KRONOS ADVANCED TECHNOLOGIES INC
Form 10QSB
May 15, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-QSB

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

For the quarterly period ended March 31, 2006

Or

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

For the transition period from _____ __, ____ to _____ __, ____

Commission File Number: 000-30191

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 No.)

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

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

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

X Yes __No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ___ Accelerated filer ___ Non-accelerated filer X

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

__ Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of May 12, 2006, there were 122,863,416 shares outstanding of the issuer's common stock.

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The following comprise our (unaudited) consolidated financial statements for the three and nine months ended March 31, 2006.

KRONOS ADVANCED TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS

Assets	March 31, 2006 (Unaudited)	June 30, 2005
Current Assets		
Cash	$ 469,320	$ 1,554,906
Prepaids	103,388	263,490
Total Current Assets	572,708	1,818,396
Net Property and Equipment	2,026	2,627
Other Assets		
Intangibles	2,016,975	2,138,814
Total Other Assets	2,016,975	2,138,814
Total Assets	$ 2,591,709	$ 3,959,837
Liabilities and Stockholders' Deficit		
Current Liabilities		
Accrued expenses and payables to directors and officers	$ 69,372	$ 28,837
Accounts payable	169,436	479,175
Accrued expenses	845,155	487,070
Notes payable, current portion	2,240,000	4,028,131
Notes payable to directors and officers	242,353	397,004
Total Current Liabilities	3,566,316	5,420,217
Long Term Liabilities		
Notes payable	2,575,000	2,400,000
Total Long Term Liabilities	2,575,000	2,400,000
Total Liabilities	6,141,316	7,820,217

Stockholders' Deficit		
Common stock, authorized		
500,000,000 shares of $0.001 par value		
Issued and outstanding - 116,904,499		
and 72,686,345, respectively	116,904	72,686
Capital in excess of par value	26,078,818	23,183,747
Accumulated deficit	(29,745,329)	(27,116,813)
Total Stockholders' Deficit	(3,549,607)	(3,860,380)
Total Liabilities and Stockholders' Deficit	$ 2,591,709	$ 3,959,837

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

KRONOS ADVANCED TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended March 31,		Nine months ended March 31,	
	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudite
Sales	$ -	$ 48,928	$ 37,500	$ 430,37
Cost of sales	-	41,549	8,449	375,39
Gross Profit	-	7,379	29,051	54,98
Selling, General and Administrative expenses				
Compensation and benefits	292,043	371,413	821,544	889,41
Research and development	92,726	23,642	232,652	78,20
Professional services	134,563	108,176	236,812	95,11
Depreciation and amortization	133,861	98,931	473,451	297,20
Insurance	37,144	46,120	111,432	138,36
Facilities	22,429	23,859	69,024	67,79
Other	88,792	26,414	288,622	166,35
Selling, General and Administrative expenses	801,558	698,555	2,233,537	1,732,45
Net Operating Loss	(801,558)	(691,176)	(2,204,486)	(1,677,47
Loss on Debt Restructuring	-	-	-	(3,857,46
Other Income	-	1,012	-	1,41
Interest Expense	(120,956)	(117,168)	(424,030)	(411,32

Net Loss	$ (922,514)	$ (807,332)	$(2,628,516)	$(5,944,85
Net Loss Per Share - Basic and diluted	$ (0.01)	$ (0.01)	$ (0.03)	$ (0.0
Weighted average shares outstanding - Basic and diluted	107,372,928	71,578,502	88,245,584	67,612,90

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

KRONOS ADVANCED TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the nine months ended March 31,	
	2006	2005
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss from operations	$(2,628,516)	$ (5,944,850)
Adjustments to reconcile net loss to net cash used in operations		
Depreciation and amortization	473,451	297,206
Stock options granted for compensation/services	79,290	-
Accretion of note discount	-	92,965
Loss on debt restructuring	-	3,857,467
Change In		
Accounts receivable	-	48,615
Prepaid expenses and other assets	3,227	60,685
Deferred revenue	-	(3,218)
Accounts payable	(269,204)	(193,863)
Accrued expenses and other liabilities	358,085	126,599
Net cash Used in Operations	(1,983,667)	(1,658,394)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases on property & equipment	(2,100)	-
Investment in patent protection	(172,036)	(54,134)
Net cash Used in Investing Activities	(174,136)	(54,134)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common stock	2,860,000	1,030,000
Proceeds from short-term borrowings	-	100,000
Repayments of short-term borrowings	(1,942,783)	(1,086,261)
Proceeds from long-term borrowings	175,000	4,400,000
Repayments from long-term borrowings	-	(2,400,000)
Debt acquisition costs	(20,000)	(212,500)

Net cash Provided by Financing Activities	1,072,217	1,831,239
NET (DECREASE) INCREASE IN CASH	(1,085,586)	118,711
CASH		
Beginning of period	1,554,906	69,063
End of period	$ 469,320	$ 187,774
Supplemental schedule of non-cash investing and financing activities:		
Interest paid in cash	$ -	$ 111,359

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

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

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Kronos Advanced Technologies, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments necessary to present fairly the information set forth therein have been included. Operating results for the three and nine months ended March 31, 2006 are not necessarily indicative of the results that may be experienced for the fiscal year ending June 30, 2006.

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

The accompanying consolidated financial statements should be read in conjunction with the Kronos Advanced Technologies, Inc. Form 10-KSB for the fiscal year ended June 30, 2005, which was filed on September 28, 2005.

NOTE 2 - REALIZATION OF ASSETS AND GOING CONCERN

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company has sustained losses from operations in recent years, and such losses have continued through the nine months ended March 31, 2006. In addition, the Company has used cash in rather than provided cash through its operations. The Company is currently using its resources to attempt 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 the continued operations of the Company, which in turn is dependent upon the Company's ability to meet its financing requirements on a continuing basis, to maintain present financing and to succeed in its future

operations. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

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

EOL. In December 2005, Kronos executed a non-exclusive License Agreement with EOL, LLC, a Russian Federation corporation. Based in Korolev, Moscow Region, Russia, EOL will leverage the Kronos technology to produce, market, and distribute Kronos commercial air purification products, bacteriological and virus destruction devices and space heaters in select Commonwealth of Independent States. The agreement comes after successful completion of multiple tests in Eastern Europe, which found the Kronos technology capable of decontaminating rooms infected with airborne viruses and bacteria. Under the terms of the five-year agreement, EOL will provide Kronos a fixed percentage royalty on every product sold, as well as upfront licensing and quarterly maintenance fees. Based on contractual milestones, EOL is required to: (i) complete initial product design by March 2006; (ii) complete initial product prototypes by June 2006; and (iii) make product available for customer purchase by September 2006. EOL plans to assemble the finished products in Russia from components supplied both locally and from contract manufacturers in China. The products will be marketed and distributed in Russia, Ukraine, Kazakhstan, Moldova and Byelorussia. In March 2006, EOL achieved the first milestone: initial design of a wall mounted air sterilizer for the health care market.

HoMedics. October 2002, Kronos and HoMedics executed a Licensing Agreement granting HoMedics certain rights with respect to the distribution of the Kronos 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 technology. 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-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.

We believe the Company has successfully completed the development of a Kronos-based consumer standalone air purifier that is an efficient, high quality product which is cost effective and easy to operate. In March 2005, Kronos and HoMedics began expanding production development beyond the initial prototypes and initiated increased product testing to complete the product claims platform. In March and April 2005, Kronos modified the HoMedics design and ordered prototype production devices from Kronos' preferred vendors along with select components from a HoMedics preferred vendor. In August 2005, Kronos received initial shipment of products from its low cost, contract manufacturer in Mexico and China. In October 2005, Kronos completed internal testing of these products under a testing protocol co-developed by Kronos and HoMedics. In December 2005, HoMedics funded the Company a further $175,000 upon acceptance of Kronos testing results. In January 2006, HoMedics agreed to fund any further efforts required

by Kronos in support of HoMedics effort to bring the consumer standalone air purifier to market.

Other Consumer Applications. During the quarter ended March 31, 2006, several leading global home appliance manufacturers initiated discussions with Kronos with an interest in using the Kronos technology for developing select consumer applications, including silent kitchen range hoods and vaporizers. With specific customer input, Kronos is designing and developing prototypes for additional customer demonstration and evaluation.

U.S. Navy. In November 2002, the U. S. Navy awarded Kronos a Small Business Innovation Research Phase II contract worth $580,000. 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 devices developed under this contract will be embedded in existing HVAC systems in order to move air more efficiently than traditional, fan-based technology. In May 2005, Kronos shipped the Kronos device to Northrop Grumman for testing and evaluation. Based on the success of these initial tests, Northrop Grumman requested additional modifications and improvements to the device. Northrop Grumman is scheduling further testing.

Leading Business Jet Manufacturer. In January 2003, Kronos executed 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 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 completed product design and development based on the customer's specific product application requirements. We have completed testing and prepared for shipment the prototype product. We are waiting for shipment instructions from the customer.

FAA Airline Cabin Environment Research Center of Excellence. In April 2006, Kronos was invited to serve as a member and an industrial partner in the Federal Aviation Administration's (FAA) Air Transportation Airliner Cabin Environment Research Center of Excellence (ACER CoE). In this capacity, Kronos will provide its real-time decontamination, air filtration, purification and technology expertise to evaluate and develop solutions that proactively address and improve cabin air quality. The program, led by the FAA, includes senior executives from aerospace equipment manufacturers and leading American universities.

Leading Automotive Manufacturer. In August 2005, Kronos extended its work into the transportation industry by signing a Prototype Development and Evaluation Agreement with a leading luxury automotive manufacturer. The Kronos product has been designed and produced to meet exacting customer standards for placement inside of automobile passenger cabins. We have completed initial customer specified testing. Based on successful testing with the customer, Kronos and the customer are preparing further testing protocols for the product. Based on additional product testing conducted at the customer's European facilities, the customer is assessing alternative applications for the Kronos technology.

Washington Technology Center. In December 2004, Kronos and the University of Washington were awarded funding for a research and technology development project entitled "Heat Transfer Technology for Microelectronics and MEMS" by the Washington Technology Center ("WTC"). The objective of the project is to develop a novel energy-efficient heat transfer technology for cooling microelectronics. Thermal management for microelectronics and MEMS systems is a challenge. Existing cooling devices aren't meeting increasing needs for energy consumption and heat dissipation. Kronos air handling technology is an emerging technology that uses an electric field to exert force on ionized gas. Kronos is attempting to develop an improved microchip air handling system that is smaller in size, has high speed airflow, allows more targeted delivery of cooling to areas of

highest heat and is compatible with current processes. WTC will contribute $40,000 to the project, with Kronos contributing $8,000, plus $32,000 in in-kind services, including use of the Kronos Research and Product Development Facility. In January 2006, Kronos and the University of Washington conducted a successful bench scale demonstration of micron cooling of a MEMS chip.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation. The consolidated financial statements of the Company include those of the Company and its subsidiary for the periods in which the subsidiary was owned/held by the Company. All significant intercompany accounts and transactions have been eliminated in the preparation of the consolidated financial statements. At March 31, 2006, we had only one subsidiary, Kronos Air Technologies, Inc.

Use of Estimates. The preparation of consolidated 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. If necessary, 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. The Company maintains cash and cash equivalents with high-credit, quality financial institutions. At March 31, 2006 the cash balances held at financial institutions were in excess of federally insured limits.

Accounts Receivable. The Company provides an allowance for potential losses, if necessary, 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 March 31, 2006 and June 30, 2005. The Company charges off accounts receivable against the allowance for losses when an account is deemed to be uncollectible.

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 Statement of Financial Accounting Standards ("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.

Net Loss Per Share. Basic loss per share is computed using the weighted average number of shares outstanding. Diluted 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) 104, 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. In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123R, Share-Based Payment ("SFAS No. 123R"). This Statement is a revision of SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. The Statement requires entities to recognize stock compensation expense for awards of equity instruments to employees based on the grant-date fair value of those awards (with limited exceptions). Kronos elected to implement the provisions of SFAS No. 123R in the fiscal year ended June 30, 2005.

Recent Accounting Pronouncements:.

In May 2005, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections-a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS 154"). This Statement replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed.

Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. This Statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, this Statement requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, this Statement requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable. This Statement shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not believe that the adoption of SFAS 154 will have a significant effect on its financial statements.

In February 2006, the FASB issued FASB Statement No. 155, which is an amendment of FASB Statements No. 133 and 140. This Statement; a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, b) clarifies which

interest-only strip and principal-only strip are not subject to the requirements of Statement 133, c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, e) amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for financial statements for fiscal years beginning after September 15, 2006. Earlier adoption of this Statement is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued any financial statements for that fiscal year. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

In March 2006, the FASB issued FASB Statement No. 156, which amends FASB Statement No. 140. This Statement establishes, among other things, the accounting for all separately recognized servicing assets and servicing liabilities. This Statement amends Statement 140 to require that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. This Statement permits, but does not require, the subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value. An entity that uses derivative instruments to mitigate the risks inherent in servicing assets and servicing liabilities is required to account for those derivative instruments at fair value. Under this Statement, an entity can elect subsequent fair value measurement to account for its separately recognized servicing assets and servicing liabilities. By electing that option, an entity may simplify its accounting because this Statement permits income statement recognition of the potential offsetting changes in fair value of those servicing assets and servicing liabilities and derivative instruments in the same accounting period. This Statement is effective for financial statements for fiscal years beginning after September 15, 2006. Earlier adoption of this Statement is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued any financial statements for that fiscal year. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

NOTE 4 -- INCOME TAXES

The composition of deferred tax assets and the related tax effects at March 31, 2006 and June 30, 2005 are as follows:

	March 31, 2006 (Unaudited)	June 30, 2005
Benefit from carryforward of capital and net operating losses	$ 6,792,930	$ 6,091,927
Other temporary differences	156,740	156,740
Less:		
Valuation allowance	(6,949,670)	(6,248,667)
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:

	March 31, 2006 (Unaudited)		June 30,200	
	Amount	% of Pre-Tax Loss	Amount	P
Benefit for income tax at federal statutory rate	$ 893,694	34.0 %	$ 2,411,998	
Benefit for income tax at state statutory rate	52,570	2.0 %	141,882	
Non-deductible expenses	(245,262)	(9.3)%	(1,303,036)	
Increase in valuation allowance	(701,003)	(26.7)%	(1,250,844)	
	$ -	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 March 31, 2006, for Federal income tax and alternative minimum tax reporting purposes, the Company has approximately $16.9 million of unused Federal net operating losses, $2.3 million of capital losses and $11.8 million of unused State net operating losses available for carryforward to future years. The benefit from carryforward of such losses will expire in various years between 2006 and 2026 and could be subject to limitations if significant ownership changes occur in the Company.

NOTE 5 - SEGMENTS OF BUSINESS

The Company operates principally in one segment of business: The Company licenses, manufactures and distributes air movement and purification devices utilizing the Kronos technology. For the three and nine months ended March 31, 2006 and the fiscal year ended June 30, 2005 the Company operated only in the U.S.

NOTE 6 - EARNINGS PER SHARE

Weighted average shares outstanding used in the earnings per share calculation were 107,372,928 and 88,245,584 for the three and nine months ended March 31, 2006 and 71,578,502 and 67,612,904 for the three and nine months ended March 31, 2005, respectively.

As of March 31, 2006, there were outstanding options to purchase 17,287,663 shares of the Company's common stock and outstanding warrants to purchase 42,300,000 shares of the Company's common stock. These options and warrants have been excluded from the earnings per share calculation as their effect is anti-dilutive. As of March 31, 2005, there were outstanding options and warrants to purchase 12,813,812 shares of the Company's common stock and outstanding warrants to purchase 42,300,000 shares of the Company's common stock. These options have been excluded from the earnings per share calculation as their effect is anti-dilutive.

NOTE 7 - NOTES PAYABLE

The Company had the following obligations as of March 31, 2006 and June 30, 2004,

	March 31, 2006 (Unaudited)	June 30, 2005
Obligations to Cornell Capital(1)	$ 2,240,000	$ 4,000,000
Obligation to HoMedics (2)	2,575,000	2,400,000
Obligation to current employees (3)	242,353	397,004
Obligation for finance leases (4)	-	28,131
	5,057,353	6,825,135
Less:		
Current portion	2,482,353	4,425,135
Total long term obligations net of current portion	$ 2,575,000	$ 2,400,000

(1) These notes have a one year term and bear interest at 12% with weekly payments.

(2) This note has a 5 year term and bears interest at 6% with no payments required until the earlier of Kronos receipt of royalty payments from HoMedics sale of Kronos-based air purification products or February 1, 2007. This note along with an obligation by HoMedics to provide Kronos with an additional $750,000 in debt financing was issued along with warrants for the purchase of 40 million shares of the Company's common stock.

(3) These notes bear interest at the rate of 12%. They represent obligation to current employees of the Company, which are due and payable in full.

(4) See Note 8 below.

NOTE 8 - CAPITAL LEASES

The Company entered into a capital lease for the purpose of purchasing equipment used in the research and product development center. Certain Officers of the Company personally guaranteed the capital lease if the Company does not fulfill its terms of the lease obligations. The leases were for 36 months and contained bargain purchase provisions so that the Company could purchase the equipment at the end of each lease. As of March 31, 2006, the Company satisfied its obligations under the terms of the lease agreements.

Of the equipment that was purchased using capital leases, $10,650 was capitalized and the remaining $65,782 was expensed through research and development and cost of sales. In the three and nine months ended March 31, 2006, the Company paid $9,970 and $28,131 in principal and $382 and $3,120 in interest on capital leases, respectively. In the three and nine months ended March 31, 2005, the Company paid $6,047 and $22,016 in principal and $1,745 and $6,744 in interest on capital leases, respectively.

NOTE 9 - CONSULTING AGREEMENTS

On October 31, 2003, the Company entered into a 10-month consulting agreement with Joshua B. Scheinfeld and Steven G. Martin, principals of Fusion Capital, for consulting services with respect to operations, executive employment issues, employee staffing, strategy, capital structure and other matters as specified from time to time. As consideration for their services, the Company issued 360,000 shares of its common stock. In accordance with EITF 96-18, the measurement date was established as the contract date of October 31, 2003 as the share grant was non-forfeitable and fully vested on that date. The stock was valued on that date at $0.22 a share (the closing price for the Company's common

stock on the measurement date). The stock issuance has been recorded as a prepaid consulting fee and was amortized to Professional Fee Expense ratably over the ten month term of the contract. Under this contract, expenses of $12,586 were recorded for the three and nine months ended March 31, 2005.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

In October 2004, Kronos entered into agreements for up to $20.5 million in equity and equity backed debt financing from Cornell Capital Partners. In October 2004, Kronos sold 5 million unregistered shares of Kronos common stock for gross proceeds of $500,000 to Cornell Capital Partners. Cornell Capital Partners committed to provide $4 million pursuant to two Promissory Notes, which was funded as follows: $2 million upon the filing of an SB-2 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 fifteen months. In July 2005, Cornell Capital Partners suspended until further notice weekly repayments of the Kronos Promissory Note dated June 21, 2005. As of March 31, 2006, Kronos has received $5.7 million in funding under these agreements and has repaid $1,760,000 of principal on the Promissory Notes.

In October 2004, HoMedics agreed to extend repayment of Kronos debt and to provide an additional $1 million in funding. HoMedics has agreed to provide Kronos with an additional $1 million in financing - $925,000 in secured debt financing and $75,000 for the purchase of additional warrants. In December 2005, $175,000 was funded upon completion of Kronos testing of products under a testing protocol co-developed by Kronos and HoMedics. An additional $750,000 will be paid to Kronos upon Kronos achieving two milestones (i) $250,000 shall be funded upon obtaining tooling of the current prototype configuration and device testing and performing to HoMedics' specifications, and (ii) $500,000 shall be funded upon the initial sale of Kronos-based air purifiers by HoMedics. In addition, quarterly debt payments and the maturity date for existing debt have been extended. Quarterly payments due on the outstanding $2,400,000 in secured debt financing, which had been scheduled to begin in August 2004, will be due the earlier of Kronos receipt of royalty payments from HoMedics sale of Kronos-based air purification products or two years. The maturity date of the $2,400,000 in debt has been extended from May 2008 to October of 2009; the maturity date on the $925,000 will also be October 2009. The interest rate will remain at 6% for the $2,400,000 in debt; the rate will also be 6% on the additional debt. HoMedics increased their potential equity position in Kronos to 30% of Kronos common stock on a fully diluted basis. In connection with the October 2004 agreements, Kronos issued HoMedics a warrant to buy 26.5 million shares of Kronos common stock. As a result of this debt restructuring, the Company recognized a loss of $3,857,467 during the fiscal year ended June 30, 2005. This loss represented the reacquisition price less the net carrying value of the debt restructuring. The reacquisition price is made up of $2,400,000 which is the amount of the new debt and $3,361,161 which represents the value of the warrants using the Black-Scholes method. The net carrying value is the $2,400,000 which is the old debt less the unamortized debt discount of $496,296.

Daniel R. Dwight, President and Chief Executive Officer, and the 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 and August 15, 2005. Mr. Dwight's Employment Agreement provides for base cash compensation of $180,000 per year. In April 2006, Mr. Dwight's contract was amended for a base

compensation increase to $225,000. 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, Chief Operating Officer, and the 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. The Board of Directors renewed Mr. Tusing's Employment Agreement on October 1, 2004 and again on October 1, 2005. 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 11 - SUBSEQUENT EVENTS

In April 2006, Kronos issued 4,488,330 shares of common stock for $250,000 to Cornell under the terms of our Standby Equity Distribution Agreement. The proceeds were used to make payments on the Promissory Note dated March 7, 2005 and to increase the Company's cash reserves.

In April 2006, the Company paid off in full all its outstanding capital leases that had been entered into for the purpose of purchasing equipment used in the research and product development center.

In April 2006, Kronos was invited to serve as a member and an industrial partner in the Federal Aviation Administration's (FAA) Air Transportation Airliner Cabin Environment Research Center of Excellence (ACER CoE). In this capacity, Kronos will provide its real-time decontamination, air filtration, purification and technology expertise to evaluate and develop solutions that proactively address and improve cabin air quality. The program, led by the FAA, includes senior executives from aerospace equipment manufacturers and leading American universities.

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

INTRODUCTORY STATEMENTS

FORWARD LOOKING STATEMENTS AND ASSOCIATED RISKS

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS. THIS FILING CONTAINS FORWARD-LOOKING STATEMENTS, INCLUDING STATEMENTS REGARDING, AMONG OTHER THINGS:(A) OUR PROJECTED SALES AND PROFITABILITY, (B) OUR GROWTH STRATEGIES, (C) ANTICIPATED TRENDS IN OUR INDUSTRY, (D) OUR FUTURE FINANCING PLANS, (E) OUR ANTICIPATED NEEDS FOR WORKING CAPITAL, AND (F) THE BENEFITS RELATED TO OUR OWNERSHIP OF KRONOS AIR TECHNOLOGIES, INC. IN ADDITION, WHEN USED IN THIS FILING, THE WORDS "BELIEVES," "ANTICIPATES," "INTENDS," "IN ANTICIPATION OF," "EXPECTS," AND SIMILAR WORDS ARE INTENDED TO IDENTIFY CERTAIN FORWARD-LOOKING STATEMENTS. THESE FORWARD-LOOKING STATEMENTS ARE BASED LARGELY ON OUR EXPECTATIONS AND ARE SUBJECT TO A NUMBER OF RISKS AND UNCERTAINTIES, MANY OF WHICH ARE BEYOND OUR CONTROL. ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF VARIOUS FACTORS, INCLUDING, WITHOUT LIMITATION, THE RISKS OUTLINED UNDER "FACTORS AFFECTING KRONOS' BUSINESS AND

PROSPECTS" AND MATTERS DESCRIBED IN THIS FILING GENERALLY. IN LIGHT OF THESE RISKS AND UNCERTAINTIES, THERE CAN BE NO ASSURANCE THAT THE FORWARD-LOOKING STATEMENTS CONTAINED IN THIS FILING WILL IN FACT OCCUR. WE DO NOT UNDERTAKE ANY OBLIGATION TO PUBLICLY RELEASE THE RESULTS OF ANY REVISIONS TO THESE FORWARD-LOOKING STATEMENTS THAT MAY BE MADE TO REFLECT ANY FUTURE EVENTS OR CIRCUMSTANCES.

GENERAL

Kronos Advanced Technologies, Inc. is an application development and licensing company that has developed and patented technology that fundamentally changes the way air is moved, filtered and sterilized. Kronos is pursuing commercialization of its proprietary technology for a limited number of applications in a limited number of markets; and if we are successful, we intend to pursue additional applications and 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 proprietary Kronos technology involves the management of corona discharge by applying of high voltage management across paired electrical grids to create an ion exchange. Applications for efficient high voltage management, efficient corona discharge and ion exchange include but are not limited to:

- air movement, including dielectric fluid movement and propulsion;
- air purification, including particulate removal, biohazard destruction, chemical and industrial gas treatment, and odor removal;
- temperature and environmental management, including space heating and cooling;
- microchip, MEMS and other electronics devices and components cooling;
- air management, including sorting and separation of air streams by particle content;
- sound generation, including high fidelity sound recreation and active noise cancellation;
- high voltage management, including development of high voltage power supplies and control of energy surges and electrical discharges;
- control of water and moisture content in air streams, including dehumidification and humidification; and
- water treatment, including water purification, ionization and water desalination.

Kronos is focused on prioritizing the Company's resources on developing and licensing Kronos' proprietary technology for air movement and purification applications to address the indoor air quality market. The Kronos technology has numerous valuable characteristics for applications in the indoor air quality market, including moving air and gases at high velocities while removing odors, smoke and particulates and killing pathogens, including bacteria, mold and spores. 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 technology have been sold to date, in March 2005, the Company and its strategic consumer products partner, HoMedics, expanded production beyond the initial prototypes and increased product testing to complete the product claims platform. In August 2005, Kronos received initial shipment of products from its low cost, contract manufacturers in Mexico and China. In October 2005, Kronos completed internal testing of these products under a testing protocol co-developed by Kronos and HoMedics. In December 2005, Kronos shipped a prototype device designed and built under

specific customer specifications to a leading auto manufacturer for their testing and evaluation and prepared for shipment (awaiting customer documentation) a prototype device designed and built under specific customer specifications to a leading business jet manufacturer. Further in December 2005, the Company executed a non-exclusive license agreement with EOL, LLC, a Russian Federation company, for manufacturing and distributing Kronos-based commercial standalone products in Russia and other select Commonwealth of Independent States, and shipped products to additional commercial customers for testing and evaluation of the purification capability of the Kronos technology in residential, commercial and industrial environments.

A number of the scientific claims of the Kronos technology have been tested by the U. S. and foreign governments, multi-national companies and independent testing facilities. To date, independent laboratory testing has verified the filtration and sterilization capability of the Kronos technology.

Filtration Testing Results:

- Aerosol and Air Quality Research Laboratory - up to 99.8% filtration of 0.02 to 0.20 micron (20 to 200 nanometers) size particles;
- LMS Industries - removal of over 99.97% of 0.10 micron (100 nanometers) and above size particles using HVAC industry's ASHRAE 52.2 testing standard for filtration;
- MicroTest Laboratories - HEPA Clean Room Class 1000 quality particulate reduction;
- Intertek - 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," which demonstrated a Clean Air Delivery Rate (CADR) for the Kronos air purifier of over 300 for the larger size Kronos air purifier and 80 for the smaller size using consumer filtration testing standards for the Association of Home Appliance Manufacturers (AHAM).

Sterilization Testing Results:

- Disinfection Research Institute Sterilization Laboratory in Moscow - 100% decontamination of room infected with bacteria (Staphylococcus aureus strain 906 (S. aureus) and Bacillus cereus strain 96 (B. cereus);
- Institute for Veterinary Medicine in the Ukraine - destroy and sterilize air which had been inseminated with Anthrax and E.coli spores;
- New Hampshire Materials Laboratory - up to 95% reduction of hazardous gases, including numerous carcinogens found in cigarette smoke;
- Battelle PNNL - 95% destruction of Bg (anthrax simulant);
- Dr. Sergey Stoylar, a bacteriologist from the American Bacteriological Society - 100% destruction of Bacillus subtilis 168 (bacteria simulant).

Market Segmentation

Kronos' initial business development strategy is to sell and license the Kronos technology to six distinct air quality market segments: (1) air movement and purification (residential, health care, hospitality, and commercial facilities); (2) air purification for unique spaces (clean rooms, 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' focus is on the first four 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 markets through specific customer contracts. Kronos is currently undertaking research and development in the embedded micro cooling market using Company funds and a third party grant. These contracts and grant 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. There is also a demand for smaller devices that move, heat and deodorize the indoor air stream. The addressable air movement and purification segment is made up of four principal target markets: (1) residential, (2) health care, (3) hospitality and (4) commercial.

- Air Purification for Unique Spaces. Electronics, semiconductor, pharmaceutical, aerospace, medical and many other producers depend on clean room 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 technology include closed environments such as automobiles, aircraft, cruise ships and other transportation modes that require people to breathe contaminated, re-circulated air for extended periods.

- 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-based air movers and purifiers for applications that require these products to be embedded into ventilation systems to address the needs of military personnel.

- Embedded Cooling. Heat generation is becoming a major bottleneck in high density electronics. We believe that the embedded cooling market segment offers Kronos a near term opportunity to develop an alternative to fans for air movement and cooling inside of personal computers , servers and medical diagnostic equipment and a long term opportunity to develop micro channel cooling solutions for future generation microchips.

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 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 device into a wall outlet to obtain air movement and filtration for their home, office or hotel room. Embedded applications of the Kronos technology require the technology be added into another system such as a building ventilation system for more efficient air movement and filtration or into an electrical device such as computer or medical equipment to replace the cooling fan.

Standalone Platform

Residential Products. In October 2002, Kronos and HoMedics executed a Licensing Agreement granting HoMedics certain rights with respect to the distribution of the Kronos 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 technology. 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-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.

We believe the Company has successfully completed the development of a Kronos-based consumer standalone air purifier that is an efficient, high quality product which is cost effective and easy to operate. In March 2005, Kronos and HoMedics began expanding production development beyond the initial prototypes and initiated increased product testing to complete the product claims platform. In March and April 2005, Kronos modified the HoMedics design and ordered prototype production devices from Kronos' preferred vendor along with select components from HoMedics preferred vendors. In August 2005, Kronos received initial shipment of products from its low cost, contract manufacturer in Mexico and China. In October 2005, Kronos completed internal testing of these products under a testing protocol co-developed by Kronos and HoMedics. In December 2005, HoMedics funded the Company a further $175,000 upon acceptance of Kronos testing results. In February 2006, HoMedics agreed to fund any further efforts required by Kronos in support of HoMedics effort to bring the consumer standalone air purifier to market.

Commercial and Other Standalone Products. Utilizing our recently expanded product development resources, Kronos completed the initial design, development and production of a series of small multifunctional devices that can be used as kitchen range hoods, space heaters, vaporizers, disinfectors, deodorizers and/or fans. Based on the proprietary Kronos technology, these devices are currently undergoing testing and evaluation. Kronos has been meeting with potential strategic partners for manufacturing, marketing, selling and distributing these Kronos-based products.

In December 2005, Kronos executed a non-exclusive License Agreement with EOL, LLC, a Russian Federation corporation. Based in Korolev, Moscow Region, Russia, EOL will leverage the Kronos technology to produce, market, and distribute Kronos commercial air purification products, bacteriological and virus destruction devices and space heaters in select Commonwealth of Independent States. The agreement comes after successful completion of multiple tests in Eastern Europe, which found the Kronos technology capable of decontaminating rooms infected with airborne viruses and bacteria. Under the terms of the five-year agreement, EOL will provide Kronos a fixed percentage royalty on every product sold, as well as upfront licensing and quarterly maintenance fees. Based on contractual milestones, EOL is required to: (i) complete initial product design by March 2006; (ii) complete initial product prototypes by June 2006; and (iii) make product available for customer purchase by September 2006. EOL plans to assemble the finished products in Russia from components supplied both

locally and from contract manufacturers in China. The products will be marketed and distributed in Russia, Ukraine, Kazakhstan, Moldova and Byelorussia. In March 2006, EOL achieved the first milestone: initial design of a wall mounted air sterilizer for the health care market.

Embedded Platform

Residential Products. In May 2005, Kronos initiated a strategic relationship with IKEA of Sweden. In September 2005, Kronos shipped its initial prototype device to IKEA for testing and evaluation. In March 2006, the customer decided not to proceed further at this time with implementation of a new technology solution. Following on this effort by Kronos during the quarter ended March 31, 2006, several leading global home appliance manufacturers initiated discussions with Kronos with an interest in using the Kronos technology for developing select residential applications, including silent kitchen range hoods. With specific customer input, Kronos is designing and developing prototypes for additional customer demonstration and evaluation.

Military Products. The U. S. Department of Defense and Department of Energy have provided Kronos with various grants and contracts to develop, test and evaluate the Kronos technology for embedded applications.

U.S. Navy SBIR Contracts. In November 2002, the U. S. Navy awarded Kronos a Small Business Innovation Research Phase II contract worth $580,000. 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 devices 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 developed and produced a fully controlled device that represents a "cell" of an advanced distributive air management system with medium capacity airflow in a U. S. Navy unique environment. The "cell" has been designed to be easily adjustable to a variety of parameters such as duct size, airflow requirements, and air quality. The goal of this development work is to significantly reduce or replace altogether the current HVAC air handling systems on naval ships. In May 2005, Kronos shipped the device to Northrop Grumman for testing and evaluation. Based on the success of these initial tests, Northrop Grumman requested additional modifications and improvements to the device. Northrop Grumman is scheduling further testing. As of March 31, 2006, the U. S. Navy had provided Kronos with $580,000 in funding for this effort.

As part of its air management system, Kronos has developed and intends to test the air filtration mechanism capable of performing to HEPA quality standards. We believe that Kronos devices could replace current HEPA filters with a permanent, easily cleaned, low-cost solution. Among the technical advantages of the Kronos technology over HEPA filters is the ability of the Kronos-based devices to eliminate the energy burden on air handling systems, which must generate high levels of backpressure necessary to move air through HEPA-based systems. Kronos-based devices enhance the air flow while providing better than HEPA level filtration.

Kronos is seeking to leverage its military application development work with the U. S. Navy to develop and produce air handlers and purifiers for commercial and industrial facilities. A future potential commercial line of Kronos-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.

Transportation Products. In January 2003, Kronos executed 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 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 completed product design and development based on the customer's specific product application requirements. We have completed testing and prepared for shipment the prototype product. We are waiting for shipment instructions from the customer.

In August 2005, Kronos extended its work into the transportation industry by signing a Prototype Development and Evaluation Agreement with a leading luxury automotive manufacturer. According to various industry reports, the amount of time Americans have spent in their cars has risen 236 percent since 1982 (with one report from Time Magazine noting an average motorist will spend more than 5 years stuck in traffic alone), providing optimum air circulation in automobiles is not only a comfort factor, but can also be a critical means of improving air quality and helping to prevent viruses and allergens that may otherwise accumulate in filtration systems. The Kronos product has been designed and manufactured to meet exacting customer standards for placement inside of automobile passenger cabins. The customer is evaluating various potential applications for the technology.

In April 2006, Kronos was invited to serve as a member and an industrial partner in the Federal Aviation Administration's (FAA) Air Transportation Airliner Cabin Environment Research Center of Excellence (ACER CoE). In this capacity, Kronos will provide its real-time decontamination, air filtration, purification and technology expertise to evaluate and develop solutions that proactively address and improve cabin air quality. The program, led by the FAA, includes senior executives from aerospace equipment manufacturers and leading American universities.

Microelectronics Cooling Products. In December 2004, Kronos and the University of Washington were awarded funding for a research and technology development project entitled "Heat Transfer Technology for Microelectronics and MEMS" by the Washington Technology Center ("WTC"). The objective of the project is to develop a novel energy-efficient heat transfer technology for cooling microelectronics. Thermal management for microelectronics and MEMS systems is a challenge. Existing cooling devices aren't meeting increasing needs for energy consumption and heat dissipation. Kronos air handling technology is an emerging technology that uses an electric field to exert force on ionized gas. Kronos is attempting to develop an improved microchip air handling system that is smaller in size, has high speed airflow, allows more targeted delivery of cooling to areas of highest heat and is compatible with current processes. WTC will contribute $40,000 to the project, with Kronos contributing $8,000, plus $32,000 in in-kind services, including use of the Kronos Research and Product Development Facility. During the quarter ended March 31, 2006, Kronos and the University of Washington continued research into development of an energy-efficient heat transfer technology for cooling microelectronics and initiated fabrication of a prototype product based on the proprietary Kronos technology. In January 2006, Kronos and the University of Washington conducted a successful bench scale demonstration of micron cooling of a MEMS chip.

Patents and Intellectual Property

Kronos has received notification that nine 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.

U.S. Patents

Date	U.S. Patent #	Patent Title	Description	Prote
January 2006	Notice of Allowance	Electrostatic Fluid Accelerator - Power Management	effective powering of the electrodes	2022
November 2005	6,963,479	Electrostatic Fluid Accelerator - Advanced Geometries	advanced voltage management impacts air filtration and sterilization, air flow and ozone	2023
August 2005	6,937,455	Spark Management Method and Device	analysis, detection and prevention of sparks in a high voltage field - creating safe, effective electrostatic technology products	2022
July 2005	6,919,698	Voltage Management for Electrostatic Fluid Accelerator	materials and geometry allowing for spark free operation and use of light weight, inexpensive materials as the electrodes	2023
May 2005	Notice of Allowance	Electrostatic Fluid Accelerator Design Geometries	placement, utilization and geometries of the electrodes - impacts air flow, filtration and sterilization	2022
May 2005	6,888,314	Electrostatic Fluid Accelerator - Electrode Design Geometries	electrode design geometries and attributes including micro channeling to achieve unique air movement and purification performance	2022
April 2004	6,727,657	Electrostatic Fluid Accelerator for and a Method of Controlling Fluid	synchronization of multiple stages of arrays - increasing air flow and air flow efficiency	2022
December 2003	6,664,741	Method of and Apparatus for Electrostatic Fluid Acceleration Control of a Fluid Flow	ratio of voltage for producing ion discharge to create air movement and base level filtration	2022
January 2003	6,504,308	Electrostatic Fluid Accelerator	electrode density core for producing ion discharge to create air movement and	2019

base level filtration

International Patents

In November 2004, Kronos received formal notification from the Commonwealth of Australia Patent Office indicating that its application entitled "Electrostatic Fluid Accelerator" has been examined and allowed for issuance as an Australian patent. In December 2005, Kronos received formal notification from the Mexican Institute of Industrial Property indicating that its application entitled "Electrostatic Fluid Accelerator" has been examined and allowed for issuance as a Mexican patent. There are a number of other patent applications corresponding to Kronos' nine U.S. Patents that have been filed and are pending outside of the United States.

Kronos intends to continue to aggressively file patent applications in the U.S. and internationally. A number of additional patent applications have been filed for, among other things, the control and management of electrostatic fluid acceleration. These additional patent applications are either being examined or are awaiting examination by the Patent Office.

CRITICAL ACCOUNTING POLICIES

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

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

Valuation of Goodwill, Intangible and Other Long Lived Assets. We use assumptions in establishing the carrying value, fair value and estimated lives of our long-lived assets and goodwill. The criteria used for these evaluations include management's estimate of the asset's ability to generate positive income from operations and positive cash flow in future periods compared to the carrying value of the asset, the strategic significance of any identifiable intangible asset in our business objectives, as well as the market capitalization of Kronos. We have used certain key assumptions in building the cash flow projections required for evaluating the recoverability of our intangible assets. We have assumed revenues from the following applications of the Kronos technology: consumer stand-alone devices, assisted care/skilled nursing stand-alone devices, embedded devices in the hospitality industry and in specialized military applications. Expenses/cash out flows in our projections include sales and marketing, production, distribution, general and administrative expenses, research and development expenses and capital expenditures. These expenses are based on management estimates and have been compared with industry norms (relative to sales) to determine their reasonableness. We use the same key assumptions for our cash flow evaluation as we do for internal budgeting, lenders and other third parties; therefore, they are internally and externally consistent with financial statement and other public and private disclosures. We are not aware of any negative implications

resulting from the projections used for purposes of evaluating the appropriateness of the carrying value of these assets. If assets are considered to be impaired, the impairment recognized is the amount by which the carrying value of the assets exceeds the fair value of the assets. Useful lives and related amortization or depreciation expense are based on our estimate of the period that the assets will generate revenues or otherwise be used by Kronos. Factors that would influence the likelihood of a material change in our reported results include significant changes in the asset's ability to generate positive cash flow, loss of legal ownership or title to the asset, a significant decline in the economic and competitive environment on which the asset depends, significant changes in our strategic business objectives, and utilization of the asset.

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

Revenue Recognition. We recognize revenue in accordance with Securities and Exchange Commission Staff Bulletin 104 ("SAB 104"). Further, Kronos Air Technologies recognizes revenue on the sale of custom-designed contract sales under the percentage-of-completion method of accounting in the ratio that costs incurred to date bear to estimated total costs. For uncompleted contracts where costs and estimated profits exceed billings, the net amount is included as an asset in the consolidated balance sheet. For uncompleted contracts where billings exceed costs and estimated profits, the net amount is included as a liability in the consolidated balance sheet. Sales are reported net of applicable cash discounts and allowances for returns.

RESULTS OF OPERATIONS

Consolidated Statement of Operations For the Quarter Ended March 31, 2006.

Our net loss for the nine months ended March 31, 2006 was $2,628,516 compared with a net loss of $5,944,850 for the corresponding period of the prior year. The decrease in the net loss for the nine months ended March 31, 2006, as compared to the prior year, was principally the result of a $3,857,467 loss on debt incurred during the nine months ended March 31, 2005 and a $501,081 or 29% increase in selling, general and administrative expenses.

Revenue. Revenues are generated through sales of services for design and development of Kronos devices by Kronos Air Technologies, Inc. Revenues for the nine months ended March 31, 2006 were $37,500 compared with $430,379 in the prior year. Revenues for the nine months ended were from fees associated with our prototype development and acquisition agreement with a luxury automotive manufacturer and our new licensing partner in Russia. Revenues for the nine months ended March 31, 2005 were primarily from our U. S. Navy SBIR Phase II and U. S. Army SBIR Phase II contracts.

Cost of Sales. Cost of sales for the nine months ended March 31, 2006 was $8,449 (or 23% of sales) compared with $375,397 (or 87%) for the prior year. Cost of sales for the nine months ended March 31, 2006 were primarily labor associated with our prototype development and acquisition agreement with a luxury automotive manufacturer. Cost of sales for the nine months ended March 31, 2005 were primarily development costs associated with our U. S. Navy SBIR and U. S. Army SBIR contracts.

Selling, General and Administrative Expenses. Selling, General and Administrative expenses for the nine months ended March 31, 2006 increased $501,081 from the corresponding period of the prior year to $2,233,537. The increase was principally the result of a $176,245 increase in amortization and depreciation as a result of the increase in the amortization of capitalized patent costs and Cornell Capital funding costs; $154,445 increase in research and development costs associated with developing new applications for the Kronos technology; and a $141,693 increase in professional services as a result of the Company's increase in costs for investor and press relations activities and legal costs associated with licensing and development agreements with new strategic partners.

Interest expense. Interest expense for the nine months ended March 31, 2006 was $424,030 compared to $411,324 for the corresponding period of the prior year.

Consolidated Balance Sheet as of March 31, 2006

Our total assets at March 31, 2006 were $2,591,709 compared with $3,959,837 at June 30, 2005. Total assets at March 31, 2006 and June 30, 2005 were comprised primarily of $2,016,975 and $2,138,814, respectively, of patents/intellectual property and $469,320 and $1,554,906, respectively, of cash. Total current assets at March 31, 2006 and June 30, 2005 were $572,708 and $1,818,396, respectively, while total current liabilities for those same periods were $3,566,316 and $5,420,217, respectively, creating a working capital deficit of $2,993,608 and $3,601,821 at each respective period end. This working capital deficit is primarily due to short term borrowings from Cornell Capital Partners.

Stockholders' deficit as of March 31, 2006 was ($3,549,607). The sale and issuance of common stock for cash ($2,860,000) and the issuance of options for services ($79,290) was partially offset by a $2,628,516 net loss for the nine months ended March 31, 2006.

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have relied principally on the sale of common stock and secured debt and customer contracts for research and product development to finance our operations.

In October 2004, Kronos entered into agreements for up to $20,500,000 in equity and equity backed debt financing from Cornell Capital Partners. In October 2004, Kronos sold 5 million unregistered shares of Kronos common stock for gross proceeds of $500,000 to Cornell Capital Partners. Cornell Capital Partners committed to provide $4,000,000 pursuant to two Promissory Notes, which have been funded as follows: $2,000,000 upon the filing an SB-2 Registration Statement and $2,000,000 upon the SEC declaring the Registration Statement effective. Kronos executed a Standby Equity Distribution Agreement for $20,000,000 of funding which Kronos has the option to drawdown against in increments as large as $1,500,000 over the next fifteen months. As of June 30, 2005, Kronos had received $4,500,000 in funding under these agreements. In July 2005, Cornell Capital Partners suspended until further notice weekly repayments of the Kronos Promissory Note dated June 21, 2005 and suspended for one month weekly repayments of the Kronos Promissory Note dated March 7, 2005. In September 2005, Cornell Capital Partners suspended for one month weekly repayments of the Kronos Promissory Note dated March 7, 2005. As of March 31, 2006, Kronos has received $5,725,000 in funding under these agreements and has repaid $1,760,000 of principal on the Promissory Notes.

In October 2004, HoMedics agreed to extend repayment of Kronos debt and to provide an additional $1 million in funding. HoMedics has agreed to provide Kronos with an additional $1 million in financing - $925,000 in secured debt financing and $75,000 for the purchase of additional warrants. In December 2005,

$175,000 was funded upon completion of Kronos testing of products under a testing protocol co-developed by Kronos and HoMedics. An additional $750,000 will be paid to Kronos upon Kronos achieving two milestones (i) $250,000 shall be funded upon obtaining tooling of the current prototype configuration and device testing and performing to HoMedics' specifications, and (ii) $500,000 shall be funded upon the initial sale of Kronos-based air purifiers by HoMedics. In addition, quarterly debt payments and the maturity date for existing debt have been extended. Quarterly payments due on the outstanding $2,400,000 in secured debt financing, which had been scheduled to begin in August 2004, will be due the earlier of Kronos receipt of royalty payments from HoMedics sale of Kronos-based air purification products or two years. The maturity date of the $2,400,000 in debt has been extended from May 2008 to October of 2009; the maturity date on the $925,000 will also be October 2009. The interest rate will remain at 6% for the $2,400,000 in debt; the rate will also be 6% on the additional debt. HoMedics increased their potential equity position in Kronos to 30% of Kronos common stock on a fully diluted basis.

Net cash flow used in operating activities was $1,983,667 for the nine months ended March 31, 2006. We were able to satisfy most of our cash requirements for this period from the proceeds of the $4,000,000 Promissory Notes with Cornell Capital Partners and from the incremental $175,000 in debt financing from our strategic partner, HoMedics, Inc.

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 Note; equity funding from the Cornell Capital Standby Equity Distribution Agreement; and/or the sale of additional equity in our Company; cash flow generated from government grants and contracts; and cash flow generated from customer revenue. There are no assurances that these sources of funding will be adequate to meet our cash flow needs.

GOING CONCERN OPINION

The Report of Independent Registered Public Accounting Firm includes an explanatory paragraph to their audit opinions issued in connection with our 2005 and 2004 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 consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

FACTORS AFFECTING KRONOS' BUSINESS AND PROSPECTS

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

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

We have only recently begun implementing our plan to prioritize and concentrate

our management and financial resources to fully capitalize on our investment in Kronos Air Technologies and have yet to establish any history of profitable operations. We incurred a net loss of $2.6 million for the nine months ended March 31, 2006. We incurred a net loss of $7.1 million for the fiscal year ended June 30, 2005. As a result, at March 31, 2006 and June 30, 2005, we had an accumulated deficit of $29.7 million and $27.1 million, respectively. Our revenues and cash flows from operations have not been sufficient to sustain our operations. We have sustained our operations through the issuance of our common stock and the incurrence of debt. We expect that our revenues and cash flows from operations may not be sufficient to sustain our operations for the foreseeable future. Our profitability will require the successful commercialization of our Kronos technologies. No assurances can be given that we will be able to successfully commercialize our Kronos 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 March 31, 2006 and June 30, 2005, we had working capital deficits of $3.0 million and $3.6 million, respectively. The Report of Independent Registered Public Accounting Firm for the year ended June 30, 2005, 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 nine months ended March 31, 2006 and the fiscal year ended June 30, 2005, we had an operating cash flow deficit of $2.6 million and $1.8 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 sufficient financing from 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 HoMedics senior debt agreement and / or the Cornell Capital Standby Equity Distribution Agreement, we may still need additional capital to fully implement our business, operating and development plans. At March 31, 2006 and June 30, 2005, we had a cash balance of $469,320 and $1,554,906, 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 stockholders will experience significant dilution from our sale of shares under the Cornell Capital 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 Standby Equity Distribution Agreement. 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 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 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 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.

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 $2.0 million as of March 31, 2006 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 technology not included in the original acquisition of Kronos Air Technologies, Inc. in May 2003. Intangible assets comprise 78% of our total assets as of March 31, 2006. 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 technology and Kronos Air Technologies Chief Technology Officer, or the ability to create a customer base for the sale or licensing of the Kronos 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 requirements 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 technology, and the inability to do so or any difficulties encountered by management in establishing effective working relationships among them may adversely affect our business and prospects. Currently, we do not carry key person life insurance for any of our executive management, or key employees.

ITEM 3. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's Principal Executive Officer and Principal Financial Officer of the effectiveness of the design and operation of the Company's disclosure controls and procedures. The Company's disclosure controls and procedures are designed to provide a reasonable level of assurance of achieving the Company's disclosure control objectives. The Company's Principal Executive Officer and Principal Financial Officer have concluded that the Company's disclosure controls and procedures are, in fact, effective at this reasonable assurance level as of the period covered. In addition, the Company reviewed its internal controls, and there have been no significant changes in its internal controls or in other factors that could significantly affect those controls subsequent to the date of evaluation or from

the end of the reporting period to the date of this Form 10-QSB.

Changes in Internal Controls. In connection with the evaluation of the Company's internal controls during the Company's first fiscal quarter ended March 31, 2006, the Company's Principal Executive Officer and Principal Financial Officer have determined that there are no changes to the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to materially effect, the Company's internal controls over financial reporting during the fiscal quarter ended March 31, 2006, or subsequent to the date of their last evaluation, or from the end of the reporting period to the date of this Form 10-QSB.

PART II

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the nine months ended March 31, 2006, we issued 50,177,071 shares of Kronos common stock to Cornell Capital Partners under our Standby Equity Distribution Agreement. The proceeds from the issuance of these shares were used to repay $1,760,000 of debt and to increase the Company's cash reserves by $1,100,000.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. EXHIBITS

EXHIBIT NO.	DESCRIPTION	LOCATION
2.1	Articles of Merger for Technology Selection, Inc. with the Nevada Secretary of State	Incorporated by reference to Exhibit 2.1 to the Registrant's Registration Statement on Form S-1 filed on August 7, 2001 (the "Registration Statement")
3.1	Articles of Incorporation	Incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 filed on August 7, 2001
3.2	Bylaws	Incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 filed on August 7, 2001
4.1	2001 Stock Option Plan	Incorporated by reference to Exhibit 4.1 to

		Registrant's Form 10-Q for the quarterly period ended March 31, 2002 filed on May 15, 2002
10.21	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
10.22	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
10.23	Employment Agreement, effective February 11, 2001 by and between TSET, Inc. and Daniel R. Dwight	Incorporated by reference to Exhibit 10.55 to the Registrant's Form 10-Q for the quarterly period ended March 31, 2002 filed on May 15, 2002
10.24	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
10.25	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
10.26	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
10.27	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
10.28	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
10.29	Warrant No. 1 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
10.30	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

10.31	Consulting Agreement effective October 31, 2003, by and among Kronos Advanced Technologies, Inc., Steven G. Martin and Joshua B. on Scheinfeld	Incorporated by reference to Exhibit 10.67 to the Registrant's Form 10-Q for the quarterly period ended March 31, 2003 filed on February 17, 2004
10.32	Promissory Note by and among Kronos Advanced Technologies, Inc., and Richard A. Papworth	Incorporated by reference to Exhibit 10.67 to the Registrant's Form 10-Q for the quarterly period ended March 31, 2004 filed on May 17, 2004
10.33	Promissory Note by and among Kronos Advanced Technologies, Inc., and Daniel R. Dwight	Incorporated by reference to Exhibit 10.67 to the Registrant's Form 10-Q for the quarterly period ended March 31, 2004 filed on May 17, 2004
10.34	Promissory Note by and among Kronos Advanced Technologies, Inc., and Richard F. Tusing	Incorporated by reference to Exhibit 10.67 to the Registrant's Form 10-Q for the quarterly period ended March 31, 2004 filed on May 17, 2004
10.35	Promissory Note by and among Kronos Advanced Technologies, Inc., and Igor Krichtafovitch	Incorporated by reference to Exhibit 10.67 to the Registrant's Form 10-Q for the quarterly period ended March 31, 2004 filed on May 17, 2004
10.36	Promissory Note by and among Kronos Advanced Technologies, Inc., and J. Alexander Chriss	Incorporated by reference to Exhibit 10.67 to the Registrant's Form 10-Q for the quarterly period ended March 31, 2004 filed on May 17, 2004
10.37	Securities Purchase Agreement, dated October 15, 2004, by and between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 99.5 to the Registrant's Form 8-K filed on November 12, 2004
10.38	Investor Registration Rights Agreement, dated October 15, 2004, by and between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 99.6 to the Registrant's Form 8-K filed on November 12, 2004
10.39	Escrow Agreement, dated October 15, 2004, by and between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 99.7 to the Registrant's Form 8-K filed on November 12, 2004
10.40	First Amendment to Master Loan and Investment Agreement, dated October 25, Registrant's 2004, by and among Kronos Advanced Technologies, Inc., f/k/a TSET, Inc., a Nevada corporation, Kronos Air Technologies, Inc., a Nevada corporation and FKA Distributing Co. d/b/a HoMedics, Inc., a Michigan corporation	Incorporated by reference to Exhibit 99.9 to the Form 8-K filed on November 12, 2004

10.41	Secured Promissory Note, dated October 25, 2004, payable to FKA Distributing Co., d/b/a HoMedics, Inc., a Michigan corporation, in the principal amount of $925,000	Incorporated by reference to Exhibit 99.10 to the Registrant's Form 8-K filed on November 12, 2004
10.42	Amended and Restated Warrant No. 1, dated October 25, 2004, issued to FKA Distributing Co. d/b/a HoMedics, Inc.	Incorporated by reference to Exhibit 99.11 to the Registrant's Form 8-K filed on November 12, 2004
10.43	Amended and Restated Warrant No. 2, dated October 25, 2004, issued to FKA Distributing Co. d/b/a HoMedics, Inc.	Incorporated by reference to Exhibit 99.12 to the Registrant's Form 8-K filed on November 12, 2004
10.44	Warrant No. 3, dated October 25, 2004, issued to FKA Distributing Co. d/b/a HoMedics, Inc.	Incorporated by reference to Exhibit 99.13 to the Registrant's Form 8-K filed on November 12, 2004
10.45	Amended and Restated Registration Rights Agreement, dated October 25, 2004, by And between Kronos Advanced Technologies Inc., a Nevada corporation and FKA Distributing Co. d/b/a HoMedics, a Michigan corporation	Incorporated by reference to Exhibit 99.14 to the Registrant's Form 8-K filed on November 12, 2004
10.46	Termination Agreement dated March 28, 2005, by and between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 10.63 to the Registrant's Form SB-2 filed on April 19, 2005
10.47	Standby Equity Distribution Agreement, dated April 13, 2005, by and between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 10.64 to the Registrant's Form SB-2 filed on April 19, 2005
10.48	Registration Rights Agreement, dated April 13, 2005, by and between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 10.65 to the Registrant's Form SB-2 filed on April 19, 2005
10.49	Escrow Agreement, dated April 13, 2005, by and between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 10.66 to the Registrant's Form SB-2 filed on April 19, 2005
10.50	Placement Agent Agreement, dated April 13, 2005, by and between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 10.67 to the Registrant's Form SB-2 filed on April 19, 2005
10.51	Form of Equity-Back Promissory Note in the principal amount of $2,000,000 dated March 7, 2005 between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 10.68 to the Registrant's Form SB-2 filed on April 19, 2005
10.52	Form of Equity-Back Promissory Note in the principal amount of $2,000,000 dated	Incorporated by reference to Exhibit 10.59 to the Registrant's Form 10-KS

	June 22, 2005 between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	filed on September 28, 2005

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 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Provided herewith
32.2	Certification by Princiapl Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Provided herewith

Signatures

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

DATED: May 15, 2006

KRONOS ADVANCED TECHNOLOGIES, INC.

By: /s/ DANIEL R. DWIGHT

Daniel R. Dwight
President and Chief Executive Officer

By: /s/ DANIEL R. DWIGHT

Daniel R. Dwight
Acting Chief Financial Officer