

Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

KRONOS ADVANCED TECHNOLOGIES INC  
Form SB-2  
December 16, 2004

As filed with the Securities and Exchange Commission on December \_\_\_\_, 2004

Registration No. 333-\_\_\_\_\_

=====

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM SB-2  
REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933

-----

KRONOS ADVANCED TECHNOLOGIES, INC.

(Name of registrant as specified in its charter)

Nevada 6799 87-0440410

(State or Other Jurisdiction of (Primary Standard Industrial (I.R.S. Employer  
Incorporation or Organization) Classification Code Number) Identification No.)

464 Common Street  
Suite 301  
Belmont, Massachusetts 02478  
(617) 993-9965  
(Name, address, and telephone  
of principal executive offices)

Daniel R. Dwight  
464 Common Street  
Suite 301  
Belmont, Massachusetts 02478  
(617) 993-9965  
(Address and telephone number  
number of agent for service)

Copies to:

Clayton E. Parker, Esq.  
Kirkpatrick & Lockhart LLP  
201 South Biscayne Boulevard  
Suite 2000  
Miami, Florida 33131  
Telephone: (305) 539-3300  
Telecopier: (305) 358-7095

Ronald S. Haligman, Esq.  
Kirkpatrick & Lockhart LLP  
201 South Biscayne Boulevard  
Suite 2000  
Miami, Florida 33131  
Telephone: (305) 539-3300  
Telecopier: (305) 358-7095

Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. [x]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier of the effective registration statement for the offering. [ ]

If this is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

=====

Proposed Maximum Proposed Maximum

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

Title Of Each Class Of Securities To Be Registered	Amount To Be Registered	Offering Price Per Share(1)	Aggregate Offering Price(1)	Of
Common stock, par value \$0.001 per share	112,844,493 (2)	\$0.15	\$16,926,673.95	\$
<b>TOTAL</b>	<b>112,844,493 (2)</b>	<b>\$0.15</b>	<b>\$16,926,673.95</b>	<b>\$</b>

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933. For the purposes of this table, we have used the average of the closing bid and asked prices as of December 3, 2004.

(2) Of these shares, 102,040,816 shares are being registered under a Standby Equity Distribution Agreement, 2,941,177 shares were issued as a commitment fee pursuant to the Standby Equity Distribution Agreement, 62,500 shares were issued as a placement agent fee pursuant to the Standby Equity Distribution Agreement and 7,800,000 shares were issued pursuant to a private placement.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Preliminary Prospectus Subject to completion, dated December \_\_\_\_, 2004

### PROSPECTUS

KRONOS ADVANCED TECHNOLOGIES INC.  
112,844,493 Shares of Common Stock

This prospectus relates to the sale of up to 112,844,493 shares of Kronos Advanced Technologies, Inc.'s common stock by certain persons who are, or will become, stockholders of Kronos. The selling stockholders consist of:

- o Cornell Capital Partners, which intends to sell up to an aggregate amount of 109,981,993 shares of common stock, which includes 102,040,816 shares of common stock pursuant to a Standby Equity Distribution Agreement, 5,000,000 shares of common stock previously purchased in a private placement and 2,941,177 shares of common stock issued as a commitment fee pursuant to the Standby Equity Distribution Agreement.
- o Newbridge Securities Corporation, an unaffiliated registered broker-dealer retained by Kronos in connection with the Standby Equity Distribution Agreement, which intends to sell 62,500 shares of common stock issued as a placement agent fee.
- o A group of accredited investors, which intends to sell 2,800,000 shares of common stock previously purchased in a private placement.

Please refer to "Selling Stockholders" beginning on page 14.

Kronos is not selling any shares of common stock in this offering and therefore will not receive any proceeds from this offering. Kronos will,

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

however, receive proceeds from the sale of common stock under the Standby Equity Distribution Agreement. All costs associated with this registration will be borne by Kronos.

The shares of common stock are being offered for sale by the selling stockholders at prices established on the Over-the-Counter Bulletin Board during the term of this offering. These prices will fluctuate based on the demand for the shares of our common stock. On November 26, 2004, the last reported sale price of our common stock was \$0.20 per share.

Cornell Capital Partners is an "underwriter" within the meaning of the Securities Act of 1933 in connection with the sale of common stock under the Standby Equity Distribution Agreement. Pursuant to the Standby Equity Distribution Agreement, Cornell Capital Partners will pay Kronos 98% of the lowest volume weighted average price of the common stock during the 5 consecutive trading-day period immediately following the notice date. The 2% discount on the purchase of the common stock to be received by Cornell Capital Partners and the commitment fee are underwriting discounts. In addition, Cornell Capital Partners is entitled to retain 5% of the proceeds raised by Kronos under the Standby Equity Distribution Agreement. In addition, Kronos has agreed to pay Cornell Capital Partners a one-time commitment fee of 2,941,177 shares of our common stock.

Kronos engaged Newbridge Securities Corporation, an unaffiliated registered broker-dealer, to advise us in connection with the Standby Equity Distribution Agreement. Newbridge Securities Corporation was paid a fee of \$10,000 by the issuance of 62,500 shares of Kronos' common stock.

Kronos' common stock is deemed to be "penny stock" as that term is defined in Rule 3a51-1 promulgated under the Securities Act of 1934. Brokers/Dealers dealing in penny stocks are required to provide potential investors with a document disclosing the risks of penny stocks. Moreover, brokers/dealers are required to determine whether an investment in a penny stock is suitable investment for a prospective investor.

Our common stock is quoted on the Over-the-Counter- Bulletin Board under the symbol "KNOS.OB."

These securities are speculative and involve a high degree of risk. Please refer to "Risk Factors" beginning on page 6.

With the exception of Cornell Capital Partners, which is an "underwriter" within the meaning of the Securities Act of 1933, no other underwriter or person has been engaged to facilitate the sale of shares of common stock in this offering. This offering will terminate 24 months after the accompanying registration statement is declared effective by the Securities and Exchange Commission. None of the proceeds from the sale of stock by the selling stockholders will be placed in escrow, trust or any similar account.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is December \_\_\_\_, 2004.

### TABLE OF CONTENTS

Page

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

PROSPECTUS SUMMARY.....	1
THE OFFERING.....	3
SUMMARY CONSOLIDATED FINANCIAL INFORMATION.....	4
RISK FACTORS.....	6
FORWARD-LOOKING STATEMENTS.....	13
SELLING STOCKHOLDERS.....	14
USE OF PROCEEDS.....	16
DILUTION.....	17
STANDBY EQUITY DISTRIBUTION AGREEMENT.....	18
PLAN OF DISTRIBUTION.....	20
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	22
DESCRIPTION OF BUSINESS.....	29
MANAGEMENT.....	34
DESCRIPTION OF PROPERTY.....	40
LEGAL PROCEEDINGS.....	40
PRINCIPAL STOCKHOLDERS.....	41
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.....	42
DESCRIPTION OF SECURITIES.....	47
EXPERTS.....	52
LEGAL MATTERS.....	52
HOW TO GET MORE INFORMATION.....	52
PART II .....	II-1
FINANCIAL STATEMENTS.....	F-1

Our audited financial statements for the fiscal year ended June 30, 2004, were contained in our Annual Report on Form 10-KSB.

### PROSPECTUS SUMMARY

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

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

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

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

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

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

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

- o Air Movement and Purification. Indoor air pollution, including "sick building syndrome" and "building related illness," is primarily caused by inadequate ventilation, chemical contaminants from indoor and outdoor sources and biological contaminants. The addressable air movement and purification segment is made up of four principal applications: (1) residential, (2) health care, (3) hospitality and (4) commercial. Kronos is seeking to leverage the product development, production and funding resources of HoMedics, Kronos' strategic partner for consumer-based residential applications, to develop and manufacturer standalone products for other air movement and purification applications.
- o Air Purification for Unique Spaces. Electronics, semiconductor, pharmaceutical, aerospace, medical and many other producers depend on cleanroom technology. As products such as electronic devices become smaller, the chance of contamination in manufacturing becomes higher. For pharmaceutical companies, clean, safe and contaminant-free products are imperative to manufacturing and distributing a viable

product. Other potential applications for the Kronos(TM) technology include closed environments such as aircraft, cruise ships and other transportation modes that require people to breathe contaminated, re-circulated air for extended periods. Kronos is building on its product development effort with its strategic partner in the business

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

jet market and the U.S. military to serve other closed environment applications.

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

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

Kronos' common stock is deemed to be "penny stock" as that term is defined in Rule 3a51-1 promulgated under the Securities Act of 1934. Brokers/Dealers dealing in penny stocks are required to provide potential investors with a document disclosing the risks of penny stocks. Moreover, brokers/dealers are required to determine whether an investment in a penny stock is suitable investment for a prospective investor.

We cannot predict the actual number of shares of common stock that will be issued pursuant to the Standby Equity Distribution Agreement, in part, because the purchase price of the shares will fluctuate based on prevailing market conditions and we have not determined the total amount of advances we intend to draw. Nonetheless, we can estimate the number of shares of our common stock that will be issued using certain assumptions. The sale of shares pursuant to the Standby Equity Distribution Agreement will have a dilutive impact on our stockholders. Assuming we issued the number of shares of common stock being registered in the accompanying registration statement to be available under the Standby Equity Distribution Agreement, at a recent price of \$0.20 per share, we would issue 102,040,816 shares of common stock to Cornell Capital Partners to receive a maximum amount of gross proceeds equal to \$20,000,000. These shares would represent approximately 58% of our outstanding common stock upon issuance. We are registering 102,040,816 shares of common stock to be resold by Cornell Capital Partners pursuant to Standby Equity Distribution Agreement. We anticipate that achievement of our business plan will require approximately \$4,000,000 over the next 12 months. We intend to satisfy \$2,000,000 of this from the Equity Backed Promissory Note. We intend to attempt to satisfy the remaining \$2,000,000 from sources other than the Equity Backed Promissory Note and the Standby Equity Distribution Agreement.

The significant downward pressure on our stock price caused by the sale of a significant number of shares under the Standby Equity Distribution Agreement could cause our stock price to decline, thus allowing short sellers of our stock an opportunity to take advantage of any decrease in the value of our stock. The presence of short sellers in our common stock may further depress the price of our common stock.

We are registering 112,844,493 shares of common stock in this offering. These shares represent approximately 23% of our authorized capital stock and would upon issuance represent approximately 64% of the then issued and

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

outstanding common stock and we anticipate all such shares will be sold in this offering. If all or a significant block of these shares are held by one or more shareholders working together, then such shareholder or shareholders would have enough shares to exert significant influence on Kronos in an election of directors.

### About Us

Our principal place of business is located at 464 Common Street, Suite 301, Belmont, Massachusetts 02478. Our telephone number is (617)993-9965.

2

### THE OFFERING

This offering relates to the sale of common stock by certain persons who are, or will become, our stockholders. The selling stockholders consist of:

- o Cornell Capital Partners, which intends to sell up to an aggregate amount of 109,981,993 shares of common stock, which includes 102,040,816 pursuant to a Standby Equity Distribution Agreement, and 2,941,177 shares of common stock issued as a commitment fee pursuant to the Standby Equity Distribution Agreement and 5,000,000 shares of common stock previously purchased in a private placement .
- o Various accredited investors, which intend to sell up to an aggregate amount of 2,800,000 shares of common stock pursuant to a private placement.
- o Newbridge Securities Corporation, an unaffiliated broker-dealer retained by Kronos in connection with the Standby Equity Distribution Agreement, which intends to sell up to 62,500 shares of common stock issued as a placement agent fee.

Pursuant to the Standby Equity Distribution Agreement, we may, at our discretion, periodically issue and sell to Cornell Capital Partners shares of our common stock for a total purchase price of \$20 million. Cornell Capital Partners will purchase the shares of common stock for 98% of the lowest volume weighted average price of our common stock during the 5 trading days immediately following notice of our intent to make a draw down under the Standby Equity Distribution Agreement. Cornell Capital Partners intends to sell any shares purchased under the Standby Equity Distribution Agreement at the then prevailing market price.

Based on our recent stock price of \$0.20, we would have to issue to Cornell Capital Partners 102,040,816 shares of our common stock in order to draw down the entire \$20 million available to us under the Standby Equity Distribution Agreement. As of November 26, 2004, we had 74,127,522 shares of common stock issued and outstanding.

Common Stock Offered	112,844,493 shares by selling stockholders
Offering Price	Market price
Common Stock Outstanding Before the Offering	74,127,522 shares
Use of Proceeds	We will not receive any

Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

proceeds from the shares offered by the selling stockholders. Any proceeds we receive from the sale of common stock under the Standby Equity Distribution Agreement will be used for general corporate and working capital purposes. See "Use of Proceeds."

Risk Factors

The securities offered hereby involve a high degree of risk and immediate substantial dilution. See "Risk Factors" and "Dilution."

Over-the-Counter Bulletin Board Symbol

KNOS.OB

3

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following is a summary of our Financial Statements, which are included elsewhere in this prospectus. You should read the following data together with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this prospectus as well as with our Financial Statements and the notes therewith.

KRONOS ADVANCED TECHNOLOGIES, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE QUARTER ENDED SEPTEMBER 30, 2004 (UNAUDITED)	FOR THE QUARTER ENDED SEPTEMBER 30, 2003 (UNAUDITED)	FOR THE YEAR ENDED June 30, 2004 (AUDITED)
STATEMENT OF OPERATION DATA:			
Sales	\$ 241,533	\$ 130,017	\$ 533,200
Cost of sales	217,920	82,753	379,300
Gross Profit	23,613	47,264	153,900
Selling, General and Administrative expense:			
Compensation and benefits	222,870	202,823	840,200
Professional services	52,339	43,638	60,500
Research and development	17,989	19,828	355,400
Depreciation and amortization	99,834	70,579	360,900
Facilities	18,887	18,873	88,900
Other selling general and administrative expenses	91,875	73,752	382,900
Selling, General and Administrative expenses	503,794	429,493	2,088,900
Net Operating Loss	(480,181)	(382,229)	(1,935,000)



Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

Other Income	-	-	56,0
Interest Expense	(141,609)	(168,270)	(615,8
Net Loss	\$ (621,790)	\$ (550,499)	\$ (2,494,8
Basic Loss Per Share	\$ (0.01)	(0.01)	\$ (0
Diluted Loss Per Share	\$ (0.01)	(0.01)	\$ (0
Weighted average shares outstanding	61,323,845	53,973,647	57,760,7

4

KRONOS ADVANCED TECHNOLOGIES, INC.  
CONSOLIDATED BALANCE SHEETS

BALANCE SHEET DATA:	SEPTEMBER 30, 2004 (UNAUDITED)	FOR THE YEAR ENDED JUNE 30, 2004 (AUDITED)	FOR THE YEAR JUNE 30 2003 (AUDITED)
<b>Assets</b>			
<b>Current Assets</b>			
Cash	\$ 40,933	\$ 69,063	\$ 641
Accounts receivable, net	123,544	97,544	48
Prepays	17,827	71,050	34
Total Current Assets	182,304	237,657	724
Net Property and Equipment	4,823	6,292	28
<b>Other Assets</b>			
Intangibles	2,208,798	2,253,029	2,487
Total Other Assets	2,208,798	2,253,029	2,487
Total Assets	\$ 2,395,925	\$ 2,496,978	\$ 3,239
<b>Liabilities and Shareholders' Deficit</b>			
<b>Current Liabilities</b>			
Accrued expenses and payables to directors and officers	\$ 249,378	\$ 36,258	\$ 1,172
Accounts payable	345,885	272,544	218
Accrued expenses	405,621	312,347	174
Deferred revenue	3,218	3,218	133
Notes payable, current portion	870,593	798,926	185
Total Current Liabilities	1,874,695	1,423,293	1,884
Redeemable Warrants	-	-	805
<b>Long Term Liabilities</b>			

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

Notes payable to directors & officers	1,063,266	1,063,266	
Notes payable	1,978,052	1,983,038	2,676
Discounts on notes payable	(514,940)	(589,260)	(893)
Total Long Term Liabilities	2,526,378	2,457,044	1,783
Total Liabilities	4,401,073	3,880,337	3,667
Shareholders' Deficit			
Common stock, authorized 500,000,000			
shares of \$0.001 par value, 61,323,845			
shares outstanding at September 30, and			
June 30, 2004 and 53,836,907 outstanding			
at June 30, 2003			
	61,323	61,323	53
Capital in excess of par value	18,578,019	18,578,018	16,240
Accumulated deficit	(20,644,490)	(20,022,700)	(17,527)
Total Shareholders' Deficit	(2,005,148)	(1,383,359)	(1,233)
Total Liabilities and Shareholders'			
Deficit	\$ 2,395,925	\$ 2,496,978	\$ 3,239

5

### RISK FACTORS

WE ARE SUBJECT TO VARIOUS RISKS THAT MAY MATERIALLY HARM OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS. YOU SHOULD CAREFULLY CONSIDER THE RISKS AND UNCERTAINTIES DESCRIBED BELOW AND THE OTHER INFORMATION IN THIS FILING BEFORE DECIDING TO PURCHASE OUR COMMON STOCK. IF ANY OF THESE RISKS OR UNCERTAINTIES ACTUALLY OCCURS, OUR BUSINESS, FINANCIAL CONDITION OR OPERATING RESULTS COULD BE MATERIALLY HARMED. IN THAT CASE, THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE AND YOU COULD LOSE ALL OR PART OF YOUR INVESTMENT.

#### RISKS RELATED TO OUR BUSINESS

**We Have A Limited Operating History With Significant Losses And Expect Losses To Continue For The Foreseeable Future**

We have only recently begun implementing our plan to prioritize and concentrate our management and financial resources to fully capitalize on our investment in Kronos Air Technologies and have yet to establish any history of profitable operations. We incurred an operating loss of \$480,181 for the three months ended September 30, 2004. We incurred a net loss of \$2.5 million for the fiscal year ended June 30, 2004. As a result, at September 30, 2004 and June 30, 2004, we had an accumulated deficit of \$20.6 million and \$20.0 million, respectively. Our revenues and cash flows from operations have not been sufficient to sustain our operations. We have sustained our operations through the issuance of our common stock and the incurrence of debt. We expect that our revenues and cash flows from operations may not be sufficient to sustain our operations for the foreseeable future. Our profitability will require the successful commercialization of our Kronos(TM) technologies. No assurances can be given that we will be able to successfully commercialize our Kronos(TM) technologies or that we will ever be profitable.

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

Our ability to continue as a going concern will be dependent upon our ability to draw down on the Standby Equity Distribution Agreement which we have entered into with Cornell Capital Partners. If we incur any problems in drawing down the Standby Equity Distribution Agreement, we may experience significant liquidity and cash flow problems. If we are not successful in reaching and maintaining profitable operations we may not be able to attract sufficient capital to continue our operations. Our inability to obtain adequate financing will result in the need to curtail business operations and will likely result in a lower stock price.

There Is Substantial Doubt About Our Ability To Continue As A Going Concern Due To Insufficient Revenues To Cover Our Operating Costs, Which Means That We May Not Be Able To Continue Operations Unless We Obtain Additional Funding

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, 2004 and June 30, 2003, relative to our ability to continue as a going concern. There is substantial doubt about our ability to continue as a going concern due to our Company's losses from operations and current liabilities exceed current assets. We anticipate that we will incur net losses for the immediate future. We expect our operating expenses to increase significantly, and, as a result, we will need to generate monthly revenue if we are to continue as a going concern. To the extent that we do not generate revenue at anticipated rates, we do not obtain additional funding, or that increases in our operating expenses precede or are not subsequently followed by commensurate increases in revenue, or that we are unable to adjust operating expense levels accordingly, we may not have the ability to continue on as a going concern. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We Will Require Significant Additional Financing To Sustain Our Operations And Without It We Will Not Be Able To Continue Operations

At September 30, 2004 and June 30, 2004, we had a working capital deficit of \$1.7 million and \$1.2 million, respectively. The Report of Independent Registered Public Accounting Firm for the year ended June 30, 2004, includes an explanatory paragraph to their audit opinion stating that our recurring losses from operations and working capital deficiency raise substantial doubt about our ability to continue as a going concern. For the three months ended September 30, 2004 and September 30, 2003, we had an operating cash flow deficit of \$41,000 and \$441,000, respectively. We currently do not have sufficient financial resources to fund our operations or pay certain existing obligations or those of our subsidiary. Therefore, we need substantial additional funds to continue these operations and pay certain existing obligations.

6

If obtaining sufficient financing from the U. S. Navy, U. S. Army, HoMedics and /or Cornell Capital Partners were to be unavailable and if we are unable to commercialize and sell our products or technologies, we will need to secure another source of funding in order to satisfy our working capital needs. Even if we are able to access the funds available under the, U. S. Navy and U.S. Army SBIR contracts, HoMedics senior debt agreement and / or the Cornell Capital, Equity Backed Promissory Notes and Standby Equity Distribution Agreement, we may still need additional capital to fully implement our business, operating and development plans. At September 30, 2004 and June 30, 2004, we had

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

a cash balance of \$41,000 and \$69,000, respectively. Should the financing we require to sustain our working capital needs be unavailable, or prohibitively expensive when we require it, we would be forced to curtail our business operations.

Existing Shareholders will Experience Significant Dilution from Our Sale of Shares under the Cornell Capital Equity Investment Agreement and Standby Equity Distribution Agreement and Any Other Equity Financing.

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

Competition In The Market For Air Movement And Purification Devices May Result In The Failure Of The Kronos(TM) Products To Achieve Market Acceptance.

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

Our Failure To Enforce Protection Of Our Intellectual Property Would Have A Material Adverse Effect On Our Business

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

In November 2004, Kronos received a Notice of Allowance from the United States Patent and Trademark Office indicating that its application entitled "Electrostatic Fluid Accelerator" - Electrode Design Geometries has been examined and allowed for issuance as a U. S. patent. Kronos expects that the U. S. Patent will issue in due course. The patent provides protection for key aspects of Kronos' technology until late in 2021. Also in November 2004, Kronos received formal notification from the Australian Patent Office indicating that its application entitled "Electrostatic Fluid Accelerator" has been examined and allowed for issuance as an Australian patent (#773626). In October 2004, Kronos received a Notice of Allowance from the United States Patent and Trademark Office indicating that its application entitled "Electrostatic Fluid Accelerator" - Power Supply Management and Control has been examined and allowed for issuance as a U. S. patent. Kronos expects that the U. S. Patent will issue in due course. The patent provides protection for key aspects of Kronos'

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

technology until late in 2021. In April 2004, Kronos received formal notification from the United States Patent and Trademark Office indicating that its application entitled "Electrostatic Fluid Accelerator for and a Method of Controlling Fluid" has been examined and allowed for issuance as a U. S. patent (#6,727,657). The patent provides protection for key aspects of Kronos' technology until late in 2021. In December 2003, Kronos received formal notification from the United States Patent and Trademark Office indicating that its application entitled "Method of and Apparatus for Electrostatic Fluid Acceleration Control of a Fluid Flow" has been examined and allowed for issuance as a U. S. patent (#6,664,741). The patent provides protection for key aspects

7

of Kronos' technology until late in 2020. In January 2003, Kronos received formal notification from the United States Patent and Trademark Office indicating that its application entitled "Electrostatic Fluid Accelerator" had been examined and allowed for issuance as a U. S. patent (#6,504,308). The patent will provide protection for key aspects of Kronos' technology until late in 2019. We have additional U. S. and foreign patent applications pending. The validity and breadth of our intellectual property claims in ion wind generation and electrostatic fluid acceleration and control technology involve complex legal and factual questions and, therefore, may be highly uncertain. Despite our efforts to protect our intellectual proprietary rights, existing copyright, trademark and trade secret laws afford only limited protection.

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

### Possible Future Impairment Of Intangible Assets Would Have A Material Adverse Effect On Our Financial Condition

Our net intangible assets of approximately \$2.2 million as of September 30, 2004 consist principally of purchased patent technology and marketing intangibles, which relate to the acquisition of Kronos Air Technologies, Inc. in March 2000 and to the acquisition of license rights to fuel cell, computer and microprocessor applications of the Kronos(TM) technology not included in the original acquisition of Kronos Air Technologies, Inc. in May 2003. Intangible assets comprise 92% of our total assets as of September 30, 2004. Intangible assets are subject to periodic review and consideration for potential impairment of value. Among the factors that could give rise to impairment include a significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, and projections or forecasts that demonstrate continuing losses associated with these assets. In the case of our intangible assets, specific factors that could give rise to impairment would be, but are not limited to, an inability to obtain patents, the untimely death or other loss of Dr. Igor Krichtafovitch, the lead inventor of the Kronos(TM) technology and Kronos Air Technologies Chief Technology Officer, or the ability to create a customer base for the sale or licensing of the Kronos(TM) technology. Should an impairment occur, we would be required to recognize it in our financial statements. A write-down of these intangible assets could have a material adverse impact on our total assets, net worth and results of operations.

### Our Common Stock Is Deemed To Be "Penny Stock," Subject To Special Requirement And Conditions And May Not Be A Suitable Investment

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

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

stocks are stocks:

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

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

We Rely On Management And Research Personnel, The Loss Of Whose Services Could Have A Material Adverse Effect Upon Our Business

We rely principally upon the services of our senior executive management, and certain key employees, including the Kronos research team, the loss of whose services could have a material adverse effect upon our business and prospects. Competition for appropriately qualified personnel is intense. Our ability to attract and retain highly qualified senior management and technical research and development personnel are believed to be an important element of our future success. Our failure to attract and retain such personnel may, among other things, limit the rate at which we can expand operations and achieve profitability. There can be no assurance that we will be able to attract and retain senior management and key employees having competency in those substantive areas deemed important to the successful implementation of our plans

8

to fully capitalize on our investment in the Kronos(TM) technology, and the inability to do so or any difficulties encountered by management in establishing effective working relationships among them may adversely affect our business and prospects. Currently, we do not carry key person life insurance for any of our executive management, or key employees.

We May Not Be Able To Access Sufficient Funds When Needed Under The Standby Equity Distribution Agreement And The Price Of Our Common Stock Will Affect Our Ability To Draw Down On The Standby Equity Distribution Agreement

Currently, we are dependent upon external financing to fund our operations. Our financing needs are expected to be provided, in large part, by our Standby Equity Distribution Agreement. The amount of each advance under the Standby Equity Distribution Agreement is subject to a maximum amount equal to \$1,500,000. Because of this maximum advance restriction, we may not be able to access sufficient funds when needed. If the market price of our shares of common stock declines, we would be required to issue more shares of common stock in order to draw down the same dollar amount of an advance than if our stock price

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

were higher. Our Articles of Incorporation currently authorize Kronos to issue 500 million shares. In the event that we do not obtain shareholder approval to amend our Articles of Incorporation and increase our authorized common stock, we will obtain lower net proceeds from the Standby Equity Distribution if the price of our common stock declines.

In addition, there is an inverse relationship between the price of our common stock and the number of shares of common stock, which will be issued under the Standby Equity Distribution Agreement. Based on our recent stock price of \$0.20, we would have to issue to Cornell Capital Partners 120,048,109 shares of our common stock in order to draw down the entire \$20 million available to us under the Standby Equity Distribution Agreement. We are registering 102,040,816 shares of our common stock under the Standby Equity Distribution Agreement in the accompanying registration statement. Our Articles of Incorporation currently authorize Kronos to issue 500 million shares and, as of November 26, 2004, we had 74,127,522 shares of common stock issued and outstanding. In the event we desire to draw down any available amounts remaining under the Standby Equity Distribution Agreement after we have issued the 102,040,816 shares being registered in the accompanying registration statement, we will have to file a new registration statement to cover such additional shares that we would issue for additional draw downs on the Standby Equity Distribution Agreement. Unless we obtain profitable operations, it is unlikely that we will be able to secure additional financing from external sources other than our Standby Equity Distribution Agreement. Therefore, if we are unable to draw down on our Standby Equity Distribution Agreement, we may be forced to curtail or cease our business operations.

In addition, pursuant to the terms of the Standby Equity Distribution Agreement, Cornell Capital Partners may not own more than 9.9% of our outstanding shares of common stock. In the event Cornell Capital Partners is unable to sell the shares of our common stock that are issued after we receive an advance in order to keep them below 9.9% beneficial ownership, we might not be able to draw down additional funds when needed under the Standby Equity Distribution Agreement. Therefore, if we are unable to draw down on our Standby Equity Distribution Agreement, we may be forced to curtail or cease our business operations.

Our Common Stock May Be Affected By Limited Trading Volume And May Fluctuate Significantly

Our common stock is currently traded on the Over-the-Counter Bulletin Board. During most of 2003, our common stock was traded on the "Pink Sheets". Prior to this offering, there has been a limited public market for our common stock and there can be no assurance that an active trading market for our common stock will develop. As a result, this could adversely affect our shareholders' ability to sell our common stock in short time periods, or possibly at all. Our common stock is thinly traded compared to larger, more widely known companies in our industry. Thinly traded common stock can be more volatile than common stock traded in an active public market. The average daily trading volume of our common stock in November 2004 was 188,500 shares. The high and low bid price of our common stock for the last two years has been \$0.450 and \$0.085, respectively. Our common stock has experienced, and is likely to experience in the future, significant price and volume fluctuations, which could adversely affect the market price of our common stock without regard to our operating performance. In addition, we believe that factors such as quarterly fluctuations in our financial results and changes in the overall economy or the condition of the financial markets could cause the price of our common stock to fluctuate substantially.

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

### We May Be Unable To Manage Growth

Successful implementation of our business strategy requires us to manage our growth. Growth could place an increasing strain on our management and financial resources. To manage growth effectively, we will need to:

- o Establish definitive business strategies, goals and objectives.
- o Maintain a system of management controls.
- o Attract and retain qualified personnel, as well as, develop, train and manage management-level and other employees.

If we fail to manage our growth effectively, our business, financial condition or operating results could be materially harmed, and our stock price may decline.

### RISKS RELATED TO THIS OFFERING

Future Sales By Our Stockholders May Adversely Affect Our Stock Price And Our Ability To Raise Funds In New Stock Offerings

Sales of our common stock in the public market following this offering could lower the market price of our common stock. Sales may also make it more difficult for us to sell equity securities or equity-related securities in the future at a time and price that our management deems acceptable or at all. Some of our shareholders, including officers and directors are the holders of



## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

"restricted securities". These restricted securities may be resold in the public market only if registered or pursuant to an exemption from registration. Some of these shares may be resold under Rule 144. As of November 26, 2004, approximately 18,848,310 shares of our common stock are deemed restricted.

Upon completion of this offering, and assuming all shares registered in this offering are resold in the public market, there will be an additional 112,844,493 shares of common stock outstanding. All of these shares of common stock may be immediately resold in the public market upon effectiveness of the accompanying registration statement.

Existing Shareholders Will Experience Significant Dilution From Our Sale Of Shares Under The Standby Equity Distribution Agreement And The Conversion Of Convertible Debentures

The sale of shares pursuant to the Standby Equity Distribution Agreement will have a dilutive impact on our stockholders. At a recent stock price of \$0.20, we would have to issue 102,040,816 shares of common stock to draw down the entire \$20 million available to us under the Standby Equity Distribution Agreement. We are registering 102,040,816 shares of our common stock under the Standby Equity Distribution Agreement in the accompanying registration statement. These shares would represent approximately 58% of our outstanding common stock upon issuance.

The Selling Stockholders Intend To Sell Their Shares Of Common Stock In The Market, Which Sales May Cause Our Stock Price To Decline

The selling stockholders intend to sell in the public market the shares of common stock being registered in this offering. That means that up to 112,844,493 shares of common stock, the number of shares being registered in this offering may be sold. Such sales may cause our stock price to decline.

Cornell Capital Partners Will Pay Less Than The Then-Prevailing Market Price And Will Have An Incentive To Sell Its Shares

Cornell Capital Partners will purchase shares of our common stock pursuant to the Standby Equity Distribution Agreement at a purchase price that is less than the then-prevailing market price of our common stock. Cornell Capital Partners will have an incentive to immediately sell any shares of Kronos common stock that it purchases pursuant to the Standby Equity Distribution Agreement to realize a gain on the difference between the purchase price and the then-prevailing market price of our common stock. To the extent Cornell Capital Partners sells its common stock, the common stock price may decrease due to the additional shares in the market. This could allow Cornell Capital Partners to sell greater amounts of common stock, the sales of which would further depress the stock price.

In addition, pursuant to the Standby Equity Distribution Agreement, Cornell Capital Partners has the ability to sell shares of Kronos common stock corresponding to a particular advance notice by Kronos even if such shares of common stock have not yet been delivered to Cornell Capital partners. Such sales may cause our stock price to decline.

The Sale Of Material Amounts Of Common Stock Under The Accompanying Registration Statement Could Encourage Short Sales By Third Parties

The significant downward pressure on our stock price caused by the sale of a significant number of shares under the Standby Equity Distribution Agreement could cause our stock price to decline, thus allowing short sellers of our stock an opportunity to take advantage of any decrease in the value of our stock. The presence of short sellers in our common stock may further depress the

price of our common stock.

11

#### The Price You Pay In This Offering Will Fluctuate

The price in this offering will fluctuate based on the prevailing market price of the common stock on the Over-the-Counter Bulletin Board. Accordingly, the price you pay in this offering may be higher or lower than the prices paid by other people participating in this offering.

#### The Issuance Of Shares Of Common Stock Under This Offering Could Result In A Change Of Control

We are registering 112,844,493 shares of common stock in this offering. These shares represent approximately 24% of our authorized capital stock and would upon issuance represent approximately 64% of the then issued and outstanding common stock and we anticipate all such shares will be sold in this offering. If all or a significant block of these shares are held by one or more shareholders working together, then such shareholder or shareholders would have enough shares to exert significant influence on Kronos in an election of directors.

12

#### FORWARD-LOOKING STATEMENTS

Information included or incorporated by reference in this prospectus may contain forward-looking statements. This information may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative of these words or other variations on these words or comparable terminology.

This prospectus contains forward-looking statements, including statements regarding, among other things, (a) our projected sales and

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

profitability, (b) our growth strategies, (c) anticipated trends in our industry, (d) our future financing plans and (e) our anticipated needs for working capital. These statements may be found under "Management's Discussion and Analysis or Plan of Operations" and "Business," as well as in this prospectus generally. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including, without limitation, the risks outlined under "Risk Factors" and matters described in this prospectus generally. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this prospectus will in fact occur.

13

### SELLING STOCKHOLDERS

The following table presents information regarding the selling stockholders. A description of each selling stockholder's relationship to Kronos and how each selling stockholder acquired or will acquire the shares to be sold in this offering is detailed in the information immediately following this table.

Selling Stockholder	Shares Beneficially Owned Before Offering	Percentage of Outstanding Shares Beneficially Owned Before Offering (1)	Shares to be Acquired under the Standby Equity Distribution Agreement	Shares Sold in Offering
-----	-----	-----	-----	-----
Cornell Capital Partners, L.P.	7,941,177 (2)	10.72%	102,040,816 (3)	109,98
Richard Sun	1,425,000	1.93%	--	1,4
Fred Gumbinner	400,000	*	--	4
James Hunt	237,500	*	--	2
Walter Mazan	190,000	*	--	1
Sheldon Katz	142,500	*	--	1
James Cheng	142,500	*	--	1
Robert Balcerak	142,500	*	--	1

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

New Vantage Group	120,000	*	--	
Newbridge Securities Corporation	62,500	*	--	
	-----	-----	-----	-----
Total	10,803,677	14.59%	102,040,816	112,-----
	=====	=====	=====	=====

-----  
 \* Less than 1%.

- (1) Applicable percentage of ownership is based on 74,127,522 shares of common stock outstanding as of November 26, 2004, together with securities exercisable or convertible into shares of common stock within 60 days of November 26, 2004. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to securities exercisable or convertible into shares of common stock that are currently exercisable or exercisable within 60 days of November 26, 2004 are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.
- (2) The 7,941,177 shares of common stock represent: (a) 5,000,000 shares of common stock purchased in a private placement and (b) 2,941,177 shares of common stock issued as a commitment fee in connection with the Standby Equity Distribution Agreement.
- (3) We are registering 102,040,816 shares of common stock to be resold by Cornell Capital Partners under the Standby Equity Distribution Agreement. In the event we desire to draw down any available amounts remaining under the Standby Equity Distribution Agreement after we have issued the 102,040,816 shares being registered in the accompanying registration statement, we will have to file a new registration statement to cover such additional shares that we would issue for additional draw downs under the Standby Equity Distribution Agreement.

The following information contains a description of the selling stockholder's relationship to Kronos and how the selling stockholder acquired the shares to be sold in this offering. The selling stockholders have not held a position or office, or had any other material relationship, with Kronos, except as follows:

### Shares Acquired In Financing Transaction With Kronos

- o Cornell Capital Partners, L.P. Cornell Capital Partners is the investor under an equity investment agreement, Equity-Backed Promissory Notes and the Standby Equity Distribution Agreement and the holder of convertible debentures. All investment decisions of Cornell Capital Partners are made by its general partner, Yorkville Advisors, LLC. Mark Angelo, the managing member of Yorkville Advisors, makes the investment decisions on behalf of Yorkville Advisors. Cornell Capital Partners acquired all shares being registered in this offering in financing transactions with Kronos. That transaction is explained below:

- o Standby Equity Distribution Agreement. On October 15, 2004, we entered into a Standby Equity Distribution Agreement with Cornell Capital Partners. Pursuant to the Standby Equity Distribution Agreement, we

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

may, at our discretion, periodically sell to Cornell Capital Partners shares of our common stock for a total purchase price of up to \$20 million. For each share of common stock purchased under the Standby Equity Distribution Agreement, Cornell Capital Partners will pay Kronos 98% of the lowest volume weighted average price of our common stock on the Over-the-Counter Bulletin Board or other principal market on which our common stock is traded for the 5 trading days immediately following the notice date. Further, Cornell Capital Partners will retain a fee of 5% of each advance under the Standby Equity Distribution Agreement. In connection with the Standby Equity Distribution Agreement, Cornell Capital Partners received a commitment fee in the form of 2,941,177 shares of our common stock.

We are registering 109,981,993 shares in this offering that may be resold by Cornell Capital Partners pursuant to the Standby Equity Distribution Agreement in addition to the shares registered in this offering in connection with the commitment fee under the Standby Equity Distribution Agreement.

- o \$500,000 Equity Investment. On October 15, 2004, Kronos entered into a Securities Purchase Agreement with Cornell Capital Partners. Pursuant to the Securities Purchase Agreement, Kronos sold 5,000,000 shares of Kronos' restricted common stock to Cornell Capital Partners. In connection with the sale of shares of common stock to Cornell Capital Partners, LP, Kronos and Cornell Capital Partners entered into an Investor Registration Rights Agreement, dated October 15, 2004, whereby Kronos is obligated to file a registration statement with the United States Securities and Exchange Commission covering such shares of common stock sold to Cornell Capital Partners.
- o \$280,000 Equity Investment. On November 16, 2004, Kronos entered into a Securities Purchase Agreement with a group of accredited investors. Pursuant to the Securities Purchase Agreement, Kronos sold 2,800,000 shares of Kronos' restricted common stock to these accredited investors. In connection with the sale of shares of common stock to accredited investors, Kronos and the investors entered into an Investor Registration Rights Agreements, dated November 16, 2004.

### There Are Certain Risks Related To Sales By Cornell Capital Partners

There are certain risks related to sales by Cornell Capital Partners, including:

- o The outstanding shares are issued based on discount to the market rate. As a result, the lower the stock price around the time Cornell Capital Partners is issued shares, the greater chance that Cornell Capital Partners gets more shares. This could result in substantial dilution to the interests of other holders of common stock.
- o To the extent Cornell Capital Partners sells its common stock, the common stock price may decrease due to the additional shares in the market. This could allow Cornell Capital Partners to sell greater amounts of common stock, the sales of which would further depress the stock price.
- o The significant downward pressure on the price of the common stock as Cornell Capital Partners sells material amounts of common stock could encourage short sales by third parties. This could place further downward pressure on the price of the common stock.
- o Newbridge Securities Corporation is a registered broker-dealer that we engaged to advise us in connection with the Standby Equity

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

Distribution Agreement. Guy Amico makes the investment decisions on behalf of Newbridge Securities Corporation. We paid Newbridge Securities Corporation a fee of \$10,000 payable in 62,500 shares of our common stock. Kronos is registering these shares in this offering.

15

### USE OF PROCEEDS

This prospectus relates to shares of our common stock that may be offered and resold from time to time by the selling stockholders. There will be no proceeds to us from the resale of shares of common stock in this offering. However, we will receive the proceeds from the sale of shares of common stock to Cornell Capital Partners under the Standby Equity Distribution Agreement. The purchase price of the shares purchased under the Standby Equity Distribution Agreement will be equal to 98% of the lowest volume weighted average price of our common stock on the Over-the-Counter Bulletin Board for the 5 days immediately following the notice date. Kronos will pay Cornell Capital Partners 5% of each advance as an additional fee.

Kronos is registering 102,040,816 shares of common stock for issuance under the Standby Equity Distribution Agreement. At a recent price of \$0.20 per share, Kronos would receive gross proceeds of \$20 million.

For illustrative purposes, we have set forth below our intended use of proceeds for the range of net proceeds indicated below to be received under the Standby Equity Distribution Agreement. The table assumes estimated offering expenses of \$85,000 plus 5% retainage payable to Cornell Capital Partners.

Gross Proceeds	\$ 4,000,000	\$ 10,000,000	\$ 15,000,000	\$ 20,000,000
5% Retainage	200,000	500,000	750,000	1,000,000
Offering Expenses	85,000	85,000	85,000	85,000
Net Proceeds	\$ 3,715,000	\$ 9,415,000	\$ 14,165,000	\$ 18,915,000
Use of Proceeds:				
Corporate and Working Capital	3,715,000	9,415,000	14,165,000	18,915,000
Total	\$ 3,715,000	\$ 9,415,000	\$ 14,165,000	\$ 18,915,000

Kronos has represented to Cornell Capital Partners that the net proceeds we receive under the Standby Equity Distribution Agreement will be used for general corporate purposes. In no event will the net proceeds we receive under the Standby Equity Distribution Agreement be used by Kronos for the payment (or loaned to any such person for the payment) of any judgment, or other liability, incurred by any executive officer, officer, director or employee of Kronos, except for any liability owed to such person for services rendered, or if any judgment or other liability is incurred by such person originating from services rendered to Kronos or Kronos has indemnified such person from liability.

## DILUTION

The net tangible book value of our Company as of September 30, 2004 was (\$4,213,946) or (\$0.0687) per share of common stock. Net tangible book value per share is determined by dividing the tangible book value of our Company (total tangible assets less total liabilities) by the number of outstanding shares of our common stock. Since this offering is being made solely by the selling stockholders and none of the proceeds will be paid to our Company, our net tangible book value will be unaffected by this offering. Our net tangible book value, however, will be impacted by the common stock to be issued under the standby equity distribution agreement. The amount of dilution will depend on the offering price and number of shares to be issued under the standby equity distribution agreement. The following example shows the dilution to new investors at an offering price of \$0.1960 per share, which is 98% of a recent share price of \$0.20.

If we assume that our Company had issued 102,040,816 shares of common stock under the Standby Equity Distribution Agreement at an assumed offering price of \$0.1960 per share (i.e., the maximum number of shares needed in order to raise a total of \$20 million available under the Standby Equity Distribution Agreement), less retention fees of \$1,000,000 and offering expenses of \$85,000, our net tangible book value as of September 30, 2004 would have been \$14,701,054 or \$0.0900 per share. Such an offering would represent an immediate increase in net tangible book value to existing stockholders of \$0.1587 per share and an immediate dilution to new stockholders of \$0.1060 per share. The following table illustrates the per share dilution:

Assumed public offering price per share		\$0.1960
Net tangible book value per share before this offering	(\$0.0687)	
Increase attributable to new investors	\$0.1587	
	-----	
Net tangible book value per share after this offering		\$0.0900
		-----
Dilution per share to new stockholders		\$0.1060
		=====

The offering price of our common stock is based on the then-existing market price. In order to give prospective investors an idea of the dilution per share they may experience, we have prepared the following table showing the dilution per share at various assumed offering prices:

Assumed Offering Price	No. of Shares to be ISSUED (1)	Dilution Per Share to New Investors
-----	-----	-----

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

\$0.1960	102,040,816	\$0.1060
\$0.1470	136,054,422	\$0.0585
\$0.0980	204,081,632	\$0.0322
\$0.0490	408,163,265	\$0.0118

(1) Kronos is registering 102,040,816 shares of common stock.

17

### STANDBY EQUITY DISTRIBUTION AGREEMENT

Summary. On October 15, 2004, we entered into a Standby Equity Distribution Agreement with Cornell Capital Partners. Pursuant to the Standby Equity Distribution Agreement, we may, at our discretion, periodically sell to Cornell Capital Partners shares of our common stock for a total purchase price of up to \$20 million. For each share of common stock purchased under the Standby Equity Distribution Agreement, Cornell Capital Partners will pay us 98% of the lowest volume weighted average price of our common stock on the Over-the-Counter Bulletin Board or other principal market on which our common stock is traded for the 5 days immediately following the notice date. Cornell Capital Partners is a private limited partnership whose business operations are conducted through its general partner, Yorkville Advisors, LLC. Further, Cornell Capital Partners will retain a fee of 5% of each advance under the Standby Equity Distribution Agreement. In addition, we paid Cornell Capital Partners a commitment fee under the Standby Equity Distribution Agreement in the form of 2,941,177 shares of our common stock. In the event the Standby Equity Distribution Agreement is terminated in accordance with the terms of the agreement, or Kronos does not forward any advance notices during the term of the agreement, Cornell Capital Partners will return 2,000,000 shares of common stock issued previously as a commitment fee. We also paid Cornell Capital Partners a non-refundable due-diligence fee equal to \$2,500 to defray the costs of performing due diligence on us. In addition, we engaged Newbridge Securities Corporation, a registered broker-dealer, to advise us in connection with the Standby Equity Distribution Agreement. For its services, Newbridge Securities Corporation received a fee of \$10,000 paid in 62,500 shares of our common stock. We paid counsel to Cornell Capital Partners \$15,000 for their legal, administrative and escrow fees. In addition, on each advance date, we will pay counsel to Cornell Capital Partners the sum of \$500 for additional legal, administrative and escrow fees. Kronos is registering 102,040,816 shares of common stock for the Standby Equity Distribution Agreement pursuant to the accompanying registration statement. The costs associated with this registration will be borne by us. There are no other significant closing conditions to draws under the Standby Equity Distribution Agreement.

Standby Equity Distribution Agreement Explained. Pursuant to the Standby Equity Distribution Agreement, we may periodically sell shares of common stock to Cornell Capital Partners to raise capital to fund our working capital needs. The periodic sale of shares is known as an advance. We may request an advance every 7 trading days with a maximum of \$1,500,000 per advance. A closing will be held 6 trading days after such written notice at which time we will



## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

deliver shares of common stock and Cornell Capital Partners will pay the advance amount.

We may request advances under the Standby Equity Distribution Agreement once the underlying shares are registered with the Securities and Exchange Commission. Thereafter, we may continue to request advances until Cornell Capital Partners has advanced \$20 million or 24 months after the effective date of the accompanying registration statement, whichever occurs first.

The amount of each advance is limited to a maximum draw down of \$1,500,000 every 7 trading days. At a recent stock price of \$0.20, we would have to issue 9,003,601 shares of common stock to Cornell Capital Partners to draw down the maximum advance amount of \$1,500,000. The amount available under the Standby Equity Distribution Agreement is not dependent on the price or volume of our common stock. Our ability to request advances are conditioned upon us registering the shares of common stock with the Securities and Exchange Commission. In addition, we may not request advances if the shares to be issued in connection with such advances would result in Cornell Capital Partners owning more than 9.9% of our outstanding common stock. We do not have any agreements with Cornell Capital Partners regarding the distribution of such stock, although Cornell Capital Partners has indicated that it intends to promptly sell any stock received under the Standby Equity Distribution Agreement.

We cannot predict the actual number of shares of common stock that will be issued pursuant to the Standby Equity Distribution Agreement, in part, because the purchase price of the shares will fluctuate based on prevailing market conditions and we have not determined the total amount of advances we intend to draw. Nonetheless, we can estimate the number of shares of our common stock that will be issued using certain assumptions. Assuming we issued the number of shares of common stock being registered in the accompanying registration statement to be available under the Standby Equity Distribution Agreement, at a recent price of \$0.20 per share, we would issue 102,040,816 shares of common stock to Cornell Capital Partners for gross proceeds of \$20 million. These shares would represent approximately 58% of our outstanding common stock upon issuance. We are registering 102,040,816 shares of common stock to be resold by Cornell Capital Partners pursuant to Standby Equity Distribution Agreement.

You should be aware that there is an inverse relationship between our stock price and the number of shares to be issued under the Standby Equity Distribution Agreement. That is, as our stock price declines, we would be required to issue a greater number of shares under the Standby Equity

18

Distribution Agreement for a Given Advance. The issuance of a larger number of shares under the Standby Equity Distribution Agreement may result in a change of control. That is, if all or a significant block of such shares are held by one or more shareholders working together, then such shareholder or shareholders would have enough shares to assume control of Kronos by electing its or their own directors.

You should also be aware that in order for us to utilize the full \$20 million available under the Standby Equity Distribution Agreement, it may be necessary for our shareholders to approve an increase in our authorized common stock and for us to register additional shares of common stock. This is currently the case based on the stock price of \$0.20 as of November 26, 2004. Kronos is authorized in its Articles of Incorporation to issue up to 500,000,000 shares of common stock. As of November 26, 2004, Kronos had 74,127,522 shares of common stock outstanding. Kronos is registering 102,040,816 shares of common

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

stock hereunder to be issued under the Standby Equity Distribution Agreement.

Proceeds used under the Standby Equity Distribution Agreement will be used in the manner set forth in the "Use of Proceeds" section of this prospectus. We cannot predict the total amount of proceeds to be raised in this transaction because we have not determined the total amount of the advances we intend to draw.

We expect to incur expenses of approximately \$85,000 in connection with this registration, consisting primarily of professional fees. In connection with the Standby Equity Distribution Agreement, we paid Cornell Capital Partners a one-time commitment fee of in the form of 2,941,177 shares of Kronos common stock. In addition, we issued 62,500 shares of common stock to Newbridge Securities Corporation, a registered broker-dealer, as a placement agent fee.

19

### PLAN OF DISTRIBUTION

The selling stockholders have advised us that the sale or distribution of our common stock owned by the selling stockholders may be effected directly to purchasers by the selling stockholders, and with the exception of Cornell Capital Partners as principal or through one or more underwriters, brokers, dealers or agents from time to time in one or more transactions (which may involve crosses or block transactions) (i) on the over-the-counter market or in any other market on which the price of our shares of common stock are quoted or (ii) in transactions otherwise than on the over-the-counter market or in any other market on which the price of our shares of common stock are quoted. Any of such transactions may be effected at market prices prevailing at the time of sale, at prices related to such prevailing market prices, at varying prices determined at the time of sale or at negotiated or fixed prices, in each case as determined by the selling stockholders or by agreement between the selling stockholders and underwriters, brokers, dealers or agents, or purchasers. If the selling stockholders effect such transactions by selling their shares of common stock to or through underwriters, brokers, dealers or agents, such underwriters, brokers, dealers or agents may receive compensation in the form of discounts, concessions or commissions from the selling stockholders or commissions from purchasers of common stock for whom they may act as agent (which discounts, concessions or commissions as to particular underwriters, brokers, dealers or agents may be in excess of those customary in the types of transactions involved). The selling stockholders and any brokers, dealers or agents that participate in the distribution of the common stock may be deemed to be underwriters, and any profit on the sale of common stock by them and any discounts, concessions or commissions received by any such underwriters, brokers, dealers or agents may be deemed to be underwriting discounts and commissions under the Securities Act.

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

Cornell Capital Partners is an "underwriter" within the meaning of the Securities Act of 1933 in connection with the sale of common stock under the Standby Equity Distribution Agreement. Cornell Capital Partners will pay us 98% of the lowest volume weighted average price of our common stock on the Over-the-Counter Bulletin Board or other principal trading market on which our common stock is traded for the 5 days immediately following the advance date. In addition, Cornell Capital Partners will retain 5% of each advance under the Standby Equity Distribution Agreement. The 2% discount, the 5% retention and the one-time commitment fee are underwriting discounts. We engaged Newbridge Securities Corporation, a registered broker-dealer, to advise us in connection with the Standby Equity Distribution Agreement. For its services, Newbridge Securities Corporation received \$10,000, which was paid by the issuance of 62,500 shares of our common stock. Pursuant to a Placement Agent Agreement, Newbridge Securities Corporation provided services consisting of reviewing the terms of the Standby Equity Distribution Agreement and advising us with respect to those terms. The Placement Agent Agreement is co-terminus with and will terminate upon the same terms as the Standby Equity Distribution Agreement.

Cornell Capital Partners was formed in February 2000 as a Delaware limited partnership. Cornell Capital Partners is a domestic hedge fund in the business of investing in and financing public companies. Cornell Capital Partners does not intend to make a market in our stock or to otherwise engage in stabilizing or other transactions intended to help support the stock price. Prospective investors should take these factors into consideration before purchasing our common stock.

In consideration of Cornell Capital Partners' execution and delivery of the Standby Equity Distribution Agreement, Kronos will indemnify Cornell Capital Partners, and all of its officers, directors, partners, employees and agents, from and against any and all actions, causes of actions, suits, claims, losses, costs, penalties, fees, liabilities and damages incurred by the indemnified party as a result of, or relating to: (i) any misrepresentation or breach of any representation or warranty made by Kronos in the Standby Equity Distribution Agreement or Registration Rights Agreement in connection therewith or any other document contemplated thereby; (ii) any breach of any covenant, agreement or obligation of Kronos contained in the Standby Equity Distribution or the Registration Rights Agreement in connection therewith or any other document contemplated thereby; or (iii) any cause of action, suit or claim brought against such indemnified party and arising out of or resulting from the execution, delivery, performance or enforcement of the Standby Equity Distribution Agreement or any document in connection therewith.

Under the securities laws of certain states, the shares of common stock may be sold in such states only through registered or licensed brokers or dealers. The selling stockholders are advised to ensure that any underwriters, brokers, dealers or agents effecting transactions on behalf of the selling stockholders are registered to sell securities in all fifty states. In addition, in certain states the shares of common stock may not be sold unless the shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

We will pay all the expenses incident to the registration, offering and sale of the shares of common stock to the public hereunder other than commissions, fees and discounts of underwriters, brokers, dealers and agents. We have agreed to indemnify Cornell Capital Partners and its controlling persons against certain liabilities, including liabilities under the Securities Act. We estimate that the expenses of the offering to be borne by us will be approximately \$85,000. The offering expenses consist of: a SEC registration fee

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

of \$2,150, printing expenses of \$2,500, accounting fees of \$20,000, legal fees of \$50,000 and miscellaneous expenses of \$10,350. We will not receive any proceeds from the sale of any of the shares of common stock by the selling stockholders. We will, however, receive proceeds from the sale of common stock under the Standby Equity Distribution Agreement.

The selling stockholders should be aware that the anti-manipulation provisions of Regulation M under the Exchange Act will apply to purchases and sales of shares of common stock by the selling stockholders, and that there are restrictions on market-making activities by persons engaged in the distribution of the shares. Under Registration M, the selling stockholders or their agents may not bid for, purchase, or attempt to induce any person to bid for or purchase, shares of our common stock while such selling stockholders are distributing shares covered by this prospectus. The selling stockholders are advised that if a particular offer of common stock is to be made on terms constituting a material change from the information set forth above with respect to the Plan of Distribution, then, to the extent required, a post-effective amendment to the accompanying registration statement must be filed with the Securities and Exchange Commission.

21

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The following information should be read in conjunction with the consolidated financial statements of Kronos and the notes thereto appearing elsewhere in this filing. Statements in this Management's Discussion and Analysis and elsewhere in this prospectus that are not statements of historical or current fact constitute "forward-looking statements." For an overview of Kronos please see the section entitled Description of the Business which follows this section.

#### General

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

#### Technology Description and Benefits

The Kronos(TM) technology combines high voltage electronics and electrodes. By combining these technologies, a Kronos(TM)-based device can both move and clean air without any moving parts. Kronos(TM) devices are versatile, energy- and cost-efficient and capable of multiple design forms. As a result, Kronos(TM) devices have the immediate potential to be used as a standalone

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

product or to replace a range of heating, ventilation and air conditioning products for residential usage to high efficiency particulate air filtration systems for operating and manufacturing clean rooms.

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

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

### Market Segmentation

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

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

22

- o Air Movement and Purification. Indoor air pollution, including "sick building syndrome" and "building related illness," is primarily caused by inadequate ventilation, chemical contaminants from indoor and outdoor sources and biological contaminants. The addressable air movement and purification segment is made up of four principal applications: (1) residential, (2) health care, (3) hospitality and (4) commercial. Kronos is seeking to leverage the product development,

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

production and funding resources of HoMedics, Kronos' strategic partner for consumer-based residential applications, to develop and manufacturer standalone products for other air movement and purification applications.

- o Air Purification for Unique Spaces. Electronics, semiconductor, pharmaceutical, aerospace, medical and many other producers depend on cleanroom technology. As products such as electronic devices become smaller, the chance of contamination in manufacturing becomes higher. For pharmaceutical companies, clean, safe and contaminant-free products are imperative to manufacturing and distributing a viable product. Other potential applications for the Kronos(TM) technology include closed environments such as aircraft, cruise ships and other transportation modes that require people to breathe contaminated, re-circulated air for extended periods. Kronos is building on its product development effort with its strategic partner in the business jet market and the U.S. military to serve other closed environment applications.
- o Specialized Military. Military personnel face the worst of all possible worlds: indoor air pollution, often in very confined spaces for extended periods, combined with the threat of biological warfare, nuclear fallout, and other foreign elements. We believe that the military market segment offers Kronos a unique opportunity to leverage the technical and funding resources of the U. S. military to expand Kronos' ability to develop and produce Kronos(TM)-based air movers and purifiers for applications that require these products to be embedded into ventilation systems to address the needs of military personnel.

### Technology Application and Product Development

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

### 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

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

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

23

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

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

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

### Results Of Operations

Consolidated Statement of Operations for the Quarter Ended September 30, 2004

The Company's net loss from continuing operations for the three months ended September 30, 2004 was \$622,000, an increase of \$71,000 or 13% as compared

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

with a net loss of \$550,000 for the corresponding period of the prior year. The increase in the net loss was primarily the result of an increase in selling, general and administrative expenses (\$75,000) and a decrease in gross profit (\$24,000), partially offset by a decrease (\$27,000) in interest expense.

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

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

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

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

Interest Expense. Interest expenses for the three months ended September 30, 2004 decreased to \$142,000 compared to \$168,000 for the corresponding period of the prior year. The \$26,000 decrease was primarily the result of the decrease in the Company's debt to former directors and officers of the Company.

### Consolidated Balance Sheet As Of September 30, 2004

Our total assets at September 30, 2004 and June 30, 2004 were \$2.4 and \$2.5 million, respectively. Total assets at September 30, 2004 were comprised primarily of \$2.2 million of patents/intellectual property. Total assets at June 30, 2004 were comprised primarily of \$2.3 million of patents/intellectual property. Total current assets at September 30, 2004 and June 30, 2004 were \$182,000 and \$238,000, respectively, while total current liabilities for those same periods were \$1.9 million and \$1.4 million, respectively, creating a working capital deficit of \$1.7 million and \$1.2 million at each respective period end. This 43% increase in the working capital deficit was primarily the



## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

result of increases in accrued expenses and payables to directors and officers (\$213,000), accrued expenses (\$93,000), and accounts payable (\$73,000) because of the Company's decision to accrue expenses and increase payables rather than spend the Company's limited cash resources or sell equity to raise cash during the quarter.

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

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

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

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

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

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

Consolidated Balance Sheet as of June 30, 2004

Our total assets at June 30, 2004 were \$2.5 million compared with \$3.2 million at June 30, 2003. Total assets at June 30, 2004 and June 30, 2003 were comprised primarily of \$2.3 million and \$2.5 million, respectively, of patents/intellectual property. Total current assets at June 30, 2004 and 2002 were \$238,000 and \$724,000, respectively, while total current liabilities for those same periods were \$1.4 million and \$1.9 million, respectively, creating a

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

working capital deficit of \$1.2 million at each respective period end. This working capital deficit is primarily due to the current portion of notes payable due to HoMedics.

Shareholders' deficit as of June 30, 2004 and 2003 was (\$1.4 million) and (\$1.2 million), respectively. The \$2.5 million loss from operations for the twelve months ended June 30, 2004 was offset by the sale and issuance, net of offering costs, of \$1.4 million of common stock and by the transfer \$0.8 million of warrants from liabilities to shareholders' deficit.

25

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

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

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

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

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

### Consolidated Balance Sheet as of June 30, 2003

Our total assets at June 30, 2003 were \$3.2 million compared with \$2.4 million at June 30, 2002. Total assets at June 30, 2003 and June 30, 2002 were comprised primarily of \$2.5 million and \$2.2 million, respectively, of patents/intellectual property. Total current assets at June 30, 2003 and 2002 were \$724,000 and \$123,000, respectively, while total current liabilities for those same periods were \$1.9 million and \$1.8 million, respectively, creating a

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

working capital deficit of \$1.2 million and \$1.7 million at each respective period end. This working capital deficit is primarily due to accrued expenses and payables to directors and officers.

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

### Liquidity And Capital Resources

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

On October 15, 2004, Kronos entered into a Securities Purchase Agreement with Cornell Capital Partners. Pursuant to the Securities Purchase Agreement, Kronos sold 5,000,000 shares of Kronos' restricted common stock to Cornell Capital Partners. In connection with the sale of shares of common stock to Cornell Capital Partners, LP, Kronos and Cornell Capital Partners entered into an Investor Registration Rights Agreement, dated October 15, 2004, whereby Kronos is obligated to file a registration statement with the United States Securities and Exchange Commission no later than thirty days from October 15, 2004 covering such shares of common stock sold to Cornell Capital Partners.

On October 15, 2004 Kronos entered into a Standby Equity Distribution Agreement with Cornell Capital Partners, LP. Pursuant to the Standby Equity Distribution Agreement, Kronos may, at its discretion, periodically sell to Cornell Capital Partners shares of common stock for a total purchase price of up to \$20 million. For each share of common stock purchased under the Standby Equity Distribution Agreement, Cornell Capital Partners will pay Kronos 98% of, or a 2% discount to, the lowest volume weighted average price of Kronos' common stock on the Over-the-Counter Bulletin Board or other principal market on which

26

Kronos' common stock is traded for the five days immediately following the notice date. Cornell Capital Partners, LP will also retain 5% of each advance under the Standby Equity Distribution Agreement. Cornell Capital Partner's obligation to purchase shares of Kronos' common stock under the Standby Equity Distribution Agreement is subject to certain conditions, including Kronos obtaining an effective registration statement for shares of common stock sold under the Standby Equity Distribution Agreement and is limited to \$1,500,000 per advance. This must be a minimum of seven (7) trading days between each requested advance. Cornell Capital Partners, LP received a one-time commitment fee in the form of 2,941,177 restricted shares of Kronos' common stock under the Standby Equity Distribution Agreement.

Kronos engaged Newbridge Securities Corporation, a registered broker-dealer, to advise it in connection with the Standby Equity Distribution Agreement. For its services, Kronos agreed to issue Newbridge Securities Corporation shares of our common stock in an amount equal to \$10,000 divided by the volume weighted average price of Kronos' common stock, as quoted on Bloomberg LP, on October 15, 2004.

In addition, Kronos and Cornell Capital Partners agreed that Cornell Capital Partners, shall lend Kronos an aggregate of \$4,000,000 pursuant to two (2) Equity-Backed Promissory Notes, each in the principal amount of \$2,000,000. Cornell Capital Partners shall lend \$2,000,000 upon the filing by Kronos with the United States Securities and Exchange Commission (the "SEC") of a

## Edgar Filing: KRONOS ADVANCED TECHNOLOGIES INC - Form SB-2

registration statement pursuant to the Investor Registration Rights Agreement. Cornell Capital Partners, LP is obligated to lend the remaining \$2,000,000 upon such registration statement being declared effective by the SEC. We have not determined whether we will utilize the additional \$2,000,000 Promissory Note. The principal amount of each note is payable in equal weekly installments of \$50,000 plus twelve percent (12%) interest on the outstanding principal balance starting on the earlier to occur of: (i) the registration statement being declared by the SEC; or (ii) twelve (12) weeks from the date such note is executed.

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