective Protection may not be available for our Trademarks.

Although we have recently applied to register our trademarks in the United States, we cannot assure you that we will be able to secure significant protection for these marks. Our competitors or others may adopt product or service names similar to "SKYE", thereby impeding our ability to build brand identity and possibly leading to client confusion. Our inability to adequately protect the name "SKYE" could seriously harm our business.

Policing Efforts to Protect Intellectual Property may not be successful.

Policing unauthorized use of our intellectual property is made especially difficult by the global nature of the high technology industry and difficulty in controlling hardware and software. The laws of other countries may afford us little or no effective protection for our intellectual property. We intend to make all reasonable and practical efforts to enforce our rights but we cannot assure you that the steps we take will prevent misappropriation of our intellectual property or that agreements entered into for that purpose will be enforceable. In addition, litigation may be necessary in the future to: enforce our intellectual property rights; determine the validity and scope of the proprietary rights of others; or defend against claims of infringement or invalidity. Such litigation, whether successful or unsuccessful, could result in substantial costs and diversions of resources, either of which could seriously harm our business. There can be no assurance that competitors of the Company, some of which have substantially greater resources, will not obtain patents or other intellectual property protection that will restrict the Company’s ability to make, use and sell its products. If the Company were unsuccessful in protection of proprietary and intellectual property rights, it could have a material adverse effect on the Company's business, results of operations, financial condition and value, and forecasted financial results.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Some of our markets are cyclical, and a decline in any of these markets could have a material adverse effect on our operating performance.

Our business is cyclical and dependent on consumer spending and is therefore impacted by the strength of the economy generally, interest rates, and other factors, including national, regional and local slowdowns in economic activity and job markets, which can result in a general decrease in product demand from professional contractors and specialty distributors. For example, a slowdown in economic activity that results in less home renovations can have an adverse effect on the demand for some of our products. In addition, unforeseen events, such as terrorist attacks or armed hostilities, could negatively affect our industry or the industries in which our customers operate, resulting in a material adverse effect on our business, results of operations and financial condition.

Disaster.

A disaster that disables the Company's operations will negatively impact the Company's ability to perform for a period of time. The Company's disaster recovery plan includes future multiple-site storage of inventory and the possibility of multiple manufacturing facilities.

We increasingly manufacture and/or source critical components for our products outside the United States, which may present additional risks to our business.

A significant portion of our future production will likely be manufactured outside of the United States, principally in China and/or Mexico, and expanding international manufacturing capacity in China and Mexico is part of our strategy to reduce costs. International operations generally are subject to various risks, including political, religious and economic instability, local labor market conditions, the imposition of foreign tariffs and other trade restrictions, the impact of foreign government regulations, and the effects of income and withholding tax, governmental expropriation, and differences in business practices. We may incur increased costs and experience delays or disruptions in product deliveries and payments in connection with international manufacturing and sales that could cause loss of revenue. Unfavorable changes in the political, regulatory, and business climate could have a material adverse effect on our financial condition, results of operations, and cash flows.

Our operations will suffer if we are unable to complete our internal cost reduction programs.

We are proposing a cost reduction program in our business, which includes a transfer of portions of our manufacturing and assembly work from of existing United States operations to proposed operations in China or Mexico. In implementing this program, we may not be able to successfully consolidate management, operations, product lines, distribution networks, and manufacturing facilities, and we could experience a disruption in our inventory and product supply or in administrative services. In addition, we may not be able to complete this program without unexpected costs or delays, or the need for increased management time and effort. If we do not successfully implement this program on a timely basis, we will not achieve the planned operational efficiencies and cost savings, and there could be an adverse impact on ongoing relationships with our customers, all of which would impact our profitability.

Our results of operations may be negatively impacted by product liability lawsuits.

Our business exposes us to potential product liability risks that are inherent in the design, manufacture, and sale of our products. While we intend to obtain what we believe to be suitable product liability insurance, we cannot assure you that we will be able to obtain or maintain this insurance on acceptable terms or that this insurance will provide adequate protection against potential liabilities. In addition, we currently self-insure a portion of product liability claims. A series of successful claims against us could materially and adversely affect our reputation and our financial condition, results of operations, and cash flows.

Loss of key suppliers, lack of product availability or loss of delivery sources could decrease sales and earnings.

Our ability to manufacture a variety of products is dependent upon our ability to obtain adequate product supply from manufacturers or other suppliers. While in many instances we have agreements, including supply agreements, with our suppliers, these agreements are generally terminable by either party on limited notice. The loss of, or a substantial decrease in the availability of, products from certain of our suppliers, or the loss of key supplier agreements, could have a material adverse effect on our business, results of operations and financial condition. In addition, supply interruptions could arise from shortages of raw materials, labor disputes or weather conditions affecting products or shipments, transportation disruptions or other factors beyond our control. Furthermore, since we acquire a portion of our supply from foreign manufacturers, our ability to obtain supply is subject to the risks inherent in dealing with foreign suppliers, such as potential adverse changes in laws and regulatory practices, including trade barriers and tariffs, and the general economic and political conditions in these foreign markets.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Our ability to both maintain our existing customer base and to attract new customers is dependent in many cases upon our ability to deliver products and fulfill orders in a timely and cost-effective manner.

To ensure timely delivery of our products to our customers, we frequently rely on third parties, including couriers such as UPS, DHL and other national shippers as well as various local and regional trucking contractors. Outsourcing this activity generates a number of risks, including decreased control over the delivery process and service timeliness and quality. Any sustained inability of these third parties to deliver our products to our customers could result in the loss of customers or require us to seek alternative delivery sources, if they are available, which may result in significantly increased costs and delivery delays. Furthermore, the need to identify and qualify substitute service providers or increase our internal capacity could result in unforeseen operations problems and additional costs. Moreover, if customer demands for our products increases, we may be unable to secure sufficient additional capacity from our current service providers, or others, on commercially reasonable terms, if at all.

In some cases we are dependent on long supply chains, which may subject us to interruptions in the supply of many of the products that we distribute.

An increasing portion of the products that we manufacture and distribute are imported from foreign countries, including China and Mexico. We are thus dependent on long supply chains for the successful delivery of many of our products. The length and complexity of these supply chains make them vulnerable to numerous risks, many of which are beyond our control, which could cause significant interruptions or delays in delivery of our products. Factors such as labor disputes, changes in tariff or import policies, severe weather or terrorist attacks or armed hostilities may disrupt these supply chains. We expect more of our name brand and private label products will be imported in the future, which will further increase these risks. A significant interruption in our supply chains caused by any of the above factors could result in increased costs or delivery delays and have a material adverse effect on our business, results of operations and financial condition.

Our results of operations could be adversely affected by fluctuations in the cost of raw materials.

As a manufacturer we are subject to world commodity pricing for many of the raw materials used in the manufacture of our products. Such raw materials are often subject to price fluctuations, frequently due to factors beyond our control, including changes in supply and demand, general U.S. and international economic conditions, labor costs, competition, and government regulation. Inflationary and other increases in the costs of raw materials have occurred in the past and may recur in the future. Any significant increase in the cost of raw materials could reduce our profitability and have a material adverse effect on our business, results of operations and financial condition.

Dilution and Board Action To Ratify Prior Share Issuances.

As at March 31, 2007 the Company had 22,569,243 shares issued and outstanding. If the Company issues additional shares either outright or through any future options or warrant programs, or if it requires additional financing, further dilution in value and in the percentage ownership will occur and the dilutive effect could be significant. On February 5, 2007, the Board of Directors passed a resolution to reaffirm and ratify the issuance of a total of 2,250,000 common shares (the "Disputed Shares") to certain officers and consultants to the Company. Such Disputed Shares had previously been recorded as issued and outstanding and so the Board action will not increase the total issued shares as at the date of this report

Expect to Incur Losses for the Foreseeable Future.

We expect to incur losses for the foreseeable future and we may never become profitable. Although our current revenue model contemplates revenues from sale of products sufficient to break-even within 12 to 24 months from the date of this Private Placement Memorandum, there is no assurance that these revenues will occur. Because technology companies, even if successful, typically generate significant losses while they grow, we do not expect to generate profits for the foreseeable future, and we may never generate profits. In addition, we expect our expenses to increase significantly as we develop the infrastructure necessary to implement our business strategy. Our expenses will continue to increase as we: hire additional employees; pursue research and development; expand our information technology systems; and lease and purchase more space to accommodate our operations.

Possible Claims That the Company Has Violated Intellectual Property Rights of Others.

In 2002, Envirotech was 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 “Seitz Suit”). The Company is not directly affiliated with Envirotech of Texas, Inc., which was a distributor of Envirotech’s products. The suit alleges that Envirotech infringed patent rights of others and seeks damages and an order to cease and desist. Management believes the suit is without merit. The suit was stayed pending the disposition of the Chapter 11 Bankruptcy Petition filed by Envirotech in August 2004. On September 30, 2005, however, the Bankruptcy Court allowed the plaintiff to re-open the Seitz Suit and he has done so. The suit is in the discovery stage and the Company is vigorously engaged in the discovery process. On December 5, 2005, the Houston Court issued an injunction against Envirotech and its affiliated entities, including SKYE, enjoining them from further marketing, advertising or offering for sale, or accepting any orders for (i) the Envirotech ESI 2000 heater, (ii) any other heater, regardless of its model, using parts of the Model ESI 2000 heater, and (iii) any other heater, regardless of model number, utilizing in whole any part any technology embodied in the Model ESI 2000 heater. At a hearing on May 18, 2006, the Court directed that discovery be expanded to include the technology and products of SKYE, including, specifically the *FORTIS*™ and *Paradigm*™ technologies. On July 26, 2006 Envirotech retained the Dallas, TX firm Hemingway, Hansen, LLP to continue the defense and prosecution of this litigation. At a subsequent hearing on February 28, 2007, the Court indicated that it would reconsider and modify the wording on the scope of the preliminary injunction. Additionally, the Court allowed Seitz to amend his complaint. Seitz filed his amended complaint attempting to expand the complaint, which the Court is considering. Skye and Valeo filed motions to dismiss this amended complaint but the Court granted Seitz’s motion to include Skye and Valeo as parties to the litigation. Envirotech has filed a ten count counterclaim against Seitz. Envirotech continues to aggressively defend the Seitz suit and will pursue this litigation to conclusion.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Except as described above, neither SKYE nor Envirotech is the subject of any other dispute, claim or lawsuit or threatened law suit alleging the violation of intellectual property rights of a third party. To the extent that the Company is alleged, or may in the future be alleged to have violated a patent or other intellectual property right of a third party, it may be prevented from operating its business as planned, and it may be required to pay damages, to obtain a license, if available, to use the patent or other right or to use a non-infringing method, if possible, to accomplish its objectives. Any of these claims, with or without merit, could subject the Company to costly litigation and the diversion of the Company's technical and management personnel. If the Company incurs costly litigation and its personnel are not effectively deployed, the resulting expenses and management time losses will likely result in a significant impairment of the Company's ability to achieve its business plan or achieve profitability from operations.

Business Plans and Operational Structure May Change.

We continually analyze our business plans and internal operations in light of market developments. As a result of this ongoing analysis, we may decide to make substantial changes in our business plan and organization. In the future, as we continue our internal analysis and as market conditions and our available capital changes, we may decide to make organizational changes and/or alter some or entirely all of our overall business plans.

Reliance on Management.

The Company believes that it currently lacks certain key management in order to fully execute its business plan. It has undertaken to recruit additional persons to key Board of Directors and management positions, including engineering and finance. Should the Company be unsuccessful in recruiting persons to fill the key management positions, or in the event any of the existing key management should cease to be affiliated with the Company for any reason before qualified replacements could be found, there could be material adverse effects on the Company's business and prospects. Each of the officers and other key personnel, has an agreement with the Company, that contains provisions dealing with confidentiality of trade secrets, ownership of patents, copyrights and other work product, and non-competition. Nonetheless, there can be no assurance that these personnel will remain employed for the entire duration of the respective terms of such agreements or that any employee or consultant will not breach covenants and obligations owed to the Company.

In addition, all decisions with respect to the management of the Company will be made exclusively by the officers and directors of the Company. Investors will only have rights associated with minority ownership interest rights to make decision that affect the Company. The success of the Company, to a large extent, will depend on the quality of the directors and officers of the Company. Accordingly, no person should invest in the Units unless he is willing to entrust all aspects of the management of the Company to the officers and directors.

Inability to Attract and Retain Qualified Personnel.

The future success of the Company depends in significant part on its ability to attract and retain key management, technical and marketing personnel. As we grow, we will also need to continue to hire additional technical, marketing, financial and other key personnel. Competition for highly qualified professional, technical, business development, and management and marketing personnel is intense. We may experience difficulty in attracting new personnel, may not be able to hire the necessary personnel to implement our business strategy, or we may need to pay higher compensation for employees than we currently expect. A shortage in the availability of required personnel could limit the ability of the Company to grow, sell its existing products and services and launch new products and services. We cannot assure you that we will succeed in attracting and retaining the personnel we need to grow.

Inability to Manage Rapid Growth.

The Company expects to grow very rapidly. Rapid growth often places considerable operational, managerial and financial strain on a business. To successfully manage rapid growth, the Company must accurately project its rate of growth and:

· rapidly improve, upgrade and expand its business infrastructures;
· deliver products and services on a timely basis;
· maintain levels of service expected by clients and customers;
· maintain appropriate levels of staffing;
· maintain adequate levels of liquidity; and
· expand and upgrade its technology, transaction processing systems and network hardware or software or find third parties to provide these services.

Our business will suffer and may ultimately fail if the Company is unable to successfully manage its growth.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Regulatory Factors.

The Federal Government, a State Government or any Local Government could at any time enact, repeal or change law in such a way as to eliminate, reduce or postpone certain advantages available to the water heater industry. In addition, possible future consumer legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities undertaken in connection with the business, the extent of which cannot be predicted. The exact affect of such legislation cannot be predicted until it is proposed. Additionally, much of the Company's business is regulated by National, State and Municipal codes that affect the manner in which the Company's products are installed and used. Although the Company believes it is aware of existing practices around the United States, there can be no assurance that one or more governing jurisdictions could make changes to such codes, the effect of which could be detrimental to the Company and its business in such jurisdictions.

Effects of Amortization Charges.

Our losses will be increased, or our earnings, if we have them in the future, will be reduced, by charges associated with our issuances of options. The options and restricted stock granted under this plan, as amended, may have exercise prices lower than the fair value of our common stock at the dates of grant. The total unearned stock-based compensation will be amortized as stock-based compensation expense in our consolidated financial statements over the vesting period of the applicable options or shares, generally five years in the case of options granted to employees and one year in the case of options granted to non-employee directors and restricted stock issued to employees. These types of charges may increase in the future. Future unearned stock-based compensation charges may also include potential additional charges associated with options granted to consultants. The future value of these potential charges cannot be estimated at this time because the charges will be based on the future value of our stock.

Dividend Policy.

There can be no assurance that the proposed operations of the Company will result in significant revenues or any level of profitability. We do not anticipate paying cash dividends on our capital stock in the foreseeable future. We plan to retain all future earnings, if any, to finance our operations and the acquisitions of interests in other companies and for general corporate purposes. Any future determination as to the payment of dividends will be at our Board of Directors' discretion and will depend on our financial condition, operating results, current and anticipated cash needs, plans for expansion and other factors that our Board of Directors considers relevant. No dividends have been declared or paid by the Company, and the Company does not contemplate paying dividends in the foreseeable future.

Conflicts of Interest.

Existing and future officers and directors may have other interests to which they devote time, either individually or through partnerships and corporations in which they have an interest, hold an office, or serve on boards of directors, and each may continue to do so. As a result, certain conflicts of interest may exist (or may be alleged by others to exist) between the Company and its officers and/or directors that may not be susceptible to resolution. All potential conflicts of interest will be resolved only through exercise by the directors of such judgment as is consistent with their fiduciary duties to the Company and it is the intention of management to minimize any potential conflicts of interest or allegations thereof.

Tax Risks.

There may be tax considerations, risks and uncertainties associated with an investment in the Company's Shares. Prospective investors should consult their own tax advisors with respect to the tax considerations of making an investment in the Company.

Terms of subsequent financings will adversely impact your investment.

The Company will engage in common equity, debt, or preferred stock financings in the future. Your rights and the value of your investment in the common stock will be reduced. Interest on debt securities could increase costs and negatively impacts operating results. Shares of our preferred stock are likely to be issued in series from time to time with such designations, rights, preferences, and limitations as needed to raise capital. The terms of preferred stock are likely to be more advantageous to those investors than to the holders of common stock. In addition, if we need to raise more equity capital from sale of common stock, institutional or other investors may negotiate terms at least as, and likely more favorable than the terms of your investment. Shares of common stock which we sell will, at some point, be sold into the market and such market sales will likely adversely affect market price.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

The industry in which we operate is characterized by rapid technological change that requires us to develop new technologies and products.

Our future will depend upon our ability to successfully develop and market innovative products in a rapidly changing technological environment. We will likely require significant capital to develop new technologies and products to meet changing customer demands that, in turn, may result in shortened product lifecycles. Moreover, expenditures for technology and product development are generally made before the commercial viability for such developments can be assured. As a result, we cannot assure you that we will successfully develop and market these new products that the products we do develop and market will be well received by customers, or that we will realize a return on the capital expended to develop such products.

Our future operating results may fluctuate and cause the price of our common stock to decline, which could result in substantial losses for investors.

Our limited operating history, the lack of established products and the substantial litigation in which the company and certain of its officers and consultants is involved make it difficult to predict accurately our future operations. We expect that our operating results will fluctuate significantly from quarter to quarter, due to a variety of factors, many of which are beyond our control. If our operating results fall below the expectations of investors or securities analysts, the price of our common stock will decline significantly. The factors that will cause our operating results to fluctuate include, but are not limited to:

- ability to commercialize new products from ongoing research and development activities;
- developments in tankless water heating technology;
- price and availability of alternative solutions for water heating systems;
- availability and cost of technology and marketing personnel;
- our ability to establish and maintain key relationships with industry partners;
- the amount and timing of operating costs and capital expenditures relating to maintaining our business, operations, and infrastructure;
- general economic conditions and economic conditions specific to the cost of electricity and water; and
- the ability to maintain a product margin on sales, given the early stage of our market for our products.

These and other external factors have caused and may continue to cause the market price and demand for our common stock to fluctuate substantially, which may limit or prevent investors from readily selling their shares of common stock and may otherwise negatively affect the liquidity of our common stock. In the past, securities class action litigation or shareholder derivative litigation has often been brought against companies following periods of volatility in the market price of their securities, as happened in the case of the Company. If additional derivative litigation or securities class action litigation were to be brought against us it could result in substantial costs and a diversion of our management's attention and resources. Such adverse events, will hurt our business and may result in the inability to continue operations, and in such a case, investors will face the risk of an entire loss of their investment.

Our common stock is subject to penny stock regulation that may affect the liquidity for our common stock.

Our common stock is subject to regulations of the Securities and Exchange Commission relating to the market for penny stocks. These regulations generally require that a disclosure schedule explaining the penny stock market and the risks associated therewith be delivered to purchasers of penny stocks and impose various sales practice requirements on broker-dealers who sell penny stocks to persons other than established customers and accredited investors. The regulations applicable to penny stocks may severely affect the market liquidity for our common stock and could limit your ability to sell your securities in the secondary market.

Future equity transactions, including exercise of options or warrants, could result in dilution.

From time to time, we sell restricted stock, warrants, and convertible debt to investors in other private placements. Because the stock is restricted, the stock is sold at a greater discount to market prices compared to a public stock offering, and the exercise price of the warrants sometimes is at or even lower than market prices. These transactions cause dilution to existing stockholders. Also, from time to time, options are issued to officers, directors, or employees, with exercise prices equal to market. Exercise of in-the-money options and warrants will result in dilution to existing stockholders. The amount of dilution will depend on the spread between the market and the exercise price, and the number of shares, options or warrants involved. Such dilution is very likely to be significant.

We have incurred losses and may continue to incur losses in the future.

At March 31, 2007, our accumulated deficit was $12,732,830. We have not been able to generate enough sales to cover our expenses and have survived only by raising funds through the sale of debt and equity securities. We must continue to raise funds in the near future to continue operations. While management has been successful in the past in raising these funds, there is no assurance that management will be successful in raising sufficient funds to continue operations and thus the Company may fail.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Our future existence remains uncertain and the report of our auditors on our December 31, 2004; 2005 and 2006 financial statements contain a "going concern" qualification.

The report of the independent auditors on our financial statements for the years ended December 31, 2004, 2005 and 2006, includes an explanatory paragraph relating to our ability to continue as a going concern. We have suffered substantial losses from operations, require additional financing, are subject to significant and costly litigation and need to continue the development and marketing of our products. Ultimately we need to generate additional revenues and attain profitable operations. These factors raise substantial doubt about our ability to continue as a going concern. There can be no assurance that we will ever be able to develop commercially viable products or an effective marketing system. Even if we are able to develop commercially viable products, there is no assurance that we will ever be able to attain profitable operations.

ITEM 3. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

Our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2006 to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide reasonable assurance that such information is accumulated and communicated to our management. Our disclosure controls and procedures include components of our internal control over financial reporting.

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 Company is currently engaged in a significant amount of costly and burdensome litigation, including:

<u>Distributor Suit</u>. 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 all assets of Envirotech, tangible and intangible, granted to the Senior Secured Creditor 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 May 3, 2004, the distributor claimed a breach and filed the Stipulated Judgment. Management believes no default existed to warrant the filing of the judgment. With the filing of the Bankruptcy Petition by Envirotech (see below), this action was stayed. However, with the dismissal of the Chapter 11 Proceedings on February 28, 2006, this judgment is once again a claim against the assets of Envirotech, subject, however, to the claims and rights of the Senior Secured Creditor.

Seitz Suit. In 2002, Envirotech was 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 “Seitz Suit”). The Company is not directly affiliated with Envirotech of Texas, Inc., which was a distributor of Envirotech’s products. The suit alleges that Envirotech infringed patent rights of others and seeks damages and an order to cease and desist. Management believes the suit is without merit. The suit was stayed pending the disposition of the Chapter 11 Bankruptcy Petition filed by Envirotech in August 2004. On September 30, 2005, however, the Bankruptcy Court allowed the plaintiff to re-open the Seitz Suit and he has done so. The suit is in the discovery stage and the Company is vigorously engaged in the discovery process. On December 5, 2005, the Houston Court issued an injunction against Envirotech and its affiliated entities, including SKYE, enjoining them from further marketing, advertising or offering for sale, or accepting any orders for (i) the Envirotech ESI 2000 heater, (ii) any other heater, regardless of its model, using parts of the Model ESI 2000 heater, and (iii) any other heater, regardless of model number, utilizing in whole any part any technology embodied in the Model ESI 2000 heater. At a hearing on May 18, 2006, the Court directed that discovery be expanded to include the technology and products of SKYE, including, specifically the *FORTIS*™ and *Paradigm*™ technologies. On July 26, 2006 Envirotech retained the Dallas, TX firm Hemingway, Hansen, LLP to continue the defense and prosecution of this litigation. At a subsequent hearing on February 28, 2007, the Court indicated that it would reconsider and modify the wording on the scope of the preliminary injunction. Additionally, the Court allowed Seitz to amend his complaint. Seitz filed his amended complaint to expand the complaint to also cover Skye, Valeo and the FORTIS™ product. The Company has filed motions to dismiss Skye and Valeo which are being considered by the Court. Envirotech has filed a ten count counterclaim against Seitz. Envirotech and Skye continue to aggressively defend the Seitz suit and will pursue this litigation to conclusion.

ITEM 1. LEGAL PROCEEDINGS - continued

Unpaid Fees. Subsequent to December 31, 2003, Envirotech has been named in five separate lawsuits for unpaid legal and consulting fees totaling $280,000. These include the Myers and Jenkins Suit and the Sensor Technologies Suit discussed below. On May 3, 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 SEC 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 two of the other three suits judgments have been granted in the aggregate amount of approximately $155,500, both of which were stayed by the bankruptcy filing discussed above. The fourth suit is on behalf of a law firm that served as a contract arbitrator in Envirotech's dispute with the Distributor noted above. With the dismissal of the Chapter 11 proceedings, the Company has received notice from the plaintiff that it intends to resume the suit, which seeks approximately $3,500 in fees.

Myers and Jenkins Suit. On May 24, 2006, Envirotech was served with a Motion for Entry of Default in connection with an action filed in Arizona Superior Court, case number CV-2006-003671 by Envirotech's prior legal counsel, Myers and Jenkins. The motion seeks judgment for the payment of the principal sum of $103,830, together with interest and costs. Envirotech has not defended the action.

Sensor Technologies Suit. On May 24, 2006, Envirotech was served with an Application for Entry of Default in connection with an action filed in the Arizona Superior Court, case number CV-2006-0060632, by Sensor Technologies & Systems, Inc., an engineering firm that provided engineering consulting services in connection with Envirotech's ESI-2000 product. The application seeks judgment for the payment of $72,391, together with interest and costs. Envirotech has not defended the action.

Bankruptcy Proceedings. 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 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, SKYE 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 (see above). 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, were stayed during the pendency of the Bankruptcy Proceedings. Envirotech filed a Disclosure Statement and Plan of Reorganization on November 7, 2004 and the Court approved its request to submit the plan to the creditors for approval. The Plan, however, did not receive approval of the Court and Envirotech subsequently filed a Motion to Dismiss the Chapter 11 proceedings which was granted, with prejudice, on February 28, 2006. As a result of this dismissal, all claims and judgments of creditors of Envirotech are likely to be renewed. The Company is currently awaiting a decision of the Bankruptcy Court relating to an application by David Seitz and Microtherm Inc. for sanctions against Envirotech and certain of its officers pertaining to alleged misconduct during the pendency of Envirotech's bankruptcy.

Shareholder Inspection Claim. In April 2006 a shareholder purporting to have obtained consent from at least 15% of the Company's shareholders filed a lawsuit in the United States District Court for the District of Nevada (Case No. 2:06-CV-0541-RLH-GWF) seeking inspection of the Company's books and records pursuant to Nevada corporate law. The Court denied plaintiff's initial request. The Company has asserted several counterclaims against the plaintiff for tortious conduct and for abuse of the legal process in connection with the lawsuit. The complaint was dismissed by the

Court on May 22, 2006, but the plaintiffs were granted leave to re-file the complaint if certain technical deficiencies are corrected. The matter is currently pending.

Shareholder Derivative Action. In May 2006 a small group of dissident shareholders (including the plaintiff from the Shareholder Inspection Claim) filed a lawsuit in the United States District Court for the District of Arizona (Case No. CV06-1291-PHX-ROS) as a derivative action seeking injunctive and declaratory relief. The Company was named as a nominal defendant and there are no claims for monetary damages against the Company. The primary claims involve the prior issuance of the Company's common stock to former consultants to the Company, as well as prior issuances of stock to certain members of current management. Among other things the plaintiffs seek to prevent these individuals from using their stock and related voting rights to solicit proxies and notice shareholder meetings, and have demanded that they return the shares to the Company. The costs likely to be incurred by the Company in connection with such indemnities will be significant. The Company has filed extensive counter and third party claims. On May 2, 2007, Judge Roslyn O. Silver of the United States District Court for the District of Arizona issued an Order rejecting the Plaintiffs' requested Preliminary Injunction relief in the pending Skye Shareholder's Derivative Lawsuit, *Stebbins v. Johnson,* Civil Action No. 06-1291-PHX-ROS. The Court also dissolved all restrictions imposed by a prior Temporary Restraining Order and Stipulated Order, which frees the Company to conduct its corporate business without any further interference or restraint by the Court or the Stebbins Plaintiffs. As a summary of the case, the District of Arizona found that a vast majority of the Stebbins Plaintiffs' complaint has been rendered moot. Based on the Court's May 2, 2007 rulings, Judge Silver stated "it is not clear that Plaintiffs have any viable claims remaining" in this case. The District of Arizona also ruled on other matters, including a ruling that the prior Answer and Counterclaim filed by Skye did not comply with the proper form of such a pleading under Rule 8 of the Federal Rules of Civil Procedure. The Company has re-filed the counterclaims in a form it believes to be in compliance with such Rule 8.

ITEM 1. LEGAL PROCEEDINGS - continued

Berry-Shino Claim. The Company has on several occasions during the past three years utilized the services of Berry-Shino Securities, Inc., Scottsdale, Arizona, in raising various forms of financing to further its business plan and operations. In the course of each of these engagements, the Company has paid Berry-Shino various fees and expenses and has issued a certain number of shares of its Common Stock to Berry-Shino. The Company has received correspondence from Berry-Shino stating that it believes it is entitled to be issued an additional 456,500 shares of Common Stock as additional consideration for its services. The Company has negotiated a settlement of this matter directly with Berry-Shino thereby resolving this matter.

Pending Arbitration. The Company is party to an arbitration between Skye and its former independent auditors, Semple & Cooper, LLP relating to unpaid audit and accounting fees in the amount of approximately $39,000. The Company intends to vigorously defend the matter and may file a counterclaims in the action for, among other things, breach of fiduciary duty, tortious interference, negligent misconduct. The arbitration is expected to be conducted during the third quarter of 2007.

Claim by former Director William Papazian for Legal Defense and Indemnity. The Company is a party to an action seeking to require Skye to submit his claim for defense to the Company's insurance carrier, and both "defend" and "indemnify" former Director William Papazian from and against costs and liabilities arising in connection with a third party claim filed by Skye against Mr. Papazian in connection with the Shareholder Derivative Action described above. Though filed by Mr. Papazian in Arizona State Court, the lawsuit has been removed to the jurisdiction of the Federal District Court. The Company seeks an interjudicial transfer of the matter to Federal Judge Roslyn O. Silver, the Judge hearing the Shareholder Derivative Action. The Company's motion is being opposed by Mr. Papazian and the matter remains pending. The Company's insurance carrier has denied Mr. Papazian's claim for coverage.

Quick & Confidential Claim.

On January 23, 2007, Skye was served with a complaint filed in Arizona State Court by Quick & Confidential Inc. who seeks the payment of fees to it in the amount of approximately $13,000 in connection with legal copying services. The Company intends to settle this matter.

Except as noted above, to the best knowledge of the officers and directors of the Company, neither the Company 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. One of these notes, with a principal amount of $30,000, was converted in November 2006. As of the date of this filing, the remaining four notes, totaling $70,000, have not yet been converted and are in default.

(b)

Between January 2004 and January 2005, the Company issued forty notes in connection with bridge loans made through private placements. The notes bear interest at 10%, interest payable quarterly, principal and interest convertible into one common share for each outstanding $1.00 of principal and interest. Of these notes, thirty-six have been either repaid or converted at December 31, 2005. Of the remaining four notes, three were converted in April 2006. The sole remaining note, in the principal amount of $15,000 has not been converted or repaid and is in default.

(c) Envirotech has five notes with an aggregate principal amount of $833,240, that are in default, as follows:

Demand Note with Attorneys, 6% Interest, All Assets of Subsidiary, Envirotech, pledged as Collateral.	194,895
Demand Note with Former Distributor of Subsidiary, Envirotech, in Settlement and Repurchase of Distributorship Territory, 7% Interest.	519,074
Demand Note Made by Subsidiary, Envirotech, 10% Interest, Payable Monthly.	11,880
Demand Note Made by Subsidiary, Envirotech, 6% Interest.	35,000
Demand Note Made by Subsidiary, Envirotech.	72,391

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

None during the three-month period ended March 31, 2007.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

(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

SIGNATURES

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

SKYE INTERNATIONAL, INC.

Date: May 21, 2007

/s/ Perry D. Logan
Perry D. Logan
Title: Chief Executive Officer (Interim) and Chief Accounting Officer (Interim)