KRONOS INC
Form 10-Q
May 12, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 29, 2003

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 0-20109

Kronos Incorporated

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Massachusetts | 04-2640942 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

297 Billerica Road, Chelmsford, MA 01824

(Address of principal executive offices) (Zip Code)

(978) 250-9800

(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.

Yes X No ______

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X No ______

As of April 26, 2003, 19,800,393 shares of the registrant's common stock, $.01 par value, were outstanding.

KRONOS INCORPORATED

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

KRONOS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except share and per share amounts)
UNAUDITED

| | Three Months Ended | | Six M |
|---|---|---|---|
| | March 29, 2003 | March 30, 2002 | March 29, 2003 |
| Net revenues: | | | |
| Product .................................... | $ 44,143 | $ 33,979 | $ 83,0 |
| Maintenance ................................ | 29,666 | 26,953 | 58,6 |

| | | | |
|---|---|---|---|
| Professional services | 22,672 | 19,002 | 44,5 |
| | 96,481 | 79,934 | 186,1 |
| Cost of sales: | | | |
| Costs of product | 10,929 | 8,396 | 20,3 |
| Costs of maintenance and professional services | 27,627 | 22,930 | 53,5 |
| | 38,556 | 31,326 | 73,8 |
| Gross profit | 57,925 | 48,608 | 112,3 |
| Operating expenses and other income: | | | |
| Sales and marketing | 31,369 | 26,058 | 60,4 |
| Engineering, research and development | 9,552 | 9,251 | 18,0 |
| General and administrative | 6,390 | 5,075 | 12,4 |
| Amortization of intangible assets | 789 | 724 | 1,5 |
| Other income, net | (1,522) | (1,314) | (2,4 |
| | 46,578 | 39,794 | 89,9 |
| Income before income taxes | 11,347 | 8,814 | 22,3 |
| Provision for income taxes | 4,085 | 3,041 | 8,0 |
| Net income | $ 7,262 | $ 5,773 | $ 14,3 |
| Net income per common share: | | | |
| Basic | $ 0.37 | $ 0.29 | $ 0. |
| Diluted | $ 0.35 | $ 0.28 | $ 0. |
| Weighted-average common shares outstanding: | | | |
| Basic | 19,853,535 | 19,760,008 | 19,746,6 |
| Diluted | 20,555,609 | 20,765,450 | 20,482,6 |

See accompanying notes to condensed consolidated financial statements.

KRONOS INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)
UNAUDITED

| | Ma |
|---|---|
| ASSETS | |
| Current assets: | |
| Cash and equivalents | $ |
| Marketable securities | |
| Accounts receivable, less allowances of $8,014 at March 29, 2003 and $9,697 at September 30, 2002 | |

| | |
|---|---|
| Deferred income taxes ........................................................... | |
| Other current assets ............................................................ | |
| Total current assets ........................................................ | 1 |
| Property, plant and equipment, net ............................................. | |
| Marketable securities ........................................................... | |
| Intangible assets ............................................................... | |
| Goodwill ........................................................................ | |
| Capitalized software, net ...................................................... | |
| Other assets .................................................................... | |
| Total assets ................................................................ | $ 3 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | |
|---|---|
| Current liabilities: | |
| Accounts payable ............................................................ | $ |
| Accrued compensation ........................................................ | |
| Accrued expenses and other current liabilities .............................. | |
| Deferred product revenues ................................................... | |
| Deferred professional service revenues ...................................... | |
| Deferred maintenance revenues ............................................... | |
| Total current liabilities ................................................... | 1 |
| Deferred maintenance revenues ................................................... | |
| Deferred income taxes ........................................................... | |
| Other liabilities ............................................................... | |
| Shareholders' equity: | |
| Preferred Stock, par value $1.00 per share: authorized 1,000,000 shares, no shares issued and outstanding ............................................ | |
| Common Stock, par value $.01 per share: authorized 50,000,000 shares, 19,919,288 and 19,911,952 shares issued at March 29, 2003 and September 30, 2002, respectively | |
| Additional paid-in capital .................................................. | |
| Retained earnings ........................................................... | 1 |
| Cost of Treasury Stock (113,709 shares and 366,062 shares at March 29, 2003 and September 30, 2002, respectively) ........................ | |
| Accumulated other comprehensive loss: | |
| Foreign currency translation ............................................ | |
| Net unrealized (loss)/gain on available-for-sale investments .................. | |
| Total shareholders' equity .................................................. | 1 |
| Total liabilities and shareholders' equity ................................... | $ 3 |

See accompanying notes to condensed consolidated financial statements.

KRONOS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
UNAUDITED

| | Six Month |
|---|---|
| | March 29, 2003 |
| Operating activities: | |
| Net income | $ 14,311 |
| Adjustments to reconcile net income to net cash and equivalents provided by operating activities: | |
| Depreciation | 5,317 |
| Amortization of intangible assets | 1,514 |
| Amortization of capitalized software | 5,673 |
| Provision for deferred income taxes | 1,061 |
| Changes in certain operating assets and liabilities: | |
| Accounts receivable, net | 12,487 |
| Deferred product revenues | (1,302) |
| Deferred professional service revenues | (480) |
| Deferred maintenance revenues | 1,055 |
| Accounts payable, accrued compensation and other liabilities | (2,212) |
| Taxes payable | (1,960) |
| Other | 419 |
| Tax benefit from exercise of stock options | 4,258 |
| Net cash and equivalents provided by operating activities | 40,141 |
| Investing activities: | |
| Purchase of property, plant and equipment | (6,106) |
| Capitalized internal software development costs | (5,870) |
| Decrease (increase) in marketable securities | 3,075 |
| Acquisitions of businesses and software, net of cash acquired | (9,943) |
| Net cash and equivalents used in investing activities | (18,844) |
| Financing activities: | |
| Net proceeds from exercise of stock options and employee purchase plans | 10,582 |
| Purchase of treasury stock | (12,474) |
| Proceeds from (net investment in) call options | 2,596 |
| Net cash and equivalents provided by/(used in) financing activities | 704 |
| Effect of exchange rate changes on cash and equivalents | 348 |
| Increase (decrease) in cash and equivalents | 22,349 |
| Cash and equivalents at the beginning of the period | 34,117 |
| Cash and equivalents at the end of the period | $ 56,466 |

See accompanying notes to condensed consolidated financial statements.

KRONOS INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE A - General

The accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring accruals that management of Kronos Incorporated (the "Company" or "Kronos") considers necessary for a fair presentation of the Company's financial position and results of operations as of and for the interim periods presented pursuant to the rules and regulations of the Securities and Exchange Commission. Certain footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes the disclosures in these financial statements are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements for the fiscal year ended September 30, 2002. The results of operations for the three and six months ended March 29, 2003 are not necessarily indicative of the results for a full fiscal year. Certain reclassifications have been made in the accompanying consolidated financial statements in order to conform to the fiscal 2003 presentation.

NOTE B - Fiscal Quarters

The Company utilizes a system of fiscal quarters. Under this system, the first three quarters of each fiscal year end on a Saturday. However, the fourth quarter of each fiscal year will always end on September 30. Because of this, the number of days in the first quarter (89 days in fiscal 2003 and 90 days in fiscal 2002) and fourth quarter (94 days in fiscal 2003 and 93 days in fiscal 2002) of each fiscal year varies from year to year. The second and third quarters of each fiscal year will be exactly thirteen weeks long. This policy does not have a material effect on the comparability of results of operations between quarters.

NOTE C - Other Current Assets

Other current assets consists of the following (in thousands):

| | March 29, 2003 | September 30, 2002 |
|---|---|---|
| Inventory | $ 6,440 | $ 6,492 |
| Prepaid expenses | 12,520 | 11,343 |
| Total | $18,960 | $17,835 |

NOTE D - Intangible Assets

Acquired intangible assets subject to amortization are presented in the following table (in thousands).

As of March 29, 2003:

| | Weighted Average Life in Years | Gross Carrying Value | Accumulated Amortization | Net B Valu |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Intangible assets: | | | | |
| Customer related ........ | 9.9 | $21,458 | $ 8,036 | $13,4 |
| Maintenance relationships | 11.9 | 8,883 | 725 | 8,1 |
| Tax benefits ........... | 10.7 | 2,131 | 417 | 1,7 |
| Non-compete agreements .. | 4.2 | 3,265 | 1,357 | 1,9 |
| Total intangible assets ..... | | $35,737 | $10,535 | $25,2 |
| As of September 30, 2002: | | | | |
| Intangible assets: | | | | |
| Customer related ........ | 9.5 | $19,166 | $ 6,851 | $12,3 |
| Maintenance relationships | 11.9 | 6,267 | 535 | 5,7 |
| Tax benefits ........... | 10.7 | 2,127 | 309 | 1,8 |
| Non-compete agreements .. | 5.1 | 1,908 | 1,228 | 6 |
| Total intangible assets ..... | | $29,468 | $ 8,923 | $20,5 |

For the three months ended March 29, 2003 and March 30, 2002, the amount of acquired goodwill is $8.1 million and $6.7 million, respectively. The amount of goodwill acquired during the six months ended March 29, 2003 and March 30, 2002 is $9.3 million and $21.7 million, respectively.

For the three and six months ended March 29, 2003, the Company recorded amortization expense for intangible assets of $.8 million and $1.5 million, respectively. The estimated annual amortization expense for intangible assets for the current and next five fiscal years is as follows (in thousands):

| Fiscal Year Ending September 30, | Estimated Annual Amortization Expense |
|---|---|
| 2003 | $3,452 |
| 2004 | 3,553 |
| 2005 | 3,073 |
| 2006 | 2,791 |
| 2007 | 2,555 |
| 2008 | 2,452 |

NOTE E - Acquisitions

On March 11, 2003, the Company completed the acquisition of certain assets of Ban-koe Systems, Inc. ("BKS"), the former Minnesota-based Kronos dealer. The aggregate purchase price was not material to the Company's financial position. The results of BKS's operations, which are not material to the Company's results of operations, have been included in the consolidated financial statements since that date. BKS was engaged in the sale and service of employee time and attendance, employee scheduling, data collection and labor management hardware and software systems, including the resale of the Company's products through a dealer relationship. As a result of the acquisition, the Company gained access to existing and prospective customers in several states (including Michigan, Illinois, Iowa, Wisconsin, and Minnesota) through its direct sales and service organizations, as well as access to the existing maintenance revenue stream from BKS customers. The deferred revenue related to the maintenance revenue stream, which was recorded at an amount approximating cost, plus a normal profit margin, was recognized as the Company had assumed a legal performance obligation as described in EITF 01-03. Due to the timing of the BKS acquisition, the Company has not finalized the allocation of the purchase price.

On January 20, 2003, the Company completed the acquisition of the maintenance agreements of DataPro Solutions, Inc. ("DP"), the former Washington state-based Kronos dealer. The aggregate purchase price was not material to the Company's financial position. The results of DP operations, which are not material to the Company's results of operations, have been included in the consolidated financial statements since that date. DP was engaged in the sale and service of employee time and attendance, employee scheduling, data collection and labor management hardware and software systems, including the resale of the Company's products through a dealer relationship. As a result of the acquisition, the Company gained access to the existing maintenance revenue stream from DP customers. The deferred revenue related to the maintenance revenue stream, which was recorded at an amount approximating cost, plus a normal profit margin, was recognized as the Company had assumed a legal performance obligation as described in EITF 01-03.

On November 20, 2002, the Company completed the acquisition of certain assets and the ongoing business operations of Hi-Tek Special Systems, Inc. ("HT"), the former Texas-based Kronos dealer. The aggregate purchase price was not material to the Company's financial position. The results of HT's operations, which are not material to the Company's results of operations, have been included in the consolidated financial statements since that date. HT was engaged in the sale and service of employee time and attendance, employee scheduling, data collection and labor management hardware and software systems, including the resale of the Company's products through a dealer relationship. As a result of the acquisition, the Company gained access to existing and prospective customers in the Texas, New Mexico and Mexico area through its direct sales and service organizations, as well as access to the existing maintenance revenue stream from HT customers. The deferred revenue related to the maintenance revenue stream, which was recorded at an amount approximating cost, plus a normal profit margin, was recognized as the Company had assumed a legal performance obligation as described in EITF 01-03.

On December 28, 2001, the Company completed the acquisition of certain assets and the ongoing business operations of the Integrated Software Business of SimplexGrinnell's Workforce Solutions Division ("SimplexGrinnell"). The aggregate purchase price was $22.1 million in cash. The results of SimplexGrinnell's operations have been included in the consolidated financial statements since that date. SimplexGrinnell was engaged in the development, sales and support of integrated workforce management software solutions. As a result of the acquisition, the Company has increased its presence in the mid-market sector, which includes companies with between 100 and 1,000 employees.

The SimplexGrinnell transaction was accounted for under the purchase method of accounting and accordingly, the assets and liabilities acquired were recorded at their estimated fair values at the effective date of the acquisition. The goodwill recognized is deductible for income tax purposes. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition (in thousands).

| | At December 28, 2001 |
|---|---|
| Accounts receivable | $6,678 |
| Customer related intangible asset (amortized over 12 years) | 1,100 |
| Maintenance relationships intangible asset (amortized over 12 years) | 2,500 |
| Goodwill | 18,065 |
| Other assets | 768 |
| Total assets acquired | 29,111 |
| Deferred professional services revenue | (1,564) |
| Deferred maintenance revenue | (5,157) |
| Other liabilities | (340) |
| Total liabilities assumed | (7,061) |
| Net assets acquired | $22,050 |

In connection with the acquisition of the assets and liabilities of SimplexGrinnell in December 2001, the Company acquired obligations to provide services associated with maintenance contracts and obligations to provide professional services, primarily installation services. The amounts of deferred revenue ascribed to acquired maintenance obligations and professional services amounts to $5.2 million and $1.6 million, respectively. The deferred revenue, which was recorded at an amount approximating cost, plus a normal profit margin, was recognized as the Company had assumed a legal performance obligation as described in EITF 01-03. The acquired maintenance arrangements required the Company to provide phone support, bug fixes and unspecified upgrades for the remaining contract terms. The acquired professional services obligations required the Company to provide installation services.

Certain agreements contain provisions that require the Company to make a guaranteed payment and/or contingent payments based upon profitability of the business unit or if specified minimum revenue requirements are met. These provisions expire during fiscal 2003 through 2006. Guaranteed payments are accrued at the time of the acquisition and are included in the purchase price allocation. Contingent payments due under the terms of the agreements are recognized when earned and are principally recorded as goodwill. However, under certain circumstances, a portion of the contingent payment may be recorded as compensation expense. During the three months ended March 29, 2003 and March 30, 2002, $1.2 million and $.6 million, respectively, of contingent payments were earned, all of which were recorded as goodwill. During the first six months of fiscal 2003 and 2002, $1.8 million and $.8 million, respectively, of contingent payments were earned, all of which were recorded as goodwill. There are several contingent payment arrangements currently outstanding, on which the Company may have future payment obligations, contingent upon the achievement of various financial performance goals. As of March 29, 2003, the Company has the obligation to pay $4.9 million in guaranteed payments. These payments will be made at various dates through fiscal 2006.

NOTE F - Comprehensive Income

For the three and six months ended March 29, 2003 and March 30, 2002, comprehensive income consisted of the following (in thousands):

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | March 29, 2003 | March 30, 2002 | March 29, 2003 | March 3 2002 |
| Comprehensive income: | | | | |
| Net income ...................... | $7,262 | $5,773 | $14,311 | $11,97 |
| Cumulative translation adjustment | 262 | 125 | 460 | 32 |
| Unrealized loss on available-for-sale securities ... | (155) | (274) | (270) | (42 |
| Total comprehensive income ...... | $7,369 | $5,624 | $14,501 | $11,87 |

NOTE G - Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except share and per share data):

| | Three Months Ended | | Six Mon |
|---|---|---|---|
| | March 29, 2003 | March 30, 2002 | March 29, 2003 |
| Net income ........................ | $ 7,262 | $ 5,773 | $ 14,311 |
| Weighted-average shares ............ | 19,853,535 | 19,760,008 | 19,746,681 |
| Effect of dilutive securities: | | | |
| Employee stock options ......... | 702,074 | 1,005,442 | 736,000 |
| Adjusted weighted-average shares and assumed conversions ................ | 20,555,609 | 20,765,450 | 20,482,681 |
| Basic earnings per share ........... | $ 0.37 | $ 0.29 | $ 0.72 |
| Diluted earnings per share ......... | $ 0.35 | $ 0.28 | $ 0.70 |

NOTE H - New Accounting Pronouncements

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123." This statement provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based compensation. The statement amends the disclosure requirements of FASB Statement No. 123 to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The Company accounts for stock-based compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and complies with the disclosure provisions of FASB Statement No. 123. The transition provisions are effective for fiscal years ending after December 15, 2002. The disclosure provisions are effective for interim periods beginning after December 15, 2002. The Company has implemented the required disclosure provisions in the three month period ending March 29, 2003. The adoption of this statement is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows as the Company does not anticipate making the voluntary change to the fair value method of accounting for stock-based compensation.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51." FIN No. 46 requires certain variable interest entities, or VIEs, to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 is effective for all VIEs created or acquired after January 31, 2003. For VIEs created or acquired prior to February 1, 2003, the provisions of FIN No. 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company currently has no contractual relationship or other business relationship with a variable interest entity and therefore the adoption of FIN No. 46 did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

NOTE I - Call Option Arrangements

The Company periodically enters into call option arrangements, which are classified as an equity instrument in accordance with the provisions of EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." During the six month period ended March 29, 2003, a call option arrangement matured in December 2002. At maturity, the Company's stock price exceeded the strike price of $25.00 per share and the Company received a return of its cash investment and a premium totaling approximately $2.6 million, which is credited to additional paid-in-capital. If at maturity the Company's stock price was less than the strike price, the Company would use its cash investment to purchase Company shares at a predetermined price. A call option arrangement provides the Company an opportunity to lock in a repurchase price for shares under the Company's stock repurchase program. There are no dividend and liquidation preferences, participation rights, sinking-fund requirements, unusual voting rights or any other significant terms pertaining to these call option arrangements. As of the balance sheet date, the Company did not have any call option arrangements outstanding.

NOTE J - Stock-Based Compensation

The Company accounts for its stock-based compensation plan under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation (in thousands, except per share data).

| | Three Months Ended | | Six Months Ende | |
|---|---|---|---|---|
| | March 29, 2003 | March 30, 2002 | March 29, 2003 | Mar 2 |
| Net income, as reported ................. | $7,262 | $5,773 | $14,311 | $ |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (2,525) | (2,663) | (4,130) | |
| Pro forma net income .................... | $4,737 | $3,110 | $10,181 | $ |
| Earnings per share: | | | | |
| Basic--as reported ................. | $ 0.37 | $ 0.29 | $ 0.72 | $ |
| Basic--pro forma ................... | $ 0.24 | $ 0.16 | $ 0.52 | $ |
| Diluted--as reported ............... | $ 0.35 | $ 0.28 | $ 0.70 | $ |
| Diluted--pro forma ................. | $ 0.23 | $ 0.15 | $ 0.50 | $ |

NOTE K - Additional Stock Option Program Information

Option Program Description: The Company intends that its stock option program be its primary vehicle for offering long-term incentives and rewarding its executives and key employees. Stock options are granted to key employees based upon, among other things, prior performance of the executive or key employee, the importance of retaining their services for the Company and the potential for their performance to help the Company attain its long-term goals. There is no set formula for the award of options to individual executives or employees.

Stock options are generally granted annually in conjunction with the Compensation Committee's formal review of the individual performance of its key executives, including its Chief Executive Officer, and their contributions to the Company. In the six month period ended March 29, 2003, 76% of the options granted went to employees other than the Named Executive Officers. The Named Executive Officers for the first six month period of fiscal 2003 and for fiscal 2002, for purposes of this footnote, are the same Named Executive Officers for fiscal 2002, which are identified in the Company's definitive proxy statement for the 2003 Annual Meeting of Stockholders. The Named Executive Officers for fiscal 2001 are the officers which are identified in the Company's definitive proxy statement for the 2002 Annual Meeting of Stockholders. All the options awarded are granted from the same plan. Options, which are granted at the fair market value on the date of grant, typically vest annually over a four-year period beginning one year from the date of grant and have a contractual life of four years and six months.

Distribution and Dilutive Effect of Options:

Employee and Named Executive Officer Option Grants:

| | For the Six Month Period Ended March 29, 2003 | For the Fiscal Year Ended September 30, 2002 |
|---|---|---|
| Net grants during period as % of outstanding ... shares | 4.2% | 4.7% |
| Grants to Named Executive Officers during period as % of options granted | 24.2% | 25.3% |
| Grants to Named Executive Officers ............. during period as % of shares outstanding | 1.0% | 1.2% |

General Option Information:

Summary of Option Activity
(in thousands, except per share data)

| | Shares Available for Options | Number of Option Shares Outstanding | Weighted-Exercise per Sh |
|---|---|---|---|
| Outstanding at September 30, 2002 | 1,624 | 2,641 | $2 |
| Grants .................... | (827) | 827 | 2 |
| Exercises ................ | -- | (483) | 1 |
| Cancellations ............. | 2 | (27) | 2 |
| Additional shares reserved | -- | -- | |
| Outstanding at March 29, 2003 .. | 799 | 2,958 | $2 |

In-the-Money and Out-of-the-Money Option Information as of March 29, 2003
(in thousands, except per share data)

| | Exercisable | | Unexercisable | | |
|---|---|---|---|---|---|
| | | Weighted-Average Exercise | | Weighted-Average Exercise | |

| | Shares | Price per Share | Shares | Price per Share | Shares |
|---|---|---|---|---|---|
| In-the-Money ........... | 746 | $23.28 | 2,063 | $24.26 | 2,809 |
| Out-of-the-Money (1) .... | 28 | $43.68 | 121 | $40.52 | 149 |
| Total Options Outstanding | 774 | $24.02 | 2,184 | $25.16 | 2,958 |

(1) Out-of-the-Money options are those options with an exercise price equal to or above the closing price of $36.25 at the end of the current quarter.

Executive Options: The following tables summarize option grants and exercises during the six month period ended March 29, 2003 to the Company's Named Executive Officers and the value of the options held by such persons at March 29, 2003.

Options Granted to Named Executive Officers

| | Individual Grants | | | |
|---|---|---|---|---|
| Name | Number of Securities Underlying Options Granted (1) | Percent of Total Options Granted to Employees in Six Month Period Ended March 29, 2003 (2) | Exercise or Base Price per Share (3) | Expiration Date |
| Mark S. Ain ............. CEO & Chairman | 60,000 | 7.3% | $ 24.86 | 04/07/07 |
| Paul A. Lacy ............ Exec. V.P. and Chief Financial & Administrative Officer | 40,000 | 4.8% | 24.86 | 04/07/07 |
| Aron J. Ain ............. Exec. V.P. and Chief Operating Officer | 40,000 | 4.8% | 24.86 | 04/07/07 |
| Peter C. George ......... V.P., Engineering & Chief Technology Officer | 30,000 | 3.6% | 24.86 | 04/07/07 |

| | | | | |
|---|---|---|---|---|
| James Kizielewicz ....... V.P., Marketing and Corporate Strategy | 30,000 | 3.6% | 24.86 | 04/07/07 |

(1) Each option vests in four equal annual installments commencing one year from the date of grant.

(2) Based on an aggregate of 827,400 shares subject to options granted to employees of the Company in the six month period ended March 29, 2003.

(3) The exercise price of each option was equal to the fair market value of the Company's common stock on the date of grant as reported by The NASDAQ National Market(R).

(4) Amounts represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. These gains are based on assumed rates of stock appreciation of 5% and 10% compounded annually from the date the respective options were granted to their expiration date (and are shown net of the option exercise price, but do not include deductions for taxes or other expenses associated with the exercise of the options or the sale of the underlying shares.) Actual gains, if any, on stock option exercises will depend on the future performance of the common stock, the optionholder's continued employment with the Company through the option vesting period and the date on which the options are exercised.

Option Exercises and Remaining Holdings of Named Executive Officers (for the six month period ended March 29, 2003)

| Name | Shares Acquired on Exercise | Value Realized (1) | Number of Securities Underlying Unexercised Options at March 29, 2003 Exercisable/ Unexercisable | Value of In-The-Mon March 2 Exer Unexe |
|---|---|---|---|---|
| Mark S. Ain ..... | 67,500 | $1,890,675 | 96,000/153,000 | $1,106,438 |
| Paul A. Lacy .... | 27,000 | 725,940 | 52,500/98,500 | 610,823/1, |
| Aron J. Ain ..... | 27,000 | 783,720 | 52,500/98,500 | 610,823/1, |
| Peter C. George . | 11,250 | 284,288 | 42,000/73,500 | 584,025/80 |
| James Kizielewicz | 13,500 | 398,620 | 27,000/75,000 | 313,605/79 |

(1) Represents the difference between the exercise price and the fair market value of the common stock on the date of exercise.

(2) Based on the fair market value of the common stock on March 29, 2003 ($36.25), the last day of the second quarter of the Company's 2003 fiscal year, less the option exercise price.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Forward-Looking Statements

This discussion includes certain forward-looking statements about Kronos' business and its expectations, including statements relating to revenues, product and service revenues and revenue growth rates, deferred maintenance revenue, gross profit, future acquisitions and available cash, investments and operating cash flow, Kronos' ability to obtain third-party financing, and the future effects of accounting pronouncements. Any such statements are subject to risk that could cause the actual results to vary materially from expectations. For a further discussion of the various risks that may affect Kronos' business and expectations, see "Certain Factors That May Affect Future Operating Results" in our Annual Report of Form 10-K for the fiscal year ended September 30, 2002 at the end of Management's Discussion and Analysis of Financial Condition and Results of Operations. The risks and uncertainties discussed herein and in our Annual Report on Form 10-K for the year ended September 30, 2002 do not reflect the potential future impact of any mergers, acquisitions or dispositions. In addition, any forward-looking statements represent our estimates only as of the day this Quarterly Report was filed with the Securities and Exchange Commission and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update forward-looking statements as some point in the future, we specifically disclaim any obligation to do so, even if our estimates change.

### Overview

Kronos is a single-source provider of human resources, payroll, scheduling, and time and labor solutions. Kronos' solutions are designed for a wide range of businesses from single-site to large multi-site enterprises. Kronos derives revenues from the licensing of its software solutions, sales of its hardware solutions and providing professional services as well as ongoing customer support and maintenance.

Management at Kronos believes that the continued economic downturn may result in many customers deferring or reducing their technology purchases in the future. While management believes the impact on technology purchasing may be temporary, the effect may continue to cause delays or reductions in customer purchases of Kronos products and services in the future.

Regarding expectations for the remainder of the current fiscal year, management presently anticipates that revenue growth for the third quarter and for the entire fiscal 2003, including revenues from customers obtained in the acquisition of businesses, will range between 11% - 15% and 11% - 13%, respectively.

### Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations are based upon Kronos' consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires

Kronos to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and related disclosures of contingent assets and liabilities. Kronos bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

Kronos has identified the following critical accounting policies that affect the more significant judgments and estimates used in the preparation of consolidated financial statements. This listing is not a comprehensive list of all of Kronos' accounting policies. Please refer to Note A in the Notes to Consolidated Financial Statements in Item 15 of Kronos' Annual Report on Form 10-K for the fiscal year ended September 30, 2002 for further information.

Revenue Recognition - The Company licenses software and sells data collection hardware and related ancillary products to end-user customers through its direct sales force as well as indirect channel customers, Automatic Data Processing, Inc. ("ADP") and its independent resellers. Substantially all of the Company's software license revenue is earned from perpetual licenses of off-the-shelf software requiring no modification or customization. The software license, data collection hardware and related ancillary product revenues from the Company's end-user customers and indirect channel customers are generally recognized using the residual method when:

- persuasive evidence of an arrangement exists, which is typically when a non-cancelable sales and software license agreement has been signed;
- delivery, which is typically FOB shipping point, is complete for the software (either physically or electronically), data collection hardware and related ancillary products;
- the customer's fee is deemed to be fixed or determinable and free of contingencies or significant uncertainties;
- collectibility is probable; and
- vendor specific objective evidence of fair value exists for all undelivered elements, typically maintenance and professional services.

Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue, assuming all other conditions for revenue recognition have been satisfied. Substantially all of the Company's product revenue is recognized in this manner. If the Company cannot determine the fair value of any undelivered element included in an arrangement, the Company will defer revenue until all elements are delivered, services are performed or until fair value can be objectively determined.

As part of an arrangement, end-user customers typically purchase maintenance contracts as well as professional services from the Company. Maintenance services include telephone and Web-based support as well as rights to unspecified upgrades and enhancements, when and if the Company makes them generally available. Professional services are deemed to be non-essential and typically are for implementation planning, loading of software, installation of the data collection hardware, training, building simple interfaces, running test data, and assisting in the development and documentation of pay rules and best practices consulting.

Revenues from maintenance services are recognized ratably over the term of the maintenance contract period based on vendor specific objective evidence of fair value. Vendor specific objective evidence of fair value is based upon the amount charged when purchased separately, which is typically the contract's renewal rate. Maintenance services are typically stated separately in an arrangement. The Company has classified the allocated fair value of revenues pertaining to the contractual maintenance obligations that exist for the 12-month period subsequent to the balance sheet date as a current liability, and the contractual obligations with a term beyond 12 months as a non-current liability. Revenues from time and material maintenance services are recognized as the services are delivered.

Revenues from professional services are generally recognized based on vendor specific objective evidence of fair value when: (1) a non-cancelable agreement for the services has been signed or a customer's purchase order has been received; and (2) the professional services have been delivered. Vendor specific objective evidence of fair value is based upon the price charged when these services are sold separately and are typically an hourly rate for professional services and a per class rate for training. Based upon the Company's experience in completing product implementations, it has determined that these services are typically delivered within a 12-month period subsequent to the contract signing and therefore classifies deferred professional services as a current liability.

The Company's arrangements with its end-user customers and indirect channel customers do not include any rights of return or price protection, nor do arrangements with indirect channel customers include any acceptance provisions. Generally, the Company's arrangements with end-user customers also do not include any acceptance provisions. However, if an arrangement does include acceptance provisions, they typically are based on the Company's standard acceptance provision. The Company's standard acceptance provision provides the end-user customer with a right to a refund if the arrangement is terminated because the product did not meet Kronos' published specifications. Generally, the Company determines that these acceptance provisions are not substantive and therefore should be accounted for as a warranty in accordance with SFAS No. 5.

At the time the Company enters into an arrangement, the Company assesses the probability of collection of the fee and the terms granted to the customer. For end-user customers, the Company's typical payment terms include a deposit and subsequent payments, based on specific due dates, such that all payments for the software license, data collection hardware and related ancillary products, as well as services included in the original arrangement are ordinarily due within one year of contract signing. The Company's payment terms for its indirect channel customers are less than 90 days and typically due within 30 days of invoice date.

If the payment terms for the arrangement are considered extended or if the arrangement includes a substantive acceptance provision, the Company defers revenue not meeting the criterion for recognition under SOP 97-2 and classifies this revenue as deferred revenue, including deferred product revenue. This revenue is recognized, assuming all other conditions for revenue recognition have been satisfied, when the payment of the arrangement fee becomes due and/or when the uncertainty regarding acceptance is resolved as generally evidenced by written acceptance or payment of the arrangement fee. The Company reports the allocated fair value of revenues related to the product element of arrangements as a current liability because of the expectation that these revenues will be recognized within 12 months of the balance sheet date.

Since fiscal 1996, the Company has had a standard practice of providing creditworthy end-user customers the option of financing arrangements beyond one year. These arrangements, which encompass separate fees for software license, data collection hardware and ancillary products, maintenance and support contracts and professional services, are evidenced by distinct standard sales, license and maintenance agreements and typically require equal monthly payments. The term of these arrangements typically range between 18 and 36 months. At the time the Company enters into an arrangement, the Company assesses the probability of collection and whether the arrangement fee is fixed or determinable. The Company considers its history of collection without concessions as well as whether each new transaction involves similar customers, products and arrangement economics to ensure that the history developed under previous arrangements remains relevant to current arrangements. If the fee is not determined to be collectible, fixed or determinable, the Company will initially defer the revenue and recognize when collection becomes probable, which typically is when payment is due assuming all other conditions for revenue recognition have been satisfied.

Allowance for Doubtful Accounts and Sales Returns Allowance - Kronos maintains an allowance for doubtful accounts to reflect estimated losses resulting from the inability of customers to make required payments. This allowance is based on estimates made by Kronos after consideration of factors such as the composition of the accounts receivable aging and bad debt history. If the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances and bad debt expense may be required. In addition, Kronos maintains a sales returns allowance to reflect estimated losses for sales returns and adjustments. Sales returns and adjustments are generally due to incorrect ordering of product, general customer satisfaction issues or incorrect billing. This allowance is established by Kronos using estimates based on historical experience. If Kronos experiences an increase in sales returns and adjustments, additional allowances and charges against revenue may be required.

Valuation of Intangible Assets and Goodwill - In assessing the recoverability of goodwill and other intangible assets, Kronos must make assumptions regarding the estimated future cash flows and other factors to determine the fair value of these assets. If these estimates or their related assumptions change in the future, Kronos may be required to record impairment charges against these assets in the reporting period in which the impairment is determined. For intangible assets, this evaluation includes an analysis of estimated future undiscounted net cash flows expected to be generated by the assets over their estimated useful lives. If the estimated future undiscounted net cash flows are insufficient to recover the carrying value of the assets over their estimated useful lives, Kronos will record an impairment charge in the amount by which the carrying value of the assets exceeds their fair value. For goodwill, the impairment evaluation includes a comparison of the carrying value of the reporting unit which houses goodwill to that reporting unit's fair value. Kronos has only one reporting unit. The fair value of the reporting unit is based upon the net present value of future cash flows, including a terminal value calculation. If the reporting unit's estimated fair value exceeds the reporting unit's carrying value, no impairment of goodwill exists. If the fair value of the reporting unit does not exceed its carrying value, then further analysis would be required to determine the amount of the impairment, if any. If Kronos determines that there is an impairment in either an intangible asset, or goodwill, Kronos may be required to record an impairment charge in the reporting period in which the impairment is determined, which may have a negative impact on earnings.

Capitalization of Software Development Costs - Costs incurred in the research, design and development of software for sale to others are charged to expense until technological feasibility is established. Thereafter, software development costs are capitalized and amortized to product cost of sales on a straight-line basis over the lesser of three years or the estimated economic lives of the respective products, beginning when the products are offered for sale. Costs incurred in the development of software for internal use are charged to expense until it becomes probable that future economic benefits will be realized. Thereafter, certain costs are capitalized and amortized to operating expense on a straight-line basis over the lesser of three years or the estimated economic life of the software.

Results of Operations

Revenues. Revenues for the three and six month periods ended March 29, 2003 of fiscal 2003 were $96.5 million and $186.2 million, respectively, as compared to $79.9 million and $156.1 million for the comparable periods in the prior fiscal year. Revenue growth was 21% and 19% for the three and six month periods ended March 29, 2003, as compared to 18% for both the three and six months in the comparable periods in the prior fiscal year. Revenues from core business (business generated from customers that have not been part of an acquired business transaction over the last four quarters) grew 19% and 5% in the three month periods ended March 29, 2003 and March 30, 2002, respectively. For the six months ended March 29, 2003, core business growth was 15% as compared to 8% for the comparable period in the prior fiscal year. Revenue growth attributable to acquisitions of businesses over the last four quarters was 2% and 4% for the three and six months ended March 29, 2003, respectively, as compared to 13% and 10% for the comparable periods in the prior fiscal year.

Product revenues for the three month period ended March 29, 2003 increased 30% to $44.1 million as compared to $34.0 million and a product revenue increase of 4% in the comparable period of fiscal 2002. Product revenue for the six month period ended March 29, 2003 increased 20% to $83.0 million as compared to $69.2 million and a product revenue increase of 4% in the comparable period of fiscal 2002. The principal factors driving product revenue growth in the three and six month periods ended March 29, 2003 were primarily increased customer demand for Kronos products, as well as capacity upgrades and upgrades to the newest badge terminals from existing customers. In addition, product revenue growth was also the result of unusually low product sales volume in the three month period ended March 30, 2002, which management believes was due to various factors including the broad economic slowdown, which resulted in the deferral of many larger value transactions. Another factor driving the product revenue growth experienced in the three and six month period ended March 29, 2003 was revenues related to the conversion to Kronos products by, and add-on sales to, customers acquired from other providers of labor management solutions. Product revenue derived from acquired customers was $.3 million or 1% of total product revenue and $2.4 million or 3% of total product revenue in the three and six month periods ended March 29, 2003, respectively. Although product revenues increased during the quarter, management believes that the continued economic downturn may result in many customers deferring or reducing their technology purchases in the future. While management believes the impact on technology purchasing may be temporary, the effect may cause delays or reductions in customer purchases of Kronos products and services in the future.

Maintenance revenues for the three month period ended March 29, 2003 increased 10% to $29.7 million as compared to $27.0 million and a maintenance revenue increase of 38% in the comparable period of fiscal 2002. Maintenance revenues for the first six months of fiscal 2003 increased 16% to $58.7 million as compared to $50.4 million and a maintenance revenue increase of 32% in the first six months of fiscal 2002. Excluding the effect of incremental maintenance revenues from acquisitions of businesses in the preceding four quarters, maintenance revenues would have increased 8% and 11% for the three months and six months ended March 29, 2003, and 16% and 15% for the three months and six months ended March 30, 2002. The growth in maintenance revenue experienced during the three months and six months ended March 30, 2002 was positively impacted by an improvement in the maintenance billing process, as well as an acceleration of the start of the maintenance period related to upgrade sales. The impact of these improvements resulted in an immediate and one-time benefit during fiscal 2002, and the growth rates experienced during the three months and six months ended March 29, 2003 are what management believes to be more typical and expected growth rates in maintenance revenue. The increase in maintenance revenues in both periods was primarily a result of expansion of the installed base, an increase in the value of maintenance contracts and incremental maintenance revenues attributable to customers obtained from the acquisition of businesses. The increase in the value of the maintenance contracts was principally attributable to the platform upgrade of existing customers to Kronos' new products. Platform and capacity upgrade sales typically result in an increased value of maintenance contracts.

Professional services revenues for the three month period ended March 29, 2003 increased 19% to $22.7 million as compared to $19.0 million and a professional services revenue increase of 22% in the comparable period of fiscal 2002. Professional service revenues for the first six months of fiscal 2003 increased 22% to $44.5 million as compared to an increase of 30% to $36.5 million in the first six months of fiscal 2002. Excluding the effect of incremental professional service revenues from acquisitions of businesses in the preceding four quarters, professional service revenues would have increased 18% in the three and six months ended March 29, 2003, as compared to 10% and 19% in the three and six month periods ended March 30, 2002, respectively. The growth in professional services in both the three and six month periods ended March 29, 2003, was primarily due to an increase in the level of professional services accompanying new and platform upgrade sales and an increase in demand for Kronos' services. The growth in professional service revenues for the three and six months ended March 30, 2002 reflected an increase in the level of professional services accompanying new and upgrade sales, an increase in the level of follow-on services sold to the installed base, and an increase in delivery of professional services resulting from improving the efficiency of Kronos services organization.

Deferred maintenance revenues increased 5% from September 30, 2002. Current deferred maintenance revenues increased 8% and long-term deferred maintenance revenues decreased 15% from September 30, 2002. Maintenance revenues have grown at a faster rate than deferred maintenance primarily due to the positive impact on the maintenance revenues of the acquisitions completed during the past fiscal year, primarily the December 28, 2001 acquisition of the Integrated Software Business of SimplexGrinnell's Workforce Solutions Division, as well as the effect of the timing of the expiration of multi-year maintenance contracts sold in previous fiscal years and smaller acquisitions in the current fiscal year. The decrease in the long-term portion was due to Kronos' decision in fiscal 2000 to curtail the practice of selling multi-year maintenance contracts. Deferred professional services revenues increased 1% from September 30, 2002. Professional services revenues have grown at a faster rate than the deferred professional services primarily due to an increase in the level of professional services that are billed in arrears as services are delivered, as well as an increase in the utilization efficiency of the service organization as compared to the prior fiscal year.

Gross Profit. Gross profit as a percentage of revenues was 60% for both the three and six month periods ended March 29, 2003, respectively, as compared to 61% in the same periods in the prior fiscal year. The reduction in gross profit is primarily attributable to a reduction in service gross profit, partially offset by a higher proportion of product revenue, which typically carries a higher gross profit than service revenue. Product gross profit as a percentage of product revenues was 75% for both the three and six month periods ended March 29, 2003, respectively, compared to 75% and 76% in the same periods of the prior fiscal year. Service gross profit as a percentage of service and maintenance revenues was 47% and 48% for the three and six month periods ended March 29, 2003, respectively, as compared to 50% in the same periods of the prior fiscal year. This reduction in service gross profit was primarily the result of the addition of personnel responsible for the implementation and support of the Human Resource Management System (HRMS) product, an increase in costs related to additional investments in support of Kronos' training offerings, partially offset by an increase in the utilization efficiency of the service organization. Management anticipates overall gross profit to decline in fiscal 2003 as more revenue is derived from newer products including its Kronos 4500 terminal and HRMS products, which carry higher production and royalty costs, and increased investment in infrastructure to support the introduction of its HRMS products. In addition, if service revenues grow proportionately faster than product revenues, gross margins may decrease as service revenues typically have a lower gross profit.

Net Operating Expenses. Net operating expenses for the three months ended March 29, 2003 increased $6.8 million, or 17%, to $46.6 million as compared to an increase of $0.3 million, or 1%, to $39.8 million for the comparable period in the prior fiscal year. For the six month period ended March 29, 2003, net operating expenses increased $12.9 million, or 17%, to $90.0 million as compared to an increase of $1.3 million, or 2%, to $77.1 million for the comparable period in the prior fiscal year. The increase in actual spending for the three and six month periods ended March 29, 2003, as compared to the same periods in the prior fiscal year was primarily attributable to investments in personnel and related compensation and support costs, as well as additional investment in infrastructure costs required to support higher sales volumes. As a percentage of revenues, net operating expenses were 48% for the three and six month periods ended March 29, 2003, respectively, as compared to 50% and 49% for the same periods in the prior fiscal year. The reduction in net operating expenses as a percentage of revenues was attributable to the leveraging of investments in infrastructure to generate higher sales volumes, and continued corporate-wide efforts to contain costs. Although management intends to decrease operating expenses as a percentage of revenues during the remainder of fiscal 2003, principally through continued productivity improvements, uncertainty related to the current economic climate and its impact on the timing of customers' purchases, as well as increased investments in productivity programs and infrastructure to support the introduction of the new HRMS products may prevent decreases in operating expenses as a percentage of revenues from being realized.

Sales and marketing expenses increased $5.3 million, or 20%, to $31.4 million for the three month period ended March 29, 2003 as compared to an increase of $1.4 million, or 6%, to $26.1 million in the comparable period of fiscal 2002. For the first six months of fiscal 2003, sales and marketing expenses increased $9.2 million, or 18%, to $60.4 million as compared to an increase of $4.3 million, or 9%, to $51.2 million for the first six months of fiscal 2002. The increase in sales and marketing spending was attributable to Kronos' investments in sales personnel and related compensation and support costs to maximize the penetration of existing accounts and to add new customers as well as initiatives to expand market awareness of Kronos products and services. As a percentage of revenues, sales and marketing were 33% and 32% for the three and six month periods ended March 29, 2003, respectively, as compared to 33% for the same periods in the prior fiscal year. The decrease in sales and marketing expense as a percentage of revenues was primarily due to leveraging the investments in infrastructure to generate higher sales volumes.

Engineering, research and development expenses have increased $0.3 million, or 3%, to $9.6 million for the quarter as compared to an increase of $0.8 million, or 10%, to $9.3 million for the same period in the prior fiscal year. For the six months ended March 29, 2003 engineering, research and development expenses increased $0.8 million, or 5%, to $18.0 million as compared to an increase of $0.9 million, or 5%, to $17.2 million for the first six months of fiscal 2002. The increase in spending in the three month period ended March 29, 2003, as compared to the same period in the prior fiscal year was primarily due to an increase in expenses related to the training of engineering personnel as well as compensation related expenses, partially offset by the reallocation of certain engineering resources focused upon information systems support to general and administrative expenses. The increase in spending in the first six months of fiscal 2003, as compared to the same period in the prior fiscal year was principally due to an increase in compensation related expenses, as well as an increase in training expenses, partially offset by a reduction in costs associated with engineering consultants as well as the previously discussed reallocation of engineering resources to general and administrative expenses. Engineering, research and development expenses as a percentage of revenues were 10% for both the three and six month periods ended March 29, 2003, as compared to 12% and 11% for the same periods in the prior fiscal year. The decrease as a percentage of revenues for the three and six months ended March 29, 2003 as compared to the same periods in the prior fiscal year was primarily due to higher sales volume in fiscal 2003. In addition, the expenses during the first six months of fiscal 2003 were lower as a percentage of revenues due to a reduction in costs associated with engineering consultants. Engineering, research and development expenses of $9.6 million and $9.3 million in the second quarter of fiscal 2003 and 2002, respectively, are net of capitalized software development costs of $3.0 million and $2.8 million, respectively, for each quarter. Engineering, research and development expenses of $18.0 million and $17.2 million in the first six months of fiscal 2003 and 2002, respectively, are net of capitalized software development costs of $5.9 million and $5.4 million, respectively. The significant project development efforts in the first six months of fiscal 2003 principally related to further development and enhancement of the Workforce Central(R) suite, Workforce HR(TM), Workforce Payroll(TM), Kronos 4500(TM) terminal and, to a lesser extent, the eForce(R) software acquired from SimplexGrinnell on December 28, 2001.

General and administrative expenses increased $1.3 million, or 26%, to $6.4 million for the three month period ended March 29, 2003 as compared to an increase of $0.6 million, or 13%, to $5.1 million in the comparable period of fiscal 2002. For the first six months of 2003, general and administrative expenses increase $2.8 million, or 29%, to $12.4 million as compared to an increase of $1.0 million, or 12%, to $9.6 million for the first six months of fiscal 2002. The increase in general and administrative expenses in the three and six month periods ended March 29, 2003 was primarily due to Kronos' investment in personnel and related compensation and support costs (including those costs associated with the previously discussed reallocation of engineering resources to general and administrative expenses), an increase in fees related to tax planning services as well as audit and legal services, an increase in bad debt expense and continued investment in other infrastructure to support the growth of operations. General and administrative expenses as a percentage of revenues were 7% for both the three and six month periods ended March 29, 2003, as compared to 6% for the same periods in the prior fiscal year. General and administrative expenses primarily consist of personnel and overhead related expenses for administrative, information technology, finance, legal and human resources support functions.

Amortization of intangible assets as a percentage of revenues were 1% for all periods presented. Other income, net as a percentage of revenues were 2% and 1% in the three and six month periods ended March 29, 2003, respectively, as compared to 2% and 1% for the same periods in the prior fiscal year. Other income, net is principally interest income earned from Kronos' cash as well as investments in its marketable securities and financing arrangements.

Income Taxes. The provision for income taxes as a percentage of pretax income was 36.0% in the three and six month periods ended March 29, 2003. As a percentage of pretax income, the three month period ended March 30, 2002 had a tax provision of 34.5% and the six month period ended March 30, 2002 had a tax provision of 34.8%. Kronos' effective income tax rate may fluctuate between periods as a result of various factors, including income tax credits, foreign tax rate differentials and state income taxes.

Newly Issued Accounting Standards. In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123." This statement provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based compensation. The statement amends the disclosure requirements of FASB Statement No. 123 to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. Kronos accounts for stock-based compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and complies with the disclosure provisions of FASB Statement No. 123. The transition provisions are effective for fiscal years ending after December 15, 2002. The disclosure provisions are effective for interim periods beginning after December 15, 2002. Kronos has implemented the required disclosure provisions in the three month period ended March 29, 2003. The adoption of this statement is not expected to have a material impact on Kronos' consolidated financial position, results of operations or cash flows as Kronos does not anticipate making the voluntary change to the fair value method of accounting for stock-based compensation.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51." FIN No. 46 requires certain variable interest entities, or VIEs, to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 is effective for all VIEs created or acquired after January 31, 2003. For VIEs created or acquired prior to February 1, 2003, the provisions of FIN No. 46 must be applied for the first interim or annual period beginning after June 15, 2003. Kronos currently has no contractual relationship or other business relationship with a variable interest entity and therefore the adoption of FIN No. 46 did not have a material effect on Kronos' consolidated financial position, results of operations or cash flows. However, if Kronos enters into any such arrangement with a variable interest entity in the future, Kronos' consolidated financial position or results of operations may be adversely effected.

Liquidity and Capital Resources

Kronos funds its business through cash generated by operations. If near-term demand for Kronos' products weakens or if significant anticipated sales in any quarter do not close when expected, the availability of such funds may be adversely impacted. If the need arose, Kronos believes that based on its current debt-free balance sheet and its financial position, it would be successful in securing financing from the capital markets.

Cash, cash equivalents and marketable securities (which includes both short and long term securities) amounted to $94.0 million as of March 29, 2003, and $74.7 million as of September 30, 2002. This increase in cash, cash equivalents and marketable securities is due to cash generated from operations. Working capital as of March 29, 2003 amounted to $7.3 million as compared with $2.4 million at September 30, 2002. This increase in working capital is primarily due to an increase in cash resulting from cash provided by operations.

Cash provided by operations amounted to $40.1 million in the first six months of fiscal 2003 as compared to $34.5 million in the first six months of fiscal 2002. The increase in operating cash flows in fiscal 2003 is principally attributable to higher net income, increased non-cash charges that are added back in the calculation of cash flow from operations, as well as the net impact of changes in accounts receivable, deferred revenues, accounts payable and accrued expenses. In addition, although the tax benefit from exercise of stock options contributed less to cash flow from operations in the first six months of fiscal 2003, as compared to the same period last fiscal year, the related increase in taxes payable offsets this effect.

Cash used for property, plant and equipment was $6.1 million in the first six months of fiscal 2003 compared to $5.2 million in the first six months of fiscal 2002. Kronos' use of cash for property, plant and equipment in both periods presented includes investments in information system and infrastructure to improve and support expanding operations. Kronos' use of cash for the acquisition of businesses and software for the six months ended March 29, 2003 and March 30, 2002 was principally related to the acquisitions of specified assets and/or businesses of Kronos' dealers and/or other providers of labor management solutions. In addition, during the first six months of fiscal 2002, Kronos' use of cash for the acquisition of businesses and software included cash used for the acquisition of the source code license for the Abra Enterprise human resources and payroll software. Kronos is assessing several acquisition opportunities that may be completed over the next twelve months, although there can be no assurance that these acquisitions will be completed. Excess cash reserves not required for operations, investments in property, plant and equipment or acquisitions are invested in marketable securities. Net investments in marketable securities decreased by $3.1 million in the first six months of fiscal 2003 compared to an increase of $16.7 million in the first six months of fiscal 2002.

Under Kronos' stock repurchase program, Kronos repurchased 296,300 common shares in the first six months of fiscal 2003 at a cost of $11.0 million compared to 230,500 at a cost of $10.4 million for the same period in the prior fiscal year. The common shares repurchased under the program are used for Kronos' employee stock option plans and employee stock purchase plan. During the first quarter of fiscal 2003, Kronos received $2.6 million upon the maturity of a call option arrangement. As of March 29, 2003, Kronos did not have any outstanding call option arrangements. Please refer to Note I in the Notes to Condensed Consolidated Financial Statements for further details regarding call option arrangements. Cash provided by operations was sufficient to fund investments in capitalized software development costs, property, plant and equipment and stock repurchases.

Kronos leases certain office space, manufacturing facilities and equipment under long-term operating lease agreements. In addition, certain acquisition agreements contain provisions that require Kronos to make a guaranteed payment and/or contingent payments based upon profitability of the business unit or if specified minimum revenue requirements are met. Future minimum rental commitments under operating leases with noncancellable terms of one year or more, and future payment obligations related to guaranteed payments are as follows (in thousands):

Payments Due by Period

| Contractual Obligations | Total | Less than 1 year | 1-3 years | 3-5 years | More 5 y |
|---|---|---|---|---|---|
| Operating Lease Obligations | $36,795 | $ 9,378 | $15,793 | $ 8,866 | $ |
| Guaranteed Payment Obligations ........... | 4,877 | 2,795 | 1,970 | 112 | |
| Total .................... | $41,672 | $12,173 | $17,763 | $ 8,978 | $ |

Kronos believes that with cash generated from ongoing operations it has adequate cash and investments and operating cash flow to fund its investments in property, plant and equipment, software development costs, cash requirements under operating leases, cash payments related to acquisitions, if any, and any additional stock repurchases for the foreseeable future.

During the three months ended March 29, 2003, Kronos did not engage in:

- material off-balance sheet activities, including the use of structured finance or special purpose entities,

- material trading activities in non-exchange traded commodity contracts, or

- transactions with persons or entities that benefit from their non-independent relationship with Kronos.

Certain Factors That May Affect Future Operating Results

Except for historical matters, the matters discussed in this Quarterly Report on Form 10-Q are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"). Kronos desires to take advantage of the safe harbor provisions of the Act and is including this statement for the express purpose of availing itself of the protection of the safe harbor with respect to all forward-looking statements that involve risks and uncertainties.

Kronos' actual operating results may differ from those indicated by forward-looking statements made in this Quarterly Report on Form 10-Q and presented elsewhere by management from time to time because of a number of factors including the potential fluctuations in quarterly results, timing and acceptance of new product introductions by Kronos and its competitors, the dependence on Kronos' time and attendance product line, the ability to attract and retain sufficient technical personnel, the protection of Kronos' intellectual property and the potential infringement on Kronos' intellectual property rights, competitive pricing pressure, and the dependence on alternate distribution channels and on key vendors, as further described below and in Kronos' Annual Report on Form 10-K for the fiscal year ended September 30, 2002, which are specifically incorporated by reference herein.

Potential Fluctuations in Results. Kronos' operating results, including revenue growth, sources of revenue, effective tax rate and liquidity, may fluctuate as a result of a variety of factors, including the purchasing patterns of its customers, mix of products and services sold, the ability of Kronos to effectively integrate acquired businesses into Kronos' operations, the timing of the introduction of new products and product enhancements by Kronos and its competitors, the strategy employed by Kronos to enter the Human Resources

Management System ("HRMS") market, market acceptance of new products, competitive pricing pressure and general economic conditions. Kronos historically has realized a relatively larger percentage of its annual revenues and profits in the third and fourth quarters and a relatively smaller percentage in the first and second quarters of each fiscal year, although there can be no assurance that this pattern will continue. In addition, substantially all of Kronos' product revenue and profits in each quarter result from orders received in that quarter. If near-term demand for Kronos' products weakens or if significant anticipated sales in any quarter do not close when expected, Kronos' revenues for that quarter will be adversely affected. Kronos believes that its operating results for any one period are not necessarily indicative of results for any future period.

Dependence on Labor Management Product Line. To date, more than 90% of Kronos' revenues have been attributable to sales of labor management systems and related services. Although Kronos has introduced its products for the licensed HRMS market during fiscal 2002, Kronos expects that its dependence on the labor management product line for revenues will continue for the foreseeable future. Competitive pressures or other factors could cause Kronos' labor management products to lose market acceptance or experience significant price erosion, adversely affecting the results of Kronos' operations.

Product Development and Technological Change. Continual change and improvement in computer software and hardware technology characterize the markets for labor management systems. Kronos' future success will depend largely on its ability to enhance the capabilities and increase the performance of its existing products and to develop new products and interfaces to third-party products on a timely basis to meet the increasingly sophisticated needs of its customers. Although Kronos is continually seeking to further enhance its labor management, HR and payroll product offerings (including products for the HRMS market) and to develop new products and interfaces, there can be no assurance that these efforts will succeed, or that, if successful, such product enhancements or new products will achieve widespread market acceptance, or that Kronos' competitors will not develop and market products which are superior to Kronos' products or achieve greater market acceptance.

Dependence on Alternate Distribution Channels. Kronos markets and sells its products through its direct sales organization, independent resellers and ADP under an OEM agreement. In the first six months of fiscal 2003, approximately 9% of Kronos' revenue was generated through sales to resellers and ADP. Management does not anticipate that its entrance into the HRMS market will have a negative impact on its relationship with ADP. However, a reduction in the sales efforts of either Kronos' major resellers or ADP, or termination or changes in their relationships with Kronos, could have a material adverse effect on the results of Kronos' operations. During the three month period ended March 29, 2003, Kronos and ADP signed a letter of intent to extend their business relationship for an additional term of five years.

Competition. The labor management industry is highly competitive. Technological changes such as those allowing for increased use of the Internet have resulted in new entrants into the market. Although Kronos believes it has core competencies that position it strongly in the marketplace, maintaining Kronos' technological and other advantages over competitors will require continued investment by Kronos in research and development and marketing and sales programs. There can be no assurance that Kronos will have sufficient resources to make such investments or be able to achieve the technological advances necessary to maintain its competitive advantages. Increased competition could adversely affect Kronos' operating results through price reductions and/or loss of market share. With Kronos' efforts to expand its labor management offering with the recent introduction of its HRMS product suite, Kronos will continue to meet strong competition. Many of these competitors may be able to adapt more quickly to new or emerging technologies or to devote greater resources to the promotion and sale of their HRMS products. Many of Kronos' HRMS competitors have significantly greater financial, technical and sales and marketing resources than Kronos, as well as more experience in delivering HRMS solutions. There can be no assurance that Kronos will be able to compete successfully in the HRMS marketplace, and its failure to do so could have a material adverse impact upon its business, prospects, financial condition and operating results.

Attracting and Retaining Sufficient Technical Personnel for Product Development, Support and Sales. Kronos has encountered intense competition for experienced technical personnel for product development, technical support and sales and expects such competition to continue in the future. Any inability to attract and retain a sufficient number of qualified technical personnel could adversely affect Kronos' ability to produce, support and sell products in a timely manner.

Protection of Intellectual Property. Kronos has developed, and through its acquisitions of businesses and software, acquired proprietary technology and intellectual property rights. Kronos' success is dependent upon its ability to further develop and protect its proprietary technology and intellectual property rights. Kronos seeks to protect products, software, documentation and other written materials primarily through a combination of trade secret, patent, trademark and copyright laws, confidentiality procedures and contractual provisions. While Kronos has attempted to safeguard and maintain its proprietary rights, it is unknown whether Kronos has been or will be successful in doing so.

Despite Kronos' efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of its products or obtain and use information that is regarded as proprietary. Policing unauthorized use of Kronos' products is difficult. While Kronos is unable to determine the extent to which piracy of its software products exists, software piracy can be expected to be a persistent problem, particularly in foreign countries where the laws may not protect proprietary rights as fully as in the United States. Kronos can offer no assurance that it can adequately protect its proprietary rights or that its competitors will not reverse engineer or independently develop similar technology.

Infringement of Intellectual Property Rights. Kronos cannot provide assurance that others will not claim that Kronos developed or acquired intellectual property rights are infringing on their intellectual property rights or that Kronos does not in fact infringe on those intellectual property rights.

Any litigation regarding intellectual property rights could be costly and time-consuming and divert the attention of Kronos' management and key personnel from business operations. The complexity of the technology involved and the uncertainty of intellectual property litigation increase these risks. Claims of intellectual property infringement might also require Kronos to enter into costly royalty or license agreements, and in this event, Kronos may not be able to obtain royalty or license agreements on acceptable terms, if at all. Kronos may also be subject to significant damages or an injunction against the use of its products. A successful claim of patent or other intellectual property infringement against Kronos could cause immediate and substantial damage to its business and financial condition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Kronos is exposed to a variety of market risks, including changes in interest rates affecting the return on its investments, foreign currency fluctuations and decreases in its common stock price affecting capped call options. Refer to Note A "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended September 30, 2002 for further discussion regarding marketable securities, foreign currency forward exchange contracts and capped call option arrangements. Kronos' marketable securities that expose it to market rate risks are comprised of debt securities. A decrease in interest rates would not adversely impact interest income or related cash flows pertaining to securities held at March 29, 2003, as all of these securities have fixed rates of interest. A 100 basis point increase in interest rates would not adversely impact the fair value of these securities by a material amount due to the size and average duration of the portfolio. Kronos' exposure to market risk for fluctuations in foreign currency relate primarily to the amounts due from subsidiaries. Exchange gains and losses related to amounts due from subsidiaries have not been material. For foreign currency exposures existing at March 29, 2003, a 10% unfavorable movement in the foreign exchange rates for each subsidiary location would not expose the Company to material losses in earnings or cash flows. The calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar.

Kronos has periodically entered into short term capped call options in conjunction with its stock repurchase initiatives. As of March 29, 2003, there were no capped call option arrangements outstanding.

Item 4. Evaluation of Disclosure Controls and Procedures

1. Evaluation of disclosure controls and procedures. Based on their evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-14( c) and 15d-14( c) under the Securities Exchange Act of 1934) as of a date within 90 days of the filing of this quarterly report on Form 10-Q, the Company's chief executive officer and chief financial officer have concluded that the Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and are operating in an effective manner.

2. Changes in internal controls. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their most recent evaluation.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

(a) The 2003 Annual Meeting of Stockholders of Kronos Incorporated was held on February 6, 2003.

(b) At the Annual Meeting, Messrs. Mark S. Ain, W. Patrick Decker and David B. Kiser were elected as Class II Directors for three-year terms expiring in 2006. In addition, the Directors whose terms of office continue after the meeting are two Class I Directors: Messrs. D. Bradley McWilliams and Lawrence Portner and two Class III Directors: Messrs. Richard J. Dumler and

Samuel Rubinovitz. The tabulation was as follows:

| | FOR | WITHHELD |
|---|---|---|
| Mark S. Ain | 17,688,612 | 189,947 |
| W. Patrick Decker | 17,834,691 | 43,868 |
| David B. Kiser | 17,834,242 | 44,317 |

(c) Adoption of the Company's 2003 Employee Stock Purchase Plan was approved as follows:

| FOR | AGAINST | ABSTAIN |
|---|---|---|
| 17,510,770 | 224,994 | 142,795 |

(d) The other item voted upon at the meeting was the ratification of the selection of Ernst & Young LLP as the Company's independent auditors for the 2003 fiscal year.

| FOR | AGAINST | ABSTAIN |
|---|---|---|
| 17,463,927 | 411,045 | 3,587 |

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

99.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

On April 8, 2003, the Company furnished a Current Report on Form 8-K under Item 9, containing a copy of its earnings release, dated April 7, 2003, for the period ending March 29, 2003 pursuant to Item 12 (Results of Operations and Financial Condition).

On April 24, 2003, the Company furnished a Current Report on Form 8-K under Item 9, containing a copy of its earnings release, dated April 24, 2003, for the period ending March 29, 2003 (including financial statements ) pursuant to Item 12 (Results of Operations and Financial Condition).

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.

KRONOS INCORPORATED

May 12, 2003 By /s/ Paul A. Lacy

Paul A. Lacy
Executive Vice President,
Chief Financial and Administrative Officer
(Duly Authorized Officer and
Principal Financial Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Mark S. Ain, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kronos Incorporated;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ Mark S. Ain
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Mark S. Ain
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Paul A. Lacy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kronos Incorporated;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ Paul A. Lacy

Paul A. Lacy
Chief Financial Officer

KRONOS INCORPORATED

EXHIBIT INDEX

| Exhibit Number | Description |
|---|---|
| 99.1 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. |

EXHIBIT 99.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Kronos Incorporated (the "Company") for the period ended March 29, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Mark S. Ain, Chief Executive Officer of the Company, and Paul A. Lacy, Executive Vice President, Chief Financial and Administrative Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark S. Ain

Dated: May 12, 2003

Mark S. Ain
Chief Executive Officer

/s/ Paul A. Lacy
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Dated: May 12, 2003 Paul A. Lacy
Executive Vice President, Chief
Financial and Administrative Officer

A signed original of this written statement required by Section 906 has been provided to Kronos Incorporated and will be retained by Kronos Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.