TSET INC
Form 10QSB
February 12, 2003

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-QSB

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

For the quarterly period ended December 31, 2002

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

For the transition period from __________ to __________

COMMISSION FILE NO. 000-30191

KRONOS ADVANCED TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

NEVADA	87-0440410
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identificatio
464 Common Street, Suite 301, Belmont, MA	02478
(Address of principal executive offices)	(Zip Code
Registrant's telephone number, including area code:	(617) 993-9

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

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

As of February 6, 2003, there were 47,737,180 shares outstanding of the issuer's common stock.

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The following comprise our condensed (unaudited) consolidated financial statements for the three months and six months ended December 31, 2002.

2

KRONOS ADVANCED TECHNOLOGIES, INC. (FORMERLY TSET, INC)
CONSOLIDATED BALANCE SHEETS

	September 30 2002 (Unaudited)	June 30, 2002
ASSETS		
CURRENT ASSETS		
Cash	$ 163,444	$ 21,510
Accounts receivable, net	27,620	700
Prepaids	49,824	101,029
TOTAL CURRENT ASSETS	240,888	123,239
PROPERTY AND EQUIPMENT	62,723	62,723
Less: Accumulated Depreciation	(41,095)	(33,348)
NET PROPERTY AND EQUIPMENT	21,628	29,375
OTHER ASSETS		
Intangibles	2,078,235	2,213,917
TOTAL OTHER ASSETS	2,078,235	2,213,917
TOTAL ASSETS	$ 2,340,752	$ 2,366,531
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accrued expenses and payables to directors and officers	$ 998,110	$ 886,447
Accounts paayble	736,602	254,201
Accrued expenses	162,523	100,797
Deferred revenue	166,734	-
Notes payable, current portion	445,465	535,700
TOTAL CURRENT LIABILITIES	2,509,434	1,777,145

LONG TERM LIABILITIES		
Notes payable	169,890	225,466
TOTAL LONG TERM LIABI1ITIES	169,890	225,466
TOTAL LIABILITIES	2,679,324	2,002,610
REDEEMABLE WARRANTS	805,300	748,500
SHAREHOLDERS' EQUITY		
Common stock, authorized 500,000,000 shares of $.001 par value	47,737	43,938
Capital in excess of par value	14,640,718	14,371,113
Deferred equity compensation	(10,420)	(41,668)
Retained earnings (Accumulated deficit)	(15,821,907)	(14,757,963)
TOTAL SHAREHOLDERS	(1,143,872)	(384,579)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$2,340,752	$ 2,366,531

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

KRONOS ADVANCED TECHNOLOGIES, INC. (FORMERLY TSET, INC.)
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the three months ended December 31,		Fo
	2002 (Unaudited)	2001 (Unaudited)	
Sales	$ 209,545	$ 40,056	
Cost of sales	33,179	40,056	
Gross Profit	176,366	-	
Selling, General and Administrative expenses			
Compensation and benefits	130,944	83,636	
Research and development	48,407	48,643	
Professional services	402,852	880,559	

Depreciation and amortization	70,793	71,674
Facilities	26,009	23,284
Other selling general & administrative expenses	44,190	105,150
Total Selling, General and Administrative expenses	723,194	1,212,945
Net Operating Income (Loss)	(546,828)	(1,212,945)
Other Income / (expense)	108,376	1,217
Interest Expense	(34,361)	(16,871)
Net Income (Loss) Before Taxes	(472,814)	(1,228,599)
Provision for Taxes	-	-
Net Income (Loss) from continuing operatiosn	(472,814)	(1,228,599)
Income (Loss) from discontinued operations, net of income tax of $0	-	-
Loss on disposal of discontinued operations, net of income tax of $0	-	-
Net Income (Loss)	$(472,814)	$ (1,228,599)
Basic Earnings (Loss) Per Share		
Income (loss) from continuing	(0.01)	(0.03)
Loss from discontinued operations	-	-
Net Income (loss)	$ (0.01)	$ (0.03)
Diluted Earnings (Loss) Per Share		
Income (loss) from continuing operations	(0.01)	(0.03)
Loss from discontinued operations	-	-
Net Income (loss)	$ (0.01)	$ (0.03)

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

4

KRONOS ADVANCED TECHNOLOGIES, INC. (FORMERLY TSET, INC.)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the six months ended December 31,	
	2002	2001

CASH FLOWS FROM OPERATING ACTIVITES	(Unaudited)	(Unaudited)	(Un
NET LOSS FROM CONTINUING OPERATIONS	$(1,063,944)	$ (2,281,233)	$ (
ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH (used in) provided by operations			
Depreciation and amortization	143,429	143,347	
Common stock issued for compensation/services	101,859	788,361	
CHANGE IN			
Inventory Assets	-	-	
Accounts receivable	(26,920)	-	
Prepaid expenses and other assets	51,205	(170,396)	
Deferred revenue	166,734	-	
Accounts Payable	387,743	902,790	
Accrued Expenses and other	143,800	(112,432)	
Net cash (used in) provided by Continuing Operations	(130,255)	(729,563)	(
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	-	-	
Investment in patent protection	-	(51,211)	
Investment in discontinued operations	-	73,876	
Net cash (used in) provided by Investing Activities	-	22,665	
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock	418,000	707,107	
Proceeds from short-term borrowings	165,889	33,214	
Repayments of short-term borrowings	(311,700)	-	
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	272,189	740,321	
NET (DECREASE) INCREASE IN CASH	141,934	33,423	
CASH			
BEGINNING OF PERIOD	21,510	32,619	
END OF PERIOD	$ 163,444	$ 66,042	$
Supplemental schedule of non-cash investing and financing activities:			
Debt satisfied with stock	$ 206,000	$ 100,000	$

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS FINANCIAL STATEMENT.

KRONOS ADVANCED TECHNOLOGIES, INC. (FORMERLY TSET, INC)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	COMMON STOCK			
	SHARES	AMOUNT	CAPITAL IN EXCESS OF PAR VALUE	RETAIN EARNIN (ACCUMUL DEFICI
BALANCE at June 30, 2002	43,937,907	$ 43,938	$ 14,371,113	$ (14,75
Shares issued in July 2002 for cash	150,000	150	26,100	
Shares issued in August 2002 for cash	790,248	790	116,928	
Shares issued in September 2002 for cash	263,141	263	38,769	
Stock options granted at Sept 30, 2002 for consulting services			5,674	
Costs associated with equity financing			(114,655)	
Amortization of deferred equity compensation				
Net loss for the quarter ended September 30, 2002				(59
BALANCE at September 30, 2002 (Unaudited)	45,141,296	$45,141	$ 14,443,929	$ (15,34
Shares issued in October 2002 for cash	1,750,000	1,750	173,250	
Shares issued in November 2002 for cash	189,884	190	24,810	
Shares issued in December 2002 for cash	350,000	350	34,650	
Shares issued in December 2002 for cash	306,000	306	33,854	
Stock options granted at December 31, 2002 for consulting services			5,225	
Costs associated with equity financing			(75,000)	
Amortization of deferred equity compensation				
Net loss for the quarter ended December 31, 2002				(47
BALANCE at December 31, 2002 (Unaudited)	47,737,180	$ 47,737	$ 14,640,718	$(15,82

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS FINANCIAL STATEMENT.

6

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

NOTE 1 - ACCOUNTING MATTERS

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments necessary to present fairly the information set forth therein have been included. Operating results for the three-month and six-month periods ended December 31, 2002 are not necessarily indicative of the results that may be experienced for the fiscal year ending June 30, 2003.

These financial statements are those of the Company and its wholly-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in the preparation of the consolidated financial statements. Aperion Audio, Inc. is disclosed as discontinued operations in these financial statements from when the Company decided to sell Aperion Audio on July 1, 2001, until Aperion Audio was sold on June 7, 2002.

The accompanying financial statements should be read in conjunction with the Kronos Advanced Technologies, Inc. Form 10-KSB for the fiscal year ended June 30, 2002 filed on September 28, 2002 and the Form 10-QSB for the quarter ended September 30, 2002 filed on November 14, 2002.

NOTE 2 -- INCOME TAXES

The composition of deferred tax assets and the related tax effects at December 31, 2002 and June 30, 2002 are as follows:

	DECEMBER 31, 2002 (UNAUDITED)	JUNE 30, 2002
Benefit from carryforward of capital and net operating losses	$ 2,967,319	$2,685,915
Other temporary differences	248,527	220,332
Less:		
Valuation allowance	(3,215,846)	(2,906,247)
Net deferred tax asset	$ -	$ -

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

	DECEMBER 31, 2002 (UNAUDITED)	
	AMOUNT	% OF PRE-TAX LOSS

Benefit for income tax at federal statutory rate	$ 342,429	34.0%	$
Benefit for income tax at state statutory rate	20,074	2.0%	
Non-deductible expenses	(52,910)	(5.3)%	
Acquired NOL and other	-	0.0%	
Increase in valuation allowance	(309,599)	(30.7)%	
	$ -	0.0%	$

7

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

The Company has filed all of its federal and state income tax returns for all years through June 30, 2001. The Company is current on all income tax filings. At December 31, 2002, for federal income tax and alternative minimum tax reporting purposes, the Company has approximately $7.2 million of unused Federal net operating losses, $1.0 million of capital losses and $4.0 million of unused State net operating losses available for carryforward to future years. The benefit from carryforward of such losses will expire in various years between 2006 and 2022 and could be subject to limitations if significant ownership changes occur in the Company.

NOTE 3 - SEGMENTS OF BUSINESS

The Company operates principally in one segment of business: The Kronos segment licenses, manufactures and distributes air movement and purification devices utilizing the KronosTM technology. All other segments have been disposed of or discontinued. In the six months ended December 31, 2002, the Company operated only in the U.S.

NOTE 4 - EARNINGS PER SHARE

Weighted average shares outstanding used in the earnings per share calculation were 47,021,691 and 35,760,303 for the three months ended December 31, 2002 and 2001, respectively and 45,774,213 and 34,992,354 for the six months ended December 31, 2002 and 2001, respectively.

As of December 31, 2002, there were outstanding options to purchase 7,818,675 shares of the Company's common stock. These options have been excluded from the earnings per share calculation as their effect is anti-dilutive. As of December 31, 2001, there were outstanding options to purchase 1,923,975 shares of the Company's common stock. These options have been excluded from the earnings per share calculation as their effect is anti-dilutive.

NOTE 5 - DISCONTINUED OPERATIONS

The Company's consolidated financial statements for all periods have been reclassified to report separately results of operations and operating cash flows from continuing operations and the discontinued operations. The net revenues are included in the financial statements under Net Income (Loss) from Discontinued Operations. Operating results of discontinued operations for the six-months ended December 31, 2001 are as follows:

OPERATING RESULTS OF DISCONTINUED OPERATIONS:

	OPERATING RESULTS OF DISCONTINUED OPERATIONS:
	FOR THE SIX MONTHS ENDED DECEMBER 31,
	2001
	APERION AUDIO
Sales	$410,512
Cost of sales	(143,816)
Depreciation and amortization	(6,618)
General and administrative	(356,892)
Operating income (loss)	(96,813)
Other income	21,360
Interest expense	(16,247)
Provision for future operating losses	73,361
Minority interest	18,340
Income (Loss) pre-tax	0
Income taxes (benefits)	-
Loss from discontinued operations	$0

8

NOTE 6 - NOTES PAYABLE

The Company had the following note obligations at December 31 and June 30, 2002:

	December 31, 2002	June 30, 2002
(1) Obligations to Fusion Capital	$134,999	$123,000
(2) Obligation to Aperion Audio	140,466	200,466
(3) Obligation to Jeff Wilson	209,890	360,000
(4) Obligation to the Eagle Rock Group	70,000	70,000
(5) Obligations to others	60,000	7,700
Total Notes Payable	$615,355	$761,166
Current portions:		
Obligations to Fusion Capital	134,999	123,000
Obligation to Aperion Audio	140,466	205,000
Obligation to Jeff Wilson	40,000	130,000
Obligation to the Eagle Rock Group	70,000	70,000
Obligations to others	60,000	7,700
Total current portion	$445,465	$535,700

Total long term obligations net of current portion	$169,890	$225,466

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

(2) This is a non-interest bearing note with monthly payments of $15,000.

(3) This note is to a former officer and director of the Company and bears interest at 12%. The note calls for quarterly payments of at least $10,000 until the principal and interest are paid in full.

(4) This note bears interest at a rate of 12%. The payment terms are interest only with the principal due on March 1, 2003.

(5) This is a non-interest bearing obligation with monthly payments of $5,000

NOTE 7 - CONSULTING AGREEMENTS

In July 2001, the Company signed a six-month agreement to utilize the strategic planning and business plan execution services of The Eagle Rock Group, LLC. The Eagle Rock Group will work with the Kronos Advanced Technologies team to fully develop and capitalize the Kronos(TM) technology. Pursuant to the agreement that the Company entered into with The Eagle Rock Group, the Company issued to The Eagle Rock Group a ten-year warrant granting them the right to purchase 1,400,000 shares of the Company's common stock at an exercise price of $0.68 per share. The warrants were immediately vested and non-forfeitable. The warrant was valued at $686,000 using the Black-Scholes option valuation model and was initially recorded as deferred equity compensation and amortized into current period professional services expense at a rate of $137,200 per month over the term of the agreement. Amortization for the year ended June 30, 2002 was $686,000. The shares underlying the warrant have piggy-back and demand registration rights, as well as subscription rights in the event that the Company issues any rights to all of its stockholders to subscribe for shares of the Company's common stock. In addition, the warrant contains redemption rights in the event that the Company enters into a transaction that results in a change of control of the Company.

In October 2001, the Company entered into a 15-month consulting agreement with Joshua B. Scheinfeld and Steven G. Martin, principals of Fusion Capital, for consulting services with respect to operations, executive employment issues, employee staffing, strategy, capital structure and other matters as specified from time to time. As consideration for their services, the Company issued 360,000 shares of its common stock. In accordance with EITF 96-18, the measurement date was established as the contract date of October 1, 2001 as the share grant was non-forfeitable and fully vested on that date. The stock was valued on that date at $0.28 a share (the closing price for the Company's common stock on the measurement date). The stock issuance has been recorded as a prepaid consulting fee and is being amortized to Professional Fee Expense ratably over the 15-month term of the contract. During the three and six month periods ending December 31, 2002, the Company recognized professional services

expenses of $20,000 and $40,000, respectively under this agreement compared with $20,000 and $20,000 for the three and six month periods ended December 31, 2001.

In March 2002, the Company entered into a 12-month consulting agreement with The Eagle Rock Group. Pursuant to the agreement, the Company issued a note for the outstanding balance of $120,000 due to The Eagle Rock Group. The note is due on March 1, 2003 and bears interest at the rate of 12% per annum. The Company also granted The Eagle Rock Group a 10 year warrant for up to 2,000,000 shares. The warrant contains redemption rights in the event that the Company enters into a transaction that results in a change of control of the Company. Of this, 500,000 shares will be earned over a period of 12 months. The exercise price of the initial 500,000 warrants is $0.42 for 250,000 warrants and $0.205 (the closing price of the Company's common stock on March 1, 2002) for 250,000 warrants. These warrants are irrevocable and are fully vested. The measurement date is March 1, 2002 as the warrants are fully vested and non-forfeitable on that date. The value assigned to these warrants is $62,500 and was determined using the Black-Scholes option valuation model. The 500,000 warrants are for general consulting services for a 12-month period. The $62,500 will be expensed ratably over the term of the consulting contract. The remainder of the shares may be earned contingent upon the occurrence of various events including a successful capital raise equal to or greater than $1.5 million, securing contracts with the U.S. military, securing contracts with consumer-oriented distribution organizations, and the adoption of a branding/marketing campaign which has been principally developed by The Eagle Rock Group. In October 2002, 400,000 warrants were earned when the Company secured a contract with consumer-oriented distribution organization HoMedics. The exercise price for these warrants is $0.145 (the closing price of the Company's common stock on October 22, 2003. These warrants are irrevocable and are fully vested. The measurement date is October 22, 2002 as the warrants are fully vested and non-forfeitable on that date. The value assigned to these warrants is $56,800 and was determined using the Black-Scholes option valuation model. The Company recognized this amount as consulting expense in the quarter ended December 31, 2002. The remaining potential 1.1 million shares covered by the warrant will be valued if and when earned under the terms of the contract. The exercise price for the remaining shares will be the market price on the date the grant is earned. During the three and six month periods ending December 31, 2002, the Company recognized professional services expenses of $87,000 and $118,000, respectively, under these agreements compared with $412,000 and $686,000 for the comparable periods in the prior year.

NOTE 8 - SUBSEQUENT EVENTS

In January 2003, Kronos received formal notification from the United States Patent and Trademark Office indicating that its application entitled Electrostatic Fluid Accelerator has been examined and allowed for issuance as a U.S. patent (#6,504,308). The patent will provide protection for key aspects of Kronos'(TM) technology until late in 2019. A number of corresponding applications have been filed and are pending outside of the United States. Kronos' Chief Technology Officer, Dr. Igor Krichtafovitch, is the lead inventor of this proprietary technology.

In January 2003, Kronos extended its work into the transportation industry by signing a Prototype Development and Acquisition Agreement with a premier business jet manufacturer. The Agreement was the direct result of initial prototype development work performed by the Kronos Research Team with input from the customer in 2002. The Kronos(TM) devices will be designed and manufactured to meet all FAA safety standards, including environmental, flammability and electromagnetic interference (EMI).

NOTE 9 - REALIZATION OF ASSETS

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company has sustained losses from operations in recent years, and such losses have continued through the current year ended June 30, 2002. In addition, the Company has used, rather than provided cash in its operations. The Company is currently using its resources to raise capital necessary to complete development and commercialization work, and to provide for its working capital needs.

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

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

1. In December 2001, Kronos Air Technologies was awarded an SBIR contract sponsored by the U.S. Army. This contract is potentially worth up to $850,000 in product development and testing support for Kronos Air Technologies. Phase I of the contract is worth up to $120,000 in funding to investigate and analyze the feasibility of the Kronos(TM)technology to reduce humidity in heating, ventilation and air conditioning (HVAC) systems. Dehumidification is essential to making HVAC systems more energy efficient. Phase II of the contract is worth up to $730,000 in additional funding for product development and testing. In August 2002, the U.S. Army requested the company resubmit a detailed Phase II proposal for review in 2003.

2. In November 2002, Kronos Air Technologies, Inc. and the United States Navy executed a Small Business Innovation Research Phase II contract to develop and demonstrate an advanced distributive air management system based on the patented Kronos(TM) technology. The 24-month contract is worth $581,000 with an option for an additional $144,000 in funding.

3. In August 2002, we entered into a new Common Stock Purchase Agreement with Fusion. Pursuant to the common stock purchase agreement, Fusion Capital has agreed to purchase on each trading day during the term of the agreement, $10,000 of our common stock or an aggregate of $6.0 million. The $6.0 million of our common stock is to be purchased over a 30-month period, subject to a six-month extension or earlier termination at our sole discretion and subject to certain events. The purchase price of the shares of common stock will be equal to the lesser of (i) the lowest price of our common stock on the purchase date; or (ii) the average of the three (3) lowest closing sale prices of our common stock during the twelve (12) consecutive trading days prior to the

date of a purchase by Fusion Capital. However, there can be no assurance of how much cash we will receive, if any, under the common stock purchase agreement with Fusion Capital.

4. In October 2002, Kronos Air Technologies, Inc., and HoMedics USA, Inc. executed a multiyear, multi-million-dollar Licensing Agreement to bring Kronos(TM) proprietary technology to the consumer. The agreement provides for exclusive North American, Australian and New Zealand retail distribution rights for next generation consumer air movement and purification products based on patented Kronos(TM) technology. The initial term of the agreement is three and one half years with the option to extend the agreement for six additional years. Kronos will be compensated through an initial royalty payment and ongoing quarterly royalty payments based on a percentage of sales. HoMedics will pay minimum royalty payments of at least $2 million during the initial term and on-going royalty payments to extend the agreement. Kronos will retain full rights to all of its intellectual property.

5. In November 2002, Kronos Air Technologies and HoMedics executed a Development Agreement to provide Kronos with the financial resources necessary to complete commercialization of the Kronos(TM)-based consumer product line. Kronos is working with HoMedics and HoMedics' engineers and designers to complete the product line for sales and distribution.

6. In January 2003, Kronos extended its work into the transportation industry by signing a Development and Acquisition Agreement with a premier business jet manufacturer. The Kronos(TM) devices will be designed and manufactured to meet all FAA safety standards, including environmental, flammability and electromagnetic interference (EMI).

NOTE 10 - COMMITMENTS AND CONTINGENCIES

LITIGATION. On February 2, 2001, we initiated, together with Kronos Air Technologies, legal proceedings in Clackamas County, Oregon against W. Alan Thompson, Ingrid T. Fuhriman, and Robert L. Fuhriman II, each of whom were

formerly executive officers and members of the Board of Directors of Kronos Air Technologies. This suit alleges, among other things, breach of fiduciary duties and breach of contract by these individuals, and seeks, among other things, an order from the court referring the dispute to arbitration in accordance with the terms of these individuals. We have agreed to a change of venue of this matter to King County, Washington, and arbitrators have been selected. The parties are in the process of preparing for arbitration.

12

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

INTRODUCTORY STATEMENTS

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

This filing contains forward-looking statements, including statements regarding, among other things: (a) the growth strategies of Kronos Advanced Technologies (the "Company" or "Kronos"); (b) anticipated trends in our Company's industry; (c) our Company's future financing plans; and (d) our Company's ability to obtain financing and continue operations. In addition, when used in this filing, the words "believes," "anticipates," "intends," "in anticipation of," and similar words are intended to identify certain forward-looking statements. These forward-looking statements are based largely on our Company's expectations and are subject to a number of risks and uncertainties, many of which are beyond our Company's control. Actual results could differ materially from these forward-looking statements as a result of changes in trends in the economy and our Company's industry, reductions in the availability of financing and other factors. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this filing will in fact occur. Our Company does not undertake any obligation to publicly release the results of any revision to these forward-looking statements that may be made to reflect any future events or circumstances.

GENERAL

Kronos Advanced Technologies, Inc. is a high technology industrial company focused on developing, marketing and selling products based on the Company's proprietary air movement and purification technology. Kronos is actively commercializing its technology across multiple markets.

Kronos(TM) device can be either used as a standalone product or can be embedded. Standalone products are self-contained; the user would simple need to plug the Kronos(TM) device into a wall outlet to obtain air filtration for their home, office or hotel room. Embedded applications of the Kronos(TM) technology require the technology be added into another system such as a building ventilation system for more efficient air movement and filtration or into a piece of medical equipment to replace the cooling fan.

In December 2002, the shareholders approved an amendment to our Articles of Incorporation for a name change of our Company to Kronos Advanced Technologies, Inc. (f/k/a TSET, Inc.). Kronos trades under the ticker symbol KNOS.

TECHNOLOGY DESCRIPTION AND BENEFITS. The Kronos(TM) technology combines state-of-the-art high voltage electronics and electrodes into an efficient but simple electrical device. As a result of this combined technology, a Kronos(TM)-based device can both move and clean air without any moving parts. Kronos(TM) devices are versatile, energy- and cost-efficient and capable of multiple design forms. Kronos(TM) devices can be made into any shape or size and, therefore, have immediate potential to be used as a standalone product or to replace a range of HVAC products from low end mini-splits for residential usage to high end HEPA filtration systems for operating and manufacturing clean rooms.

The proprietary Kronos(TM) technology involves the application of high voltage management across paired electrical grids to create an ion exchange that moves and purifies air. Kronos(TM) technology has numerous, valuable characteristics. It moves air and gases at high velocities while removing odors, smoke and particulates and killing pathogens, including bacteria and mold. The technology is cost-effective and is more energy efficient than current alternative fan and filter (including HEPA filter and ultraviolet light based) technologies.

Many of the scientific claims of the Kronos(TM) technology have been validated by the U.S. government and multi-national companies, including the U.S. Department of Energy, the U.S. Department of Defense, General Dynamics, Underwriters Laboratory, and Intel.

Independent laboratory testing has verified the purification capability of Kronos(TM) technology. Tests conducted at MicroTest Laboratories and at the New Hampshire Materials Laboratory demonstrated HEPA Clean Room Class 1000 quality particulate reduction and up to 95% reduction of hazardous gases (in one air pass through the Kronos(TM) system), including numerous contaminants found in cigarette smoke.

PATENT AND INTELLECTUAL PROPERTY. In January 2003, Kronos received formal notification from the United States Patent and Trademark Office indicating that its application entitled Electrostatic Fluid Accelerator has been examined and allowed for issuance as a U.S. patent (#6,504,308). The patent will provide protection for key aspects of Kronos'(TM) technology until late in 2019. A number of corresponding applications have been filed and are pending outside of the United States. Kronos' Chief Technology Officer, Dr. Igor Krichtafovitch, is the lead inventor of this proprietary technology.

This patent is for the first in a series of patent and patent applications now pending with the U.S. Patent and Trademark Office addressing various aspects of the Kronos' platform. In addition to the Electrostatic Fluid Accelerator patent, five additional patent applications have been filed for, among other things, the control and management of Electrostatic Fluid Acceleration. These additional patent applications are awaiting examination by the Patent Office. Each of these patent applications is directed towards Kronos' innovative technology used to move, control and filter air electronically, without the use of fans or moving parts.

STANDALONE PLATFORM.

HOMEDICS CONTRACT. In October 2002, Kronos Air Technologies, Inc., and HoMedics USA, Inc. executed a multiyear, multi-million-dollar Licensing Agreement to bring Kronos(TM) proprietary technology to the consumer. The agreement provides for exclusive North American, Australian and New Zealand retail distribution rights for next generation consumer air movement and purification products based on patented Kronos(TM) technology.

The initial term of the agreement is three and one half years with the option to extend the agreement for six additional years. Kronos will be compensated through an initial royalty payment and ongoing quarterly royalty payments based on a percentage of sales. HoMedics will pay minimum royalty payments of at least $2 million during the initial term and on-going royalty payments to extend the agreement. Kronos will retain full rights to all of its intellectual property.

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

In November 2002, Kronos Air Technologies and HoMedics executed a Development Agreement to provide Kronos with the financial resources necessary to complete commercialization of the Kronos(TM)-based consumer product line. Kronos is working with HoMedics and HoMedics' engineers, designers and manufacturers to complete the product line for sales and distribution in 2003.

ACCESS BUSINESS GROUP CONTRACT. In July 2002, Kronos Air Technologies executed a Memorandum of Understanding with Access Business Group International L.L.C. ("Access") for the potential licensing of Kronos(TM) based air movement and treatment technologies. The Company completed the first phase of the Memorandum of Understanding. At this time, Kronos and Access have not reached terms and conditions of a licensing agreement acceptable to Kronos.

EMBEDDED PLATFORM

U.S. NAVY SBIR CONTRACTS. The U.S. Department of Defense and Department of Energy have provided Kronos Air Technologies with various grants and contracts to develop, test and evaluate the Kronos(TM) technology for embedded applications. Kronos has developed several commercial and industrial applications, including the retrofit of berthing fan systems and embedded air movement systems for U.S. Navy Aegis Class destroyers. In November 2002, Kronos executed an agreement with the U.S. Navy to develop a new ventilation system for naval ships. Working under a Small Business Innovation Research contract, the Company is in Phase II (commercialization phase) of this contract, which provides Kronos with up to an additional $725,000 of developmental funding over the next 24 months.

During Phase II, Kronos shall develop and demonstrate a set of fully controlled devices that represent a "cell" of an advanced distributive air management system with medium capacity airflow in a U.S. Navy unique environment. The "cell" will be designed to be easily adjustable to a variety of applications such as duct size, airflow requirements, and air quality. The goal of this development work is to significantly reduce or replace altogether the current HVAC air handling systems on naval ships.

As part of its air management system, Kronos intends to develop and test an air filtration mechanism capable of performing to HEPA quality standards. We believe that Kronos(TM) devices could replace current HEPA filters with a permanent, easily cleaned, low-cost solution. The U.S. Navy unique

environment includes shock exposure, vibration, Electromagnetic Interference/Compatibility (EMI/EMC), and salt spray. Kronos(TM) devices will be tested and built to meet specific Navy standards. Testing shall include assessments for system performance, including control techniques, noise levels, acquisition and lifecycle costs.

We believe that during the option portion of the contract, Kronos(TM) technology's ability to kill bacteria and other pathogens will be confirmed and expanded to a wide range of pathogens for space disinfection and bio-terrorist attacks. A unique ability of the Kronos(TM) technology is to kill all or almost all airborne pathogens regardless of their nature, genetic structure, robustness, or method of delivery.

U.S. ARMY SBIR CONTRACT. In December 2001, Kronos Air Technologies was awarded an SBIR contract sponsored by the U.S. Army. This contract is potentially worth up to $850,000 in product development and testing support for Kronos Air Technologies. Phase I of the contract is worth up to $120,000 in funding to investigate and analyze the feasibility of the KronosTM technology to reduce humidity in heating, ventilation and air conditioning (HVAC) systems. Dehumidification is essential to making HVAC systems more energy efficient. Phase II of the contract is worth up to $730,000 in additional funding for product development and testing. In August 2002, the U.S. Army requested the company resubmit a detailed Phase II proposal for review in 2003. The Company is also evaluating other potential non-military market opportunities to commercialize dehumidification applications of the Kronos(TM) technology.

PREMIER BUSINESS JET CONTRACT. In January 2003, Kronos extended its work into the transportation industry by signing a Development and Acquisition Agreement with a premier business jet manufacturer. The Agreement was the direct result of initial prototype development work performed by the Kronos Research Team with input from the customer in 2002. The Kronos(TM) devices will be designed and manufactured to meet all FAA safety standards, including environmental, flammability and electromagnetic interference (EMI).

CRITICAL ACCOUNTING POLICIES

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

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

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

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

REVENUE RECOGNITION. We recognize revenue in accordance with SAB 101. Further, Kronos Air Technologies recognizes revenue on the sale of custom-designed contract sales under the percentage-of-completion method of accounting in the ratio that costs incurred to date bear to estimated total costs. For uncompleted contracts where costs and estimated profits exceed billings, the net amount is included as an asset in the balance sheet. For uncompleted contracts where billings exceed costs and estimated profits, the net amount is included as a liability in the balance sheet. Revenue from government grants for research and development purposes is recognized as revenue when received. Sales are reported net of applicable cash discounts and allowances for returns.

RESULTS OF OPERATIONS

The Company's net loss from continuing operations for the three months ended December 31, 2002 was reduced by 62% to $473,000, compared with a net loss of $1.2 million for the corresponding period for the prior year. The decrease in the net loss was primarily the result of a 54% reduction in professional fees and consulting services and a 57% reduction in other selling general and administrative expenses. The Company's net loss from continuing operations for the six months ended December 31, 2002 was reduced 53% to $1.1 million, compared with a net loss of $2.3 million for the corresponding period for the prior year. The decrease in the net loss was primarily the result of a 55% reduction in professional fees and consulting services and a 47% reduction in other selling general and administrative expenses.

REVENUE. Revenues are generated through sales of Kronos(TM) devices at Kronos Air Technologies, Inc. Revenue for the three months and six months ended December 31, 2002 was $210,000 and $318,000, respectively. Revenue of $40,000 and $65,000 was recorded during the corresponding periods of the prior year. These revenues were primarily from our HoMedics contracts, our U.S. Navy and

U.S. Army Small Business Innovative Research contracts and our contract with Access Business Group.

COST OF SALES. Cost of sales for the three months and six months ended December 31, 2002 was $33,000 and $125,000, compared to $40,000 and $50,000 for the corresponding periods in the prior year. Cost of sales is primarily research and development costs associated with our HoMedics contracts, our U.S. Navy and U.S. Army Small Business Innovative Research contracts and our contract with Access Business Group.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, General and Administrative expenses for the three months and six months ended December 31, 2002 was $0.7 million and $1.2 million, respectively compared to $1.2 million and $2.3 million for the corresponding periods in the prior year. The decrease is attributable to a reduction in professional fees and consulting services of $478,000 and $838,000 and a reduction in other selling general and administrative expenses of $61,000 and $69,000, respectively.

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2002

Our total assets at December 31, 2002 were $2.3 million, compared with $2.4 million at June 30, 2002. Total assets at December 31, 2002 were comprised primarily of $2.1 million of patents/intellectual property. Total assets at June 30, 2002 were comprised primarily of $2.2 million of patents/intellectual property. Total current assets at December 31, 2002 and June 30, 2002 were $241,000 and $123,000, respectively, while total current liabilities for those same periods were $2.5 million and $1.8 million, respectively, creating a working capital deficit of $2.3 million and $1.7 million at each respective period end. This working capital deficit is primarily due to accrued expenses for compensation, management consulting and other professional services. Shareholders' equity as of December 31, 2002 and June 30, 2002 were $(1.1) million and $(0.4) million, respectively, representing a decrease of $0.7 million. The decrease in shareholders' equity is primarily the result of incurring a $1.1 million loss from continuing operations for the six months ended December 31, 2002, partially offset through the sale and issuance of $0.3 million of common stock.

LIQUIDITY AND CAPITAL RESOURCES

Historically we have relied principally on the sale of common stock to finance our operations. We have recently signed a multi-million dollar, multi-year licensing agreement with HoMedics as well as a Small Business Innovative Research Phase II contract with the U.S. Navy and a development and acquisition agreement with a premier business jet manufacturer. Going forward,

16

in addition to continued sales of common stock, we plan to rely on the proceeds from our HoMedics Licensing and Development Agreements, our Small Business Innovation Research (SBIR) contract with the U.S. Navy and our agreement with a premier business jet manufacturer, as well as other government contracts and grants, cash flow generated from the sale of Kronos(TM) devices and the execution of licensing agreements and other contracts with commercial customers. We have also entered into a common stock purchase agreement with Fusion Capital under which we have the right, subject to certain conditions, to draw down approximately $10,000 per day from the sale of common stock to Fusion Capital.

Net cash flow used on operating activities was $130,000 for the current year six months. We were able to satisfy our cash requirements for this period through the issuance and sale of our common stock as well as from revenue on our HoMedics and U.S. Navy and Army SBIR contracts and our contract with Access Business Group.

In July 2002, we entered into a Memorandum of understanding with Access Business Group under the terms of which we were to provide them with three working prototype Kronos(TM) devices for testing and evaluation for $45,000.

In August 2002, we entered into a common stock purchase agreement with Fusion Capital. Pursuant to the common stock purchase agreement, Fusion Capital has agreed to purchase on each trading day during the term of the agreement, $10,000 of our common stock or an aggregate of $6.0 million. The $6.0 million of our common stock is to be purchased over a 30-month period, subject to a six-month extension or earlier termination at our sole discretion and subject to certain events. The purchase price of the shares of common stock will be equal to the lesser of (i) the lowest price of our common stock on the purchase date; or (ii) the average of the three (3) lowest closing sale prices of our common stock during the twelve (12) consecutive trading days prior to the date of a purchase by Fusion Capital. However, there can be no assurance of how much cash we will receive, if any, under the common stock purchase agreement with Fusion Capital.

In October 2002, Kronos Air Technologies, Inc., and HoMedics USA, Inc. executed a multiyear, multi-million-dollar Licensing Agreement to bring Kronos(TM) proprietary technology to the consumer. The initial term of the agreement is three and one half years with the option to extend the agreement for six additional years. Kronos has been compensated through an initial royalty payment and will receive ongoing quarterly royalty payments based on a percentage of sales. HoMedics will pay minimum royalty payments of at least $2 million during the initial term and on-going royalty payments to extend the agreement.

In November 2002, Kronos Air Technologies and HoMedics executed a Development Agreement to provide Kronos with the financial resources necessary to complete commercialization of the Kronos(TM)-based consumer product line. Kronos is working with HoMedics and HoMedics' engineers, designers and manufacturers to complete the product line for sales and distribution.

In November 2002, Kronos Air Technologies, Inc. and the United States Navy executed a Small Business Innovation Research Phase II contract to develop and demonstrate an advanced distributive air management system based on the patented Kronos(TM) technology. The 24-month contract is worth $581,000 with an option for an additional $144,000 in funding. Funding on Phase II commenced in December 2002.

In January 2003, Kronos extended its work into the transportation industry by signing a prototype Development and Acquisition Agreement with a premier business jet manufacturer. The Agreement was the direct result of initial prototype development work performed by the Kronos Research Team with input from the customer in 2002. The Kronos(TM) devices will be designed and manufactured to meet all FAA safety standards, including environmental, flammability and electromagnetic interference (EMI).

GOING CONCERN OPINION

Our independent auditors have added an explanatory paragraph to their audit opinion issued in connection with the 2002, 2001 and 2000 financial statements that states that we do not have significant cash or other material assets to cover our operating costs. Our ability to obtain additional funding will largely determine our ability to continue in business. Accordingly, there is substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We can make no assurance that we will be able to successfully transition from research and development to manufacturing and selling commercial products on a broad basis. While attempting to make this transition, we will be subject to all the risks inherent in a growing venture, including, but not

limited to, the need to develop and manufacture reliable and effective products, develop marketing expertise and expand our sales force.

CERTAIN RISK FACTORS

Our Company is subject to various risks which may materially harm our business, financial condition and results of operations. Certain risks are discussed below.

WE HAVE A LIMITED OPERATING HISTORY WITH SIGNIFICANT LOSSES AND EXPECT LOSSES TO CONTINUE FOR THE FORESEEABLE FUTURE

We have begun implementing our plan to prioritize and concentrate our management and financial resources to fully capitalize on our investment in Kronos Air Technologies and have yet to establish any history of profitable operations. We incurred a net operating loss of $473,000 and $1.1 million for the three months and six months ended December 31, 2002, respectively. We have incurred net losses from continuing operations of $3.5 million and $3.6 million for the fiscal years ended June 30, 2002 and 2001. We have incurred annual operating losses of $2.8 million, $9.9 million and $2.0 million, respectively, during the past three fiscal years of operation. As a result, at December 31, 2002 and June 30, 2002, we had an accumulated deficit of $15.8 million and $14.8 million, respectively. Our revenues have not been sufficient to sustain our operations. Our profitability will require the successful commercialization of our Kronos(TM) technology. No assurances can be given when this will occur or that we will ever be profitable.

WE HAVE BEEN SUBJECT TO A GOING CONCERN OPINION FROM OUR INDEPENDENT AUDITORS

Our independent auditors have added an explanatory paragraph to their audit opinion issued in connection with the financial statements for the years ended June 30, 2002 and June 30, 2001 relative to our ability to continue as a going concern. Our ability to obtain additional funding will determine our ability to continue as a going concern. Accordingly, there is substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty.

WE WILL REQUIRE ADDITIONAL FINANCING TO SUSTAIN OUR OPERATIONS AND WITHOUT IT WE WILL NOT BE ABLE TO CONTINUE OPERATIONS

At December 31, 2002, we had a working capital deficit of $2.3 million. At June 30, 2002, we had a working capital deficit of $1.7 million. The independent auditor's report for the years ended June 30, 2002 and June 30, 2001, includes an explanatory paragraph to their audit opinion stating that our recurring losses from operations and working capital deficiency raise substantial doubt about our ability to continue as a going concern. For the years ended 2002, 2001 and 2000, we had an operating cash flow deficit of $1.5 million, $1.6 million and $0.3 million, respectively. We do not currently have sufficient financial resources to fund our operations or pay certain existing obligations or those of our subsidiary. Therefore, we need additional funds to continue these operations and pay certain existing obligations.

THE SALE OF OUR COMMON STOCK TO FUSION CAPITAL MAY CAUSE DILUTION AND THE SALE OF THE SHARES OF COMMON STOCK ACQUIRED BY FUSION CAPITAL COULD CASE THE PRICE OF OUR COMMON STOCK TO DECLINE

The purchase price for the common stock to be issued to Fusion Capital pursuant to the common stock purchase agreement will fluctuate based on the price of our common stock. All shares issued to Fusion Capital will be freely tradable. Fusion Capital may sell none, some or all of the shares of common stock purchased from us at any time. We expect that the shares sold to Fusion Capital will be sold over a period of up to 30 months from the date of the common stock purchase agreement. Depending upon market liquidity at the time, a sale of shares by Fusion Capital at any given time could cause the trading price of our common stock to decline. The sale of a substantial number of shares of our common stock by Fusion Capital, or anticipation of such sales, could make it more difficult for us to sell equity or equity-related securities in the future at a time and at a price that we might otherwise wish to effect sales.

COMPETITION IN THE MARKET FOR AIR MOVEMENT AND PURIFICATION DEVICES MAY RESULT IN THE FAILURE OF THE KRONOS(TM) PRODUCTS TO ACHIEVE MARKET ACCEPTANCE

Kronos Air Technologies presently faces competition from other companies that are developing or that currently sell air movement and purification devices. Many of these competitors have substantially greater financial, research and development, manufacturing, and sales and marketing resources than we do. Many of the products sold by Kronos Air Technologies'

competitors already have brand recognition and established positions in the markets that we have targeted for penetration. In the event that the Kronos(TM) products do not favorably compete with the products sold by our competitors, we would be forced to curtail our business operations.

OUR FAILURE TO OBTAIN INTELLECTUAL PROPERTY AND ENFORCE PROTECTION WOULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS

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

We have received one patent from the U.S. Patent and Trademark Office. We have four additional U.S. and four foreign patent applications pending. The validity and breadth of our intellectual property claims in ion wind generation and electrostatic fluid acceleration and control technology involve complex legal and factual questions and, therefore, may be highly uncertain. Despite our efforts to protect our intellectual proprietary rights, existing copyright, trademark and trade secret laws afford only limited protection.

POSSIBLE FUTURE IMPAIRMENT OF INTANGIBLE ASSETS WOULD HAVE A MATERIAL ADVERSE EFFECT ON OUR FINANCIAL CONDITION

Our net intangible assets of approximately $2.1 million and $2.2 million as of December 31 and June 30, 2002 relate only to the acquisition of Kronos Air Technologies, Inc. and consists principally of purchased patent technology and marketing intangibles. They comprise 88% and 94% of our total assets as of December 31 and June 30, 2002, respectively. Intangible assets are subject to periodic review and consideration for potential impairment of value. Among the factors that could give rise to impairment include a significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, and projections or forecasts that demonstrate continuing losses associated with these assets. In the case of our tangible assets, specific factors that could give rise to impairment would be, but are not limited to, an inability to obtain patents, the untimely death or other loss of Dr. Igor Krichtafovitch, the inventor of the Kronos(TM) technology, or the ability to create a customer base for the sale or licensing of the Kronos(TM) technology.

Although no events have occurred that would indicate that an impairment may exist with respect to these intangible assets, should an impairment occur, we would be required to recognize it in our financial statements. Since the intangible assets comprise 88% and 94% of out total assets as of December 31 and June 30, 2002, respectively, a write-down of these intangible assets could have a material adverse impact on our total assets, net worth and results of operations.

WE RELY ON MANAGEMENT AND KRONOS AIR TECHNOLOGIES RESEARCH PERSONNEL, THE LOSS OF WHOSE SERVICES COULD HAVE A MATERIAL ADVERSE EFFECT UPON OUR BUSINESS

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

ITEM 3. CONTROLS AND PROCEDURES

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

CHANGES IN INTERNAL CONTROLS. There were no significant changes in the company's internal controls or in other factors that could significantly affect those controls since the most recent evaluation of such controls.

PART II

ITEM 1. LEGAL PROCEEDINGS

On February 2, 2001, we initiated, together with Kronos Air Technologies, legal proceedings in Clackamas County, Oregon against W. Alan Thompson, Ingrid T. Fuhriman, and Robert L. Fuhriman II, each of whom were formerly executive officers and members of the Board of Directors of Kronos Air Technologies. This suit alleges, among other things, breach of fiduciary duties and breach of contract by these individuals, and seeks, among other things, an order from the court referring the dispute to arbitration in accordance with the terms of these individuals. We have agreed to a change of venue of this matter to King County, Washington, and arbitrators have been selected.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On December 6, 2002, the Company authorized the issuance of 100,000 common shares, valued at $0.115 (the fair market value of our shares as of that date) at an aggregate value of $11,500, to Aperion Audio Inc. in exchange for extending the term of its note payments.

On December 24, 2002, the Company authorized the issuance of 206,000 common shares, valued at $0.11 (the fair market value of our shares as of that date) at an aggregate value of $22,660, to TI, Inc. in exchange for taking the assignment of a note payable to a third party for $206,000.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

On December 30, 2002 the Company's annual stockholders meeting was held in Boston, MA. There were two matters voted upon and each was passed by the stockholder vote. The matters, along with the results of the voting for each are as follows:

MATTER	VOTES FOR	VOTES AGAINST	ABSTENTIONS
Change the name of the Company to Kronos Advanced Technologies, Inc.	42,411,330	0	2,846
Board of Directors for a 1 year term:			
Daniel Dwight	25,880,480	16,527,896	5,800
Erik Black	42,402,776	5,600	5,800
James McDermott	23,207,324	19,201,052	5,800
Richard Papworth	42,405,976	2,400	5,800
Richard Tusing	42,405,976	2,400	5,800

There are no other directors whose term of office continued after the meeting.

ITEM 5. EXHIBITS

EXHIBIT NO.	DESCRIPTION	LOCATION
2.1	Articles of Merger for Technology Selection, Inc. with the Nevada	Incorporated by reference to Exhibit 2.1 to the Registrant's

EXHIBIT NO.	DESCRIPTION	LOCATION
	Secretary of State	Registration Statement on Form S-1 filed on August 7, 2001 (the "Registration Statement")
3.1	Articles of Incorporation	Incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 filed on August 7, 2001
3.2	Bylaws	Incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 filed on August 7, 2001
4.1	2001 Stock Option Plan	Incorporated by reference to Exhibit 4.1 to Registrant's Form 10-Q for the quarterly period ended March 31, 2002 filed on May 15, 2002
5.1	Opinion re: Legality	Incorporated by reference to Exhibit 5.1 to Amendment No. 1 to Form S-1 filed on October 19, 2001
10.1	Employment Agreement, dated April 16, 1999, by and between TSET, Inc. and Jeffrey D. Wilson	Incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-1 filed on August 7, 2001
10.2	Deal Outline, dated December 9, 1999, by and between TSET, Inc. and Atomic Soccer, USA, Ltd.	Incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-1 filed on August 7, 2001
10.3	Letter of Intent, dated December 27, 1999, by and between TSET, Inc. and Electron Wind Technologies, Inc.	Incorporated by reference to Exhibit 10.3 to the Registration Statement on Form S-1 filed on August 7, 2001
10.4	Agreement, dated February 5, 2000, by and between DiAural, EdgeAudio, LLC	Incorporated by reference to LLC and Exhibit 10.4 to the Registra Statement on Form S-1 filed on August 7, 2001
10.5	Stock Purchase Agreement, dated March 6, 2000, by and among TSET, Inc., Atomic Soccer USA, Ltd., Todd P. Ragsdale, James Eric Anderson, Jewel Anderson, Timothy Beglinger and Atomic Millennium Partners, LLC	Incorporated by reference to Exhibit 10.5 to the Registration Statement on Form S-1 filed on August 7, 2001
10.6	Acquisition Agreement, dated March 13,	Incorporated by reference to

	2000, by and among TSET, Inc., High Voltage Integrated, LLC, Ingrid Fuhriman, Igor Krichtafovitch, Robert	Exhibit 10.6 to the Registration Statement on Form S-1 filed on August 7, 2001

EXHIBIT NO.	DESCRIPTION	LOCATION
	L. Fuhriman and Alan Thompson	
10.7	Letter of Intent, dated April 18, 2000, by and between TSET, Inc. and EdgeAudio.com, Inc.	Incorporated by reference to Exhibit 10.7 to the Registration Statement on Form S-1 filed on August 7, 2001
10.8	Lease Agreement, dated May 3, 2000, by and between Kronos Air Technologies, Inc. and TIAA Realty, Inc.	Incorporated by reference to Exhibit 10.8 to the Registration Statement on Form S-1 filed on August 7, 2001
10.9	Agreement and Plan of Reorganization, dated May 4, 2000, by and among TSET, Inc., EdgeAudio.com, Inc., LYNK Enterprises, Inc., Robert Lightman, J. David Hogan, Eric Alexander and Eterna Internacional, S.A. de C.V.	Incorporated by reference to Exhibit 10.9 to the Registration Statement on Form S-1 filed on August 7, 2001
10.10	Letter Agreement, dated May 4, 2000, by and between TSET, Inc. and Cancer Detection International, LLC	Incorporated by reference to Exhibit 10.10 to the Registration Statement on Form S-1 filed on August 7, 2001
10.11	Employment Agreement, dated May 19, 2000, by and between TSET, Inc. and Richard A. Papworth	Incorporated by reference to Exhibit 10.11 to the Registration Statement on Form S-1 filed on August 7, 2001
10.12	Finders Agreement, dated August 21, 2000, by and among TSET, Inc., Richard F. Tusing and Daniel R. Dwight	Incorporated by reference to Exhibit 10.12 to the Registration Statement on Form S-1 filed on August 7, 2001
10.13	Contract Services Agreement, dated June 27, 2000, by and between Chinook Technologies, Inc. and Kronos Air Technologies, Inc.	Incorporated by reference to Exhibit 10.13 to the Registration Statement on Form S-1 filed on August 7, 2001
10.14	Letter of Intent, dated July 17, 2000, by and between Kronos Air Technologies, Inc. and Polus Technologies, Inc.	Incorporated by reference to Exhibit 10.14 to the Registration Statement on Form S-1 filed on August 7, 2001
10.15	Consulting Agreement, dated August 1, 2000, by and among TSET, Inc., Richard F. Tusing and Daniel R. Dwight	Incorporated by reference to Exhibit 10.15 to the Registration Statement on Form S-1 filed on August 7, 2001

10.16	Preferred Stock Purchase Agreement, dated September 12, 2000, by and between EdgeAudio.com, Inc. and Bryan Holbrook	Incorporated by reference to Exhibit 10.16 to the Registration Statement on Form S-1 filed on August 7, 2001

EXHIBIT NO.	DESCRIPTION	LOCATION
10.17	Shareholders Agreement, dated September 12, 2000, by and among TSET, Inc., Bryan Holbrook and EdgeAudio.com, Inc.	Incorporated by reference to Exhibit 10.17 to the Registration Statement on Form S-1 filed on August 7, 2001
10.18	Amendment to Agreement and Plan of Reorganization dated September 12, 2000, by and among TSET, Inc., EdgeAudio.com, Inc., LYNK Enterprises, Inc., Robert Lightman, J. David Hogan, Eric Alexander and Eterna Internacional, S.A. de C.V.	Incorporated by reference to Exhibit 10.18 to the Registration Statement on Form S-1 filed on August 7, 2001
10.19	Agreement Regarding Sale of Preferred Stock, dated November 1, 2000, by and between EdgeAudio.com, Inc. and Bryan Holbrook	Incorporated by reference to Exhibit 10.19 to the Registration Statement on Form S-1 filed on August 7, 2001
10.20	Amendment to Subcontract, dated December 14, 2000, by and between Bath Iron Works and High Voltage Integrated	Incorporated by reference to Exhibit 10.20 to the Registration Statement on Form S-1 filed on August 7, 2001
10.21	Consulting Agreement, dated January 1, 2001, by and between TSET, Inc. and Dwight, Tusing & Associates	Incorporated by reference to Exhibit 10.21 to the Registration Statement on Form S-1 filed on August 7, 2001
10.22	Employment Agreement, dated March 18, 2001, by and between TSET, Inc. and Alex Chriss	Incorporated by reference to Exhibit 10.22 to the Registration Statement on Form S-1 filed on August 7, 2001
10.23	Stock Option Agreement, dated April 9, 2001, by and between TSET, Inc. and Jeffrey D. Wilson	Incorporated by reference to Exhibit 10.23 to the Registration Statement on Form S-1 filed on August 7, 2001
10.24	Stock Option Agreement, dated April 9, 2001, by and between TSET, Inc. and Jeffrey D. Wilson	Incorporated by reference to Exhibit 10.24 to the Registration Statement on Form S-1 filed on August 7, 2001
10.25	Stock Option Agreement, dated April 9, 2001, by and between TSET, Inc. and	Incorporated by reference to Exhibit 10.25 to the

	Daniel R. Dwight	Registration Statement on Form S-1 filed on August 7, 2001
10.26	Stock Option Agreement, dated April 9, 2001, by and between TSET, Inc. and Richard F. Tusing	Incorporated by reference to Exhibit 10.26 to the Registration Statement on Form S-1 filed on August 7, 2001
10.27	Stock Option Agreement, dated April 9, 2001, by and between TSET, Inc. and	Incorporated by reference to Exhibit 10.27 to the

23

EXHIBIT NO.	DESCRIPTION	LOCATION
	Charles D. Strang	Registration Statement on Form S-1 filed on August 7, 2001
10.28	Stock Option Agreement, dated April 9, 2001, by and between TSET, Inc. and Richard A. Papworth	Incorporated by reference to Exhibit 10.28 to the Registration Statement on Form S-1 filed on August 7, 2001
10.29	Stock Option Agreement, dated April 9, 2001, by and between TSET, Inc. and Richard A. Papworth	Incorporated by reference to Exhibit 10.29 to the Registration Statement on Form S-1 filed on August 7, 2001
10.30	Stock Option Agreement, dated April 9, 2001, by and between TSET, Inc. and Erik W. Black	Incorporated by reference to Exhibit 10.30 to the Registration Statement on Form S-1 filed on August 7, 2001
10.31	Stock Option Agreement, dated April 9, 2001, by and between TSET, Inc. and J. Alexander Chriss	Incorporated by reference to Exhibit 10.31 to the Registration Statement on Form S-1 filed on August 7, 2001
10.32	Stock Option Agreement, dated April 9, 2001, by and between TSET, Inc. and Charles H. Wellington	Incorporated by reference to Exhibit 10.32 to the Registration Statement on Form S-1 filed on August 7, 2001
10.33	Stock Option Agreement, dated April 9, 2001, by and between TSET, Inc. and Igor Krichtafovitch	Incorporated by reference to Exhibit 10.33 to the Registration Statement on Form S-1 filed on August 7, 2001
10.34	Letter Agreement, dated April 10, 2001, by and between TSET, Inc. and Richard A. Papworth	Incorporated by reference to Exhibit 10.34 to the Registration Statement on Form S-1 filed on August 7, 2001
10.35	Letter Agreement, dated April 12, 2001, by and between TSET, Inc. and Daniel R. Dwight and Richard F. Tusing	Incorporated by reference to Exhibit 10.35 to the Registration Statement on Form

		S-1 filed on August 7, 2001
10.36	Finders Agreement, dated April 20, 2001, by and between TSET, Inc. and Bernard Aronson, d/b/a Bolivar International Inc.	Incorporated by reference to Exhibit 10.36 to the Registration Statement on Form S-1 filed on August 7, 2001
10.37	Indemnification Agreement, dated May 1, 2001, by and between TSET, Inc. and Jeffrey D. Wilson	Incorporated by reference to Exhibit 10.37 to the Registration Statement on Form S-1 filed on August 7, 2001
10.38	Indemnification Agreement, dated May 1, 2001, by and between TSET, Inc. and Daniel R. Dwight	Incorporated by reference to Exhibit 10.38 to the Registration Statement on Form S-1 filed on August 7, 2001

24

EXHIBIT NO.	DESCRIPTION	LOCATION
10.39	Indemnification Agreement, dated May 1, 2001, by and between TSET, Inc. and Richard F. Tusing	Incorporated by reference to Exhibit 10.39 to the Registration Statement on Form S-1 filed on August 7, 2001
10.40	Indemnification Agreement, dated May 1, 2001, by and between TSET, Inc. and Charles D. Strang	Incorporated by reference to Exhibit 10.40 to the Registration Statement on Form S-1 filed on August 7, 2001
10.41	Indemnification Agreement, dated May 1, 2001, by and between TSET, Inc. and Richard A. Papworth	Incorporated by reference to Exhibit 10.41 to the Registration Statement on Form S-1 filed on August 7, 2001
10.42	Indemnification Agreement, dated May 1, 2001, by and between TSET, Inc. and Erik W. Black	Incorporated by reference to Exhibit 10.42 to the Registration Statement on Form S-1 filed on August 7, 2001
10.43	Stock Option Agreement, dated May 3, 2001, by and between TSET, Inc. and Jeffrey D. Wilson	Incorporated by reference to Exhibit 10.43 to the Registration Statement on Form S-1 filed on August 7, 2001
10.44	Common Stock Purchase Agreement, dated June 19, 2001, by and between TSET, Inc. and Fusion Capital Fund II, LLC	Incorporated by reference to Exhibit 10.44 to the Registration Statement on Form S-1 filed on August 7, 2001
10.45	Registration Rights Agreement, dated June 19, 2001, by and between TSET, Inc. and Fusion Capital Fund II, LLC	Incorporated by reference to Exhibit 10.45 to the Registration Statement on Form S-1 filed on August 7, 2001

10.46	Mutual Release and Settlement Agreement, dated July 7, 2001, by and between TSET, Inc. and Foster & Price Ltd.	Incorporated by reference to Exhibit 10.46 to the Registration Statement on Form S-1 filed on August 7, 2001
10.47	Letter Agreement, dated July 9, 2001, by and between TSET, Inc. and The Eagle Rock Group, LLC	Incorporated by reference to Exhibit 10.47 to the Registration Statement on Form S-1 filed on August 7, 2001
10.48	Finders Agreement, dated July 17, 2001, by and between TSET, Inc. and John S. Bowles	Incorporated by reference to Exhibit 10.48 to the Registration Statement on Form S-1 filed on August 7, 2001
10.49	Warrant Agreement, dated July 16, 2001, by and between TSET, Inc. and The Eagle Rock Group, LLC	Incorporated by reference to Exhibit 10.49 to the Registration Statement on Form S-1 filed on August 7, 2001

EXHIBIT NO.	DESCRIPTION	LOCATION
10.50	Agreement and Release, dated October 10, 2001, by and between TSET, Inc. and Jeffrey D. Wilson	Incorporated by reference to Exhibit 10.50 to the Registrant's Form 10-K for the year ended June 30, 2001 filed on October 15, 2001
10.51	Promissory Note dated October 10, 2001 payable to Mr. Jeffrey D. Wilson	Incorporated by reference to Exhibit 10.51 to the Registrant's Form 10-K for the year ended June 30, 2001 filed on October 15, 2001
10.52	Consulting Agreement, dated October 10, 2001, by and between TSET, Inc. and Jeffrey D. Wilson	Incorporated by reference to Exhibit 10.52 to the Registrant's Form 10-K for the year ended June 30, 2001 filed on October 15, 2001
10.53	Consulting Agreement effective October 1, 2001, by and among TSET, Inc., Steven G. Martin and Joshua B. Scheinfeld	Incorporated by reference to Exhibit 10.53 to the Registrant's Form 10-Q for the quarterly period ended December 31, 2001 filed on November 19, 2001
10.54	Letter Agreement dated November 13, 2001 by and between TSET, Inc. and Fusion Capital Fund II, LLC	Incorporated by reference to Exhibit 10.54 to the Registrant's Form 10-Q for the quarterly period ended December 31, 2001 filed on November 19, 2001
10.55	Employment Agreement, effective	Incorporated by reference to

	November 15, 2001 by and between TSET, Inc. and Daniel R. Dwight	Exhibit 10.55 to the Registrant's Form 10-Q for the quarterly period ended March 31, 2002 filed on May 15, 2002
10.56	Agreement, dated November 13, 2001 by and between TSET, Inc. and Fusion Capital Fund II, LLC	Incorporated by reference to Exhibit 10.56 to the Registrant's Amendment No. 1 to Form S-1 filed on August 2, 2002
10.57	Common Stock Purchase Agreement, dated August 12, 2002 by and between between TSET, Inc. and Fusion Capital Fund II, LLC	Incorporate by reference to Exhibit 10.57 to the Registrant's Form S-1 filed on August 13, 2002
10.58	Registration Rights Agreement, dated August 12, 2002 by and between TSET, Inc. and Fusion Capital Fund II, LLC	Incorporated by reference to Exhibit 10.58 to the Registrant's Form S-1 filed on August 13, 2002
10.59	Termination Agreement, dated August 12, 2002 by and between TSET, Inc. and Fusion Capital Fund II, LLC	Incorporated by reference to Exhibit 10.59 to the Registrant's Amendment No. 1 to Form S-1 filed on September 16, 2002

EXHIBIT NO.	DESCRIPTION	LOCATION
11.1	Statement re: Computation of Earnings	Not applicable
12.1	Statement re: Computation of Ratios	Not applicable
15.1	Letter re: Unaudited Interim Financial Information	Not applicable
18.1	Letter re: Change in Accounting Principals	Not applicable
24.1	Power of Attorney	Not applicable
27.1	Financial Data Schedule	Not applicable

SIGNATURES

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

DATED: FEBRUARY 7, 2003 KRONOS ADVANCED TECHNOLOGEIS, INC.

By: /S/ DANIEL R. DWIGHT

Daniel R. Dwight
President and Chief Executive Officer

By: /S/ RICHARD A. PAPWORTH

Richard A. Papworth
Chief Financial Officer

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 of Kronos Advanced Technologies, Inc. (the "Company") on Form 10-QSB for the quarter ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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 operation of the Company.

/S/ DANIEL R. DWIGHT

Daniel R. Dwight
President and Chief Executive Officer

/S/ RICHARD A. PAPWORTH

Richard A. Papworth
Chief Financial Officer

CERTIFICATION
PURSUANT TO SECTION 302

I, Daniel R. Dwight, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Kronos Advanced Technologies, Inc.;

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: February 7, 2003

By: /S/ DANIEL R. DWIGHT

Daniel R. Dwight
Chief Executive Officer

CERTIFICATION
PURSUANT TO SECTION 302

I, Richard A. Papworth, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Kronos Advanced Technologies, Inc.;

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: February 7, 2003

By: /S/ RICHARD A. PAPWORTH

Richard A. Papworth
Chief Financial Officer and
Principal Accounting Officer