KRONOS ADVANCED TECHNOLOGIES INC
Form 10KSB
October 15, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

OR

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

COMMISSION FILE NO. 000-30191

KRONOS ADVANCED TECHNOLOGIES, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

NEVADA	87-0440410
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

464 COMMON STREET, SUITE 301, BELMONT, MASSACHUSETTS	02478
(Address of Principal Executive Offices)	(Zip Code)

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

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

COMMON STOCK, PAR VALUE $0.001 PER SHARE
(Title of Class)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.
Yes X   No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ___

The aggregate market value of the voting common stock held by non-affiliates of the Registrant on October 8, 2004, was $8,585,338 based on the average bid and asked prices on such date of $0.14.

The Registrant had 61,323,845 shares of Common Stock, par value $0.001 per share, outstanding on October 8, 2004.

PART I

ITEM 1. BUSINESS

GENERAL DESCRIPTION OF BUSINESS

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.

OUR COMPANY

We are a Nevada corporation. Our principal executive offices are located at 464 Common Street, Suite 301, Belmont, Massachusetts 02478. Our telephone number is (617) 993-9965. The address of our website is www.kronosati.com. Information on our website is not part of this filing.

CORPORATE HISTORY

Kronos Advanced Technologies, Inc. was originally incorporated under the laws of the State of Utah on September 17, 1980 as Penguin Petroleum, Inc. Penguin Petroleum Inc.'s stockholders approved a name change on October 6, 1982 to Petroleum Corporation of America, Inc. On December 29, 1996, stockholders approved a reorganization whereby they exchanged their stock on a one-for-one basis with Technology Selection, Inc., a Nevada corporation. Technology Selection, Inc.'s shares began trading on the Over-the-Counter Bulletin Board on August 28, 1996 under the symbol "TSET." On November 19, 1998, Technology Selection, Inc. changed its name to TSET, Inc. Effective January 12, 2001, we began doing business as Kronos Advanced Technologies; and, as of January 18, 2002, we changed our ticker symbol to "KNOS." Our recent activities have been focused on capitalizing on our investment in Kronos Air Technologies, Inc., a wholly owned subsidiary of Kronos, and we have not, to date, generated significant operating revenues. We have never been party to any bankruptcy, receivership, or similar proceedings and, other than noted above, have not been party to any material reclassification, merger, or consolidation not in the ordinary course of our business.

BUSINESS STRATEGY

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.

- 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.

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Standalone Platform

- HoMedics Contract. 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.

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.

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 U.S. Navy SBIR Contracts. 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.

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" will be 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 to be built

under the Phase II contract. As of June 30, 2004, the U. S. Navy had provided Kronos with $355,000 in funding for this effort under the Phase II contract. The Company believes the remaining $225,000 will be realized by November 2004.

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.

o 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 June 30, 2004, the Company incurred $76,684 in costs that will be reimbursed by the US Army in a future period.

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 Business Jet Manufacturer. 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

Four Patents Allowed for Issuance: Kronos has received notification that four 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 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.

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" and "Electrostatic Fluid Accelerator" - Power Supply Management and Control 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. There are a number of corresponding patent applications, which have been filed and are pending outside of the United States.

MILESTONES

Our primary business objectives over the next 12 months are the launch of Kronos(TM)-based standalone consumer and commercial products and to establish strategic partners for developing and commercializing embedded product applications. The primary milestones necessary to achieve these objectives are as follows:

- mass production and marketing of the Kronos-based HoMedics standalone consumer product line;

- adaptation of the HoMedics standalone consumer product line for commercial applications including assisted living, nursing home and healthcare facilities;

- expansion of external partnerships and resources to facilitate the production and post-sale servicing of Kronos(TM)products;

- expansion of technical resources and product engineering to better position Kronos' ability to address specific customer issues and needs; and

- continuation of implementation of Kronos' intellectual property strategies, including continuation of its U.S. and international patent filing process to enable a full development and effective management of its intellectual property rights and assets.

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 the 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 U.S. Navy and Army awarded to Kronos Air Technologies, and cash flow generated from customer revenue. Pursuant to discussions with the companies that we will be licensing our technology, we anticipate generating cash flow in our 2005 fiscal year from advance funding from these companies for production development work. As set forth below, our agreement with HoMedics limits our ability to borrow money and as a result, required capital will be from the sale of equity, cash flow from operations and / or the sale or licensing of the Kronos(TM) technology to other parties.

HOMEDICS SENIOR DEBT TRANSACTION

In May 2003, Kronos entered into an agreement with a strategic customer, HoMedics, Inc., for $3.5 million in financing, including $3.4 million in secured debt financing and $100,000 for the purchase of warrants. $2.5 million was paid to Kronos upon execution of the agreement and $1.0 million will be paid upon the start of production as defined in the Licensing Agreement for the Kronos(TM) - based air purification product line to be marketed and distributed by HoMedics.

The loans have the following features: (i) six percent (6%) interest per annum with no interest payments during the first twelve months; (ii) five (5) year term with no payments required until August 2004, which is accrued and unpaid as of October 8, 2004, and principal amortized over the remaining four years with payments due quarterly unless HoMedics provides notice to waive the payment obligation for any given quarter, which in such event shall add to the final payment due; (iii) affirmative and negative covenants, including restrictions on Kronos' ability (a) to declare or pay distributions, dividends or management fees to any of its shareholders, (b) to incur, create, assume or permit to exist any

indebtedness or liability for borrowed money, or any other indebtedness or liability evidenced by notes, bonds, debentures, or similar obligations, or any other indebtedness whatsoever, with certain limited exceptions, (c) create, incur, assume or suffer to exist any mortgage, pledge, encumbrance security interest, lien or charge of any kind upon any of its property or assets, (d) to make loans, advances or extensions of credit to any person, with limited exceptions, (e) to guarantee or otherwise, directly or indirectly, in any way be or become responsible for obligations of any person, and (f) to purchase, redeem, retire or otherwise acquire any of the shares of its capital stock; (iv) a setoff arrangement with HoMedics' license whereby the outstanding principal and accrued interest on the note shall be offset by any royalty payments due to Kronos from HoMedics; and (v) a security interest in Kronos' assets, including its intellectual property. In exchange for providing $3.4 million in debt financing and $100,000, Kronos provided HoMedics with two warrants: (i) 6.7 million warrants (which equated to 10% of the then fully diluted shares) fully vested at the time of funding and (ii) 6.7 million warrants (which equated to 10% of the then fully diluted shares) which will vest only (1) if Kronos does not prepay the entire amount of principal and interest due under the Notes by

November 8, 2005; (2) upon a default by Kronos, or (3) Kronos does not earn, at any time after the date of this agreement but prior to November 8, 2005, revenues in an aggregate amount equal to or greater than $3.5 million. The exercise price was set at the market price at the time of closing ($0.10). HoMedics has antidilution rights for any funds raised at less than $0.20 per share, excluding options or shares issued to management, directors, and consultants in the normal course of business. HoMedics antidilution rights do not apply for funds raised at greater than $0.20 per share.

CORNELL CAPITAL TRANSACTION

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 intends to use the proceeds under the the Standby Equity Distribution Agreement to repay the Equity Backed Promissory Notes. Kronos expects to receive $0.5 million in funding upon the amendment of the HoMedics debt financing, $2 million over the next 45 - 90 days and an additional $2 million over the next 90 - 120 days under these agreements.

EMPLOYEES

On June 30, 2004, Kronos and its subsidiaries had eleven full-time employees. Of the total number of full-time employees, one works in general management, seven in research and product development, two in marketing and sales and operations, one in finance, and none are employed in administrative and other support positions. None of the employees are represented by unions. There has been no disruption of operations due to a labor dispute. We consider our relations with our employees to be good.

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 $2.5 million for the year ended June 30, 2004. We incurred a net loss from continuing operations of $2.8 million for the fiscal year ended June 30, 2003. As a result, at June 30, 2004 and 2003, we had an accumulated deficit of $20 million and $17.5 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 secured 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 June 30, 2004 and 2003, we had a working capital deficit of $1.2 million and $1.2 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 fiscal years ended June 30, 2004 and 2003, we had an operating cash flow deficit of $2.8 million and $2.0 million, 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 June 30, 2004 and 2003, we had a cash balance of $69,000 and $641,000, 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 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 $2.3 million as of June 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 91% of our total assets as of June 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 2. PROPERTIES

Our principal executive office is located at 464 Common Street, Suite 301, Belmont, Massachusetts. The offices of the Kronos Research Center are located at 8549/8551 154th Avenue NE, Redmond, Washington. Kronos is committed through June

30, 2005 to annual lease payments on operating leases for 4,000 square feet of office/research lab premises of $61,836 per year. We consider our existing facilities to be adequate for our foreseeable needs.

ITEM 3. LEGAL PROCEEDINGS

None

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock trades on the Over-the-Counter Bulletin Board under the trading symbol "KNOS." Our high and low bid prices by quarter during fiscal 2004 and 2003 are presented as follows:

	FISCAL YEAR 2004	
	HIGH	LOW
First Quarter (July 2003 to September 2003)	$0.450	$0.220
Second Quarter (October 2003 to December 2003)	$0.370	$0.230
Third Quarter (January 2004 to March 2004)	$0.330	$0.180
Fourth Quarter (April 2004 to June 2004)	$0.255	$0.155

	FISCAL YEAR 2003	
	HIGH	LOW
First Quarter (July 2002 to September 2002)	$0.200	$0.140
Second Quarter (October 2002 to December 2002)	$0.170	$0.110
Third Quarter (January 2003 to March 2003)	$0.129	$0.087
Fourth Quarter (April 2003 to June 2003)	$0.290	$0.085

On October 8, 2004, the closing price of our common stock as reported on the Over-the-Counter Bulletin Board was $0.14 per share. On October 8, 2004, we had approximately 2,000 beneficial stockholders of our common stock and 61,323,845 shares of our common stock were issued and outstanding.

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DIVIDENDS

We have not declared or paid dividends on our common stock during fiscal 2003 or 2004 and do not plan to declare or pay dividends on our common stock during fiscal 2005. Our dividend practices are determined by our Board of Directors and may be changed from time to time. We will base any issuance of dividends upon our earnings (if any), financial condition, capital requirements, acquisition strategies, and other factors considered important by our Board of Directors. Nevada law and our Articles of Incorporation do not require our Board of Directors to declare dividends on our common stock. We expect to retain any earnings generated by our operations for the development and expansion of our business and do not anticipate paying any dividends to our stockholders for the foreseeable future.

RECENT SALES OF UNREGISTERED SECURITIES

Except as otherwise noted, all of the following shares were issued and options and warrants granted pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." No commissions were paid, and no underwriter participated, in connection with any of these transactions. Each such issuance was made pursuant to individual contracts which are discrete from one another and are made only with persons who were sophisticated in such transactions and who had knowledge of and access to sufficient information about Kronos to make an informed investment decision. Among this information was the fact that the securities were restricted securities.

All investors participating in private placements for cash were "accredited investors" within the meaning of Regulation D. In addition, we note that there are several categories of recipients of these shares. These include investors for cash, officers, directors, consultants, litigants and former shareholders of private companies acquired by Kronos. Kronos does not believe that these categories of recipients should be integrated with each other under the concept of integration. Under Securities Act Release Nos. 4552 and 4434, these categories would not involve a single plan of financing and would not be considered to be made for the same general purpose. As a result, each category should be reviewed on its own. Given the small number of purchasers in these categories, Kronos believes that these transactions complied in all respects with Section 4(2). Kronos believes that this conclusion is true even if the transactions occurring within each category are integrated with other transactions occurring within six months or one year of a given transaction.

In July 2001, we issued 238,806 shares of our common stock, valued at $0.33 per share (the negotiated purchase price for such shares), to one person, a stockholder of Kronos, in exchange for $80,000 in cash.

In July 2001, we issued 375,000 shares of our common stock, valued at $0.57 per share (the fair market value of our shares as of such date), at an aggregate value of $213,750, to one person in settlement of litigation pursuant to a Mutual Release and Settlement Agreement dated as of July 7, 2001. These shares were delivered to the escrow agent on May 31, 2002.

In July 2001, we issued 250 shares of our common stock, valued at $0.45 per share (the fair market value of our shares as of such date), at an aggregate value of $113, to one person, an employee of Kronos Air Technologies, as compensation.

In August 2001, we granted a ten-year warrant to acquire 1,400,000 shares of our common stock, at an exercise price of $0.68 per share (the fair market value for our shares as of the date of grant), at an aggregate value of $686,000, to Eagle Rock Group as compensation pursuant to a warrant agreement dated August 7, 2001, for services provided in connection with a consulting agreement dated July 2, 2001. Pursuant to such consulting agreement, a principal of the recipient of the warrant currently serves as a director of Kronos. Such warrant vested immediately.

On October 1, 2001, we authorized the issuance of 360,000 shares of our common stock pursuant to a consulting agreement, valued at $0.28 per share (the fair-market value of our shares as of such date), at an aggregate value of $100,800, to Fusion Capital, LLC, in exchange for consulting services.

On October 1, 2001, we authorized the issuance of 1,000,000 shares of our common stock pursuant to a pledge, valued at $0.448 per share, at an aggregate value of $447,982, to Fusion Capital, LLC, in exchange for $447,982 in cash.

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On October 1, 2001, we issued 2,250 shares of our common stock, valued at $0.452

per share (the fair-market value of our shares on April 9, 2001 and 1,250 of our shares on September 7, 2001), at an aggregate value of $4,147.50, to an employee of Kronos, as compensation.

On November 15, 2001, we granted options to acquire 1,000,000 shares of our common stock at an exercise price of $0.66 for 250,000 of these options, $0.56 for 250,000 of these options and $0.42 for 500,000 of these options to Daniel R. Dwight, a senior executive office of the Company, as part of his employment agreement entitling him to acquire these options at a aggregate value of $515,000.

In February 2002, we granted options to acquire 4,580,000 shares of our common stock at an exercise price of $0.68 for 2,650,000 of these options and an exercise price of $0.25 on the remaining 1,930,000. Of the total amount, 2,850,000 options were granted to Daniel R. Dwight, Richard A. Papworth and Richard F. Tusing, all of whom are or were directors and officers of Kronos. The exercise price for 1,700,000 of these options is $0.68 and the exercise price for 1,150,000 of these options is $0.25.

On May 7, 2002, we completed a private placement of our common stock pursuant to which we sold 1,971,976 shares of our common stock at $0.17 per share to seven accredited investors for consideration of $335,100 cash and 1,429,695 shares of our common stock at $0.17 per share to six members or former members of our management team and / or directors, including Daniel R. Dwight, Richard A. Papworth, Richard F. Tusing, Erik W. Black, and James P. McDermott, for consideration of $39,987 cash and commitments to convert $203,061 of debt.

On June 12, 2002, we issued 500,000 shares of our common stock, valued at $0.21 per share (the fair-market value of our shares as of such date) at an aggregate value of $105,000 to two persons pursuant to a Settlement agreement, dated June 7, 2002, with Aperion Audio.

On December 6, 2002, we issued 100,000 shares of our common stock, valued at $0.115 per share (the fair-market value of our shares as of such date) at an aggregate value of $11,500 to Aperion Audio for forbearance on the note payable to Aperion Audio.

On December 24, 2002, we issued 206,000 shares of our common stock, valued at $0.11 per share (the fair-market value of our shares as of such date) at an aggregate value of $22,660 for reduction in debt owed to Jeffery A. Wilson.

On March 3, 2003, we granted options to acquire 2,165,000 shares of our common stock at an exercise price of $0.185. Of the 2,165,000 options, 1,560,000 options were granted to Daniel R. Dwight, Richard A. Papworth and Richard F. Tusing, all of whom are or were directors and officers of Kronos.

On March 31, 2003, we issued 49,811 shares of our common stock, valued at $0.17 per share (the fair-market value of our shares as of such date) at an aggregate value of $8,468 for reimbursement of expenses to an employee.

On May 7, 2003, we issued 2,790,000 shares of our common stock, valued at $.098 per share (the fair-market value of our shares as of such date) at an aggregate value of $273,420 to acquire certain intellectual property rights related to "Electron Wind Generation". These shares were issued with certain rights allowing the Company to buy back all or a portion of the shares at fixed prices through the year 2006. The Company has the right to buy back shares at $0.15 per share in 2003, $.017 per share in 2004, $0.19 in 2005 and $0.20 in 2006.

On May 12, 2003. we issued warrants to purchase 13,492,342 shares of our common stock at an exercise price of $0.10. The warrants were issued as part of a secured financing with HoMedics.

On June 30, 2003, we issued 207,533 shares of our common stock, valued at $0.165 per share (the fair-market value of our shares as of such date) at an aggregate value of $34,489 for services rendered to two outside consultants.

On June 30, 2003, we granted options to acquire 30,000 options of our common stock at an exercise price of $0.36 and 18,000 options at an exercise price of $0.10 to two outside consultants, respectively, for services rendered and 50,000 options at an exercise price of $0.185 to Jeffery A. Wilson, our former Chairman and Chief Executive Officer, for services rendered.

On October 31, 2003, we authorized the issuance of 360,000 shares of our common stock pursuant to a consulting agreement, valued at $0.22 per share (the fair-market value of our shares as of such date), at an aggregate value of $79,200, to Fusion Capital, LLC, in exchange for consulting services.

In February 2004, we authorized the issuance of 438,493 shares of our common stock, valued at $0.16 per share, at an aggregate value of $69,230, to Daniel Dwight, Richard Papworth and Richard Tusing in exchange for Board of Director services.

In March 2004, we granted options to acquire 2,126,522 options of our common stock at an exercise price of $0.18 to Alexander Chriss, Daniel Dwight, Igor Krichtafovitch, and Richard Tusing in exchange for the conversion of $1,063,261 in past due accounts payable into Promissory Notes due on December 31, 2006.

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

The following information should be read in conjunction with our consolidated financial statements and the notes thereto appearing elsewhere in this filing. Certain statements within this Item and throughout this Annual Report on Form 10-KSB and the documents incorporated herein are "forward-looking statements."

GENERAL

Kronos Advanced Technologies, Inc. is a high technology industrial company focused on developing, marketing and selling products based on the Company's proprietary air movement and purification technology. Kronos is attempting to actively commercialize its technology in a number of markets. Among the achievements of the Company over the past twelve months included the following:

|X| Technology and Intellectual Property:
- secured three additional U.S. patents for our proprietary technology and made additional U.S. and international patent filings;
- expanded our technical, research and product development team.

|X| Business Development, Marketing and Sales:
- earned over $0.5 million in revenue from military, consumer and commercial customer contracts;
- obtained Small Business Innovative Research Phase I Option and Phase II contracts with the U.S. Army for applying the Kronos technology for dehumidification.

|X| Operations:
- engaged Flextronics to design Kronos electronics for mass production;
- completed development and testing of a viable consumer standalone air purification product.

|X| Financial and Other:
- reduced our operating expenses by 28%, our third straight year of

operating cost reductions;
- recruited two new independent Board of Directors making our independent Directors the majority of our Board.

Recent Developments

HoMedics Contract. In August 2004, the Company and HoMedics, Inc. began preparing the Kronos-based consumer standalone product line for mass production. Preparing to meet the goal of mass production 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.

U.S. SBIR Contracts. In November 2002, Kronos executed an agreement with the U.S. Navy to develop a new ventilation system for naval ships. Working under a Small Business Innovation Research contract, the Company is in Phase II (commercialization phase) of this contract, which provides Kronos with $580,000 of developmental funding, plus a U.S. Navy option for $150,000 in additional funding. The Phase II contract 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 the 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 and Northrop Grumman of the specifications for the commercial products to be built under the Phase II contract. As of June 30, 2004, U. S. Navy had provided Kronos with $355,000 in funding under the Phase II contract. The Company believes the balance of the initial contract, $225,000, will be realized by November 2004.

U.S. Army SBIR Contracts. In October 2003, Kronos executed an agreement with the U. S. Army for a Small Business Innovation Research Phase II contract worth initially $369,000 for the first year with an Army option on the second year worth $360,000. The Phase II contract is an extension of the Phase I work that began in 2002. Phase I of the contract provides $120,000 to investigate and analyze the feasibility of the Kronos(TM) technology to reduce humidity in heating, ventilation and air conditioning (HVAC) systems. Dehumidification is essential to making HVAC systems more energy efficient. The Phase II funding will be used to manufacture devices that will attempt to further demonstrate the versatility of the Kronos(TM) technology to meet airflow, system pressure and reduced humidity requirements for HVAC systems. As of June 30, 2004, the Company incurred $76,684 in costs that will be reimbursed by the US Army in a future period.

Business Jet Manufacturer. 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 has initiated the next phase of design and development based on the customer's specific product application requirements.

Senior Debt Financing. In May 2003, Kronos entered into an agreement with a strategic customer, HoMedics, Inc., for $3.4 million in secured debt financing. $2.4 million was paid to Kronos upon execution of the agreement and $1.0 million will be paid upon the start of production as defined in the Licensing Agreement for the Kronos-based air purification product line to be marketed and distributed by HoMedics.

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 intends to use the proceeds under the Standby Equity Distribution Agreement to repay the Equity Backed Promissory Notes. Kronos expects to receive $0.5 million in funding upon the amendment of the HoMedics debt financing, $2 million over the next 45-90 days and an additional $2 million over the next 90-120 days under these agreements.

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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 recoverablility 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 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.

RESULTS OF OPERATIONS

Consolidated Statement of Operations For the Year Ended June 30, 2004.

Our net losses for each of the current years ended June 30, 2004 and June 30, 2003 were $2.5 million and $2.8 million, respectively. The decrease in the net loss for the year ended June 30, 2004, as compared to the prior year, was principally the result of a $0.8 million or 28% reduction in operating costs to $2.1 million, partially offset by a $0.4 million or 233% increase in interest expense to $0.6 million.

Revenue. Revenues are generated through sales of services for design and development of Kronos(TM) devices at Kronos Air Technologies, Inc. Revenues for the year ended June 30, 2004 were $533,000 compared with $559,000 in the prior year. Current year revenues were primarily from our HoMedics development agreement, U.S. Navy Small Business Innovative Research Phase II contract, U.S.

Army Small Business Innovative Research Phase I and Phase II contracts and our contract with a business jet manufacturer.

Cost of Sales. Cost of sales for the year ended June 30, 2004 was $379,000 compared with $314,000 for the prior year. Cost of sales is primarily research and development costs and material and labor associated with our HoMedics development agreement, U.S. Navy Small Business Innovative Research Phase II contract, U.S. Army Small Business Innovative Research Phase I and Phase II contracts and contract with a business jet manufacturer.

Selling, General and Administrative Expenses. Selling, General and Administrative expenses for the year ended June 30, 2004 decreased $0.8 million from the prior year to $2.1 million. The decrease was principally the result of a $801,000 reduction in professional services, and a $191,000 reduction in compensation and benefits expenses off set by a $156,000 increase in other selling, general and administrative expense. The reduction in professional services was primarily the result of (i) a reduction in legal costs as a result of the completion of the restructuring of the Company in 2003; (ii) a reduction in accounting and auditing expenses as a result of the change in public accountants in August 2003; and a reduction in consulting expenses as a result of Richard F. Tusing, our Chief Operating Officer, as a result of terminating his consulting agreements and entering into a new employment agreement with Kronos in January 2003 and (iii) the completion of a twelve month consulting agreement with the Eagle Rock Group, LLC in March 2003. The increase in other selling, general and administrative expense was primarily the result of an increase in Directors and Officers, general liability and product liability insurance.

Consolidated Balance Sheet as of June 30, 2004

Our total assets at June 30, 2004 were $2.5 million compared with $3.2 million at June 30, 2003. Total assets at June 30, 2004 and June 30, 2003 were comprised primarily of $2.3 million and $2.5 million, respectively, of patents/intellectual property. Total current assets at June 30, 2004 and 2002 were $238,000 and $724,000, respectively, while total current liabilities for those same periods were $1.4 million and $1.9 million, respectively, creating a working capital deficit of $1.2 million at each respective period end. This working capital deficit is primarily due to the current portion of notes payable due to HoMedics.

Shareholders' deficit as of June 30, 2004 and 2003 was ($1.4 million). The $2.5 million loss from continuing operations for the twelve months ended June 30, 2004 was offset by the sale and issuance, net of offering costs, of $1.5 million of common stock and by the transfer $0.8 million of warrants from liabilities to shareholders' deficit.

Consolidated Statement of Operations For the Year Ended June 30, 2003.

Our net losses for each of the fiscal years ended June 30, 2003 and June 30, 2002 were $2.8 million. Our net loss from continuing operations for the fiscal year ended June 30, 2003 was $2.8 million compared with a net loss of $3.5 million for the prior year. The decrease in the net loss from continuing operations for the year ended June 30, 2003, as compared to the prior year, was principally the result of a 503% increase in revenue to $559,000 and a 14% reduction in operating costs to $2.9 million.

Revenue. Revenues are generated through sales of services for design and development of Kronos(TM) devices at Kronos Air Technologies, Inc. Revenues for the year ended June 30, 2003 were $559,000 compared with $93,000 in the prior year. June 30, 2003 revenues were primarily from our HoMedics development agreement, U.S. Navy Small Business Innovative Research Phase II contract, U.S. Army Small Business Innovative Research Phase I contract and our contract with a business jet manufacturer.

Cost of Sales. Cost of sales for the year ended June 30, 2003 was $314,000 compared with $78,000 for the prior year. Cost of sales is primarily research and development costs and material and labor associated with our HoMedics development agreement, U.S. Navy Small Business Innovative Research Phase II contract, U.S. Army Small Business Innovative Research Phase I contract and contract with a business jet manufacturer.

Selling, General and Administrative Expenses. Selling, General and Administrative expenses for the year ended June 30, 2003 decreased $469,000 from the prior year to $2.9 million. The decrease was principally the result of an $856,000 reduction in professional services, $108,000 reduction in general research and development expenses and $27,000 reduction in other selling, general and administrative expenses off set by a $511,000 increase in compensation and benefits. The reduction in professional services was primarily the result of Daniel R. Dwight, our President and Chief Operating Officer, and Richard F. Tusing, our Chief Operating Officer, terminating their consulting agreements with Kronos in November 2001 and January 2003, respectively, and the completion of a 12 month consulting agreement with the Eagle Rock Group, LLC in March 2003. The increase in compensation and benefits was primarily the result of Messrs. Dwight and Tusing entering into employment contracts with Kronos in November 2001 and January 2003, respectively.

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Consolidated Balance Sheet as of June 30, 2003

Our total assets at June 30, 2003 were $3.2 million compared with $2.4 million at June 30, 2002. Total assets at June 30, 2003 and June 30, 2002 were comprised primarily of $2.5 million and $2.2 million, respectively, of patents/intellectual property. Total current assets at June 30, 2003 and 2002 were $724,000 and $123,000, respectively, while total current liabilities for those same periods were $1.9 million and $1.8 million, respectively, creating a working capital deficit of $1.2 million and $1.7 million at each respective period end. This working capital deficit is primarily due to accrued expenses and payables to directors and officers.

Shareholders' deficit as of June 30, 2003 and 2002 was ($1.2 million) and ($385,000), respectively, representing a decrease of $849,000. The decrease in shareholders' equity is primarily the result of incurring a $2.8 million loss from continuing operations for the twelve months ended June 30, 2003, offset by the sale and issuance, net of offering costs, of $986,000 of common stock and the sale of $893,000 of unexercised warrants.

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 intends to use the proceeds under the Standby Equity Distribution Agreement to repay the Equity Backed Promissory Notes. Kronos expects to receive $0.5 million in funding upon the amendment of the HoMedics debt financing, $2 million over the next 45 - 90 days and an additional $2 million over the next 90 - 120 days under these agreements.

In May 2003, we closed on a $3.5 million secured financing from a strategic customer, HoMedics, Inc. $2.5 million was advanced to Kronos upon execution of the agreement and $1.0 million will be advanced upon the start of production for the Kronos-based air purification product line to be marketed and distributed by HoMedics.

In May 2002, we completed a successful private placement of our common stock through which we sold 1,971,176 shares of our common stock at $0.17 per share to seven accredited investors for consideration of $335,100 cash and 1,429,695 shares of our common stock at $0.17 per share to six members of our management team and / or directors for consideration of $39,987 cash and conversion of $203,061 of debt into equity.

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 June 30, 2004, Kronos has received $355,000 in funding under the U. S. Navy SBIR 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 June 30, 2004, the Company incurred $76,684 in costs that will be reimbursed by the US Army in a future period.

Net cash flow used in operating activities was $2.8 million for the year ended June 30, 2004. We were able to satisfy most of our cash requirements for this period from the proceeds of secured debt facility and the issuance and sale of our common stock.

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 have sold approximately 12.1 million shares of our common stock and have received $1.9 million.

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. Pursuant to discussions with the companies that we will be licensing our technology, we anticipate generating cash flow in our 2005 fiscal year from advance funding from these companies for production development work. 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 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.

ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements appear beginning at page F-1.

KRONOS ADVANCED TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2004

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Kronos Advanced Technologies, Inc.

We have audited the accompanying consolidated balance sheet of Kronos Advanced Technologies, Inc. and Subsidiary as of June 30, 2004 and 2003 and the related consolidated statements of operations, shareholders' deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kronos Advanced Technologies, Inc. and Subsidiary as of June 30, 2004 and 2003 and the results of their operations and their cash flows for the years then ended, in conformity with U. S. generally accepted accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred significant losses and has a working capital deficiency as more fully described in Note 3. These issues among others raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Sherb & Co., LLP

Sherb & Co., LLP
Certified Public Accountants

New York, New York
September 27, 2004

KRONOS ADVANCED TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS

	June 30, 2004	June 30, 2003

Assets		
Current Assets		
Cash	$ 69,063	$ 641,17
Accounts receivable, net	97,544	48,76
Other Current Assets	71,050	34,13
Total Current Assets	237,657	724,07
Property and Equipment	46,011	74,67
Less: Accumulated Depreciation	(39,719)	(46,63
Net Property and Equipment	6,292	28,04
Other Assets		
Intangibles	2,253,029	2,487,47
Total Other Assets	2,253,029	2,487,47
Total Assets	$ 2,496,978	$ 3,239,59
Liabilities and Shareholders' Deficit		
Current Liabilities		
Accrued expenses and payables to directors and officers	$ 36,258	$ 1,172,01
Accounts payable	272,544	218,33
Accrued expenses	312,346	174,67
Deferred revenue	3,218	133,75
Notes payable, current portion	798,926	185,67
Total Current Liabilities	1,423,292	1,884,45
Long Term Liabilities		
Notes payable		
Notes payable to directors & officers	1,063,266	-
Other notes payable	1,983,038	2,676,47
Discount on notes payable	(589,261)	(893,04
Total Long Term Liabilities	2,457,044	1,783,43
Total Liabilities	3,880,336	3,667,88
Redeemable Warrants	-	805,30
Shareholders' Deficit		
Common stock, authorized 500,000,000 shares of $.001 par value Issued and outstanding - 61,323,845 and 53,836,907, respectively	61,323	53,83
Capital in excess of par value	18,578,018	16,240,37
Accumulated deficit	(20,022,700)	(17,527,80

Total Shareholders' Deficit	(1,383,359)	(1,233,59
Total Liabilities and Shareholders' Deficit	$ 2,496,978	$ 3,239,59

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

KRONOS ADVANCED TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the year ended June 30,	
	2004	2003
Sales	$ 533,220	$ 558,590
Cost of sales	379,331	314,496
Gross Profit	153,889	244,094
Selling, General and Administrative expenses		
Compensation and benefits	840,205	1,031,375
Research and development	60,517	116,251
Professional services	355,454	1,156,903
Depreciation and amortization	360,955	284,647
Facilities	88,914	96,579
Other selling general and administrative expenses	382,907	226,716
Total Selling, General and Administrative expenses	2,088,952	2,912,471
Net Operating Loss	(1,935,065)	(2,668,377)
Other Income	56,000	83,380
Interest Expense	(615,831)	(184,845)
Net Loss	$ (2,494,896)	$ (2,769,842)
Basic Loss Per Share:		
Net Loss	$ (0.04)	$ (0.06)
Diluted Loss Per Share:		
Net Loss	$ (0.04)	$ (0.06)
Weighted Average Shares Outstanding	57,760,785	48,258,340

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

KRONOS ADVANCED TECHNOLOGIES, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Accum Defi
BALANCE at June 30, 2002	43,937,907	43,938	14,371,113	(14,75
Shares issued for cash	6,593,084	6,593	724,875	
Shares issued for debt reduction	306,000	306	33,854	
Amortization of deferred equity compensation				
Shares issued for acquisition of intellectual property rights	2,790,000	2,790	270,630	
Warrants issued to HoMedics	-	-	993,046	
Costs associated with equity financing	-	-	(216,055)	
Shares issued for consulting services	209,533	210	34,489	
Options issued for consulting services	-	-	28,426	
Net loss for the year ended June 30, 2003	-	-	-	(2,7
BALANCE at June 30, 2003	53,836,524	$ 53,837	$ 16,240,378	$ (17,5
Stock options issued for Board Service	-	-	19,179	
Shares issued for Board services	438,493	438	68,792	
Shares issued for cash	6,705,576	6,705	1,365,513	
Reclassification of redeemable warrants	-	-	805,300	
Shares issued for consulting services	360,000	360	78,840	
Adjustment to stock	(16,748)	(17)	17	
Net loss for the year ended June 30, 2004	-	-	-	(2,4
BALANCE at June 30, 2004	61,323,845	$ 61,323	$ 18,578,019	$ (20,0

The accompanying notes are an integral part of this financial statement

KRONOS ADVANCED TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended June	
	2004	2
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (2,494,896)	$
Adjustments to reconcile net loss to net cash used in by operations		
Depreciation and amortization	360,955	
Accretion of note discount	303,786	
Common stock issued for compensation/services	167,609	
Change In:		
Accounts receivable	(48,778)	
Prepaid expenses and other assets	(36,916)	
Deferred revenue	(130,533)	
Accounts payable	(596,666)	
Accrued expenses and other liabilities	(347,215)	
Net cash used in Operating Activities	(2,822,654)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	-	
Investment in patent protection	(104,760)	
Net cash used in Investing Activities	(104,760)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common stock	1,372,218	
Proceeds from short-term borrowings	200,000	
Repayments of short-term borrowings	(355,396)	
Proceeds from long-term borrowings	1,138,478	
Net cash provided by Financing Activities	2,355,300	
NET (DECREASE) INCREASE IN CASH	(572,114)	
CASH		
Beginning of year	641,178	
End of year	$ 69,064	$
Supplemental schedule of non-cash investing and financing activities:		
Interest paid in cash	$ 15,667	$
Non-cash investing and financing activities:		
Debt satisfied with stock	$ -	$
Accounts payable/accrued expenses converted to notes payable	$ 1,139,903	$
Acquisition of intellectual property with stock	$ -	$
Issuance of warrants for secured financing	$ -	$

The accompanying notes are an integral part of this financial statement.

KRONOS ADVANCED TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

Kronos Advanced Technologies, Inc. ("Kronos") is a Nevada corporation (the "Company"). The Company's shares began trading on the over-the-counter bulletin board exchange on August 28, 1996 under the symbol "TSET." Effective January 12, 2002, the Company began doing business as Kronos Advanced Technologies, Inc. and, as of January 18, 2002, we changed the Company ticker symbol to "KNOS." We have confined most of our recent activities to develop the Kronos (TM) technology.

NOTE 2 - 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 June 30, 2004 and June 30, 2003. 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.

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The Company is required under SFAS 123 to disclose pro forma information regarding option grants made to its employees based on specified valuation techniques that produce estimated compensation charges. For the purpose of pro forma disclosures, the estimated fair value of the options is amortized over the vesting period. The pro forma information is as follows:

	June 30,			
	2004		2003	
	Reported	Pro Forma	Reported	Pro Forma
Net Loss	$ (2,495)	$ (2,815)	$ (2,737)	$ (2,978)
Earnings (loss) per Share:				
Basic	(0.04)	(0.04)	(0.06)	(0.06)
Diluted	(0.04)	(0.04)	(0.06)	(0.06)

The fair value of each option grant is estimated on the date of grant using the Black Scholes option-pricing method with the following weighted average assumptions used for grants as of June 30, 2004:

	2004	2003
Risk free interest rate	4.0%	4.0%
Expected dividend yield	0%	0%
Expected lives	3 to 10 years	3 to 10 years
Expected volatility	174%	140%

Recent Accounting Pronouncements.

In August 2002, the Financial Accounting Standards Board issued SFAS No. 146, "Accounting for Costs Associated with Exit, or Disposal Activities." This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities. The adoption of SFAS 146 had no significant impact on the Company's financial statements. This statement is effective for exit or disposal activities initiated after December 31, 2002.

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure--An Amendment of FASB Statement No. 123." This Statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The the adoption of SFAS 148 had no significant impact on the Company's financial statements. This statement is effective for interim periods beginning after December 15, 2002 and for fiscal years ending after December 15, 2002.

In April 2003, the Financial Accounting Standards Board issued SFAS No. 149, "Amendment of FASB Statement No. 133 on Derivative Instruments and Hedging Activities." This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Company believes the adoption of SFAS 149 will have not significant impact on its financial statements. The statement is effective for contracts entered into or modified after June 30, 2003.

In May 2003, the Financial Accounting Standards Board issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003 and, otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The effect of adopting SFAS No. 150 has been to reclassify $805,300 in Redeemable Warrants from a quasi-liability to the equity section of the balance sheet.

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In December 2003, the FASB revised FASB Statement No. 132, Accounting for Employers' Disclosures about Pensions and Other Post Retirement Benefits. Statement No. 132(R) revises employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans required by FASB Statements No. 87, Employers' Accounting for Pensions, No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, and

No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions. This Statement retains the disclosure requirements contained in FASB Statement No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits, which it replaces. It requires additional disclosures to those in the original Statement 132 about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The required information should be provided separately for pension plans and for other postretirement benefit plans. The Company does not believe the adoption of SFAS No. 132(R) will have a material impact on the Company's financial position, results of operations or cash flows.

In December 2003, the FASB revised FASB Interpretation No. 46, Accounting for Consolidation of Variable Interest Entities. This Interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements, which replaces FASB Interpretation No. 46, Consolidation of Variable Interest Entities, addresses consolidation by business enterprises of variable interest entities, which have one or more of the following characteristics:1) The equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties, including the equity holders. 2) The equity investors lack one or more of the following essential characteristics of a controlling financial interest: a. The direct or indirect ability to make decisions about the entity's activities through voting rights or similar rights; b. The obligation to absorb the expected losses of the entity; c. The right to receive the expected residual returns of the entity. 3) The equity investors have voting rights that are not proportionate to their economic interests, and the activities of the entity

involve or are conducted on behalf of an investor with a disproportionately small voting interest. The Company does not believe the adoption of FIN 46(R) will have a material impact on the Company's financial position, results of operations or cash flows.

NOTE 3 - REALIZATION OF ASSETS

The accompanying 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 current year ended June 30, 2004. In addition, the Company has used, rather than provided cash in its operations. The Company is currently using its resources to raise capital necessary to commercialize its technology and develop viable commercial products, 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 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.

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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. Preparing to meet the goal of mass production 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.

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" will be designed to be easily adjustable to a variety of parameters such as duct size, airflow requirements, and air quality. As of June 30, 2004, U. S. Navy had provided Kronos with $355,000 in funding for this effort under the Phase II contract.

US Army SRIR 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. The

U.S. Army will provide Kronos with funding under the terms of this contract and the full value of this contract will be realized by the Company by October 21, 2004. As of June 30, 2004 the Company incurred $76,684 in costs that will be reimbursed by the US Army in a future period.

HoMedics provided debt financing. In May 2003, Kronos entered into an agreement with a strategic customer, HoMedics, Inc., for $3.4 million in secured debt financing. $2.4 million was paid to Kronos upon execution of the agreement and $1.0 million will be paid upon the start of production as defined in the Licensing Agreement for the Kronos-based air purification product line to be marketed and distributed by HoMedics.

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.

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NOTE 4 - PREPAID AND OTHER CURRENT ASSETS

Prepaid and other current assets at June 30, consist of the following:

	2004	2003
Lease deposits	$ 10,365	$ 6,056
Prepaid Professional Fees	12,587	-
Prepaid insurance	4,104	27,079
Prepaid professional fees	-	1,000
Work in Progress	43,994	-
Prepaid and other current assets	$ 71,050	$ 34,135

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, consists of the following:

	2004	2003
Leasehold improvements	$ -	$ 5,139
Office furniture and fixtures	37,756	54,061
Machinery and equipment	8,255	15,473
	46,011	74,673
Less accumulated depreciation	(39,719)	(46,631)
Net property and equipment	$ 6,292	$ 28,042

Depreciation expense for the years ended June 30, 2004 and 2003 were $13,283 and $13,283, respectively.

NOTE 6 - INTANGIBLES

Intangible assets at June 30, consists of the following:

	2004	2003
Marketing intangibles	$ 587,711	$ 587,711
Purchased patent technology	2,669,355	2,669,355
Developed patent technology	239,715	133,454
	3,496,781	2,847,100
Less accumulated amortization	(1,243,752)	(904,547)
Net intangible assets	$ 2,253,029	$ 2,487,473

Purchased patent technology includes property that was acquired in the Kronos acquisition and relates to a patent application that was pending at the acquisition date. In January 2003, Kronos received formal notification from the US Patent and Trademark Office that this patent had been examined and allowed for issuance. In addition, it includes licensing rights on the above patent that was purchased in May 2003. The Company purchased license rights to fuel cell, computer and microprocessor applications of the Kronos(TM) technology for $543,420 ($270,000 cash and 2,790,000 restricted common shares valued at $273,420).

Intangible assets are being amortized on a straight line basis over 10 years. Amortization expense for the years ended June 30, 2004 and 2003 was $271,364 and $271,364, respectively.

NOTE 7 - ACCRUED EXPENSES

Accrued expenses at June 30, consist of the following:

	2004	2003
Accrued compensation	$ 55,913	$ 539,656
Accrued interest	166,276	24,467
Accrued professional services	90,157	131,696
	$ 312,346	$ 695,819

Interest on unpaid salaries is accruing at the rate of 12% per annum.

NOTE 8 - NOTES PAYABLE

The Company had the following obligations as of June 30, 2004 and 2003,

	2004	2003
Obligation to HoMedics (1)	$ 2,400,000	$ 2,400,000
Discount on obligation to HoMedics	(589,261)	(893,046)
Obligation to current Employees (2)	1,139,903	-
Obligation to Fusion Capital (3)	200,000	-
Obligation to former Director (4)	-	84,725
Obligation for finance leases (5)	50,327	72,424
Obligations to others (6)	55,000	305,000
	3,255,971	1,969,103
Less:		
Current portion	798,926	185,670
Total long term obligations net of current portion	$ 2,457,044	$ 1,783,433

(1) This note has a 5 year term and bears interest at 6% with no payments required until August 2004. The August payment is accrued and unpaid as of October 8, 2004. 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 0% and 12%. They represent obligation to current employees of the Company. At July 1, 2004, the interest rate on one note for $76,637 increased from 0% to 17%.

(3) This is a non-interest bearing demand obligation and is only outstanding until Fusion Capital purchases enough stock from the Company to eliminate the advance position.

(4) This note is to a former director of the Company and bears interest at 12%. The note calls for quarterly payments of principal and interest of $10,000 until the note is paid in full. As of June 30, 2004 this note has been paid in full.

(5) See Note 9 below.

(6) There was one obligation to others. This obligation was originally incurred for the acquisition of license rights of the Kronos(TM) technology (see note 7) 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.

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NOTE 9 - LEASES

The Company has entered into a non-cancelable operating lease for facilities. Rental expense was approximately $66,500 and $66,500 for years ended June 30, 2004 and 2003, respectively. Future minimum lease payments under this operating lease are $61,800 for the year ending June 30, 2005 and $0 thereafter.

The Company has entered into capital leases for equipment. 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:

Year ended June 30,	
2005	$ 36,337
2006	25,903
Total minimum lease payments	62,240
Less: Imputed interest	(11,912)
Present value of net minimum lease payments	$ 50,328

In the year ended June 30, 2004, the Company paid $22,095 in principal and $16,449 in interest on capital leases. 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.

NOTE 10 - EARNINGS (LOSS) PER SHARE

As of June 30, 2004, there were outstanding options to purchase

12,813,812 shares of Kronos common stock and outstanding warrants to purchase 15,792,342 shares of Kronos common stock. These options and warrants have been excluded from the earnings per share calculation as their effect is anti-dilutive. As of June 30, 2003 there were outstanding options to purchase 10,101,675 shares of Kronos common stock and outstanding warrants to purchase 15,792,342 shares of Kronos common stock. These options and warrants have been excluded from the earnings per share calculation as their effect is anti-dilutive.

NOTE 11 - INCOME TAXES

The composition of deferred tax assets and the related tax effects at June 30, 2004 and 2003 are as follows:

	2004	2003
Benefit from carryforward of capital and net operating losses	$ 4,841,083	$ 4,034,973
Other temporary differences	156,740	188,206
Less:		
Valuation allowance	(4,997,823)	(4,223,178)
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:

	June 30,		
	2004		2003
	Amount	% of pre-tax Loss	Amount
Benefit for income tax at:			
Federal statutory rate	$ 785,606	34.0%	$ 941,746
State statutory rate	46,055	2.0%	55,208
Non-deductible expenses	271,209	11.7%	319,977
Acquired NOL and other	-	0.0%	0
Increase in valuation allowance	(1,102,870)	(47.7)%	(1,316,931)
	$ -	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 June 30, 2004, for federal income tax and alternative minimum tax reporting purposes, the Company has approximately $10.9 million of unused Federal net operating losses, $2.3 million capital losses and $9.4 million 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

2023 and could be subject to limitations if significant ownership changes occur in the Company.

NOTE 12 - CONSULTING AGREEMENTS

On October 1, 2001, the Company entered into a 15 month consulting agreement with Joshua B. Scheinfeld and Steven G. Martin 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 1, 2001 as the share grant is non-forfeitable and fully vested on that date. The stock was valued on that date at $0.28 a share (the closing price for the Company's common stock on the measurement date). The stock issuance, valued at $100,800 was recorded as a prepaid consulting fee and was amortized to Professional Fee Expense ratably over the 15 month term of the contract. Under this contract, expenses of $40,320 were recorded for the year ended June 30, 2003.

On October 31, 2003, the Company entered into a 10 month consulting agreement with Joshua B. Scheinfeld and Steven G. Martin for consulting services with respect to operations, 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 is 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, valued at $79,200 was recorded as a prepaid consulting fee and was amortized to Professional Fee Expense ratably over the 10 month term of the contract. Under this contract, expenses of $63,360 were recorded for the year ended June 30, 2004.

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Effective March 11, 2002, the Company entered into a new agreement with the Eagle Rock Group for a nearly one year period ending March 1, 2003. Pursuant to the agreement, the Company issued a note for the outstanding balance of $120,000 due to The Eagle Rock Group, which has been paid in full. The Company granted Eagle Rock a ten-year warrant granting them the right to purchase 900,000 shares of our common stock. Two hundred and fifty thousand (250,000) warrant shares at an exercise price of $0.42 and two hundred and fifty thousand (250,000) warrant shares at an exercise price of $0. 205 (the closing price of the Company's common stock on March 1, 2002) were earned over a 12-month period and four hundred thousand (400,000) warrant shares at an exercise price of $0.145 were earned upon securing of our Licensing Agreement with HoMedics. These warrants are irrevocable and are fully vested. For the 400,000 warrants earned upon securing the HoMedics License Agreement, the measurement date is October 22, 2003 as the warrants became fully vested and non-forfeitable on the date. The value assigned to these 400,000 warrants is $56,800 and was determined using the Black-Scholes option valuation model. The $56,800 was expensed in the period of the measurement date. For the other 500,000 warrants, the measurement date is March 1, 2002 as the warrants are fully vested and non-forfeitable on that date. The value assigned to these warrants is $62,500 and was determined using the Black-Scholes option valuation model. The 500,000 warrants are for general consulting services for a 12 month period. The $62,500 was expensed ratably over the term of the consulting contract. Under this contract, expenses of $98,467 were recorded for the year ended June 30, 2003.

NOTE 13 - STOCK OPTIONS AND WARRANTS

On February 12, 2002, the Board of Directors approved the TSET, Inc. Stock Option Plan under which Kronos' key employees, consultants, independent contractors, officers and directors are eligible to receive grants of stock options. Kronos has reserved and issued a total of 6,250,000 shares of common stock under the Stock Option Plan. Prior to that, the Company had no formal stock option plan but offered as special compensation to certain officers, directors and third party consultants the granting of non-qualified options to purchase Company shares at the market price of such shares as of the option grant date. The options generally have terms of three to ten years. The Company granted non-qualified stock options totaling 3,239,782 and 6,084,900 shares in the years ended June 30, 2004 and 2003, respectively.

The Company has elected to follow APB No. 25; "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations in accounting for its employee stock options. Under APB 25, 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. Pro forma information regarding net income per share is required by SFAS No. 123, "Accounting for Stock-Based Compensation", and has been determined as if the Company had accounted for its employee stock options under the fair value method of that statement

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the Company's opinion the existing available models do not necessarily provide a reliable single measure of the fair value of the Company's employee stock options. Using the Black-Scholes option valuation model, the weighted average grant date fair value of options granted during the years ended June 30, 2004 and 2003 was $0.18 and $0.10 per option share, respectively.

A summary of the Company's stock option activity and related information for the years ended June 30, 2004 and 2003 is as follows (in thousands, except per share amounts):

	Shares	Weighted Average Exercise Price
Outstanding at June 30, 2002	7,642	0.61
Granted	2,460	0.22
Exercised	-	-
Cancelled	-	-
Outstanding at June 30, 2003	10,102	0.52
Granted	3,240	0.19
Exercised	-	-
Cancelled	(529)	0.89
Outstanding as June 30, 2004	12,813	$ 0.42

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A summary of options outstanding and exercisable at June 30, 2004 and 2003 is follows (in thousands, except per share amounts and years):

	Options Outstanding			Options Exerc
Range of Exercise Prices	Options	Weighted Average Remaining Life (in years)	Weighted Average Exercise Price	Range of Exercise Prices
June 30, 2004				
$0.71 - $1.12	1,670	3.5	$0.89	$0.71 - $1.12
$0.21 - $0.70	5,975	7.3	$0.49	$0.21 - $0.70
$0.00 - $0.20	5,168	8.8	$0.18	$0.00 - $0.20
June 30, 2003				
$0.71 - $1.12	2,129	3.7	$0.92	$0.71 - $1.12
$0.21 - $0.70	5,720	8.5	$0.50	$0.21 - $0.70
$0.00 - $0.20	2,253	9.5	$0.18	$0.00 - $0.20

A summary of the Company's stock warrant activity and related information for the years ended June 30, 2004 and 2003 is as follows (in thousands, except per share amounts):

	Warrants	Weighted Average Exercise Price
Outstanding at June 30, 2002	1,900	$0.58
Granted	13,892	0.10
Exercised	-	-
Cancelled	-	-
Outstanding as June 30, 2003	15,792	$ 0.16
Granted	-	-
Exercised	-	-
Cancelled	-	
Outstanding as June 30, 2004	15,792	$ 0.16

NOTE 14 - COMMITMENTS AND CONTINGENCIES

In May 2003, Kronos entered into an agreement with a strategic customer, HoMedics, Inc., for $3.5 million in financing, including $3.4 million in secured debt financing and $100,000 for the purchase of warrants. $2.5 million was paid to Kronos upon execution of the agreement and $1.0 million will be paid upon the start of production as defined in the Licensing Agreement for the Kronos-based air purification product line to be marketed and distributed by HoMedics. There is a risk that we will not be successful in achieving production as defined in the Licensing Agreement. In exchange for providing $3.4 million in debt financing and $100,000, Kronos provided HoMedics with two warrants: (i) 6.7 million warrants (which equated to 10% of the then fully diluted shares) fully vested at the time of funding and (ii) 6.7 million warrants (which equated to 10% of the then fully diluted shares) which will vest only if (1) Kronos does not prepay the entire amount of principal and interest due under the Notes by November 8, 2005; (2) Kronos is in default under any of the Investment Documents, or (3) Kronos does not earn, at any time after the date of this Agreement but prior to November 8, 2005, revenues in an aggregate amount equal to or greater than $3.5 million. The exercise price was set at the market price at the time of closing ($0.10). HoMedics may not be diluted below 7.5% for the first warrant (15% for both warrants) for any funds raised at less than $0.20 per share, excluding options or shares issued to management, directors, and consultants in the normal course of business. No anti-dilution measures for funds raised at greater than $0.20 per share.

Daniel R. Dwight, our President and Chief Executive Officer, and our Company entered into an Employment agreement effective as of November 15, 2001. The initial term of Mr. Dwight's Employment Agreement was for 2 years and will automatically renew for successive 1 year terms unless Kronos or Mr. Dwight provide the other party with written notice within 3 months of the end of the initial term or any subsequent renewal term. The Board of Directors renewed Mr. Dwight's Employment Agreement on August 13, 2003 and again on August 15, 2004. Mr. Dwight's Employment Agreement provides for base cash compensation of $180,000 per year. Mr. Dwight is eligible for annual incentive bonus compensation in an amount equal to Mr. Dwight's annual salary based on the achievement of certain bonus objectives. In addition, Kronos granted Mr. Dwight 1,000,000 immediately vested and exercisable, ten-year stock options at various exercise prices. Mr. Dwight will be entitled to fully participate in any and all 401(k), stock option, stock bonus, savings, profit-sharing, insurance, and other similar plans and benefits of employment.

Richard F. Tusing, our Chief Operating Officer, and our Company entered into an Employment agreement effective as of January 1, 2003. The initial term of Mr. Tusing's Employment Agreement is for 2 years and will automatically renew for successive 1 year terms unless Kronos or Mr. Tusing provide the other party with written notice within 3 months of the end of the initial term or any subsequent renewal term. Mr. Tusing's Employment Agreement provides for base cash compensation of $160,000 per year. Mr. Tusing will be entitled to fully participate in any and all 401(k), stock option, stock bonus, savings, profit-sharing, insurance, and other similar plans and benefits of employment.

NOTE 15 - MAJOR CUSTOMERS

As of June 30, 2004, the Company has two major customers: HoMedics and the U.S. Navy. Of the $533,220 in revenue recorded in the year ended June 30, 2004, $477,032 or 89% was derived from these two customers. As of June 30, 2003, the Company has two major customers: HoMedics and the U.S. Navy. Of the $559,000 in revenue recorded in the year ended June 30, 2003, $432,000 or 77% was derived from these two customers.

NOTE 16 - SEGMENTS OF BUSINESS

The Company operates principally in one segment of business: The Kronos segment licenses, manufactures and distributes air movement and purification devices utilizing the KronosTM technology. In the year ended June 30, 2004, the Company operated only in the United States of America.

NOTE 17 - RELATED PARTIES

As of June 30, 2004, the Company has outstanding obligations for past compensation to the remaining officers and directors of $1,139,903. These unpaid amounts currently accrue interest at the rates between 17% and 12% per annum.

NOTE 18 - STOCKHOLDERS' EQUITY (DEFICIT)

During the year ended June 30, 2004, the Company issued 6,705,576 shares of its common stock for $1,403,718 in cash. The Company issued 360,000 shares valued at $79,200 for consulting services and 438,493 shares of its common stock valued at $69,230 for board service to current members of the Board of Directors.

During the year ended June 30, 2003, the Company issued 6,593,000 shares of its common stock for $731,000 in cash. The Company issued 209,500 shares valued at $34,700 and options to purchase 224,700 shares of its common stock valued at $28,000 for consulting services.

In May 2003, the Company issued 2,790,000 shares of its common stock to acquire intellectual property rights related to computers, microprocessors and fuel cells. These shares were issued with certain rights allowing the Company to buy back all or a portion of the shares at fixed prices through the year 2006. The Company has the right to buy back shares $.017 per share in 2004, $0.19 in 2005 and $0.20 in 2006.

In December 2002, the Company issued 206,000 shares in exchange for the assignment of a $206,000 note payable to Jeff Wilson, a former director. The Company also issued 100,000 shares to Aperion Audio to modify the payment schedule on its note payable to Aperion.

NOTE 19 - 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. Kronos intends to use the proceeds received under the Standby Equity Distribution Agreement to repay the Equity Backed Promissory Notes.

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, 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.

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

On August 22, 2003, we engaged Sherb & Company, LLP ("Sherb & Company") as our Independent Registered Public Accounting Firm to audit our financial statements. We did not consult Sherb & Company on any matters described in paragraph (a)(2)(i) or (ii) of Item 304 of Regulation S-K during our two most recent fiscal years or any subsequent interim period prior to engaging Sherb & Company.

ITEM 8A. 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.

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PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Our directors and executive officers and their ages as of October 8, 2004, are as follows:

NAME	AGE	POSITION
Daniel R. Dwight	44	Director; President and Chief Executive Officer
Richard F. Tusing	46	Director; Chief Operating Officer
Spencer I. Browne	53	Director
James P. McDermott	42	Director
M. J. Segal	60	Director

Daniel R Dwight, 44, has served as a Director of Kronos since November 2000, and as a Director and Chief Executive Officer of Kronos Air Technologies since January 2001. Effective October 16, 2001, Mr. Dwight was appointed President and Chief Executive Officer of Kronos. Effective January 1, 2004, Mr. Dwight was appointed Acting Chief Financial Officer of Kronos. He has extensive experience in private equity and operations in a wide variety of high growth and core industrial businesses. Mr. Dwight spent 17 years with General Electric including 10 years of operations, manufacturing, and business development experience with GE's industrial businesses, and seven years of international investment and private equity experience with GE Capital. He has had responsibility for over a $1 billion in merger and acquisition and private equity transactions at GE. Mr. Dwight initiated GE Capital's entry in the Asia private equity market. Between 1995 and 1999, the Asian equity portfolio grew to include consolidations, leveraged buyouts, growth capital and minority investments in diverse industries, including information technology, telecommunications services, consumer products, services and distribution, and contract manufacturing. Since 1982, Mr. Dwight has held other leadership positions domestically and internationally with GE Capital, as well as senior positions with GE Corporate Business Development (1989-1992) and GE Corporate Audit Staff (1984-1987). Mr. Dwight holds an MBA in Finance and Marketing with Honors from The University of Chicago Graduate School of Business and a B.S. in Accounting with Honors from the University of Vermont.

Richard F. Tusing, 46, has served as a Director of Kronos since October 2000 and as a Director of Kronos Air Technologies since January 2001 and was appointed Chief Operating Officer on January 1, 2002. Mr. Tusing has had extensive experience in developing new enterprises, negotiating the licensing of intellectual property rights, and managing technical and financial organizations, and has more than 20 years of business development, operations, and consulting experience in the technology and telecommunications industries. Prior to his services to Kronos, Mr. Tusing spent four years in executive management with several emerging technology companies, 14 years in various managerial and executive positions with MCI Communications Corporation, and three additional years in managerial consulting. From 1982-1996, Mr. Tusing held multiple managerial and executive positions with MCI Communications Corporation. From 1994-1996, he served as MCI's Director of Strategy and Technology, managing MCI's emerging technologies division (having primary responsibility for evaluating, licensing, investing in, and acquiring third-party technologies deemed of strategic importance to MCI), and also oversaw the development of several early-stage and venture-backed software and hardware companies; in this capacity, Mr. Tusing managed more than 100 scientists and engineers developing state-of-the-art technologies. From 1992-1994, Mr. Tusing founded MCI Metro, MCI's entree into the local telephone services business and, as MCI Metro's Managing Director, managed telecommunications operations, developed financial and ordering systems, and led efforts in designing its marketing campaigns. From 1990-1992, he served as Director of Finance and Business Development for MCI's western region. From 1982-1990, Mr. Tusing held other management and leadership positions within MCI, including service as MCI's Pacific Division's Regional Financial Controller, Manager of MCI's Western Region's Information Technology Division, and led MCI's National Corporate Financial Systems Development Organization. Mr. Tusing received B.S. degrees in business management and psychology from the University of Maryland in 1979.

Spencer I. Browne, 53, became a Director of Kronos in August 2003. Mr. Browne has over 30 years of corporate governance, operations and entrepreneurial expertise. He has held various executive and management positions with several New York Stock Exchange and NASDAQ listed companies. Since 1996, Mr. Browne has been a principal of Strategic Asset Management, LLC, a privately owned investment firm, which he founded in 1996. He also currently serves as a director and chairmen of Internet Commerce Corporation (NASDAQ: ICCA), a director of Annaly Mortgage Management (NYSE: NLY) and a director of Delta Financial Corporation (AMEX: DFC). From 1988 until 1996, Mr. Browne served as President, Chief Executive Officer and a director of Asset Investors Corporation (AIC), a New York Stock Exchange company (NYSE: ANL) he co-founded in 1986. He also served as President, Chief Executive Officer and a director of Commercial Assets, Inc., an affiliate of AIC, from its formation in 1993 until 1996. In addition, from 1990 until 1996, Mr. Browne served as President and a director of M.D.C. Holdings, Inc. (NYSE: MDC), the parent company of a major homebuilder in Colorado. Originally from Philadelphia, Mr. Browne graduated from the Wharton School of the University of Pennsylvania and Villanova University School of Law.

James P. McDermott, 42 became a Director of Kronos in July 2001. Mr. McDermott has over 20 years of financial and operational problem-solving experience. Mr. McDermott is a co-founder and is currently a Managing Director of Eagle Rock Advisors, LLC, the Manager for The Eagle Rock Group, LLC. From 1992 through 2000, Mr. McDermott held various managerial and executive positions with PennCorp Financial Group, Inc. and its affiliates. From 1998 through 2000, Mr. McDermott was Executive Vice-President and Chief Financial Officer of PennCorp Financial Group. While serving in this position, Mr. McDermott was one-third of the executive management team that was responsible for developing and implementing operational stabilization, debt reduction and recapitalization plans for the company. From 1995 through 1998, Mr. McDermott served as Senior Vice-President of PennCorp Financial Group. Mr. McDermott worked closely with the Audit Committee of the Board of Directors on evaluating the PennCorp's accounting and actuarial practices. In addition, Mr. McDermott was responsible for developing a corporate-wide technology management program resulting in technology convergence and cost savings to the company's technology budget. From 1994 through 1998, Mr. McDermott was a principal in Knightsbridge Capital Fund I, LP, a $92 million investment fund specializing in leverage-equity acquisitions of insurance and insurance-related businesses. Mr. McDermott was also the founding Chairman of the e-business Internet service provider, Kivex.com, and a senior manager of one of the world's leading public accounting firms, KPMG. Mr. McDermott received a B.S. Degree in Business Administration from the University of Wisconsin, Madison.

M. J. Segal, 60, became a Director of Kronos in September 2003. Mr. Mr. Segal has over 35 years of corporate governance, entrepreneurial and investment banking expertise. Mr. Segal founded the investment banking firm of M.J. Segal Associates in 1987. Since 1992, the firm has specialized in researching private equity opportunities in both private and emerging growth public companies. The Segal group caters primarily to institutional clients, private investment partnerships and professional money managers. After starting his career as a stockbroker and financial planner in 1966 with Philadelphia based New York Stock Exchange firm, Robinson & Company, Mr. Segal joined Josephthal & Co. Inc., a leading full-service investment banking and brokerage firm in New York. Mr. Segal has served as senior vice president of the congressionally charted National Corporation for Housing Partnerships in Washington, D. C. and president of its investment banking subsidiary and has qualified as a NASD broker/dealer financial principal. Originally from Philadelphia, Mr. Segal attended the Wharton School of the University of Pennsylvania and is a graduate of The New York Institute of Finance.

DIRECTORS

Our Board of Directors consists of eight seats. Directors serve for a term of one year and stand for election at our annual meeting of stockholders. Three of our current directors were elected at our annual meeting of stockholders held on December 30, 2002, and two additional directors were appointed in August and September 2003, respectively. Three vacancies currently exists on the Board of Directors as of the date of this filing. Pursuant to our Bylaws, a majority of directors may appoint a successor to fill any vacancy on the Board of Directors.

ADVISORY BOARD

We established an Advisory Board in July 2001 to assist management in the development of long-range business plans for our Company. Currently, William Poster and Charles Strang are the only Advisory Board Members.

Mr. Poster is a seasoned entrepreneur with a successful track record as a founder of several businesses spanning five continents. Mr. Poster has experience in developing business opportunities in the United States, Europe, Asia and the Middle East. Mr. Poster recently stepped down as President of Computer Systems & Communications Corporation, a wholly-owned subsidiary of General Dynamics. Computer Systems & Communications Corporation is a cutting-edge communications and technology company that Mr. Poster founded and later sold to General Dynamics. Mr. Poster is currently a principal with Eagle Rock Advisors, LLC.

Mr. Strang is a former Kronos Director from January 2001 through December 2002. Mr. Strang was named National Commissioner of NASCAR (National Association for Stock Car Racing) in 1998 and continues to serve in that capacity. In 1989 Mr. Strang received President Bush's American Vocation Success Award; in 1992 was elected to the Hall of Fame of the National Marine Manufacturers Association; in

1990 was awarded the Medal of Honor of the Union for International Motorboating; and is a life member of the Society of Automotive Engineers. He also currently serves as a Director of the American Power Boat Association (the U.S. governing body for powerboat racing) and Senior Vice-President of the Union for International Motorboating (the world governing body for powerboat racing, with approximately 60 member nations).

We will continue to evaluate additional potential candidates for our Advisory Board.

COMMITTEES

On September 11, 2001, the Board of Directors established a Compensation Committee consisting of at least two independent members of the Board of Directors. The Compensation Committee is charged with reviewing and making recommendations concerning Kronos' general compensation strategy, reviewing salaries for officers, reviewing employee benefit plans, and administering Kronos' stock incentive plan, once adopted and implemented. Messrs. Browne, McDermott and Segal are the current members of the Compensation Committee. During the year the Compensation Committee held three meetings. Each member attended at least 75% of the meetings.

On September 4, 2003, the Board of Directors established an Executive Committee. The purpose of the Executive Committee is to exercise all the powers and authority of the Board of Directors in the management of the property, affairs and business of the Company. The Committee shall consist of no fewer than three members, including the Chief Executive Officer of the Company. Messrs. Browne, Dwight, McDermott, Segal and Tusing are the current members of the Executive Committee. During the year the Executive Committee held five meetings. Each member attended at least 75% of the meetings.

On September 10, 2003, the Board of Directors established an Audit Committee consisting of at least two independent members of the Board of Directors. The Audit Committee is charged with providing independent and objective oversight of the accounting functions and internal controls of the Company and its subsidiaries to ensure the objectivity of the Company's financial statements. Messrs. Browne, McDermott and Segal are the current members of the Audit Committee. During the year the Audit Committee held three meetings. Each member attended at least 75% of the meetings.

COMPENSATION OF DIRECTORS

Cash Compensation. Our Bylaws provide that, by resolution of the Board of Directors, each director may be reimbursed his expenses of attendance at meetings of the Board of Directors; likewise, each director may be paid a fixed sum or receive a stated salary as a director. As of the date of this filing, no director receives any salary or other form of cash compensation for such service. No director is precluded from serving our Company in any other capacity and receiving compensation from us in connection therewith.

Share Based Compensation. Each non-executive director is entitled to receive annually 70,000 fully-vested stock option grants, 7,000 stock option grants per meeting attended via conference call, 14,000 option grants per meeting attended in person, 3,500 option grants per meeting for participation on a committee or 5,000 stock option grants per meeting for chairing a committee, as compensation for their services as members of our Board of Directors.

For the twelve month period ending June 30, 2004, Messrs. McDermott, Brown and

Segal have earned 243,000, 213,000, and 199,000 stock options, respectively as compensation for their services as members of our Board of Directors. Messrs. Tusing and Dwight have each been granted 5,068 shares of our common stock as compensation for their services as members of our Board of Directors during fiscal 2004. Effective August 6, 2003, non-executive directors, including Messrs. Dwight and Tusing will not be compensated separately for their services as members of our Board of Directors.

COMPLIANCE WITH SECTION 16(A) OF THE SECURITIES ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who own more than 10% of a registered class of our equity securities to file with the Securities and Exchange commission initial reports of ownership and reports of changes in ownership of Common Stock and other of our equity securities. Officers, directors and greater than 10% shareholders are required by SEC regulations to furnish us copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required during the fiscal year ended June 30, 2004, all Section 16(a) filing requirements applicable to our officers and directors were complied with.

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth compensation for the fiscal year ended June 30, 2004 for our executive officers:

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long-Term Compensation			
Name and Principal Fiscal Position	Year	Salary $	Bonus $	Other Compensation $	Restricted Stock Awards $	Securities Underlying Options/SARS #	LTIP Payouts $	C
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	
Daniel R. Dwight, President and Chief Executive Officer(1)	2004	180,000	--	14,292	--	726,206	--	
	2003	180,000	118,800(4)	12,288	--	660,000	--	
	2002	112,500	--	7,620	--	2,600,000	--	
Richard F. Tusing, Chief Operating Officer(2)	2004	160,000	--	--	--	971,756	--	
	2003	80,000	--	--	--	--	--	
	2002	--	--	--	--	--	--	
Richard A. Papworth Chief Financial Officer(3)	2004	120,000	--	--	--	--	--	
	2003	120,000	21,000(4)	--	--	300,000	--	
	2002	120,000	--	--	--	300,000	--	

(1) Mr. Dwight became President and Chief Executive Officer of Kronos effective October 16, 2001. He executed a two year employment contract on November 15, 2001. His contract was renewed on August 13, 2003 and again on August 15, 2004 by the Board of Directors. His annual salary is $180,000.

(2) Mr. Tusing became Chief Operating Officer of Kronos effective January 1, 2002. Mr. Tusing executed an employment contract effective January 1, 2003. Prior to this date, Mr. Tusing was compensated as a consultant to the Company. His annual salary is $160,000.

(3) Mr. Papworth was the Company's Chief Financial Officer from May 19, 2000 until January 1, 2004. His annual salary was $120,000. On June 30, 2004 Mr. Papworth ended his employment with Kronos.

(4) Cash Bonuses earned but not paid and have been included in accrued expenses.

AGGREGATED OPTIONS/SAR EXERCISES
IN LAST FISCAL YEAR AND
FISCAL YEAR END OPTIONS/SAR VALUES(1)

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AT FISCAL YEAR END(1)	VALUE OF UNEXERCISE IN-THE-MON OPTIONS/SARS FISCAL YEAR E
Daniel R. Dwight, President and Chief Executive Officer(3)	-0-	-0-	Exercisable: 4,129,806 Unexercisable: -0-	
Richard F. Tusing, Chief Operating Officer(4)	-0-	-0-	Exercisable: 2,344,956 Unexercisable: -0-	
Richard A. Papworth Chief Financial Officer(5)	-0-	-0-	Exercisable: 1,048,475 Unexercisable: -0-	

(1) These grants represent options to purchase common stock. No SAR's have been granted.

(2) The value of the unexercised in-the-money options were calculated by determining the difference between the fair market value of the common stock underlying the options and the exercise price of the options as of June 30, 2004.

(3) Mr. Dwight became President and Chief Executive Officer of Kronos effective October 16, 2001.

(4) Mr. Tusing became Chief Operating Officer of Kronos effective January 1, 2002.

(5) Mr. Papworth was the Company's Chief Financial Officer from May 19, 2000 until January 1, 2004. On June 30, 2004 Mr. Papworth ended his employment with Kronos.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

NAME	NO. OF SECURITIES UNDERLYING OPTIONS/SAR'S GRANTED (#)	% TOTAL OPTIONS/SAR'S GRANTED TO EMPLOYEES IN FISCAL YEAR (%)	EXERCISE OR BASE PRICE ($ PER SHARE)	EXPIRATION DATE
Daniel R. Dwight President and Chief Executive	726,206	22.4%	$ 0.180	March 22, 2014
Richard F. Tusing Chief Operating Officer	971,756	30.0%	$ 0.180	March 22, 2014

STOCK OPTION PLAN

On February 12, 2002, the Board of Directors approved the TSET, Inc. Stock Option Plan under which Kronos' key employees, consultants, independent contractors, officers and directors are eligible to receive grants of stock options. Kronos has reserved and issued a total of 6,250,000 shares of common stock under the Stock Option Plan. It is presently administered by Kronos' Board of Directors. Subject to the provisions of the Stock Option Plan, the Board of Directors has full and final authority to select the individuals to whom options will be granted, to grant the options and to determine the terms and conditions and the number of shares issued pursuant thereto.

EMPLOYMENT AGREEMENTS

Daniel R. Dwight, our President and Chief Executive Officer, and our Company entered into an Employment agreement effective as of November 15, 2001. The initial term of Mr. Dwight's Employment Agreement was for 2 years and will automatically renew for successive 1 year terms unless Kronos or Mr. Dwight provide the other party with written notice within 3 months of the end of the initial term or any subsequent renewal term. The Board of Directors renewed Mr. Dwight's Employment Agreement on August 13, 2003 and again on August 15, 2004. Mr. Dwight's Employment Agreement provides for base cash compensation of $180,000 per year. Mr. Dwight is eligible for annual incentive bonus compensation in an amount equal to Mr. Dwight's annual salary based on the achievement of certain bonus objectives. In addition, Kronos granted Mr. Dwight 1,000,000 immediately vested and exercisable, ten-year stock options at various exercise prices. Mr. Dwight will be entitled to fully participate in any and all 401(k), stock option, stock bonus, savings, profit-sharing, insurance, and other similar plans and benefits of employment.

Richard F. Tusing, our Chief Operating Officer, and our Company entered into an Employment agreement effective as of January 1, 2003. The initial term of Mr. Tusing's Employment Agreement is for 2 years and will automatically renew for successive 1 year terms unless Kronos or Mr. Tusing provide the other party with written notice within 3 months of the end of the initial term or any subsequent renewal term. Mr. Tusing's Employment Agreement provides for base cash compensation of $160,000 per year. Mr. Tusing will be entitled to fully participate in any and all 401(k), stock option, stock bonus, savings, profit-sharing, insurance, and other similar plans and benefits of employment.

EXECUTIVE SEVERANCE AGREEMENTS

The Employment Agreement of Daniel R. Dwight, our Chief Executive Officer, provides that, upon the occurrence of any transaction as defined as a "change of control" of Kronos, Mr. Dwight shall receive his salary and benefits for a period of time that is the greater of (i) one year or (ii) the remainder of Mr. Dwight's employment term.

The Employment Agreement of Richard F. Tusing, our Chief Operating Officer, provides that, upon the occurrence of any transaction as defined as a "change of control" of Kronos that is not approved by the Board of Directors, Mr. Tusing shall receive his salary, pro-rata bonus and benefits for a period of time that is the greater of (i) one year or (ii) the remainder of Mr. Tusing's employment term.

As of the date of this filing, we have not adopted any separate executive severance agreements.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

PRINCIPAL SHAREHOLDERS

The following table presents certain information regarding the beneficial ownership of all shares of common stock at October 8, 2004 for each executive officer and director of our Company and for each person known to us who owns beneficially more than 5% of the outstanding shares of our common stock. The percentage ownership shown in such table is based upon the 54,336,524 common shares issued and outstanding at October 8, 2004 and ownership by these persons of options or warrants exercisable within 60 days of such date. Also included is beneficial ownership on a fully diluted basis showing all authorized, but unissued, shares of our common stock at October 8, 2004 as issued and outstanding. Unless otherwise indicated, each person has sole voting and investment power over such shares.

	COMMON STOCK BENEFICIALLY OWNED	
NAME AND ADDRESS	NUMBER	PERCENT
Daniel R. Dwight 464 Common Street Suite 301 Belmont, MA 02478	4,481,732(1)	7.4%
Richard F. Tusing 464 Common Street Suite 301 Belmont, MA 02478	2,780,718(2)	3.6%
James P. McDermott 464 Common Street Suite 301 Belmont, MA 02478	608,077(3)	1.0%

Spencer I. Browne 464 Common Street Suite 301 Belmont, MA 02478	231,000(4)	0.4%
Milton M. Segal 464 Common Street Suite 301 Belmont, MA 02478	199,000(5)	0.3%
All Officers and Directors of Kronos	8,301,527 (6)	13.5%

(1) Includes options to purchase 4,129,806 shares of common stock that can be acquired within sixty days of October 8, 2004.

(2) Includes options to purchase 2,344,956 hares of common stock that can be acquired within sixty days of October 8, 2004.

(3) Includes options to purchase 313,959 hares of common stock that can be acquired within sixty days of October 8, 2004.

(4) Includes options to purchase 213,000 hares of common stock that can be acquired within sixty days of October 8, 2004.

(5) Includes options to purchase 199,000 hares of common stock that can be acquired within sixty days of October 8, 2004.

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(6) Includes options to purchase 6,229,875 shares of common stock that can be acquired within sixty days of October 8, 2004.

We are unaware of any arrangement or understanding that may, at a subsequent date, result in a change of control of our Company.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

We believe that all prior related party transactions have been entered into upon terms no less favorable to us than those that could be obtained from unaffiliated third parties. Our reasonable belief of fair value is based upon proximate similar transactions with third parties or attempts to obtain the consideration from third parties. All ongoing and future transactions with such persons, including any loans or compensation to such persons, will be approved by a majority of disinterested members of the Board of Directors.

On August 11, 2000, we entered into a Consulting Agreement with Richard F. Tusing, pursuant to which Mr. Tusing would provide management, financial, strategic, and other consulting services to us in exchange for consulting fees payable in cash and options of our common stock. Out-of-pocket expenses incurred by Mr. Tusing in connection with provision of their services under the Consulting Agreement would also be reimbursed by us. The Consulting Agreement was entered into prior to Mr. Tusing's appointment as members of our Board of Directors in October 2000 and was negotiated at arm's length. We believe that the compensation and other provisions of the Consulting Agreement were fair, reasonable, customary, and favorable to us. The Consulting Agreement was renewed with Mr. Tusing on similar terms and conditions with a rate adjustment as of January 1, 2001, and was amended on April 12, 2001 to decrease the strike price of the options granted as partial compensation thereunder. Pursuant to Kronos and Mr. Tusing entering into his Employment Agreement, effective January 1, 2003, Mr. Tusing's Consulting Agreement is no longer in effect. Pursuant to his Consulting Agreement, Mr. Tusing earned $207,400 and $377,750, respectively, in the years ended June 30, 2001 and 2002 and $190,050 through December 31, 2002. Of the aggregate amount of $775,200 we have paid $349,100 to Mr. Tusing and the balance of $426,100 remains payable under the terms of a Promissory Note issued to Mr. Tusing on March 31, 2004.

On March 31, 2004, we entered into Promissory Notes with Daniel R. Dwight and Richard F. Tusing in exchange for past due compensation, expenses and interest do and payable for $363,139 and $485,883. The Notes bear a simple interest rate 1% per month and call for aggregate monthly principal and interest payments $6,718 and $8,989, respectively, for each month in which the Company's beginning cash balance equals or exceeds $200,000. Subject to certain conditions, including default, these notes become payable in full. In the event of a debt or equity financing other than from Fusion Capital, 20% of the proceeds derived from the financing will be used to pay down the outstanding interest and principal obligations. Any amounts remaining outstanding are due and payable on December 31, 2006. As of June 30, 2004, no amounts had been paid under the terms of the Notes.

ITEM 13. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1)(2) FINANCIAL STATEMENTS. See index to consolidated financial statements and supporting schedules.

(a)(3) 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

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EXHIBIT NO.	DESCRIPTION	LOCATION
10.21	Consulting Agreement, dated January 1, 2001, by and between TSET, Inc. and	Incorporated by reference to Exhibit 10.21 to the

	Dwight, Tusing & Associates	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 Richard F. Tusing	Incorporated by reference to Exhibit 10.39 to the 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 perio 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 Exhib 10.57 to the Registrant's Form S- 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 Exhi 10.58 to the Registrant's Form S- 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 Exhi 10.59 to the Registrant's Amendme 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 Distributing Co. d/b/a HoMedics, Inc., a Michigan corporation ("HoMedics")	Incorporated by reference to the Registrant's 8-K filed on May 15, 2003
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 perio ended December 31, 2003 filed on February 17, 2004
10.44	Promissory Note by and among Kronos	Incorporated by reference to

	Advanced Technologies, Inc., and Richard A. Papworth	Exhibit 10.67 to the Registrant's Form 10-Q for the quarterly perio ended March 31, 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 perio ended March 31, 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 perio ended March 31, 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 perio ended March 31, 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 perio ended March 31, 2004 filed on May 17, 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

(b) REPORTS ON FORM 8-K.

None.

ITEM 14. PRINCIPAL ACCOUNTANT AND SERVICES

The firm Sherb & Co. LLP, independent registered public accounting firm, has audited our financial statements for the year ended June 30, 2004. The Board of

Directors has appointed Sherb & Co. LLP to serve as our independent registered public accounting firm for the 2004 year-end audit and to review our quarterly financial reports for filing with the Securities and Exchange Commission during fiscal year 2005.

The following table shows the fees paid or accrued by us for the audit and other services provided by Sherb & Co. LLP for fiscal year 2004 and 2003.

	June 30, 2004	June 30, 2003
Audit Fees(1)	$ 61,000	$ 56,000
Audit-Related Fees	1,710	1,155
Tax Fees	-	-
All Other Fees	-	-
Total	$ 62,710	$ 57,155

(1) Audit fees represent fees for professional services provided in connection with the audit of our annual financial statements and review of our quarterly financial statements and audit services provided in connection with other statutory or regulatory filings

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SIGNATURES

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

Date: October 15, 2004.

KRONOS ADVANCED TECHNOLOGIES, INC.

By: /s/ Daniel R. Dwight

Daniel R. Dwight
President, Chief Executive
Officer and Director

By: /s/ Daniel R. Dwight

Daniel R. Dwight
Acting Chief Financial Officer
and Director

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

SIGNATURE	TITLE	DATE
/s/ Spencer I. Browne		

Spencer I. Browne	Director	October 15, 2004
/s/ Daniel R. Dwight ------------------------------ Daniel R. Dwight	Director, President, Chief Executive Officer and Acting Chief Financial Officer	October 15, 2004
/s/ James P. McDermott ------------------------------ James P. McDermott	Director	October 15, 2004
/s/ M. J. Segal ------------------------------ M. J. Segal	Director	October 15, 2004
/s/ Richard F. Tusing ------------------------------ Richard F. Tusing	Director and Chief Operating Officer	October 15, 2004