KRONOS ADVANCED TECHNOLOGIES INC
Form 10QSB
November 15, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-QSB

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2004

Transition Report under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the transition period from __________ to __________

COMMISSION FILE NO. 000-30191

KRONOS ADVANCED TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

NEVADA	87-0440410
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

464 Common Street, Suite 301, Belmont, MA	02478
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (617) 993-9965

(1) Registrant has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and

(2) has been subject to such filing requirements for the past 90 days. /X/ Yes
// No

As of November 12, 2004, there were 71,265,022 shares outstanding of the issuer's common stock.

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The following comprise our condensed (unaudited) consolidated financial statements for the three months ended September 30, 2004.

KRONOS ADVANCED TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS

Assets	September 30, 2004 (Unaudited)	June 30, 2004
Current Assets		
Cash	$ 40,933	$ 69,063
Accounts receivable, net	123,544	97,544
Prepaids	17,827	71,050
Total Current Assets	182,304	237,657
Net Property and Equipment	4,823	6,292
Other Assets		
Intangibles	2,208,798	2,253,029
Total Other Assets	2,208,798	2,253,029
Total Assets	$ 2,395,925	$ 2,496,978
Liabilities and Shareholders' Deficit		
Current Liabilities		
Accrued expenses and payables to directors and officers	$ 249,378	$ 36,258
Accounts payable	345,885	272,544
Accrued expenses	405,621	312,346
Deferred revenue	3,218	3,218
Notes payable, current portion	870,593	798,926
Total Current Liabilities	1,874,695	1,423,292
Long Term Liabilities		
Notes payable to directors & Officers	1,063,266	1,063,266
Notes payable	1,978,052	1,983,038
Discounts on notes payable	(514,940)	(589,261)
Total Long Term Liabilities	2,526,378	2,457,044
Total Liabilities	4,401,073	3,880,336
Shareholders' Deficit Common stock, authorized 500,000,000 shares of $0.001 par value, 61,323,845 shares outstanding at September 30, and June 30, 2004	61,323	61,323

Capital in excess of par value	18,578,019	18,578,018
Accumulated deficit	(20,644,490)	(20,022,700)
Total Shareholders' Deficit	(2,005,148)	(1,383,359)
Total Liabilities and Shareholders' Deficit	$ 2,395,925	2,496,978

The accompanying notes are an integral part of these financial statements.

KRONOS ADVANCED TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended September 30,	
	2004 (Unaudited)	2003 (Unaudited)
Sales	$ 241,533	$ 130,017
Cost of sales	217,920	82,753
Gross Profit	23,613	47,264
Selling, General and Administrative expenses:		
Compensation and benefits	222,870	202,823
Professional services	52,339	43,638
Research and development	17,989	19,828
Depreciation and amortization	99,834	70,579
Facilities	18,887	18,873
Other selling general and administrative expenses	91,875	73,752
Selling, General and Administrative expenses	503,794	429,493
Net Operating Loss	(480,181)	(382,229)
Interest Expense	(141,609)	(168,270)
Net Loss Before Taxes	(621,790)	(550,449)
Net Loss	$ (621,790)	(550,499)
Basic Loss Per Share	$ (0.01)	(0.01)
Diluted Loss Per Share	$ (0.01)	(0.01)
Weighted average shares outstanding	61,323,845	53,973,647

The accompanying notes are an integral part of these financial statements.

KRONOS ADVANCED TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended September 30, 2004 (Unaudited)	2003 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss from continuing operations	$ (621,790)	$ (550,499)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	99,834	70,579
Accretion of note discount	74,321	80,064
Change In		
Accounts receivable	(26,000)	(69,128)
Prepaid expenses and other assets	53,222	(28,924)
Deferred revenue	-	(12,122)
Accounts Payable	(2,886)	60,562
Accrued Expenses and other liabilities	382,622	8,188
Net cash used in Operating Activities	(40,677)	(441,281)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in patent protection	(54,134)	(41,738)
Net cash used in Investing Activities	(54,134)	(41,738)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common stock	-	525,000
Proceeds from short term borrowings	100,000	-
Repayments of short-term borrowings	(33,319)	(144,704)
Net cash provided by Financing Activities	66,681	380,296
NET DECREASE IN CASH	(28,130)	(102,723)
CASH		
Beginning of period	69,063	641,178
End of period	$ 40,933	$ 538,455

The accompanying notes are an integral part of these financial statements.

KRONOS ADVANCED TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Kronos Advanced Technologies, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments necessary to present fairly the information set forth therein have been included. Operating results for the three months ended September 30, 2004 and are not necessarily indicative of the results that may be experienced for the fiscal year ending June 30, 2005.

These consolidated financial statements are those of the Company and its wholly-owned subsidiary. All significant inter-company accounts and transactions have been eliminated in the preparation of the consolidated financial statements.

The accompanying consolidated financial statements should be read in conjunction with the Kronos Advanced Technologies, Inc. Form 10-KSB for the fiscal year ended June 30, 2004 filed on October 15, 2004.

NOTE 2 - REALIZATION OF ASSETS AND GOING CONCERN

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company has sustained losses from operations in recent years, and such losses have continued through the quarter ended September 30, 2004. In addition, the Company has used, rather than provided, cash in its operations. The Company is currently using its resources in its efforts to raise capital necessary to complete research and development work, and to provide for its working capital needs.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the asset amounts shown in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to meet its financing requirements on a continuing basis, to maintain present financing and to succeed in its future operations. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

Management has taken the following steps with respect to its operating and financial requirements, which it believes are sufficient to provide the Company with the ability to continue in existence:

HoMedics Licensing Agreement. In October 2002, Kronos Air Technologies, Inc., and HoMedics USA, Inc. executed a multiyear, multi-million-dollar Licensing Agreement to bring Kronos(TM) proprietary technology to the consumer. The agreement provides for exclusive North American, Australian and New Zealand retail distribution rights for next generation consumer air movement and purification products based on the patented Kronos(TM) technology. In August 2004, the Company and HoMedics, Inc. began preparing the Kronos-based consumer standalone product line for mass production. The initial term of the agreement is three and one half years from the initial sale of consumer air purification products by HoMedics, which shall be no later than December 31, 2006, with the option to extend the agreement for six additional years. Kronos will be compensated through an initial royalty payment and ongoing quarterly royalty payments based on a percentage of sales. HoMedics will pay minimum royalty payments of at least $2.0 million during the initial term and on-going royalty payments to extend the agreement. Kronos will retain full rights to all of its intellectual property.

US Navy SBIR. In November 2002, Kronos was awarded by the U. S. Navy a Small Business Innovation Research Phase II contract worth $580,000, plus an option of $145,000. The Phase II contract (commercialization phase) is an extension of the Phase I and the Phase I Option work that began in 2001. It is intended that the Kronos(TM) devices being developed under this contract will be embedded in existing HVAC systems in order to move air more efficiently than traditional, fan-based technology. During Phase II, Kronos shall develop, produce and install a set of fully controlled devices that represent a "cell" of an advanced distributive air management system with medium capacity airflow in a U.S. Navy unique environment. The "cell" has been designed to be easily adjustable to a variety of parameters such as duct size, airflow requirements, and air quality. As of September 30, 2004, U. S. Navy had provided Kronos with $567,000 in funding for this effort under the Phase II contract.

US Army SBIR Option. In August 2003, Kronos was awarded the option on its U. S. Army Small Business Innovation Research Phase I contract bringing the value of the Phase I contract award to $120,000. On October 21, 2003, the U.S. Army awarded Kronos the Small Business Innovation Research Phase II contract. The first year of the contract is worth $369,000 with an Army option on the second year worth $360,000. The contract is to develop Kronos' proprietary Electrostatic Dehumidification Technology ("EDT"). Kronos initiated work under the Phase II contract in December 2003. As of September 30, 2004, U. S. Army had provided Kronos with $151,000 in funding for this effort under the Phase II contract.

Cornell Equity and Equity Backed Financing. In October 2004, Kronos entered into agreements for up to $20.5 million in equity and equity backed debt financing from Cornell Capital Partners. Kronos executed an Equity Investment Agreement to secure $500,000 through the sale of 5 million unregistered shares of Kronos common stock. Cornell Capital Partners committed to provide $4 million pursuant to two Equity Backed Promissory Notes, which will be funded as follows: $2 million upon filing a Registration Statement and $2 million upon the SEC declaring the Registration Statement effective. Kronos executed a Standby Equity Distribution Agreement for $20 million of funding which Kronos has the option to drawdown against in increments as large as $1.5 million over the next twenty-four months.

HoMedics provided debt financing. In October 2004, HoMedics has agreed to extend repayment of Kronos debt and to provide an additional $1 million in funding. HoMedics has agreed to provide Kronos with an additional $1 million in financing (refer to Note 10 - Commitments and Contingencies below).

Fusion Capital. During our year ended June 30, 2004, we sold 6,505,576 shares of our common stock to Fusion Capital for $1,353,718 under the terms of our Common Stock Purchase Agreements dated August 12, 2002. On November 4, 2004, Kronos and Fusion mutually agreed to terminate this common stock purchase agreement.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method. The Company's financial statements are prepared using the accrual method of accounting. The Company has elected a June 30 fiscal year end.

Reclassifications. Certain reclassifications have been made to the 2003 financial statements in order to conform to the 2004 presentation. None of these reclassifications affected previously reported financial position, results of operations or cash flows of the Company.

Principles of Consolidation. The consolidated financial statements of the Company include those of the Company and of each of its subsidiaries for the periods in which the subsidiaries were owned/held by the Company. All significant intercompany accounts and transactions have been eliminated in the preparation of the consolidated financial statements. At June 30, 2004, we had only one subsidiary, Kronos Air Technologies, Inc.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the periods. Actual results could differ from those estimates.

Concentrations of Credit Risk. Financial instruments which can potentially subject the Company to concentrations of credit risk consist principally of trade receivables. The Company manages its exposure to risk through ongoing credit evaluations of its customers and generally does not require collateral. The Company maintains an allowance for doubtful accounts for potential losses and does not believe it is exposed to concentrations of credit risk that are likely to have a material adverse impact on the Company's financial position or results of operations.

Cash and Cash Equivalents. The Company considers all highly liquid short-term investments, with a remaining maturity of three months or less when purchased, to be cash equivalents.

Accounts Receivable. The Company provides an allowance for losses on trade receivables based on a review of the current status of existing receivables and management's evaluation of periodic aging of accounts. Accounts receivable are shown net of allowances for doubtful accounts of $0 at September 30, 2004 and June 30, 2004. The Company charges off accounts receivable against the allowance for losses when an account is deemed to be uncollectable.

Property and Equipment. Property and equipment are recorded at cost. Depreciation is provided over the estimated useful lives of the assets, which range from three to seven years. Expenditures for major renewals and betterments that extend the original estimated economic useful lives of the applicable assets are capitalized. Expenditures for normal repairs and maintenance are charged to expense as incurred. The cost and related accumulated depreciation of assets sold or otherwise disposed of are removed from the accounts, and any gain or loss is included in operations.

Intangibles. The Company uses assumptions in establishing the carrying value, fair value and estimated lives of our long-lived assets and goodwill. The criteria used for these evaluations include management's estimate of the asset's continuing ability to generate positive income from operations and positive cash flow in future periods compared to the carrying value of the asset, the strategic significance of any identifiable intangible asset in our business objectives, as well as the market capitalization of the Company. Cash flow projections used for recoverability and impairment analysis use the same key assumptions and are consistent with projections used for internal budgeting, and for lenders and other third parties. If assets are considered to be impaired, the impairment recognized is the amount by which the carrying value of the assets exceeds the fair value of the assets. Useful lives and related amortization or depreciation expense are based on our estimate of the period that the assets will generate revenues or otherwise be used by Kronos. Factors that would influence the likelihood of a material change in our reported results include significant changes in the asset's ability to generate positive cash flow, loss of legal ownership or title to the asset, a significant decline in the economic and competitive environment on which the asset depends, significant changes in our strategic business objectives, and utilization of the asset.

Income Taxes. Income taxes are accounted for in accordance with the provisions of SFAS No. 109. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amounts expected to be realized, but no less than quarterly.

Research and Development Expenses. Costs related to research and development are charged to research and development expense as incurred.

Earnings (Loss) Per Share. Basic earnings (loss) per share is computed using the weighted average number of shares outstanding. Diluted earnings (loss) per share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options and warrants to purchase common stock, when their effect is dilutive.

Revenue Recognition. The Company recognizes revenue in accordance with Staff Accounting Bulletin (SAB) 101, which requires evidence of an agreement, delivery of the product or services at a fixed or determinable price, and assurance of collection within a reasonable period of time. Further, Kronos Air Technologies recognizes revenue on the sale of the custom-designed contract sales under the percentage-of-completion method of accounting in the ratio that costs incurred to date bear to estimated total costs. For uncompleted contracts where costs and estimated profits exceed billings, the net amount is included as an asset in the balance sheet. For uncompleted contracts where billings exceed costs and estimated profits, the net amount is included as a liability in the balance sheet. Sales are reported net of applicable cash discounts and allowances for returns. Revenue from government grants for research and development purposes is recognized as revenue as long as the Company determines that the government will not be the sole or principal expected ultimate customer for the research and development activity or the products resulting from the research and development activity. Otherwise, such revenue is recorded as an offset to research and development expenses in accordance with the Audit and Accounting Guide, Audits of Federal Government Contractors. In either case, the revenue or expense offset is not recognized until the grant funding is invoiced and any customer acceptance provisions are met or lapse.

Stock, Options and Warrants Issued for Services. Issuances of shares of the Company's stock to employees or third-parties for compensation or services is valued using the closing market price on the date of grant for employees and the date services are completed for non-employees. Issuances of options and warrants of the Companies stock are valued using the Black-Scholes option model.

Stock Options. Statement of Financial Accounting Standards No. 148 "Accounting for Stock-Based Compensation-Transition and Disclosure, an Amendment of FASB Statement No. 123," amends the disclosure requirements of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), to require more prominent disclosures in both annual and interim financial statements regarding the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

The Company accounts for stock-based compensation to employees and directors using the intrinsic value method of accounting as prescribed under Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. Under the intrinsic value method, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of the grant, no compensation expense is recognized in the Company's Consolidated Statements of Operations.

RECENT ACCOUNTING PRONOUNCEMENTS - Management does not believe that recently issued, but not yet effective accounting pronouncements if currently adopted would have a material effect on the accompanying consolidated financial statements.

NOTE 4 -- INCOME TAXES

The composition of deferred tax assets and the related tax effects at September 30, 2004 and June 30, 2004 are as follows:

	September 30, 2004 (Unaudited)	June 30, 2004
Benefit from carryforward of capital and net operating losses	$ 4,932,460	$ 4,841,083
Other temporary differences	220,796	156,740
Less:		
Valuation allowance	(5,153,256)	(4,997,823)
Net deferred tax asset	$ -	$ -

The other temporary differences shown above relate primarily to impairment reserves for intangible assets, and accrued and deferred compensation. The difference between the income tax benefit in the accompanying statements of operations and the amount that would result if the U.S. Federal statutory rate of 34% were applied to pre-tax loss is as follows:

	September 30, 2004 (Unaudited)		June 30,20	
	Amount	% of Pre-Tax Loss	Amount	P
Benefit for income tax at federal statutory rate	$ 211,409	34.0%	$ 848,265	
Benefit for income tax at state statutory rate	12,394	2.0%	49,728	
Non-deductible expenses	(68,369)	(11.0)%	(123,348)	
Increase in valuation allowance	(155,434	(25.0)%	(774,645)	

$ -	0.0%	$ -

The non-deductible expenses shown above related primarily to the amortization of intangible assets and to the accrual of stock options for compensation using different valuation methods for financial and tax reporting purposes.

At September 30, 2004, for federal income tax and alternative minimum tax reporting purposes, the Company has approximately $11.3 million of unused Federal net operating losses, $2.3 million of capital losses and $9.7 million of unused State net operating losses available for carryforward to future years. The benefit from carryforward of such losses will expire in various years between 2006 and 2025 and could be subject to limitations if significant ownership changes occur in the Company.

NOTE 5 - SEGMENTS OF BUSINESS

The Company operates principally in one segment of business: The Company licenses, manufactures and distributes air movement and purification devices utilizing the Kronos(TM) technology. For the three months ended September 30, 2004 and the fiscal year ended June 30, 2004, the Company operated only in the U.S.

NOTE 6 - EARNINGS PER SHARE

Weighted average shares outstanding used in the earnings per share calculation were 61,323,845 and 53,973,647 for the three months ended September 30, 2004 and 2003, respectively.

As of September 30, 2004, there were outstanding options to purchase 12,813,812 shares of the Company's common stock and outstanding warrants to purchase 15,792,342 shares of the Company's common stock. These options and warrants have been excluded from the earnings per share calculation as their effect is anti-dilutive. As of September 30, 2003, there were outstanding options and warrants to purchase 10,601,675 and 15,792,342 shares, respectively, of the Company's common stock. These options have been excluded from the earnings per share calculation as their effect is anti-dilutive.

NOTE 7 - NOTES PAYABLE

The Company had the following obligations as of September 30, 2004 and June 30, 2004,

	September 30, 2004 (Unaudited)	June 30, 2004
Obligation to HoMedics (1)	$ 2,400,000	$ 2,400,000
Discount on obligation to HoMedics	(514,940)	(589,261)
Obligation to current employees (2)	1,139,903	1,139,903
Obligation to Fusion Capital (3)	200,000	200,000
Obligation for finance leases (4)	47,009	50,327
Obligations to others (5)	125,000	55,000
	3,396,972	3,255,971
Less:		
Current portion	870,593	798,926
Total long term obligations net of		

current portion	$ 2,526,378	$ 2,457,044
	===============	===============

(1) This note has a 5 year term and bears interest at 6%. In October 2004, HoMedics agreed to extend repayment of this note (refer to Note 11 - Subsequent Events). This note was issued along with warrants for the purchase of 13.4 million shares of the Company's common stock. As a result, the note was recorded with a discount of $893,000 that is being amortized against earnings using the interest rate method of amortization.

(2) These notes bear interest at the rates between 12% and 17%. One note ($76,637) is due upon the Company securing $2 million in funding and the balance of the notes are due December 31, 2006.

(3) This is a non-interest bearing demand obligation and was only outstanding until Fusion Capital purchased enough stock from the Company to eliminate the advance position. In November 2004, Fusion Capital purchased two million shares of the Company's Common Stock to eliminate the advance position.

(4) See Note 8 below.

(5) There were two obligation to others at September 30, 2004: (i) $100,000 short-term loan at 12% interest to be repaid upon the Company securing more than $1 million in new financing; and (i) $25,000 balance on a non-interest bearing loan ($55,000 balance at June 30, 2004) that was originally incurred for the acquisition of license rights of the Kronos(TM) technology with a value of $270,000. This note is non-interest bearing with quarterly payments of $30,000 until paid in full. On July 3, 2004 the Company made the required payment for this note and on October 5, 2004 the Company paid the note in full.

NOTE 8 - CAPITAL LEASES

The Company entered into a capital lease for the purpose of purchasing equipment used in the research and product development center. Certain Officers of the Company personally guaranteed the capital lease if the Company does not fulfill its terms of the lease obligations. The leases are for 36 months and contain bargain purchase provisions so that the Company can purchase the equipment at the end of each lease. The following sets forth the minimum future lease payments and present values of the net minimum lease payments under these capital leases:

Minimum Future Lease Payments and Present Values of the Net Minimum Lease Payments

Period ended September 30,	
2005	$ 36,336
2006	21,227

Total minimum lease payments	57,564
Less: Executory costs	-

Net minimum lease payments	57,564
Less: Imputed interest	10,555

Present value of net minimum lease payments	$ 47,009
	=========

Of the equipment that was purchased using capital leases, $10,650 was capitalized and the remaining $65,782 was expensed through research and development and cost of sales. In the three ended September 30, 2004, the Company paid $5,968 in principal and $3,077 in interest on capital leases. In the three months ended September 30, 2003, the Company paid $4,703 in principal and $4,381 in interest on capital leases.

NOTE 9 - CONSULTING AGREEMENTS

On October 31, 2003, the Company entered into a 10-month consulting agreement with Joshua B. Scheinfeld and Steven G. Martin, principals of Fusion Capital, for consulting services with respect to operations, executive employment issues, employee staffing, strategy, capital structure and other matters as specified from time to time. As consideration for their services, the Company issued 360,000 shares of its common stock. In accordance with EITF 96-18, the measurement date was established as the contract date of October 31, 2003 as the share grant was non-forfeitable and fully vested on that date. The stock was valued on that date at $0.22 a share (the closing price for the Company's common stock on the measurement date). The stock issuance has been recorded as a prepaid consulting fee and was amortized to Professional Fee Expense ratably over the ten month term of the contract. Under this contract, expenses of $12,586 were recorded for the three months ended September 30, 2004.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

In October 2004, HoMedics has agreed to extend repayment of Kronos debt and to provide an additional $1 million in funding. HoMedics has agreed to provide Kronos with an additional $1 million in financing - $925,000 in secured debt financing and $75,000 for the purchase of additional 26,507,628 ten year warrants exercisable at $0.10 per share. The $925,000 will be paid to Kronos upon Kronos achieving three milestones: (i) $175,000 shall be funded upon delivery and successful testing of electronic boards and power supplies from Kronos' contract manufacturing partner, (ii) $250,000 shall be funded upon obtaining tooling of the current prototype configuration and device testing and performing to HoMedics' specifications, and (iii) $500,000 shall be funded upon the initial sale of Kronos-based air purifiers by HoMedics. In addition, quarterly debt payments and the maturity date for existing debt have been extended. Quarterly payments due on the outstanding $2.4 million in secured debt financing, which had been scheduled to begin in August 2004, will be due the earlier of Kronos receipt of royalty payments from HoMedics sale of Kronos-based air purification products or two years. The maturity date of the $2.4 million in debt has been extended from May 2008 to October of 2009; the maturity date on the $925,000 will also be October 2009. The interest rate will remain at 6% for the $2.4 million in debt; the rate will also be 6% on the additional debt. HoMedics increased their potential equity position in Kronos to 30% of Kronos common stock on a fully diluted basis. Kronos has issued HoMedics a warrant to buy 26.5 million shares of Kronos common stock.

Employment Agreements

The Company entered into an Employment Agreement with its President and Chief Executive Officer, Daniel Dwight, effective as of November 15, 2001. The initial term of the Employment Agreement was for two years and the agreement will automatically renew for successive one year terms unless written notice within three months of the end of the renewal term is received by either party. The Board of Directors renewed the Employment Agreement on August 13, 2003 and again on August 15, 2004. The Employment Agreement provides for base cash compensation of $180,000 per year and eligibility for annual incentive bonus compensation in an amount equal to annual salary based on the achievement of certain bonus objectives.

The Company entered into an Employment Agreement with its Chief Operating

Officer, Richard Tusing, effective as of January 1, 2003. The initial term of the Employment Agreement is for two years and will automatically renew for successive one year terms unless written notice within three months of the end of the initial term or any subsequent renewal term is received by either party. The Board of Directors renewed the Employment Agreement on October 1, 2004. The Employment Agreement provides for base cash compensation of $160,000 per year.

NOTE 11 - SUBSEQUENT EVENTS

In October 2004, Kronos entered into agreements for up to $20.5 million in equity and equity backed debt financing from Cornell Capital Partners. Kronos executed an Equity Investment Agreement to secure $500,000 through the sale of 5 million unregistered shares of Kronos common stock. Cornell Capital Partners committed to provide $4 million pursuant to two Equity Backed Promissory Notes, which will be funded as follows: $2 million upon filing a Registration Statement and $2 million upon the SEC declaring the Registration Statement effective. Kronos executed a Standby Equity Distribution Agreement for $20 million of funding which Kronos has the option to drawdown against in increments as large as $1.5 million over the next twenty four months.

In October 2004, Kronos and Richard A. Papworth agreed to postpone under the terms of a Promissory Note repayment of the Note for $76,637 until Kronos obtains proceeds from Cornell Capital Partners under the terms of our Promissory Note.

In October 2004, HoMedics agreed to extend repayment of Kronos debt and to provide an additional $1 million in funding. HoMedics has agreed to provide Kronos with an additional $1 million in financing - $925,000 in secured debt financing and $75,000 for the purchase of additional warrants. The $925,000 will be paid to Kronos upon Kronos achieving three milestones: (i) $175,000 shall be funded upon delivery and successful testing of electronic boards and power supplies from Kronos' contract manufacturing partner, (ii) $250,000 shall be funded upon obtaining tooling of the current prototype configuration and device testing and performing to HoMedics' specifications, and (iii) $500,000 shall be funded upon the initial sale of Kronos-based air purifiers by HoMedics. In addition, quarterly debt payments and the maturity date for existing debt have

been extended. Quarterly payments due on the outstanding $2.4 million in secured debt financing, which had been scheduled to begin in August 2004, will be due the earlier of Kronos receipt of royalty payments from HoMedics sale of Kronos-based air purification products or two years. The maturity date of the $2.4 million in debt has been extended from May 2008 to October of 2009; the maturity date on the $925,000 will also be October 2009. The interest rate will remain at 6% for the $2.4 million in debt; the rate will also be 6% on the additional debt. HoMedics increased their potential equity position in Kronos to 30% of Kronos common stock on a fully diluted basis. Kronos has issued HoMedics a warrant to buy 26.5 million shares of Kronos common stock.

In October 2004, Kronos received a Notice of Allowance from the United States Patent and Trademark Office indicating that its application entitled "Electrostatic Fluid Accelerator" - Power Supply Management and Control has been examined and allowed for issuance as a U. S. patent. Kronos expects that the U. S. Patent will issue in due course. The patent provides protection for key aspects of Kronos' technology until late in 2021.

In November 2004, Kronos received a Notice of Allowance from the United States Patent and Trademark Office indicating that its application entitled "Electrostatic Fluid Accelerator" - Electrode Design Geometries has been examined and allowed for issuance as a U. S. patent. Kronos expects that the U. S. Patent will issue in due course. The patent provides protection for key aspects of Kronos' technology until late in 2021.

In November 2004, Kronos received formal notification from the Commonwealth of Australian Patent Office indicating that its application entitled "Electrostatic Fluid Accelerator" has been examined and allowed for issuance as an Australian patent (#773626).

In November 2004, Kronos and Fusion Capital Fund II, LLC mutually agreed to terminate their existing common stock purchase agreement dated August 12, 2002.

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

INTRODUCTORY STATEMENTS

FORWARD LOOKING STATEMENTS AND ASSOCIATED RISKS

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS. THIS FILING CONTAINS FORWARD-LOOKING STATEMENTS, INCLUDING STATEMENTS REGARDING, AMONG OTHER THINGS:(A) OUR PROJECTED SALES AND PROFITABILITY, (B) OUR GROWTH STRATEGIES, (C) ANTICIPATED TRENDS IN OUR INDUSTRY, (D) OUR FUTURE FINANCING PLANS, (E) OUR ANTICIPATED NEEDS FOR WORKING CAPITAL, AND (F) THE BENEFITS RELATED TO OUR OWNERSHIP OF KRONOS AIR TECHNOLOGIES, INC. IN ADDITION, WHEN USED IN THIS FILING, THE WORDS "BELIEVES," "ANTICIPATES," "INTENDS," "IN ANTICIPATION OF," "EXPECTS," AND SIMILAR WORDS ARE INTENDED TO IDENTIFY CERTAIN FORWARD-LOOKING STATEMENTS. THESE FORWARD-LOOKING STATEMENTS ARE BASED LARGELY ON OUR EXPECTATIONS AND ARE SUBJECT TO A NUMBER OF RISKS AND UNCERTAINTIES, MANY OF WHICH ARE BEYOND OUR CONTROL. ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF VARIOUS FACTORS, INCLUDING, WITHOUT LIMITATION, THE RISKS OUTLINED UNDER "FACTORS AFFECTING KRONOS' BUSINESS AND PROSPECTS" AND MATTERS DESCRIBED IN THIS FILING GENERALLY. IN LIGHT OF THESE RISKS AND UNCERTAINTIES, THERE CAN BE NO ASSURANCE THAT THE FORWARD-LOOKING STATEMENTS CONTAINED IN THIS FILING WILL IN FACT OCCUR. WE DO NOT UNDERTAKE ANY OBLIGATION TO PUBLICLY RELEASE THE RESULTS OF ANY REVISIONS TO THESE FORWARD-LOOKING STATEMENTS THAT MAY BE MADE TO REFLECT ANY FUTURE EVENTS OR CIRCUMSTANCES.

GENERAL

Kronos Advanced Technologies, Inc. is a high technology industrial company focused on developing, marketing and selling products using the Company's proprietary air movement and purification technology. Kronos is pursuing commercialization of its patented technology in a limited number of markets; and if we are successful, we intend to enter additional markets in the future. To date, our ability to execute our strategy has been restricted by our limited amount of capital.

Technology Description and Benefits

The Kronos(TM) technology combines high voltage electronics and electrodes. By combining these technologies, a Kronos(TM)-based device can both move and clean air without any moving parts. Kronos(TM) devices are versatile, energy- and cost-efficient and capable of multiple design forms. As a result, Kronos(TM) devices have the immediate potential to be used as a standalone product or to replace a range of heating, ventilation and air conditioning products for residential usage to high efficiency particulate air filtration systems for operating and manufacturing clean rooms.

The proprietary Kronos(TM) technology involves the application of high voltage management across paired electrical grids to create an ion exchange that moves and purifies air. Kronos(TM) technology has numerous valuable characteristics. It moves air and gases at high velocities while removing odors, smoke and particulates and killing pathogens, including bacteria and mold. The technology is cost-effective and is more energy efficient than current alternative fan and filter (including HEPA filter and ultraviolet light based) technologies. Although no commercial products using the Kronos(TM) technology have been sold to date, in August 2004, the Company and its strategic consumer products partner, HoMedics, initiated the transition to mass production of the Kronos-based consumer standalone product line.

A number of the scientific claims of the Kronos(TM) technology have been tested by the U. S. government and a few multi-national companies, including the U. S. Department of Energy, the U. S. Department of Defense, General Dynamics, Underwriters Laboratory, and Intel. Independent laboratory testing has verified the purification capability of the Kronos(TM) technology. Tests conducted at MicroTest Laboratories, LMS Industries and New Hampshire Materials Laboratory demonstrated HEPA Clean Room Class 1000 quality particulate reduction, removal of over 99.97% of 0.1 micron and above size particles, and up to 95% reduction of hazardous gases, including numerous contaminants found in cigarette smoke. Intertek, one of the global leaders for testing electrical and electronic products, performed tobacco smoke elimination tests in accordance with ANSI/AHAM AC-1-1988 standard entitled "American National Standard Method for Measuring Performance of Portable Household Electric Cord-Connected Room Air Cleaners." The test demonstrated a Clean Air Delivery Rate (CADR) for the Kronos air purifier of over 300. These results place the Kronos(TM) device in one of the highest categories of particulate cleaning for standalone devices.

Market Segmentation

Kronos' business development strategy is to sell and license the Kronos(TM) technology to six distinct market segments: (1) air movement and purification (residential, health care, hospitality, and commercial facilities); (2) air purification for unique spaces (cleanrooms, airplanes, automotive, and cruise ships); (3) specialized military (naval vessels, closed vehicles and mobile facilities); (4) embedded cooling and cleaning (electronic devices and medical equipment); (5) industrial scrubbing (produce storage and diesel and other emissions); and (6) hazardous gas destruction (incineration and chemical facilities).

Kronos' initial focus is on the first three of these market segments which are described in more detail below. Kronos is currently developing products for the air movement and purification, air purification for unique spaces, and specialized military through specific customer contracts. These contracts are described in more detail in the Technology Application and Product Development section of this filing.

- Air Movement and Purification. Indoor air pollution, including "sick building syndrome" and "building related illness," is primarily caused by inadequate ventilation, chemical contaminants from indoor and outdoor sources and biological contaminants. The addressable air movement and purification segment is made up of four principal applications: (1) residential, (2) health care, (3) hospitality and (4) commercial. Kronos is seeking to leverage the product development, production and funding resources of HoMedics, Inc., Kronos' strategic partner for consumer-based residential applications, to develop and manufacturer standalone products for other air movement and purification applications.

- Air Purification for Unique Spaces. Electronics, semiconductor, pharmaceutical, aerospace, medical and many other producers depend on cleanroom technology. As products such as electronic devices become smaller, the chance of contamination in manufacturing becomes higher. For pharmaceutical companies, clean, safe and contaminant-free products are imperative to manufacturing and distributing a viable product. Other potential applications for the Kronos(TM) technology include closed environments such as aircraft, cruise ships and other transportation modes that require people to breathe contaminated, re-circulated air for extended periods. Kronos is building on its product development effort with its strategic partner in the business jet market and the U.S. military to serve other closed environment applications.

o Specialized Military. Military personnel face the worst of all possible worlds: indoor air pollution, often in very confined spaces for extended periods, combined with the threat of biological warfare, nuclear fallout, and other foreign elements. We believe that the military market segment offers Kronos a unique opportunity to leverage the technical and funding resources of the U. S. military to expand Kronos' ability to develop and produce Kronos(TM)-based air movers and purifiers for applications that require these products to be embedded into ventilation systems to address the needs of military personnel.

Technology Application and Product Development

To best serve Kronos' targeted market segments, our Company is developing specific product applications across two distinct product application platforms. A Kronos(TM) device can be either used as a standalone product or can be embedded. Standalone products are self-contained and only require the user to plug the Kronos(TM) device into a wall outlet to obtain air filtration for their home, office or hotel room. Embedded applications of the Kronos(TM) technology require the technology be added into another system such as a building ventilation system for more efficient air movement and filtration or into an electrical device such as computer or medical equipment to replace the cooling fan.

Standalone Platform

o Consumer Products. In October 2002, Kronos Air Technologies, Inc., and HoMedics USA, Inc. executed a Licensing Agreement granting HoMedics certain rights with respect to the distribution of the Kronos(TM) proprietary technology to the consumer. The agreement provides for exclusive North American, Australian and New Zealand retail distribution rights for next generation consumer air movement and purification products based on the patented Kronos(TM) technology. In August 2004, the Company and HoMedics initiated the transition to mass production of the Kronos-based consumer standalone product line. Preparing to meet these goals entails the use of Kronos' technical resources and HoMedics' product development and international production expertise. Select third party vendors, including experts in electronics, software and gas sensors, are integral resources in this process. While HoMedics is managing production of the finished product, Kronos is managing the production of our proprietary power supply and related circuitry.

Kronos' focus is twofold: First, Kronos is working with Flextronics International USA, Inc. to preparing for mass production the technical hardware and related power supplies for each of the products in the air purification product line. Second, Kronos is finalizing and testing with HoMedics component and materials selection for the finished products. This process combines HoMedics vendor selection process and international production expertise with Kronos' technical expertise. We believe the Company has successfully completed the development of a Kronos-based consumer standalone air purifier that is an efficient, high quality product which is cost effective and easy to operate. In August 2004, the Company and HoMedics initiated the transition to mass production of the Kronos-based consumer standalone product line.

The initial term of the agreement is three and one half years from the initial sale of consumer air purification products by HoMedics, which shall be no later than December 31, 2006, with the option to extend the Licensing Agreement for six additional years. Kronos was compensated through an initial royalty payment and will receive ongoing quarterly royalty payments based on a percentage of sales. HoMedics will pay minimum royalty payments of at least $2 million during the initial three and a half year term and on-going royalty payments to extend the agreement. Kronos will retain the rights to all of its intellectual property.

HoMedics commitment includes funding a marketing and advertising campaign to promote the Kronos(TM)-based product line. The products will be distributed by HoMedics. HoMedics currently distributes their products through major domestic retailers, including Wal-Mart, Home Depot, Sears, Bed Bath & Beyond, and Linens 'N Things.

|X| Commercial Products. Kronos is seeking to leverage its consumer product development work with HoMedics to market and sell our own commercial line of standalone air purifiers. This commercial line of Kronos(TM)-based air purifiers would attempt to address the specific air quality issues, including odors, bacteria and viruses, found in most nursing home and assisted living, healthcare and other commercial facilities. Kronos expects to secure production of its own commercial line of standalone air purifiers from HoMedics. By securing products from HoMedics, Kronos believes it will provide the Company with a higher quality and more cost effective air purification product line.

Embedded Platform

o Military Products. The U. S. Department of Defense and Department of Energy have provided Kronos with various grants and contracts to develop, test and evaluate the Kronos(TM) technology for embedded applications. Kronos has developed several commercial and industrial applications, including the retrofit of berthing fan systems and embedded air movement systems for U. S. Navy Aegis Class destroyers.

U.S. Navy SBIR Contracts. In November 2002, the U. S. Navy awarded Kronos a Small Business Innovation Research Phase II contract worth $580,000, plus an option of $145,000. The Phase II contract (commercialization phase) is an extension of the Phase I and the Phase I Option work that began in 2001. It is intended that the Kronos(TM) devices being developed under this contract will be embedded in existing HVAC systems in order to move air more efficiently than traditional, fan-based technology.

During Phase II, Kronos will attempt to develop, produce and install a set of fully controlled devices that represent a "cell" of an advanced distributive air management system with medium capacity airflow in a U. S. Navy unique environment. The "cell" has been designed to be easily adjustable to a variety of parameters such as duct size, airflow requirements, and air quality. The goal of this development work is to significantly reduce or replace altogether the current HVAC air handling systems on naval ships. During the first eighteen months of the contract, Kronos has designed a new generation power supply, improved the efficiency of the core technology to allow for increased air movement and filtration, and initiated selection with the U. S. Navy of the specifications for the commercial products, which are currently being built under the Phase II contract. As of September 30, 2004, the U. S. Navy had provided Kronos with $567,000 in funding for this effort.

As part of its air management system, Kronos intends to develop and test an air filtration mechanism capable of performing to HEPA quality standards. We believe that Kronos(TM) devices could replace current HEPA filters with a permanent, easily cleaned, low-cost solution. The U. S. Navy unique environment includes shock exposure, vibration, Electromagnetic Interference/Compatibility (EMI/EMC), and salt spray. Kronos(TM) devices will be built and tested to meet specific Navy standards. Testing shall include assessments for system performance, including control techniques, noise levels, and acquisition and lifecycle costs.

We believe that during the option portion of the contract, Kronos(TM) technology's ability to kill bacteria and other pathogens will be confirmed and expanded to a wide range of pathogens for space disinfection and bio-terrorist attacks. We believe the Kronos(TM) technology can kill all or most airborne pathogens regardless of their nature, genetic structure, robustness, or method of delivery. Kronos intends to deliver its advanced distributive air management system built under the U.S. Navy SBIR Phase II contract to Northrop Grumman for testing and evaluation.

Kronos has begun the process for obtaining Phase III (production phase) support for the Kronos(TM)-based advanced distributive air management system being developed under Phase II. Kronos is working directly with Dawnbreaker, a U. S. Government entity established for the purpose of supporting companies seeking Phase III contracts, and Northrop Grumman.

U.S. Army SBIR Contracts. In August 2003, Kronos was awarded the option on its U. S. Army Small Business Innovation Research Phase I contract bringing the value of the Phase I contract award to $120,000. In October 2003, the U.S. Army awarded Kronos the Small Business Innovation Research Phase II contract. The first year of the contract is worth $369,000 with an Army option on the second year worth $360,000. The contract is to develop Kronos' proprietary Electrostatic Dehumidification Technology ("EDT"). Kronos initiated work under the Phase II contract in December 2003. As of September 30, 2004, the U. S. Army had provided Kronos with $151,000 in funding for this effort under the Phase II contract.

The objective of the Phase II effort is to implement and optimize dehumidification via Kronos electrostatic field technology. The objective is to be accomplished by: (1) prototype design and manufacturing, (2) prototype testing in the laboratory environment and field demonstration, (3) analytical and numerical modeling of Kronos' EDT process, and (4) project documentation and reporting including interim and final reports. We anticipate the Kronos(TM) devices manufactured under this contract will further demonstrate the versatility of the Kronos(TM) technology to meet airflow, system pressure and reduced humidity requirements for HVAC systems. Dehumidification is essential to making HVAC systems more energy efficient.

Kronos is seeking to leverage its military application development work with the U. S. Navy and U. S. Army to develop and produce air handlers and purifiers for commercial and industrial facilities. A future potential commercial line of Kronos(TM)-based air handlers and purifiers would attempt to address the specific air quality issues, including bacteria and other germs, found in large enclosed spaces such as office buildings and multi-dwelling residential complexes, while providing more efficient air movement.

o Transportation Products. In January 2003, Kronos extended its work into the transportation industry by signing a Development and Acquisition Agreement with a premier business jet manufacturer. The Agreement was the direct result of initial prototype development work performed by the Kronos Research Team with input from the customer in 2002. The Kronos(TM) devices being designed and manufactured under this contract will need to meet all FAA safety standards, including environmental, flammability and electromagnetic interference (EMI). The Company is working on completing product design and development based on the customer's specific product application requirements and expects to deliver finished products by December 2004.

Kronos is seeking to leverage its business jet application development work to develop and produce air handlers and purifiers for the commercial aviation and automotive markets. A future potential commercial line of Kronos(TM)-based air handlers and purifiers would attempt to address the specific air quality issues, including exhaust and viruses, found in enclosed spaces occupied by multiple people for extended periods of time, while providing more efficient air movement within unique space constraints.

Patents and Intellectual Property

|X| Five U.S. Patents Allowed for Issuance. Kronos has received notification that five of its patents have been allowed for issuance by the United States Patent and Trademark Office. These patents are considered utility patents which describe fundamental innovations in the generation, management and control of Electrostatic Fluids, including air movement, filtration and purification. Each of the patents contain multiple part claims for both general principles as well as specific designs for incorporating the Kronos technology into air movement, filtration and purification products. The patents provide protection for both specific product implementations of the Kronos technology, as well as more general processes for applying the unique attributes and performance characteristics of the technology.

- In November 2004, Kronos received a Notice of Allowance from the United States Patent and Trademark Office indicating that its application entitled "Electrostatic Fluid Accelerator" - Electrode Design Geometries has been examined and allowed for issuance as a U. S. patent. Kronos expects that the U. S. Patent will issue in due course. The patent provides protection for key aspects of Kronos' technology until late in 2021.

- In October 2004, Kronos received a Notice of Allowance from the United States Patent and Trademark Office indicating that its application entitled "Electrostatic Fluid Accelerator" - Power Supply Management and Control has been examined and allowed for issuance as a U. S. patent. Kronos expects that the U. S. Patent will issue in due course. The patent provides protection for key aspects of Kronos' technology until late in 2021.

- In April 2004, Kronos received formal notification from the United States Patent and Trademark Office indicating that its application entitled "Electrostatic Fluid Accelerator for and a Method of Controlling Fluid" has been examined and allowed for issuance as a U. S. patent (#6,727,657). The patent provides protection for key aspects of Kronos' technology until late in 2021.

- In December 2003, Kronos received formal notification from the United States Patent and Trademark Office indicating that its application entitled "Method of and Apparatus for Electrostatic Fluid Acceleration Control of a Fluid Flow" has been examined and allowed for issuance as a U. S. patent (#6,664,741). The patent provides protection for key aspects of Kronos' technology until late in 2020.

- In January 2003, Kronos received formal notification from the United States Patent and Trademark Office indicating that its application entitled "Electrostatic Fluid Accelerator" has been examined and allowed for issuance as a U. S. patent (#6,504,308). The patent provides protection for key aspects of Kronos' technology until late in 2019.

|X| First International Patent Allowed for Issuance. In November 2004, Kronos received formal notification from the Commonwealth of Australian Patent Office indicating that its application entitled "Electrostatic Fluid Accelerator" has been examined and allowed for issuance as an Australian patent (#773626). There are a number of other patent applications corresponding to Kronos' five U.S. Patents that have been filed and are pending outside of the United States.

|X| Additional Patent Applications. In addition to the "Electrostatic Fluid Accelerator," "Method of and Apparatus for Electrostatic Fluid Acceleration Control of a Fluid Flow," "Electrostatic Fluid Accelerator for and a Method of Controlling Fluid," "Electrostatic Fluid Accelerator" - Power Supply Management and Control, and "Electrostatic Fluid Accelerator" - Electrode Design Geometries patents, a number of additional patent applications have been filed for, among other things, the control and management of electrostatic fluid acceleration. These additional patent applications are either being examined or are awaiting examination by the Patent Office.

CRITICAL ACCOUNTING POLICIES

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Allowance for Doubtful Accounts. We provide a reserve against our receivables for estimated losses that may result from our customers' inability to pay. These reserves are based on potential uncollectible accounts, aged receivables, historical losses and our customers' credit-worthiness. Should a customer's account become past due, we generally will place a hold on the account and discontinue further shipments and/or services provided to that customer, minimizing further risk of loss.

Valuation of Goodwill, Intangible and Other Long Lived Assets. We use assumptions in establishing the carrying value, fair value and estimated lives of our long-lived assets and goodwill. The criteria used for these evaluations include management's estimate of the asset's ability to generate positive income from operations and positive cash flow in future periods compared to the carrying value of the asset, the strategic significance of any identifiable intangible asset in our business objectives, as well as the market capitalization of Kronos. We have used certain key assumptions in building the cash flow projections required for evaluating the recoverability of our intangible assets. We have assumed revenues from the following applications of the Kronos technology: consumer stand-alone devices, assisted care/skilled nursing stand-alone devices, embedded devices in the hospitality industry and in specialized military applications. Expenses/cash out flows in our projections include sales and marketing, production, distribution, general and administrative expenses, research and development expenses and capital expenditures. These expenses are based on management estimates and have been compared with industry norms (relative to sales) to determine their reasonableness. We use the same key assumptions for our cash flow evaluation as we do for internal budgeting, lenders and other third parties; therefore, they are internally and externally consistent with financial statement and other public and private disclosures. We are not aware of any negative implications resulting from the projections used for purposes of evaluating the appropriateness of the carrying value of these assets. If assets are considered to be impaired, the impairment recognized is the amount by which the carrying value of the assets exceeds the fair value of the assets. Useful lives and related amortization or depreciation expense are based on our estimate of the period that the assets will generate revenues or otherwise be used by Kronos. Factors that would influence the likelihood of a material change in our reported results include significant changes in the asset's ability to generate positive cash flow, loss of legal ownership or title to the asset, a significant decline in the economic and competitive environment on which the asset depends, significant changes in our strategic business objectives, and utilization of the asset.

Valuation of Deferred Income Taxes. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The likelihood of a material change in our expected realization of these assets is dependent on our ability to generate future taxable income, our ability to deduct tax loss carryforwards against future taxable income, the effectiveness of our tax planning and strategies among the various tax jurisdictions that we operate in, and any significant changes in the tax treatment received on our business combinations.

Revenue Recognition. We recognize revenue in accordance with Securities and Exchange Commission Staff Bulletin 101 ("SAB 101"). Further, Kronos Air Technologies recognizes revenue on the sale of custom-designed contract sales under the percentage-of-completion method of accounting in the ratio that costs incurred to date bear to estimated total costs. For uncompleted contracts where costs and estimated profits exceed billings, the net amount is included as an asset in the consolidated balance sheet. For uncompleted contracts where billings exceed costs and estimated profits, the net amount is included as a liability in the consolidated balance sheet. Sales are reported net of applicable cash discounts and allowances for returns.

RESULTS OF OPERATIONS

The Company's net loss from continuing operations for the three months ended September 30, 2004 was $622,000, an increase of $71,000 or 13% as compared with a net loss of $550,000 for the corresponding period of the prior year. The increase in the net loss was primarily the result of an increase in selling, general and administrative expenses ($75,000) and a decrease in gross profit ($24,000), partially offset by a decrease ($27,000) in interest expense.

REVENUE. Revenues are generated through sales of Kronos(TM) devices, and fees earned from licensing the Kronos(TM) technology and providing technical services to our customers at Kronos Air Technologies, Inc. Revenue for the three months ended September 30, 2004 was $242,000. These revenues were primarily from our U. S. Navy SBIR Phase II and U. S. Army SBIR Phase II contracts. Revenue of $130,000 recorded during the corresponding period of the prior year was primarily from our HoMedics and U. S. Navy SBIR Phase II contract. The $112,000 increase in revenue for the three months ended September 30, 2004 compared with the corresponding prior period was the result of the Company's increased work performed during the past three months on the Company's U.S. Military contracts.

COST OF SALES. Cost of sales for the three months ended September 30, 2004 was $218,000, an increase of $135,000 as compared to $83,000 for the corresponding period of the prior year, respectively. Cost of sales in the current year was primarily development costs associated with our U. S. Navy SBIR and U. S. Army SBIR contracts. Prior year cost of sales related to revenue from HoMedics and U. S. Navy SBIR Phase II contracts.

GROSS PROFIT. Gross profit for the three months ended September 30, 2004 was $24,000, compared to $47,000 for the corresponding period of the prior year, respectively. The decrease was primarily the result of an increase in third party development costs to design and build products for the U.S. Navy and U.S. Army.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses for the three months ended September 30, 2004 increased 17% to $504,000 compared to $429,000 for the corresponding period of the prior year. This $75,000 increase was primarily the result of an increase depreciation and amortization ($29,000), compensation and benefits ($20,000) and other expenses ($18,000). The increase in depreciation and amortization was the result of the amortization of intellectual property acquired by Kronos in May 2003. The increase in compensation and benefits was primarily the result of an increase in new hires and the cost of employee benefits. The increase in other expenses was primarily the result of an increase in directors and officers and product liability insurance.

INTEREST EXPENSE. Interest expenses for the three months ended September 30, 2004 decreased to $142,000 compared to $168,000 for the corresponding period of the prior year. The $27,000 decrease was primarily the result of the decrease in the Company's debt to former directors and officers of the Company.

CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2004

Our total assets at September 30, 2004 and June 30, 2004 were $2.4 and $2.5 million, respectively. Total assets at September 30, 2004 were comprised primarily of $2.2 million of patents/intellectual property. Total assets at June 30, 2004 were comprised primarily of $2.3 million of patents/intellectual property. Total current assets at September 30, 2004 and June 30, 2004 were $182,000 and $238,000, respectively, while total current liabilities for those same periods were $1.9 million and $1.4 million, respectively, creating a working capital deficit of $1.7 million and $1.2 million at each respective period end. This 43% increase in the working capital deficit was primarily the result of increases in accrued expenses and payables to directors and officers ($213,000), accrued expenses ($93,000), and accounts payable ($73,000) because of the Company's decision to accrued expenses and increase payables rather than spend the Company's limited cash resources or sell equity to raise cash during the quarter.

Shareholders' deficit as of September 30, 2004 and June 30, 2004 was $(2.0) million and $(1.4) million, respectively, representing an increase of $0.6 million. The increase in shareholders' deficit was the result of incurring a $0.6 million loss from continuing operations for the three months ended September 30, 2004.

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have relied principally on the sale of common stock and secured debt to finance our operations.

In October 2004, Kronos entered into agreements for up to $20.5 million in equity and equity backed debt financing from Cornell Capital Partners. Kronos executed an Equity Investment Agreement to secure $500,000 through the sale of 5 million unregistered shares of Kronos common stock. Cornell Capital Partners committed to provide $4 million pursuant to two Equity Backed Promissory Notes, which will be funded as follows: $2 million upon filing a Registration Statement and $2 million upon the SEC declaring the Registration Statement effective. Kronos executed a Standby Equity Distribution Agreement for $20 million of funding which Kronos has the option to drawdown against in increments as large as $1.5 million over the next twenty four months. Kronos received $0.5 million in funding upon the amendment of the HoMedics debt financing, and expects to receive $2 million over the next 45 - 90 days and an additional $2 million over the next 90 - 120 days under these agreements.

In October 2004, HoMedics agreed to extend repayment of Kronos debt and to provide an additional $1 million in funding. HoMedics has agreed to provide Kronos with an additional $1 million in financing - $925,000 in secured debt financing and $75,000 for the purchase of additional warrants. The $925,000 will be paid to Kronos upon Kronos achieving three milestones: (i) $175,000 shall be funded upon delivery and successful testing of electronic boards and power supplies from Kronos' contract manufacturing partner, (ii) $250,000 shall be funded upon obtaining tooling of the current prototype configuration and device testing and performing to HoMedics' specifications, and (iii) $500,000 shall be funded upon the initial sale of Kronos-based air purifiers by HoMedics. In addition, quarterly debt payments and the maturity date for existing debt have been extended. Quarterly payments due on the outstanding $2.4 million in secured debt financing, which had been scheduled to begin in August 2004, will be due the earlier of Kronos receipt of royalty payments from HoMedics sale of Kronos-based air purification products or two years. The maturity date of the $2.4 million in debt has been extended from May 2008 to October of 2009; the maturity date on the $925,000 will also be October 2009. The interest rate will remain at 6% for the $2.4 million in debt; the rate will also be 6% on the additional debt. HoMedics increased their potential equity position in Kronos to 30% of Kronos common stock on a fully diluted basis. Kronos has issued HoMedics a warrant to buy 26.5 million shares of Kronos common stock.

Kronos SBIR contracts with the U. S. Military, including the U. S. Army Phase I Option and Phase II and the U. S. Navy Phase II contracts, are potentially worth up to $1.5 million in product development and testing support for Kronos Air Technologies. In November 2002, Kronos Air Technologies was awarded by the U. S. Navy for a Small Business Innovation Research Phase II contract worth $580,000, plus an option of $150,000. As of September 30, 2004, the U. S. Navy had provided Kronos with $567,000 in funding for this effort under the Phase II contract. In October 2003, Kronos Air Technologies obtained award notice from the U. S. Army for a SBIR II contract. The first year of the contract is worth $369,000 with an Army option on the second year worth $360,000. The contract is to develop Kronos' proprietary Electrostatic Dehumidification Technology ("EDT"). As of September 30, 2004, the U. S. Army had provided Kronos with $151,000 in funding for this effort under the Phase II contract.

Net cash flow used in operating activities was $41,000 for the three months ended September 30, 2004. We were able to satisfy most of our cash requirements for this period from the proceeds of our U.S. Navy and U.S. Army Phase II contracts.

In June 2001, we entered into a common stock purchase agreement with Fusion Capital. Pursuant to this agreement, we have sold approximately 6 million shares of our common stock and have received $1.3 million. In August 2002, we terminated our common stock purchase agreement dated June 19, 2001 and entered into a new common stock purchase agreement with Fusion Capital. Pursuant to this second common stock purchase agreement, we sold approximately 12.1 million shares of our common stock and have received $1.9 million. In November 2004, Kronos and Fusion Capital mutually agreed to terminate their existing common stock purchase agreement dated August 12, 2002.

We estimate that achievement of our business plan will require substantial additional funding. We anticipate that the source of funding will be obtained pursuant to senior debt funding from the HoMedics Secured Promissory Notes; equity funding from the Cornell Capital Equity Investment Agreement, Equity Backed Promissory Note and Standby Equity Distribution Agreement; and/or the sale of additional equity in our Company, cash flow generated from government grants and contracts, which includes funding from the Small Business Innovation Research contracts sponsored by the United States Navy and Army awarded to Kronos Air Technologies, and cash flow generated from customer revenue. There are no assurances that these sources of funding will be adequate to meet our cash flow needs.

GOING CONCERN OPINION

Our Report of Independent Registered Public Accounting Firm includes an explanatory paragraph to their audit opinions issued in connection with our 2004 and 2003 consolidated financial statements that states that we do not have significant cash or other material assets to cover our operating costs. Our ability to obtain additional funding will largely determine our ability to continue in business. Accordingly, there is substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We can make no assurance that we will be able to successfully develop, manufacturer and sell commercial products on a broad basis. While attempting to make this transition, we will be subject to all the risks inherent in a growing venture, including, but not limited to, the need to develop and manufacture reliable and effective products, develop marketing expertise and expand our sales force.

FACTORS AFFECTING KRONOS' BUSINESS AND PROSPECTS

We are subject to various risks which may have a material adverse effect on our business, financial condition and results of operations, and may result in a decline in our stock price. Certain risks are discussed below:

We have a limited operating history with significant losses and expect losses to continue for the foreseeable future.

We have only recently begun implementing our plan to prioritize and concentrate our management and financial resources to fully capitalize on our investment in Kronos Air Technologies and have yet to establish any history of profitable operations. We incurred a net operating loss of $480,000 for the three months ended September 30, 2004. We incurred a net loss from continuing operations of $2.5 million for the fiscal year ended June 30, 2004. As a result, at September

30, 2004 and June 30, 2004, we had an accumulated deficit of $20.6 million and $20.0 million, respectively. Our revenues and cash flows from operations have not been sufficient to sustain our operations. We have sustained our operations through the issuance of our common stock and the incurrence of debt. We expect that our revenues and cash flows from operations may not be sufficient to sustain our operations for the foreseeable future. Our profitability will require the successful commercialization of our Kronos(TM) technologies. No assurances can be given that we will be able to successfully commercialize our Kronos(TM) technologies or that we will ever be profitable.

We will require significant additional financing to sustain our operations and without it we will not be able to continue operations.

At September 30, 2004 and June 30, 2004, we had a working capital deficit of $1.7 million and $1.4 million, respectively. The Report of Independent Registered Public Accounting Firm for the year ended June 30, 2004, includes an explanatory paragraph to their audit opinion stating that our recurring losses from operations and working capital deficiency raise substantial doubt about our ability to continue as a going concern. For the three months ended September 30, 2004 and September 30, 2003, we had an operating cash flow deficit of $41,000 and $441,000, respectively. We currently do not have sufficient financial resources to fund our operations or pay certain existing obligations or those of our subsidiary. Therefore, we need substantial additional funds to continue these operations and pay certain existing obligations.

If obtaining sufficient financing from the U. S. Navy, U. S. Army, HoMedics and /or Cornell Capital Partners were to be unavailable and if we are unable to commercialize and sell our products or technologies, we will need to secure another source of funding in order to satisfy our working capital needs. Even if we are able to access the funds available under the, U. S. Navy and U.S. Army SBIR contracts, HoMedics senior debt agreement and / or the Cornell Capital Equity Investment Agreement, Equity Backed Promissory Notes and Standby Equity Distribution Agreement, we may still need additional capital to fully implement our business, operating and development plans. At September 30, 2004 and June 30, 2004, we had a cash balance of current portion of notes payable $41,000 and $69,000, respectively. Should the financing we require to sustain our working capital needs be unavailable, or prohibitively expensive when we require it, we would be forced to curtail our business operations.

Existing shareholders will experience significant dilution from our sale of shares under the Cornell Capital Equity Investment Agreement and Standby Equity Distribution Agreement and any other equity financing.

The sale of shares pursuant to our agreement with Cornell Capital Partners, the exercise of HoMedics stock warrants or any other future equity financing transaction will have a dilutive impact on our stockholders. As a result, our net income per share could decrease in future periods, and the market price of our common stock could decline. In addition, the lower our stock price is, the more shares of common stock we will have to issue under the Equity Investment Agreement and Standby Equity Distribution Agreement with Cornell Capital. If our stock price is lower, then our existing stockholders would experience greater dilution. We cannot predict the actual number of shares of common stock that will be issued pursuant to the Standby Equity Distribution Agreement with Cornell Capital or any other future equity financing transaction, in part, because the purchase price of the shares will fluctuate based on prevailing market conditions and we do not know the exact amount of funds we will need.

Competition in the market for air movement and purification devices may result in the failure of the Kronos(TM) products to achieve market acceptance.

Kronos presently faces competition from other companies that are developing or that currently sell air movement and purification devices. Many of these competitors have substantially greater financial, research and development, manufacturing, and sales and marketing resources than we do. Many of the products sold by Kronos' competitors already have brand recognition and established positions in the markets that we have targeted for penetration. In the event that the Kronos(TM) products do not favorably compete with the products sold by our competitors, we would be forced to curtail our business operations.

Our failure to enforce protection of our intellectual property would have a material adverse effect on our business.

A significant part of our success depends in part on our ability to obtain and defend our intellectual property, including patent protection for our products and processes, preserve our trade secrets, defend and enforce our rights against infringement and operate without infringing the proprietary rights of third parties, both in the United States and in other countries. Our limited amount of capital impedes our current ability to protect and defend our intellectual property.

In November 2004, Kronos received a Notice of Allowance from the United States Patent and Trademark Office indicating that its application entitled "Electrostatic Fluid Accelerator" - Electrode Design Geometries has been examined and allowed for issuance as a U. S. patent. Kronos expects that the U. S. Patent will issue in due course. The patent provides protection for key aspects of Kronos' technology until late in 2021.
Also in November 2004, Kronos received formal notification from the Australian Patent Office indicating that its application entitled "Electrostatic Fluid Accelerator" has been examined and allowed for issuance as an Australian patent (#773626). In October 2004, Kronos received a Notice of Allowance from the United States Patent and Trademark Office indicating that its application entitled "Electrostatic Fluid Accelerator" - Power Supply Management and Control has been examined and allowed for issuance as a U. S. patent. Kronos expects that the U. S. Patent will issue in due course. The patent provides protection for key aspects of Kronos' technology until late in 2021. In April 2004, Kronos received formal notification from the United States Patent and Trademark Office indicating that its application entitled "Electrostatic Fluid Accelerator for and a Method of Controlling Fluid" has been examined and allowed for issuance as a U. S. patent (#6,727,657). The patent provides protection for key aspects of Kronos' technology until late in 2021. In December 2003, Kronos received formal notification from the United States Patent and Trademark Office indicating that its application entitled "Method of and Apparatus for Electrostatic Fluid Acceleration Control of a Fluid Flow" has been examined and allowed for issuance as a U. S. patent (#6,664,741). The patent provides protection for key aspects of Kronos' technology until late in 2020. In January 2003, Kronos received formal notification from the United States Patent and Trademark Office indicating that its application entitled "Electrostatic Fluid Accelerator" had been examined and allowed for issuance as a U. S. patent (#6,504,308). The patent will provide protection for key aspects of Kronos' technology until late in 2019. We have additional U. S. and foreign patent applications pending. The validity and breadth of our intellectual property claims in ion wind generation and electrostatic fluid acceleration and control technology involve complex legal and factual questions and, therefore, may be highly uncertain. Despite our efforts to protect our intellectual proprietary rights, existing copyright, trademark and trade secret laws afford only limited protection.

Our industry is characterized by frequent intellectual property litigation based on allegations of infringement of intellectual property rights. Although we are not aware of any intellectual property claims against us, we may be a party to litigation in the future.

Possible future impairment of intangible assets would have a material adverse effect on our financial condition.

Our net intangible assets of approximately $2.2 million as of September 30, 2004 consist principally of purchased patent technology and marketing intangibles, which relate to the acquisition of Kronos Air Technologies, Inc. in March 2000 and to the acquisition of license rights to fuel cell, computer and microprocessor applications of the Kronos(TM) technology not included in the original acquisition of Kronos Air Technologies, Inc. in May 2003. Intangible assets comprise 92% of our total assets as of September 30, 2004. Intangible assets are subject to periodic review and consideration for potential impairment of value. Among the factors that could give rise to impairment include a significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, and projections or forecasts that demonstrate continuing losses associated with these assets. In the case of our intangible assets, specific factors that could give rise to impairment would be, but are not limited to, an inability to obtain patents, the untimely death or other loss of

Dr. Igor Krichtafovitch, the lead inventor of the Kronos(TM) technology and Kronos Air Technologies Chief Technology Officer, or the ability to create a customer base for the sale or licensing of the Kronos(TM) technology. Should an impairment occur, we would be required to recognize it in our financial statements. A write-down of these intangible assets could have a material adverse impact on our total assets, net worth and results of operations.

Our common stock is deemed to be "Penny Stock," subject to special requirement and conditions and may not be a suitable investment.

Our common stock is deemed to be "penny stock" as that term is defined in Rule 3a51-1 promulgated under the Securities Exchange Act of 1934. Penny stocks are stocks:

- With a price of less than $5.00 per share;
- That are not traded on a "recognized" national exchange;
- Whose prices are not quoted on the Nasdaq automated quotation system (Nasdaq listed stock must still have a price of not less than $5.00 per share); or
- In issuers with net tangible assets less than $2.0 million (if the issuer has been in continuous operation for at least three years) or $5.0 million (if in continuous operation for less than three years), or with average revenues of less than $6.0 million for the last three years.

Broker/dealers dealing in penny stocks are required to provide potential investors with a document disclosing the risks of penny stocks. Moreover, broker/dealers are required to determine whether an investment in a penny stock is a suitable investment for a prospective investor. These requirements may reduce the potential market for our common stock by reducing the number of potential investors. This may make it more difficult for investors in our common stock to resell shares to third parties or to otherwise dispose of them. This could cause our stock price to decline.

We rely on management and research personnel, the loss of whose services could have a material adverse effect upon our business.

We rely principally upon the services of our senior executive management, and certain key employees, including the Kronos research team, the loss of whose services could have a material adverse effect upon our business and prospects. Competition for appropriately qualified personnel is intense. Our ability to attract and retain highly qualified senior management and technical research and development personnel are believed to be an important element of our future success. Our failure to attract and retain such personnel may, among other things, limit the rate at which we can expand operations and achieve profitability. There can be no assurance that we will be able to attract and retain senior management and key employees having competency in those substantive areas deemed important to the successful implementation of our plans to fully capitalize on our investment in the Kronos(TM) technology, and the inability to do so or any difficulties encountered by management in establishing effective working relationships among them may adversely affect our business and prospects. Currently, we do not carry key person life insurance for any of our executive management, or key employees.

ITEM 3. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Within 90 days prior to the filing date of this report, our Company carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. This evaluation was done under the supervision and with the participation of our Company's President and Chief Financial Officer. Based upon that evaluation, they concluded that our Company's disclosure controls and procedures are effective in gathering, analyzing and disclosing information needed to satisfy our Company's disclosure obligations under the Exchange Act.

Changes in Internal Controls. There were no significant changes in our Company's internal controls or in other factors that could significantly affect those controls since the most recent evaluation of such controls.

PART II

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

In October 2004, we issued five million shares of our common stock, valued at $0.10 per share at an aggregate value of $500,000 to Cornell Capital Partners, LLC. The proceeds will be used for general working capital. In October 2004, we issued 2,941,177 shares to Cornell Capital Partners, LLC as a commitment fee upon Kronos executing the $20 million Standby Equity Distribution Agreement. In the event this Agreement is terminated in accordance with the terms of this Agreement, or the Company does not forward any Advance Notices during the term of this Agreement, the Cornell shall return 2,500,000 shares of the commitment fee shares to the Company. In November 2004, we issued two million shares of our common stock valued at $0.10 per share at an aggregate value of $200,000 to Fusion Capital Partners, LLC. The proceeds were used to eliminate Kronos' non-interest bearing demand obligation to Fusion Capital (refer to Note 7 - Notes Payable to the Financial Statements).

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. EXHIBITS

EXHIBIT NO.	DESCRIPTION	LOCATION
2.1	Articles of Merger for Technology Selection, Inc. with the Nevada Secretary of State	Incorporated by reference to Exhibit 2.1 to the Registrant's Registration Statement on Form S-1 filed on August 7, 2001 (the "Registration Statement")
3.1	Articles of Incorporation	Incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 filed on August 7, 2001
3.2	Bylaws	Incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 filed on August 7, 2001
4.1	2001 Stock Option Plan	Incorporated by reference to Exhibit 4.1 to Registrant's Form 10-Q for the quarterly period ended March 31, 2002 filed on May 15, 2002
10.21	Consulting Agreement, dated January 1, 2001, by and between TSET, Inc. and Dwight, Tusing & Associates	Incorporated by reference to Exhibit 10.21 to the Registration Statement on Form S-1 filed on August 7, 2001
10.22	Letter Agreement, dated April 12, 2001, by and between TSET, Inc. and Daniel R. Dwight and Richard F. Tusing	Incorporated by reference to Exhibit 10.35 to the Registration Statement on Form S-1 filed on August 7, 2001
10.23	Indemnification Agreement, dated May 1, 2001, by and between TSET, Inc. and Jeffrey D. Wilson	Incorporated by reference to Exhibit 10.37 to the Registration Statement on Form S-1 filed on August 7, 2001
10.24	Indemnification Agreement, dated May 1, 2001, by and between TSET, Inc. and Daniel R. Dwight	Incorporated by reference to Exhibit 10.38 to the Registration Statement on Form S-1 filed on August 7, 2001
10.25	Indemnification Agreement, dated May 1, 2001, by and between TSET, Inc. and	Incorporated by reference to Exhibit 10.39 to the

	Richard F. Tusing	Registration Statement on Form S-1 filed on August 7, 2001
10.26	Indemnification Agreement, dated May 1, 2001, by and between TSET, Inc. and Charles D. Strang	Incorporated by reference to Exhibit 10.40 to the Registration Statement on Form S-1 filed on August 7, 2001
10.27	Indemnification Agreement, dated May 1, 2001, by and between TSET, Inc. and Richard A. Papworth	Incorporated by reference to Exhibit 10.41 to the Registration Statement on Form S-1 filed on August 7, 2001
10.28	Indemnification Agreement, dated May 1 2001, by and between TSET, Inc. and Erik W. Black	Incorporated by reference to Exhibit 10.42 to the Registration Statement on Form S-1 filed on August 7, 2001
10.29	Warrant Agreement, dated July 16, 2001, by and between TSET, Inc. and The Eagle Rock Group, LLC	Incorporated by reference to Exhibit 10.49 to the Registration Statement on Form S-1 filed on August 7, 2001
10.30	Agreement and Release, dated October 10, 2001, by and between TSET, Inc. and Jeffrey D. Wilson	Incorporated by reference to Exhibit 10.50 to the Registrant's Form 10-K for the year ended June 30, 2001 filed on October 15, 2001
10.31	Promissory Note dated October 10, 2001 payable to Mr. Jeffrey D. Wilson	Incorporated by reference to Exhibit 10.51 to the Registrant's Form 10-K for the year ended June 30, 2001 filed on October 15, 2001
10.32	Employment Agreement, effective November 15, 2001 by and between TSET, Inc. and Daniel R. Dwight	Incorporated by reference to Exhibit 10.55 to the Registrant's Form 10-Q for the quarterly period ended March 31, 2002 filed on May 15, 2002
10.33	Common Stock Purchase Agreement, dated August 12, 2002 by and between between TSET, Inc. and Fusion Capital Fund II, LLC	Incorporate by reference to Exhibit 10.57 to the Registrant's Form S-1 filed on August 13, 2002
10.34	Registration Rights Agreement, dated August 12, 2002 by and between TSET, Inc. and Fusion Capital Fund II, LLC	Incorporated by reference to Exhibit 10.58 to the Registrant's Form S-1 filed on August 13, 2002
10.35	Termination Agreement, dated August 12, 2002 by and between TSET, Inc. and Fusion Capital Fund II, LLC	Incorporated by reference to Exhibit 10.59 to the Registrant's Amendment No. 1 to Form S-1 filed on September 16, 2002
10.36	Master Loan and Investment Agreement, dated May 9, 2003, by and among Kronos Advanced Technologies, Inc., Kronos Air Technologies, Inc. and FKA	Incorporated by reference to the Registrant's 8-K filed on May 15, 2003

	Distributing Co. d/b/a HoMedics, Inc., a Michigan corporation ("HoMedics")	
10.37	Secured Promissory Note, dated May 9, 2003, in the principal amount of $2,400,000 payable to HoMedics	Incorporated by reference to Exhibit 99.2 to the Registrant's 8-K filed on May 15, 2003
10.38	Secured Promissory Note, dated May 9, 2003, in the principal amount of $1,000,000 payable to HoMedics	Incorporated by reference to Exhibit 99.4 to the Registrant's 8-K filed on May 15, 2003
10.39	Security Agreement dated May 9, 2003, by and among Kronos Air Technologies, Inc. and HoMedics	Incorporated by reference to Exhibit 99.4 to the Registrant's 8-K filed on May 15, 2003
10.40	Registration Rights Agreement, dated May 9, 2003, by and between Kronos and HoMedics	Incorporated by reference to Exhibit 99.5 to the Registrant's 8-K filed on May 15, 2003
10.41	Warrant No. 1 dated May 9, 2003, issued to HoMedics 8-K filed on May 15, 2003	Incorporated by reference to Exhibit 99.7 to the Registrant's
10.42	Warrant No. 2 dated May 9, 2003, issued to HoMedics	Incorporated by reference to Exhibit 99.7 to the Registrant's 8-K filed on May 15, 2003 2002
10.43	Consulting Agreement effective October 31, 2003, by and among Kronos Advanced Technologies, Inc., Steven G. Martin and Joshua B. on Scheinfeld	Incorporated by reference to Exhibit 10.67 to the Registrant's Form 10-Q for the quarterly period ended December 31, 2003 filed on February 17, 2004
10.44	Promissory Note by and among Kronos Advanced Technologies, Inc., and Richard A. Papworth	Incorporated by reference to Exhibit 10.67 to the Registrant's Form 10-Q for the quarterly period ended September 30, 2004 filed on May 17, 2004
10.45	Promissory Note by and among Kronos Advanced Technologies, Inc., and Daniel R. Dwight	Incorporated by reference to Exhibit 10.67 to the Registrant's Form 10-Q for the quarterly period ended September 30, 2004 filed on May 17, 2004
10.46	Promissory Note by and among Kronos Advanced Technologies, Inc., and Richard F. Tusing	Incorporated by reference to Exhibit 10.67 to the Registrant's Form 10-Q for the quarterly period ended September 30, 2004 filed on May 17, 2004
10.47	Promissory Note by and among Kronos Advanced Technologies, Inc., and Igor Krichtafovitch	Incorporated by reference to Exhibit 10.67 to the Registrant's Form 10-Q for the quarterly period ended September 30, 2004 filed on

		May 17, 2004
10.48	Promissory Note by and among Kronos Advanced Technologies, Inc., and J. Alexander Chriss	Incorporated by reference to Exhibit 10.67 to the Registrant's Form 10-Q for the quarterly period ended September 30, 2004 filed on May 17, 2004
10.49	Standby Equity Distribution Agreement, dated October 15, 2004, by and between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 99.1 to the Registrant's Form 8-K filed on November 12, 2004
10.50	Registration Rights Agreement, dated October 15, 2004, by and between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 99.2 to the Registrant's Form 8-K filed on November 12, 2004
10.51	Escrow Agreement, dated October 15, 2004, by and between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 99.3 to the Registrant's Form 8-K filed on November 12, 2004
10.52	Placement Agent Agreement, dated October 15, 2004, by and between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 99.4 to the Registrant's Form 8-K filed on November 12, 2004
10.53	Securities Purchase Agreement, dated October 15, 2004, by and between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 99.5 to the Registrant's Form 8-K filed on November 12, 2004
10.54	Investor Registration Rights Agreement, dated October 15, 2004, by and between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 99.6 to the Registrant's Form 8-K filed on November 12, 2004
10.55	Escrow Agreement, dated October 15, 2004, by and between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 99.7 to the Registrant's Form 8-K filed on November 12, 2004
10.56	Form of Equity-Back Promissory Note in the principal amount of $2,000,000	Incorporated by reference to Exhibit 99.8 to the Registrant's Form 8-K filed on November 12, 2004
10.57	First Amendment to Master Loan and Investment Agreement, dated October 25, 2004, by and among Kronos Advanced Form Technologies, Inc., f/k/a TSET, Inc., a Nevada corporation, Kronos Air Technologies, Inc., a Nevada corporation and FKA Distributing Co. d/b/a HoMedics, Inc., a Michigan corporation	Incorporated by reference to Exhibit 99.9 to the Registrant's 8-K filed on November 12, 2004
10.58	Secured Promissory Note, dated October 25, 2004, payable to FKA Distributing Co., d/b/a HoMedics, Inc., a Michigan corporation, in the principal amount of	Incorporated by reference to Exhibit 99.10 to the Registrant's Form 8-K filed on November 12, 2004

	$925,000	
10.59	Amended and Restated Warrant No. 1, dated October 25, 2004, issued to FKA Distributing Co. d/b/a HoMedics, Inc.	Incorporated by reference to Exhibit 99.11 to the Registrant's Form 8-K filed on November 12, 2004
10.60	Amended and Restated Warrant No. 2, dated October 25, 2004, issued to FKA Distributing Co. d/b/a HoMedics, Inc.	Incorporated by reference to Exhibit 99.12 to the Registrant's Form 8-K filed on November 12, 2004
10.61	Warrant No. 3, dated October 25, 2004, issued to FKA Distributing Co. d/b/a HoMedics, Inc.	Incorporated by reference to Exhibit 99.13 to the Registrant's Form 8-K filed on November 12, 2004
10.62	Amended and Restated Registration Rights Agreement, dated October 25, 2004, by And between Kronos Advanced Technologies Inc., a Nevada corporation and FKA Distributing Co. d/b/a HoMedics, a Michigan corporation	Incorporated by reference to Exhibit 99.14 to the Registrant's Form 8-K filed on November 12, 2004

EXHIBIT NO.	DESCRIPTION	LOCATION
31.1	Certification of Chief Executive Officer pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Provided herewith
31.2	Certification of Principal Financial Officer pursuant to U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Provided herewith
32.1	Certification by Chief Executive Officer and Principal Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Provided herewith

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATED: November 15, 2004 KRONOS ADVANCED TECHNOLOGIES, INC.

By: /s/ DANIEL R. DWIGHT

Daniel R. Dwight
President and Chief Executive Officer

By: /s/ DANIEL R. DWIGHT

Daniel R. Dwight
Acting Chief Financial Officer