KRONOS ADVANCED TECHNOLOGIES INC
Form 10QSB
November 14, 2006

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

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

For the quarterly period ended September 30, 2006

Or

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

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

Commission File Number: 000-30191

KRONOS ADVANCED TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Nevada	87-0440410
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

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

X Yes __No

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

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

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

__ Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of November 10, 2006, there were 186,921,093 shares outstanding of the issuer's common stock.

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The following comprise our (unaudited) consolidated financial statements for the three months ended September 30, 2006.

KRONOS ADVANCED TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS

Assets	September 30, 2006 (Unaudited)	June 30, 2006
Current Assets		
Cash	$ 123,902	$ 598,323
Accounts Receivable	-	10,000
Other Current Assets	48,028	58,028
Total Current Assets	171,930	666,351
Net Property and Equipment	7,409	5,597
Other Assets		
Intangibles	1,906,755	1,983,908
Total Other Assets	1,906,755	1,983,908

Total Assets	$ 2,086,094	$ 2,655,856
Liabilities and Stockholders' Deficit		
Current Liabilities		
Accrued expenses and payables to directors and officers	$ 10,661	$ 8,843
Accounts payable	196,312	204,632
Accrued interest expenses	869,165	879,144
Accrued expenses	46,416	41,111
Deferred revenue	800	20,000
Notes payable, current portion	1,565,000	1,815,000
Notes payable to directors and officers	202,307	256,544
Total Current Liabilities	2,890,661	3,225,274
Long Term Liabilities		
Notes payable	2,575,000	2,575,000
Total Long Term Liabilities	2,575,000	2,575,000
Total Liabilities	5,465,661	5,800,274
Stockholders' Deficit		
Common stock, authorized 500,000,000 shares of $0.001 par value Issued and outstanding - 161,543,898 and 144,499,657, respectively	161,544	144,500
Capital in excess of par value	28,418,621	27,828,241
Accumulated deficit	(31,959,732)	(31,117,159)
Total Stockholders' Deficit	(3,379,567)	(3,144,418)
Total Liabilities and Stockholders' Deficit	$ 2,086,094	$ 2,655,856

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

KRONOS ADVANCED TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended September 30,	
	2006 (Unaudited)	2005 (Unaudited)
Sales	$ 19,200	$ 15,000
Cost of sales	9,584	-
Gross Profit	9,616	15,000

Selling, General and Administrative expenses:		
Compensation and benefits	337,721	315,044
Research and development	29,607	104,995
Professional services	102,711	102,861
Depreciation and amortization	108,850	171,820
Facilities	27,044	17,186
Insurance	54,144	37,144
Other selling general and administrative expenses	92,878	83,018
Selling, General and Administrative expenses	752,955	832,068
Net Operating Loss	(743,339)	(817,068)
Interest Expense	(99,234)	(156,142)
Net Loss	$ (842,573)	$ (973,210)
Basic Loss Per Share	$ (0.01)	$ (0.01)
Diluted Loss Per Share	$ (0.01)	$ (0.01)
Weighted average shares outstanding	149,157,131	76,038,741

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

KRONOS ADVANCED TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended September 30,	
	2006 (Unaudited)	2005 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss from continuing operations	$ (842,573)	$ (973,2
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	118,850	171,8
Options issued for compensation/services	57,424	41,7
Change In:		
Accounts receivable	10,000	(15,0
Prepaid expenses and other assets	-	(7,1
Deferred revenue	(19,200)	
Accounts Payable	(6,502)	(191,0
Accrued Expenses and other liabilities	(4,674)	107,4
Net cash used in Operating Activities	(686,675)	(865,4

CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(2,194)	(2,1
Investment in patent protection	(31,315)	
Net cash used in Investing Activities	(33,509)	(2,1
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common stock for cash	550,000	510,0
Repayments of short-term borrowings	(304,237)	(614,5
Net cash (used in) provided by Financing Activities	245,763	(104,5
NET DECREASE IN CASH	(474,421)	(972,0
CASH		
Beginning of period	598,323	1,554,9
End of period	$ 123,902	$ 582,8
Supplemental schedule of financing activities:		
Interest paid in cash	$ 106,649	$ 1,64

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

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

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Kronos Advanced Technologies, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments necessary to present fairly the information set forth therein have been included. Operating results for the three months ended September 30, 2006 are not necessarily indicative of the results that may be experienced for the fiscal year ending June 30, 2007.

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

The accompanying consolidated financial statements should be read in conjunction with the Kronos Advanced Technologies, Inc. Form 10-KSB for the fiscal year ended June 30, 2006, which was filed on September 28, 2006.

NOTE 2 - REALIZATION OF ASSETS AND GOING CONCERN

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of

America, which contemplate continuation of the Company as a going concern. The Company has sustained losses from operations in recent years, and such losses have continued through the current year ended June 30, 2006. In addition, the Company has used, rather than provided cash in its operations. The Company is currently using its resources to attempt to raise capital necessary to commercialize its technology and develop viable commercial products, and to provide for its working capital needs.

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

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

EOL. In December 2005, Kronos executed a non-exclusive License Agreement with EOL LLC, a Russian Federation corporation. Based in Korolev, Moscow Region, Russia, EOL will leverage the Kronos technology to produce, market, and distribute Kronos commercial air purification products, bacteriological and virus destruction devices and space heaters in select Commonwealth of Independent States. The agreement comes after successful completion of multiple tests in Eastern Europe, which found the Kronos technology capable of decontaminating rooms infected with airborne viruses and bacteria. Under the terms of the five-year agreement, EOL will provide Kronos a fixed percentage royalty on every product sold, as well as upfront licensing and quarterly maintenance fees. Based on contractual milestones, EOL is required to: (i) complete initial product design by March 2006; (ii) complete initial product prototypes by June 2006; and (iii) make product available for customer purchase by September 2006. In March 2006, EOL achieved the first milestone: initial design of a wall mounted air sterilizer for the health care market. In June 2006, EOL achieved the second milestone: completion of the initial product prototypes. In August 2006, the Russian Research Institute of Medical Equipment began the process for product certification of the EOL device for use in medical facilities, including a successful clinical trial of EOL products in the Pulmonary Department of Municipal Hospital #2 in Moscow. In September 2006, EOL achieved the third milestone: EOL has begun to assemble the finished products in Russia from components supplied both locally and from contract manufacturers in China, as well as electronic components and power supplies from Kronos. In October 2006, Scientific Institution of Health Care, Central Clinical Hospital #2 in Moscow completed the final trial of the Kronos-based TreeTM air purification device in conjunction with the Russian Research Institute of Medical Equipment process for approving the product for medical use and the Russian Research Institute approved the Kronos-based TreeTM air purification device for use in hospitals and other healthcare facilities. The device received

Category I approval, which means the product has met the strictest regulations required for a device to be used in operating rooms and other areas that require a sterile environment. In November 2006, following the Russian Research Institute approval, the Ministry of Health Care and Social Development of the Russian Federation issued a Registration Certificate that designates the

Kronos-based TreeTM air purification device for medical use. The initial medical products are currently being marketed in Russia and planned to be marketed beginning in 2007 in Ukraine, Kazakhstan, Moldova and Byelorussia.

DESA. In June 2006, the Company executed a License Agreement with DESA IP, LLC, a wholly owned subsidiary of DESA LLC. DESA is a global provider of hearth, heating and zone comfort products. DESA is the first U.S. company to license the technology for embedded applications, which represents another step forward in the commercialization and globalization of Kronos' proprietary air movement, filtration and decontamination technology. This License Agreement provides DESA the opportunity to embed the Kronos electrostatic air movement technology within fireplaces, hearth systems, zone heaters and mounted electric fans and heaters. DESA will be seeking to take advantage of the silence, energy efficiency and, in select applications, air filtration benefits of the Kronos technology. DESA has the rights to distribute these products across thirty-four countries in North America, Europe and the former Eastern Block region. In October 2006, DESA approved Kronos' designs for the first Kronos-based product and committed to the funding of the product development by Kronos.

Global Appliance Manufacturer. In October 2006, a leading global home appliance manufacturer committed to fund 20% of the cost for Kronos to manufacturer a silent kitchen range hood product. In addition, the customer has committed to a 120 day testing and evaluation period on a non-exclusive basis. This next generation range hood device will represent the culmination of more than 12 months of product design and development effort by Kronos to apply our technology to this unique embedded residential application. The product was shipped to the customer in October 2006.

Washington Technology Center. In December 2004, Kronos and the University of Washington were awarded a Phase I grant for a research and technology development project entitled "Heat Transfer Technology for Microelectronics and MEMS" by the Washington Technology Center ("WTC"). The objective of the project is to develop a novel energy-efficient heat transfer technology for cooling microelectronics. In January 2006, Kronos and the University of Washington conducted a successful bench scale demonstration of micron cooling of a MEMS chip. In June 2006, the Company and the University of Washington were awarded a Phase II grant for continued funding in its novel cooling system for microelectronics and computer chips. The Washington Technology Center is contributing $100,000 as a Phase II grant for the project. Kronos will provide $35,000 in funding, $38,000 in in-kind services, including use of the Kronos Research and Product Development Facility. The Phase II grant is a follow-on award to the December 2004 Phase I grant to Kronos and the University of Washington to initiate development of a novel energy-efficient heat transfer technology for cooling microelectronics.

HoMedics. In September 2006, the Company sent a notice of termination of its license agreement with HoMedics USA, Inc. HoMedics has indicated that it does not recognize Kronos' termination of the License Agreement as valid. HoMedics has requested an amicable and expedient resolution of the parties' differences. The outcome of this matter cannot be determined at this time.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation. The consolidated financial statements of the Company include those of the Company and its subsidiary for the periods in which the subsidiary was owned/held by the Company. All significant intercompany accounts and transactions have been eliminated in the preparation of the consolidated financial statements. At September 30, 2006, we had only one subsidiary, Kronos Air Technologies, Inc.

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

Concentrations of Credit Risk. Financial instruments which can potentially subject the Company to concentrations of credit risk consist principally of trade receivables. The Company manages its exposure to risk through ongoing credit evaluations of its customers and generally does not require collateral. The Company maintains an allowance for doubtful accounts for potential losses and does not believe it is exposed to concentrations of credit risk that are likely to have a material adverse impact on the Company's financial position or results of operations.

Cash and Cash Equivalents. The Company considers all highly liquid short-term investments, with a remaining maturity of three months or less when purchased, to be cash equivalents. The Company maintains cash and cash equivalents with high-credit, quality financial institutions. At September 30, 2006 and June 30, 2006 the cash balances held at financial institutions were in excess of federally insured limits.

Accounts Receivable. The Company provides an allowance for potential losses, if necessary, on trade receivables based on a review of the current status of existing receivables and management's evaluation of periodic aging of accounts. Accounts receivable are shown net of allowances for doubtful accounts of $0 at September 30, 2006 and June 30, 2006. The Company charges off accounts receivable against the allowance for losses when an account is deemed to be uncollectable.

Property and Equipment. Property and equipment are recorded at cost. Depreciation is provided over the estimated useful lives of the assets, which range from three to seven years. Expenditures for major renewals and betterments that extend the original estimated economic useful lives of the applicable assets are capitalized. Expenditures for normal repairs and maintenance are charged to expense as incurred. The cost and related accumulated depreciation of assets sold or otherwise disposed of are removed from the accounts, and any gain or loss is included in operations.

Intangibles. The Company uses assumptions in establishing the carrying value, fair value and estimated lives of our long-lived assets and goodwill. The criteria used for these evaluations include management's estimate of the asset's continuing ability to generate positive income from operations and positive cash flow in future periods compared to the carrying value of the asset, the strategic significance of any identifiable intangible asset in our business objectives, as well as the market capitalization of the Company. Cash flow

projections used for recoverability and impairment analysis use the same key assumptions and are consistent with projections used for internal budgeting, and for lenders and other third parties. If assets are considered to be impaired, the impairment recognized is the amount by which the carrying value of the assets exceeds the fair value of the assets. Useful lives and related amortization or depreciation expense are based on our estimate of the period that the assets will generate revenues or otherwise be used by Kronos. Factors that would influence the likelihood of a material change in our reported results include significant changes in the asset's ability to generate positive cash flow, loss of legal ownership or title to the asset, a significant decline in the economic and competitive environment on which the asset depends, significant changes in our strategic business objectives, and utilization of the asset.

Income Taxes. Income taxes are accounted for in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amounts expected to be realized, but no less than quarterly.

Research and Development Expenses. Costs related to research and development are charged to research and development expense as incurred.

Net Loss Per Share. Basic loss per share is computed using the weighted average number of shares outstanding. Diluted loss per share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options and warrants to purchase common stock, when their effect is dilutive.

Revenue Recognition. The Company recognizes revenue in accordance with Staff Accounting Bulletin (SAB) 104, which requires evidence of an agreement, delivery of the product or services at a fixed or determinable price, and assurance of collection within a reasonable period of time. Further, Kronos Air Technologies recognizes revenue on the sale of the custom-designed contract sales under the percentage-of-completion method of accounting in the ratio that costs incurred to date bear to estimated total costs. For uncompleted contracts where costs and estimated profits exceed billings, the net amount is included as an asset in the balance sheet. For uncompleted contracts where billings exceed costs and estimated profits, the net amount is included as a liability in the balance sheet. Sales are reported net of applicable cash discounts and allowances for returns. Revenue from government grants for research and development purposes is recognized as revenue as long as the Company determines that the government will not be the sole or principal expected ultimate customer for the research and development activity or the products resulting from the research and development activity. Otherwise, such revenue is recorded as an offset to research and development expenses in accordance with the Audit and Accounting Guide, Audits of Federal Government Contractors. In either case, the revenue or expense offset is not recognized until the grant funding is invoiced and any customer acceptance provisions are met or lapse.

Stock, Options and Warrants Issued for Services. Issuances of shares of the Company's stock to employees or third-parties for compensation or services is valued using the closing market price on the date of grant for employees and the date services are completed for non-employees. Issuances of options and warrants of the Companies stock are valued using the Black-Scholes option model.

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

Recent Accounting Pronouncements

Accounting for Certain Hybrid Financial Instruments. In February 2006, the FASB issued SFAS Statement No. 155, which is an amendment of SFAS Statements No. 133 and 140. This Statement; a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, b) clarifies which interest-only strip and principal-only strip are not subject to the requirements of Statement 133, c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, e) amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for financial statements for fiscal years beginning after September 15, 2006. Earlier adoption of this Statement is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued any financial statements for that fiscal year. Management believes this Statement will have no impact on the financial statements of the Company once adopted. This statement has not had any impact on the financial statements since adoption.

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

the beginning of an entity's fiscal year, provided the entity has not yet issued any financial statements for that fiscal year. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

Accounting for Uncertainty in Income Taxes. In June 2006, the FSAB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with Statement of Financial Accounting Standard (SFAS) No. 109, "Accounting for Income Taxes." This Interpretation prescribes a recognition threshold and measurement attribute of tax positions taken or expected to be taken on a tax return. This Interpretation is effective for the first fiscal year beginning after December 15, 2006. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

Accounting for the Conversion of an Instrument That Became Convertible upon the Issuer's Exercise of a Call Option. In June 2006, the FSAB ratified Emerging Issues Task Force 05-1, Accounting for the Conversion of an Instrument That Became Convertible upon the Issuer's Exercise of a Call Option ("EITF 05-1"). EITF 05-1 addresses instruments that are currently not convertible to equity but the instrument becomes convertible upon the exercise of the issuer's call option. EITF 05-1 calls for debt extinguishment treatment if the instrument did not contain a substantive conversion feature apart from the right to convert upon the issuer's exercise of its call right at the date of issuance. Conversely, if such substantive conversion feature did exist at issuance date, EITF 05-1 requires conversion treatment for those equity securities issued to satisfy the debt conversion. EITF 05-1 must be applied prospectively as of June 28, 2006. The Company does not expect EITF 05-1 to have a significant impact on its future financial position or results of operations.

Fair Value Measurements. In September 2005, the FSAB issued SFAS Statement No. 157. This Statement defines fair value, establishes a framework for measuring fair value according to GAAP, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is a relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practices. This Statement is effective for financial statements for fiscal years beginning after November 15, 2007. Earlier application is permitted provided that the reporting entity has not yet issued financial statements for that fiscal year. Management is currently evaluating the impact this Statement will have on the financial statements of the Company once adopted.

NOTE 4 -- INCOME TAXES

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

	September 30, 2006 (unaudited)	June 30, 2006
Benefit from carryforward of capital and net operating losses	$ (7,685,000)	$ (7,209,000)

Other temporary differences	(157,000)	(157,000)
Options issued for services	(21,000)	(218,000)
Less:		
Valuation allowance	7,863,000	7,584,000
Net deferred tax asset	$ -	$ -

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

	September 30, 2006 (Unaudited)		June 30,
	Amount	% of Pre-Tax Loss	Amount
Benefit for income tax at:			
Federal statutory rate	$ (286,000)	(34.0)%	$ (1,360,000)
State statutory rate	(17,000)	(2.0)%	(80,000)
Non-deductible expenses	24,000	2.8 %	105,000
Increase in valuation allowance	279,000	33.2 %	1,335,000
	$ -	0.0 %	$ -

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

At September 30, 2006, the Company has approximately $18.3 million of unused Federal net operating losses, $2.3 million capital losses and $14.1 million State net operating losses available for carryforward to future years. The benefit from carryforward of such losses will expire in various years through 2026 and could be subject to limitations if significant ownership changes occur in the Company.

NOTE 5 - SEGMENTS OF BUSINESS

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

NOTE 6 - EARNINGS PER SHARE

Weighted average shares outstanding used in the earnings per share calculation were 149,157,131 and 76,038,741 for the three months ended September 30, 2006

and 2005, respectively.

As of September 30, 2006, there were outstanding options to purchase 23,636,027 shares of the Company's common stock and outstanding warrants to purchase 42,300,000 shares of the Company's common stock. These options and warrants have been excluded from the earnings per share calculation as their effect is anti-dilutive. As of September 30, 2005, there were outstanding options and warrants to purchase 15,782,425 shares of the Company's common stock and outstanding warrants to purchase 42,300,000 shares of the Company's common stock. These options have been excluded from the earnings per share calculation as their effect is anti-dilutive.

NOTE 7 - NOTES PAYABLE

The Company had the following obligations as of September 30, 2006 and June 30, 2006,

	September 30, 2006 (Unaudited)	June 30, 2006
Obligations to Cornell Capital(1)	$ 1,565,000	$ 1,815,000
Obligation to HoMedics (2)	2,575,000	2,575,000
Obligation to current employees (3)	202,307	256,544
	4,342,307	4,646,544
Less:		
Current portion	1,767,307	2,071,544
Total long term obligations net of current portion	$ 2,575,000	$ 2,575,000

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

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

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

NOTE 8 - COMMITMENTS AND CONTINGENCIES

In October 2004, Kronos entered into agreements for up to $20.5 million in equity and equity backed debt financing from Cornell Capital Partners. In October 2004, Kronos sold 5 million unregistered shares of Kronos common stock for gross proceeds of $500,000 to Cornell Capital Partners. Cornell Capital Partners committed to provide $4 million pursuant to two Promissory Notes, which was funded as follows: $2 million upon the filing an SB-2 Registration Statement and $2 million upon the SEC declaring the Registration Statement effective. Kronos executed a Standby Equity Distribution Agreement for $20 million of funding which Kronos has the option to drawdown against in increments as large as $1.5 million over the next twelve months. As of September 30, 2006, Kronos has received $6.9 million in funding under these agreements. As of September 30, 2006, the Company owed $1.5 million under the second Promissory Note.

In October 2004, HoMedics agreed to extend repayment of Kronos debt and to provide an additional $1 million in funding. HoMedics has agreed to provide Kronos with an additional $1 million in financing - $925,000 in secured debt financing and $75,000 for the purchase of additional warrants. In December 2005, $175,000 of the $925,000 was funded. The balance of $750,000 has not been funded. In addition, quarterly debt payments and the maturity date for existing debt have been extended. Quarterly payments due on the outstanding $2.4 million in secured debt financing, which had been scheduled to begin in August 2004, will begin in February 2007. The maturity date of the $2.4 million in debt has been extended from May 2008 to October of 2009; the maturity date on the $175,000 will also be October 2009. The interest rate will remain at 6% for the $2.4 million in debt; the rate will also be 6% on the additional debt. HoMedics increased their potential equity position in Kronos to 30% of Kronos common stock on a fully diluted basis. In connection with the October 2004 agreements, Kronos issued HoMedics a warrant to buy 26.5 million shares of Kronos common stock. As a result of this debt restructuring, the Company recognized a loss of $3,857,467 which represents the reacquisition price less the net carrying value of the debt restructuring. The reacquisition price is made up of $2,400,000 which is the amount of the new debt and $3,361,161 which represents the value of the warrants using the Black-Scholes method. The net carrying value is the $2,400,000 which is the old debt less the unamortized debt discount of $496,296.

Daniel R. Dwight, President and Chief Executive Officer, and the Company entered into an Employment agreement effective as of November 15, 2001. The initial term of Mr. Dwight's Employment Agreement was for 2 years and will automatically renew for successive 1 year terms unless Kronos or Mr. Dwight provide the other party with written notice within 3 months of the end of the initial term or any subsequent renewal term. In addition, Kronos granted Mr. Dwight 1,000,000 immediately vested and exercisable, ten-year stock options at various exercise prices. The Board of Directors renewed Mr. Dwight's Employment Agreement on August 13, 2003 and again on August 15, 2004 and August 15, 2005. In April 2006, the Board of Directors renewed Mr. Dwight's Employment Agreement and increased his base cash compensation to $225,000 per year effective April 15, 2006. Mr. Dwight is eligible for annual incentive bonus compensation in an amount equal to Mr. Dwight's annual salary based on the achievement of certain bonus objectives. Mr. Dwight will be entitled to fully participate in any and all 401(k), stock option, stock bonus, savings, profit-sharing, insurance, and other similar plans and benefits of employment.

Richard F. Tusing, Chief Operating Officer, and the Company entered into an Employment agreement effective as of January 1, 2003. The initial term of Mr. Tusing's Employment Agreement is for 2 years and will automatically renew for successive 1 year terms unless Kronos or Mr. Tusing provide the other party with written notice within 3 months of the end of the initial term or any subsequent renewal term. The Board of Directors renewed Mr. Tusing's Employment Agreement on October 1, 2004, October 1, 2005 and October 1, 2006. Mr. Tusing's Employment Agreement provides for base cash compensation of $160,000 per year. Mr. Tusing will be entitled to fully participate in any and all 401(k), stock option, stock bonus, savings, profit-sharing, insurance, and other similar plans and benefits of employment.

NOTE 9 - SUBSEQUENT EVENTS

In October 2006, DESA approved Kronos' designs for the first Kronos-based product to be licensed by DESA and committed to the funding of the product development by Kronos.

In October 2006, a leading global home appliance manufacturer committed to fund

20% of the cost for Kronos to manufacturer a silent kitchen range hood product. The product has been shipped to the customer for testing and evaluation.

In October 2006, Kronos began shipment of components and, in November 2006, began shipment of complete power supplies manufactured by Kronos to EOL for installation in finished products being assembled, marketed and distributed in Russia by EOL.

In October 2006, the U.S. Patent Office issued its latest Kronos patent (#7,122,070). In total, Kronos has been awarded eleven U.S. patents and two international patents.

In October 2006, Kronos issued 25,377,195 shares of common stock for $400,000 to Cornell under the terms of our Standby Equity Distribution Agreement. The proceeds were used to increase the Company's cash reserves and repay debt.

In October 2006, Scientific Institution of Health Care, Central Clinical Hospital #2 in Moscow completed the final trial of the Kronos-based TreeTM air purification device in conjunction with the Russian Research Institute of Medical Equipment process for approving the product for medical use.

In October 2006, the Russian Research Institute of Medical Equipment approved the Kronos-based TreeTM air purification device for use in hospitals and other healthcare facilities. The device received Category I approval, which means the product has met the strictest regulations required for a device to be used in operating rooms and other areas that require a sterile environment.

In November 2006, following the Russian Research Institute approval, the Ministry of Health Care and Social Development of the Russian Federation issued a Registration Certificate that designates the Kronos-based TreeTM air purification device for medical use.

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

INTRODUCTORY STATEMENTS

FORWARD LOOKING STATEMENTS AND ASSOCIATED RISKS

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS. THIS FILING CONTAINS FORWARD-LOOKING STATEMENTS, INCLUDING STATEMENTS REGARDING, AMONG OTHER THINGS:(A) OUR PROJECTED SALES AND PROFITABILITY, (B) OUR GROWTH STRATEGIES, (C) ANTICIPATED TRENDS IN OUR INDUSTRY, (D) OUR FUTURE FINANCING PLANS, (E) OUR ANTICIPATED NEEDS FOR WORKING CAPITAL, AND (F) THE BENEFITS RELATED TO OUR OWNERSHIP OF KRONOS AIR TECHNOLOGIES, INC. IN ADDITION, WHEN USED IN THIS FILING, THE WORDS "BELIEVES," "ANTICIPATES," "INTENDS," "IN ANTICIPATION OF," "EXPECTS," AND SIMILAR WORDS ARE INTENDED TO IDENTIFY CERTAIN FORWARD-LOOKING STATEMENTS. THESE FORWARD-LOOKING STATEMENTS ARE BASED LARGELY ON OUR EXPECTATIONS AND ARE SUBJECT TO A NUMBER OF RISKS AND UNCERTAINTIES, MANY OF WHICH ARE BEYOND OUR CONTROL. ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF VARIOUS FACTORS, INCLUDING, WITHOUT LIMITATION, THE RISKS OUTLINED UNDER "FACTORS AFFECTING KRONOS' BUSINESS AND PROSPECTS" AND MATTERS DESCRIBED IN THIS FILING GENERALLY. IN LIGHT OF THESE RISKS AND UNCERTAINTIES, THERE CAN BE NO ASSURANCE THAT THE FORWARD-LOOKING STATEMENTS CONTAINED IN THIS FILING WILL IN FACT OCCUR. WE DO NOT UNDERTAKE ANY OBLIGATION TO PUBLICLY RELEASE THE RESULTS OF ANY REVISIONS TO THESE FORWARD-LOOKING STATEMENTS THAT MAY BE MADE TO REFLECT ANY FUTURE EVENTS OR CIRCUMSTANCES.

GENERAL

Kronos Advanced Technologies, Inc. is an application development and licensing company that has developed and patented technology that fundamentally changes the way air is moved, filtered and sterilized. Kronos is pursuing commercialization of its proprietary technology in a limited number of markets; and if we are successful, we intend to enter additional markets in the future. Eleven of the Company's U.S. patent applications and two of its international patent applications have been allowed for issuance. To date, our ability to execute our strategy has been restricted by our limited amount of capital.

Kronos is focused on prioritizing the Company's limited resources on developing and licensing Kronos' proprietary technology for air movement and purification applications to address the indoor air quality market. The Kronos technology has numerous valuable characteristics for applications in the indoor air quality market, including moving air and gases at high velocities while filtering odors, smoke and particulates and sterilizing air from bacteria and virus contamination. A number of the scientific claims of the Kronos technology have been tested by the U. S. and foreign governments, multi-national companies and independent testing facilities.

Although no commercial products using the Kronos technology have been sold to date, the Company has begun establishing strategic relationships with select companies both domestically and internationally for standalone and embedded applications of our proprietary technology:

Standalone Platform:

- Residential Products - Between March 2005 and October 2005, the Company (i) expanded production beyond its initial standalone residential air purification prototypes, (ii) increased product

testing to complete the product claims platform, (iii) received initial shipment of sample products from its low cost, contract manufacturers in Mexico and China, and (iv) completed internal testing of these products under a testing protocol co-developed by Kronos and a former strategic partner;

In September 2006, the Company sent a notice of termination of its license agreement with HoMedics USA, Inc. HoMedics has indicated that it does not recognize Kronos' termination of the License Agreement as valid. HoMedics has requested an amicable and expedient resolution of the parties' differences. The outcome of this matter cannot be determined at this time.

- Medical Products - In December 2005, the Company executed a non-exclusive license agreement with EOL LLC, a Russian Federation company, for manufacturing and distributing Kronos-based commercial standalone products in Russia and other select Commonwealth of Independent States. In September 2006, began to assemble the finished products in Russia from components supplied both locally and from contract manufacturers in China, as well as electronic components and power supplies from Kronos. The initial Medical Products are currently being marketed in Russia and planned to be marketed beginning in 2007 in Ukraine, Kazakhstan, Moldova and Byelorussia. In November 2006, the Ministry of Health Care and Social Development of the Russian Federation issued a Registration Certificate for the product that designates the product for medical use;

- Commercial and Other Standalone Products - During the year, Kronos completed the initial design and development of space heaters and vaporizers, which are undergoing evaluation by potential strategic partners.

Embedded Platform:

- Commercial Products - In June 2006, the Company executed its first license for embedded applications of Kronos technology with DESA LLC. The agreement provides DESA the opportunity to embed the Kronos electrostatic air movement technology within fireplaces, hearth systems, zone heaters and mounted electric fans and heaters. In October 2006, DESA approved Kronos' designs for the first Kronos-based product and committed to the funding of the product development by Kronos.

- Residential Products - In October 2006, a leading global home appliance manufacturer committed to fund 20% of the cost for Kronos to manufacturer a silent kitchen range hood product. In addition, the customer has committed to a 120 day testing and evaluation period on a non-exclusive basis. This next generation range hood device will represent the culmination of more than 12 months of product design and development effort by Kronos to apply our technology to this unique embedded residential application. The product was shipped to the customer in October 2006;

- Microelectronics Products - In June 2006, the Washington Technology Center awarded the Company in conjunction with the University of Washington and Intel Corporation continued funding for a research and development project based on a novel cooling system for microelectronics and computer chips.

Technology Description and Benefits

The proprietary Kronos technology involves the management of corona discharge by applying high voltage management across paired electrical grids to create an ion exchange. Applications for efficient high voltage management, efficient corona discharge and ion exchange include but are not limited to:

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

Independent Testing - Product Claims Platform

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

Filtration Testing Results:

- Aerosol and Air Quality Research Laboratory - up to 99.8% filtration of 0.02 to 0.20 micron (20 to 200 nanometers) size particles;
- LMS Industries - removal of over 99.97% of 0.10 micron (100 nanometers) and above size particles using HVAC industry's ASHRAE 52.2 testing standard for filtration;
- MicroTest Laboratories - HEPA Clean Room Class 1000 quality particulate reduction;
- Intertek - tobacco smoke elimination tests in accordance with ANSI/AHAM AC-1-1988 standard entitled "American National Standard Method for Measuring Performance of Portable Household Electric

Cord-Connected Room Air Cleaners," which demonstrated a Clean Air Delivery Rate (CADR) for the Kronos air purifier of over 300 for the larger size Kronos air purifier and 80 for the smaller size using consumer filtration testing standards for the Association of Home Appliance Manufacturers (AHAM).

Sterilization Testing Results:

- Scientific Institution of Health Care, Central Clinical Hospital #2 in Moscow (clinical trial):
  - 100% decontamination of bacteria (Staphylococcus aureus) in under one hour and 80% decontamination of general bacteria in under 24 hours from a 48m(3) hospital room while people were present;
- Pulmonary Department of Municipal Hospital #2 in Moscow (clinical trial):
  - 100% decontamination of bacteria (Staphylococcus aureus) in under five hours from a 66m(3) hospital room while four patients were present; and
  - 100% decontamination of mildew fungi in under two hours from a 113.2m(3) hospital room;
- Disinfection Research Institute Sterilization Laboratory in Moscow:
  - disinfected a room completely contaminated with Bacteriophage - a microorganism which lives in the E. Coli bacteria. Bacteriophage is widely used in virus testing because the microorganism's biological structure and size share many functional similarities with a wide range of viruses; and
  - 100% decontamination of room infected with bacteria (Staphylococcus aureus strain 906 (S. aureus) and Bacillus cereus strain 96 (B. cereus) - S. aureus is a known cause of hospital-acquired infections, including skin lesions such as boils and furunculosis and more serious infections such as pneumonia and meningitis;
- Institute for Veterinary Medicine in the Ukraine - destroy and sterilize air which had been inseminated with Anthrax and E.coli spores;
- New Hampshire Materials Laboratory - up to 95% reduction of hazardous gases, including numerous carcinogens found in cigarette smoke;
- Battelle PNNL - 95% destruction of Bg (anthrax simulant);
- Dr. Sergey Stoylar, a bacteriologist from the American Bacteriological Society - 100% destruction of Bacillus subtilis 168 (bacteria simulant).

Market Segmentation

Kronos' initial business development strategy is to sell and license the Kronos technology to six distinct air quality market segments: (1) air movement and purification (residential, health care, hospitality, and commercial facilities); (2) air purification for unique spaces (clean rooms, airplanes, automotive, and

cruise ships); (3) specialized military (naval vessels, closed vehicles and mobile facilities); (4) embedded cooling and cleaning (electronic devices and medical equipment); (5) industrial scrubbing (produce storage and diesel and other emissions); and (6) hazardous gas destruction (incineration and chemical facilities).

Kronos' focus is on the first four of these market segments which are described in more detail below:

- Air Movement and Purification - Indoor air pollution, including sick building syndrome, second hand cigarette smoke and various bacterial and viral contaminants , is primarily caused by inadequate ventilation, chemical contaminants from indoor and outdoor sources and biological contaminants. There is also a demand for smaller devices that move, heat and deodorize the indoor air stream. The addressable air movement and purification segment is made up of four principal target markets: (1) residential, (2) health care, (3) hospitality and (4) commercial.

- Air Purification for Unique Spaces - Electronics, semiconductor, pharmaceutical, aerospace, medical and many other producers depend on clean room technology. As products such as electronic devices become smaller, the chance of contamination in manufacturing becomes higher. For pharmaceutical companies, clean, safe and contaminant-free products are imperative to manufacturing and distributing a viable product. Other potential applications for the Kronos technology include closed environments such as automobiles, aircraft, cruise ships and other transportation modes that require people to breathe contaminated, re-circulated air for extended periods.

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

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

Kronos is currently developing products for the air movement and purification, air purification for unique spaces, and specialized military markets through specific customer contracts. Kronos is currently undertaking research and development in the embedded micro cooling market using Company funds and a third party grant. These contracts and grant are described in more detail in the Technology Application and Product Development section of this filing.

Technology Application and Product Development

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

Standalone Platform

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

In March 2006, EOL achieved the first milestone: initial design of a wall mounted air sterilizer for the health care market. In June 2006, EOL achieved the second milestone: completion of the initial product prototypes. In August 2006, the Russian Research Institute of Medical Equipment began the process for product certification of the EOL device for use in medical facilities, including a successful clinical trial of EOL products in the Pulmonary Department of Municipal Hospital #2 in Moscow. In September 2006, EOL achieve the third milestone: EOL has begun to assemble the finished products in Russia from components supplied both locally and from contract manufacturers in China, as well as electronic components and power supplies from Kronos. In October 2006, Scientific Institution of Health Care, Central Clinical Hospital #2 in Moscow completed the final trial of the Kronos-based TreeTM air purification device in conjunction with the Russian Research Institute of Medical Equipment process for approving the product for medical use and the Russian Research Institute approved the Kronos-based TreeTM air purification device for use in hospitals and other healthcare facilities. The device received Category I approval, which means the product has met the strictest regulations required for a device to be used in operating rooms and other areas that require a sterile environment. In November 2006, following the Russian Research Institute approval, the Ministry of Health Care and Social Development of the Russian Federation issued a Registration Certificate that designates the Kronos-based TreeTM air purification device for medical use. The initial medical products are currently being marketed in Russia and planned to be marketed beginning in 2007 in Ukraine, Kazakhstan, Moldova and Byelorussia

Commercial and Other Standalone Products. Utilizing our recently expanded product development resources, Kronos completed the initial design, development and production of a series of small multifunctional devices that can be used as space heaters, vaporizers, disinfectors, deodorizers and/or fans. Based on the

proprietary Kronos technology, these devices are currently undergoing testing and evaluation. Kronos has been meeting with potential strategic partners for manufacturing, marketing, selling and distributing these Kronos-based products.

Residential Products. In October 2002, Kronos and HoMedics executed a Licensing Agreement granting HoMedics certain rights with respect to the distribution of the Kronos proprietary technology to the consumer. In September 2006, the Company sent a notice of termination of its license agreement with HoMedics USA, Inc. HoMedics has indicated that it does not recognize Kronos' termination of the License Agreement as valid. HoMedics has requested an amicable and expedient resolution of the parties' differences. The outcome of this matter cannot be determined at this time. We believe the Company has successfully completed the development of a Kronos-based consumer standalone air purifier that is an efficient, high quality product which is cost effective and easy to operate. The Company intends to seek one or more strategic partners to manufacturer, market and distribute Kronos based residential air purifiers.

Embedded Platform

Commercial Products. In June 2006, the Company executed a License Agreement with DESA IP, LLC, a wholly owned subsidiary of DESA LLC. DESA is a global provider of hearth, heating and zone comfort products. DESA is the first U.S. company to license the Kronos technology for embedded applications, which represents another step forward in the commercialization and globalization of Kronos' proprietary air movement, filtration and decontamination technology. This License Agreement provides DESA the opportunity to embed the Kronos electrostatic air movement technology within fireplaces, hearth systems, zone heaters and mounted electric fans and heaters. DESA will be seeking to take advantage of the silence, energy efficiency and, in select applications, air filtration benefits of the Kronos technology. DESA has the rights to distribute these products across thirty-four countries in North America, Europe and the former Eastern Block region. In October 2006, DESA approved Kronos' designs for the first Kronos-based product and committed to the funding of the product development by Kronos.

In addition, Kronos has developed an air filtration and purification mechanism capable of performing to HEPA quality standards, while eliminating bacteria and viruses. We believe that Kronos devices could replace current HEPA filters with a permanent, easily cleaned, low-cost solution. Among the technical advantages of the Kronos technology over HEPA filters is the ability of the Kronos-based devices to eliminate the energy burden on air handling systems, which must generate high levels of backpressure necessary to move air through HEPA-based systems. Kronos-based devices enhance the air flow while providing better than HEPA level filtration and purification. Kronos is seeking one or more strategic partners to commercial, market and distribute Kronos based commercial embedded air filtration and purification devices.

Residential Products. During the second half of fiscal 2006, several leading global home appliance manufacturers initiated discussions with Kronos with an interest in using the Kronos technology for developing select residential applications, including silent kitchen range hoods. With specific customer input, Kronos has designed and developed initial prototype range hoods for additional customer demonstration and evaluation. In August 2006, a leading global appliance manufacturer requested a second prototype be designed and built to their specifications for further evaluation. In October 2006, the customer committed to fund 20% of the cost for Kronos to manufacturer a silent kitchen

range hood product. In addition, the customer has committed to a 120 day testing and evaluation period on a non-exclusive basis. This next generation range hood device represents the culmination of more than 12 months of product design and development effort by Kronos to apply our technology to this unique embedded residential application. The product was shipped to the customer in October 2006.

Military Products. The U. S. Department of Defense has provided Kronos with various grants and contracts to develop, test and evaluate the Kronos technology for embedded applications. Under a Office of Naval Research grant and SBIR Phase I and Phase II contracts, the U. S. military had provided Kronos with over $1 million in funding. The Company currently has devices build for the U.S. Navy under evaluation by Northrop Grumman for potential deployment of U.S. Naval ships.

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

Microelectronics Cooling Products. In December 2004, Kronos and the University of Washington were awarded a Phase I grant for a research and technology development project entitled "Heat Transfer Technology for Microelectronics and MEMS" by the Washington Technology Center ("WTC"). The objective of the project is to develop a novel energy-efficient heat transfer technology for cooling microelectronics. In January 2006, Kronos and the University of Washington conducted a successful bench scale demonstration of micron cooling of a MEMS chip.

In June 2006, the Company and the University of Washington were awarded a Phase II grant for continued funding in its novel cooling system for microelectronics and computer chips. The Washington Technology Center is contributing $100,000 as a Phase II grant for the project. Kronos will provide $35,000 in funding and $38,000 in in-kind services, including use of the Kronos Research and Product Development Facility. Dr. Alexander Mamishev of the University of Washington Electrical Engineering Department is the principal investigator on the project and will lead a team of scientists and engineers from Kronos and Intel Corporation who will also collaborate on the project. The Phase II grant is a follow-on award to the December 2004 Phase I grant to Kronos and the University of Washington to initiate development of a novel energy-efficient heat transfer technology for cooling microelectronics.

Thermal management for microelectronics and MEMS systems is a challenge. Existing cooling devices aren't meeting increasing needs for energy consumption and heat dissipation. Kronos air handling technology is an emerging technology that uses an electric field to exert force on ionized gas. Kronos is attempting to develop an improved microchip air handling system that is smaller in size, has high speed airflow, allows more targeted delivery of cooling to areas of highest heat and is compatible with current processes.

Patents and Intellectual Property

Kronos has received notification that eleven of its patent applications have been allowed for issuance by the United States Patent and Trademark Office and two of its international patent applications have been allowed for issuance by the Commonwealth of Australia Patent Office and the Mexican Institute of Industrial Property, respectively. These patents are considered utility patents which describe fundamental innovations in the generation, management and control of electrostatic fluids, including air movement, filtration and purification. Each of the patents contain multiple part claims for both general principles as well as specific designs for incorporating the Kronos technology into air movement, filtration and purification products. The patents provide protection for both specific product implementations of the Kronos technology, as well as more general processes for applying the unique attributes and performance characteristics of the technology.

U.S. Patents

Date	U.S. Patent #	Patent Title	Description	Prot
October 2006	7,122,070	Method of and Apparatus for Electrostatic Fluid Acceleration	inertialess power supply for safe operation and spark prevention	2
August 2006	Notice of Allowance	Corona Discharge Electrode and Method of Operating	method of generating air flow and air cleaning with reduced amount of ozone by-product and with extended life-span of the electrodes	2
July 2006	Notice of Allowance	Electrostatic Air Cleaning Device	method for improving the efficiency of electrodes for filtering micron and sub-micron size particles	2
May 2006	7,053,565	Electrostatic Fluid Accelerator - Power Management	effective powering of the electrodes for high level of air velocity	2
November 2005	6,963,479	Electrostatic Fluid Accelerator - Advanced Geometries	advanced voltage management impacts air filtration and sterilization, air flow and ozone as well as safe operation and spark prevention	2
August 2005	6,937,455	Spark Management Method and Device	analysis, detection and prevention of sparks in a high voltage field - creating safe, effective electrostatic technology products	2
July 2005	6,919,698	Voltage Management for Electrostatic Fluid Accelerator	materials and geometry allowing for spark free operation and use of light weight, inexpensive	2

			materials as the electrodes	
May 2005	6,888,314	Electrostatic Fluid Accelerator - Electrode Design Geometries	electrode design geometries and attributes including micro channeling to achieve unique air movement and purification performance	2
April 2004	6,727,657	Electrostatic Fluid Accelerator for and a Method of Controlling Fluid	synchronization of multiple stages of arrays - increasing air flow and air flow efficiency	2
December 2003	6,664,741	Method of and Apparatus for Electrostatic Fluid Acceleration Control of a Fluid Flow	ratio of voltage for producing ion discharge to create air movement and base level filtration	2
January 2003	6,504,308	Electrostatic Fluid Accelerator	electrode density core for producing ion discharge to create air movement and base level filtration	2

International Patents

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

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

CRITICAL ACCOUNTING POLICIES

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

Allowance for Doubtful Accounts. We provide a reserve against our receivables for estimated losses that may result from our customers' inability to pay. These reserves are based on potential uncollectible accounts, aged receivables,

historical losses and our customers' credit-worthiness. Should a customer's account become past due, we generally will place a hold on the account and discontinue further shipments and/or services provided to that customer, minimizing further risk of loss.

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

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

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

RESULTS OF OPERATIONS

Consolidated Statement of Operations For the Quarter Ended September 30, 2006.

Our net losses for each of the quarters ended September 30, 2006 and September 30, 2005 were $843,000 and $973,000, respectively. The decrease in the net loss for the quarter ended September 30, 2006, as compared to the prior year, was principally the result of a $79,000 or 10% decrease in operating costs to $753,000 and a $57,000 or 36% decrease in interest expense.

Revenue. Revenues are generated through sales of services for design and development of Kronos devices at Kronos Air Technologies, Inc. Revenues for the quarter ended September 30, 2006 were $19,000 compared with $15,000 in the prior year. Revenues for the three months ended were from our license agreement with DESA. Revenues for the three months ended September 30, 2005 were from fees associated with our prototype development and acquisition agreement with a luxury automotive manufacturer.

Cost of Sales. Cost of sales for the quarter ended September 30, 2006 was $10,000 compared with $0 for the prior year. Cost of sales for the quarter ended September 30, 2006 was primarily product development costs associated with our DESA license agreement.

Selling, General and Administrative Expenses. Selling, General and Administrative expenses for the quarter ended September 30, 2006 decreased $79,000 from the corresponding period of the prior year to $753,000. The decrease was principally the result of a $75,000 decrease in research and development as a result of a shift in focus from technology research to technology commercialization and product development, a $63,000 decrease in depreciation and amortization as a result of an increase in the amortization of capitalized patent costs and Cornell Capital funding costs, partially offset by a $23,000 increase in compensation and benefits as a result of an the expansion of the Company's product development resources.

Interest expense. Interest expenses for the quarter ended September 30, 2006 was $99,000 compared to $156,000 for the corresponding period of the prior year. The $57,000 decrease in interest expense for the quarter ended September 30, 2006, as compared to the prior year, was principally the result of decrease in notes payable to Cornell Capital.

Consolidated Balance Sheet as of September 30, 2006

Our total assets at September 30, 2006 were $2,086,000 compared with $2,656,000 at June 30, 2006. Total assets at September 30, 2006 and June 30, 2006 were comprised primarily of $1,907,000 and $1,984,000, respectively, of patents/intellectual property and $124,000 and $598,000, respectively, of cash. Total current assets at September 30, 2006 and June 30, 2006 were $172,000 and $666,000, respectively, while total current liabilities for those same periods were $2,891,000 and $3,225,000, respectively, creating a working capital deficit of $2,719,000 and $2,559,000 at each respective period end. This working capital deficit is primarily due to short term borrowings from Cornell Capital Partners.

Stockholders' deficit as of September 30, 2006 was ($3,380,000). The $843,000 net loss for the three months ended September 30, 2006 was partially offset by the sale and issuance of common stock for cash ($550,000) and the issuance of options for services ($57,000).

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have relied principally on the sale of common stock and secured

debt and customer contracts for research and product development to finance our operations.

In October 2004, Kronos entered into agreements for up to $20.5 million in equity and equity backed debt financing from Cornell Capital Partners. In October 2004, Kronos sold 5 million unregistered shares of Kronos common stock for gross proceeds of $500,000 to Cornell Capital Partners. Cornell Capital Partners provided $4 million pursuant to two Promissory Notes, which were funded as follows: $2 million upon the filing an SB-2 Registration Statement and $2 million upon the SEC declaring the Registration Statement effective. Kronos executed a Standby Equity Distribution Agreement for $20 million of funding which Kronos has the option to drawdown against in increments as large as $1.5 million over the next twelve months. In May 2006, Kronos completed repayment of the first $2 million promissory note. As of September 30, 2006, Kronos has received $6.9 million in funding under these agreements and owed $1.5 million under the second Promissory Note.

In October 2004, HoMedics agreed to extend repayment of Kronos debt and to provide an additional $1 million in funding. HoMedics has agreed to provide Kronos with an additional $1 million in financing - $925,000 in secured debt financing and $75,000 for the purchase of additional warrants. In December 2005, $175,000 of the $925,000 was funded. The balance of $750,000 has not been funded. In addition, quarterly debt payments and the maturity date for existing debt have been extended. Quarterly payments due on the outstanding $2.4 million in secured debt financing, which had been scheduled to begin in August 2004, will begin in February 2007. The maturity date of the $2.4 million in debt has been extended from May 2008 to October of 2009; the maturity date on the $175,000 will also be October 2009. The interest rate will remain at 6%.

Net cash flow used in operating activities was $0.7 million for the quarter ended September 30, 2006. We were able to satisfy most of our cash requirements for this period from the proceeds of the $2 million Promissory Note with Cornell Capital Partners, the sale of equity to Cornell Capital Partners and our DESA license agreement.

We estimate that achievement of our business plan will require substantial additional funding. We anticipate that the source of funding will be obtained pursuant to equity funding from the Standby Equity Distribution Agreement and/or the sale of additional equity in our Company and cash flow generated from customer revenue. There are no assurances that these sources of funding will be adequate to meet our cash flow needs.

GOING CONCERN OPINION

The Report of Independent Registered Public Accounting Firm includes an explanatory paragraph to their audit opinions issued in connection with our 2006 and 2005 financial statements that states that we do not have significant cash or other material assets to cover our operating costs. Our ability to obtain additional funding will largely determine our ability to continue in business. Accordingly, there is substantial doubt about our ability to continue as a going concern. Our consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We can make no assurance that we will be able to successfully develop, manufacturer and sell commercial products on a broad basis. While attempting to make this transition, we will be subject to all the risks inherent in a growing

venture, including, but not limited to, the need to develop and manufacture reliable and effective products, develop marketing expertise and expand our sales force.

FACTORS AFFECTING KRONOS' BUSINESS AND PROSPECTS

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

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

We have only recently begun implementing our plan to prioritize and concentrate our management and financial resources to fully capitalize on our investment in Kronos Air Technologies and have yet to establish any history of profitable operations. We incurred a net loss of $0.8 million for the quarter ended September 30, 2006 and a net loss of $4.0 million for the fiscal year ended June 30, 2006. As a result, at September 30, 2006 and June 30, 2006, we had an accumulated deficit of $32.0 million and $31.1 million, respectively. Our revenues and cash flows from operations have not been sufficient to sustain our operations. We have sustained our operations through the issuance of our common stock and the incurrence of debt. We expect that our revenues and cash flows from operations will not be sufficient to sustain our operations for the foreseeable future. Our profitability will require the successful commercialization of our Kronos technologies. No assurances can be given that we will be able to successfully commercialize our Kronos technologies or that we will ever be profitable.

We will require significant additional financing to sustain our operations and without it we will not be able to continue operations.

At September 30, 2006 and June 30, 2006, we had a working capital deficit of $2.7 million and $2.6 million, respectively. The Report of Independent Registered Public Accounting Firm for the year ended June 30, 2006, 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 quarter ended September 30, 2006 and fiscal year ended June 30, 2006, we had an operating cash flow deficit of $0.7 million and $2.6 million, respectively. We currently do not have sufficient financial resources to fund our operations or pay certain existing obligations or those of our subsidiary. Therefore, we need substantial additional funds to continue these operations and pay certain existing obligations.

If obtaining sufficient financing from Cornell Capital Partners and/or our strategic customers 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 Standby Equity Distribution Agreement, we may still need additional capital to fully implement our business, operating and development plans. At September 30, 2006 and June 30, 2006, we had a cash balance of $124,000 and $598,000, 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 stockholders will experience significant dilution from our sale of shares under the Standby Equity Distribution Agreement and any other equity financing.

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

Competition in the market for air movement and purification devices may result in the failure of the Kronos products to achieve market acceptance.

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

Our failure to enforce protection of our intellectual property would have a material adverse effect on our business.

A significant part of our success depends in part on our ability to obtain and defend our intellectual property, including patent protection for our products and processes, preserve our trade secrets, defend and enforce our rights against infringement and operate without infringing the proprietary rights of third parties, both in the United States and in other countries. Our limited amount of capital impedes our current ability to protect and defend our intellectual property. The validity and breadth of our intellectual property claims in ion wind generation and electrostatic fluid acceleration and control technology involve complex legal and factual questions and, therefore, may be highly uncertain. Despite our efforts to protect our intellectual proprietary rights, existing copyright, trademark and trade secret laws afford only limited protection. Our industry is characterized by frequent intellectual property litigation based on allegations of infringement of intellectual property rights. Although we are not aware of any intellectual property claims against us, we may be a party to litigation in the future.

Possible future impairment of intangible assets would have a material adverse effect on our financial condition.

Our net intangible assets of approximately $1.9 million as of September 30, 2006 consist principally of purchased patent technology and marketing intangibles,

which relate to the acquisition of Kronos Air Technologies, Inc. in March 2000 and to the acquisition of license rights to fuel cell, computer and microprocessor applications of the Kronos technology not included in the original acquisition of Kronos Air Technologies, Inc. in May 2003 and capitalized legal costs for securing patents. Intangible assets comprise 91% of our total assets as of September 30, 2006. Intangible assets are subject to periodic review and consideration for potential impairment of value. Among the factors that could give rise to impairment include a significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, and projections or forecasts that demonstrate continuing losses associated with these assets. In the case of our intangible assets, specific factors that could give rise to impairment would be, but are not limited to, an inability to obtain patents, the untimely death or other loss of Dr. Igor Krichtafovitch, the lead inventor of the Kronos technology and Kronos Air Technologies Chief Technology Officer, or the ability to create a customer base for the sale or licensing of the Kronos technology. Should an impairment occur, we would be required to recognize it in our financial statements. A write-down of these intangible assets could have a material adverse impact on our total assets, net worth and results of operations.

Our common stock is deemed to be "Penny Stock," subject to special requirements and conditions and may not be a suitable investment.

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

- With a price of less than $5.00 per share;

- That are not traded on a "recognized" national exchange;

- Whose prices are not quoted on the Nasdaq automated quotation system (Nasdaq listed stock must still have a price of not less than $5.00 per share); or

- In issuers with net tangible assets less than $2.0 million (if the issuer has been in continuous operation for at least three years) or $5.0 million (if in continuous operation for less than three years), or with average revenues of less than $6.0 million for the last three years.

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

We rely on management and research personnel, the loss of whose services could have a material adverse effect upon our business.

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

ITEM 3. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's Principal Executive Officer and Principal Financial Officer of the effectiveness of the design and operation of the Company's disclosure controls and procedures. The Company's disclosure controls and procedures are designed to provide a reasonable level of assurance of achieving the Company's disclosure control objectives. The Company's Principal Executive Officer and Principal Financial Officer have concluded that the Company's disclosure controls and procedures are, in fact, effective at this reasonable assurance level as of the period covered. In addition, the Company reviewed its internal controls, and there have been no significant changes in its internal controls or in other factors that could significantly affect those controls subsequent to the date of evaluation or from the end of the reporting period to the date of this Form 10-QSB.

Changes in Internal Controls. In connection with the evaluation of the Company's internal controls during the Company's first fiscal quarter ended September 30, 2006, the Company's Principal Executive Officer and Principal Financial Officer have determined that there are no changes to the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to materially effect, the Company's internal controls over financial reporting during the fiscal quarter ended September 30, 2006, or subsequent to the date of their last evaluation, or from the end of the reporting period to the date of this Form 10-QSB.

PART II

ITEM 1. LEGAL PROCEEDINGS

From time to time the Company may be subject to law suits in the normal course of business. Thompson E. Fehr has filed a complaint against Kronos with respect to prior services rendered to High Voltage Integrated, Inc. totaling $47,130. The Company believes this complaint is without merit and will rigorously defend itself.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the three months ended September 30, 2006, we issued 22,758,527 shares of Kronos common stock to Cornell Capital Partners under our Standby Equity Distribution Agreement. The proceeds from the issuance of these shares were used to repay $350,000 of debt and to increase the Company's cash reserves by

$300,000.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. EXHIBITS

EXHIBIT NO.	DESCRIPTION	LOCATION
2.1	Articles of Merger for Technology Selection, Inc. with the Nevada Secretary of State	Incorporated by reference to Exhibit 2.1 to the Registrant's Registration Statement on Form S-1 filed on August 7, 2001 (the "Registration Statement")
3.1	Articles of Incorporation	Incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 filed on August 7, 2001
3.2	Bylaws	Incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 filed on August 7, 2001
4.1	2001 Stock Option Plan	Incorporated by reference to Exhibit 4.1 to Registrant's Form 10-Q for the quarterly period ended March 31, 2002 filed on May 15, 2002
10.21	Indemnification Agreement, dated May 1, 2001, by and between TSET, Inc. and Daniel R. Dwight	Incorporated by reference to Exhibit 10.38 to the Registration Statement on Form S-1 filed on August 7, 2001
10.22	Indemnification Agreement, dated May 1, 2001, by and between TSET, Inc. and Richard F. Tusing	Incorporated by reference to Exhibit 10.39 to the Registration Statement on Form S-1 filed on August 7, 2001
10.23	Employment Agreement, effective February 11, 2001 by and between TSET, Inc. and Daniel R. Dwight	Incorporated by reference to Exhibit 10.55 to the Registrant's Form 10-Q for the quarterly period ended March 31, 2002 filed on May 15, 2002
10.24	Master Loan and Investment	Incorporated by reference to

	Agreement, dated May 9, 2003, by and among Kronos Advanced Technologies, Inc., Kronos Air Technologies, Inc. and FKA Distributing Co. d/b/a HoMedics, Inc., a Michigan corporation ("HoMedics")	the Registrant's 8-K filed on May 15, 2003
10.25	Secured Promissory Note, dated May 9, 2003, in the principal amount of $2,400,000 payable to HoMedics	Incorporated by reference to Exhibit 99.2 to the Registrant's 8-K filed on May 15, 2003
10.26	Secured Promissory Note, dated May 9, 2003, in the principal amount of $1,000,000 payable to HoMedics	Incorporated by reference to Exhibit 99.4 to the Registrant's 8-K filed on May 15, 2003
10.27	Security Agreement dated May 9, 2003, by and among Kronos Air Technologies, Inc. and HoMedics	Incorporated by reference to Exhibit 99.4 to the Registrant's 8-K filed on May 15, 2003
10.28	Registration Rights Agreement, dated May 9, 2003, by and between Kronos and HoMedics	Incorporated by reference to Exhibit 99.5 to the Registrant's 8-K filed on May 15, 2003
10.29	Warrant No. 1 dated May 9, 2003, issued to HoMedics	Incorporated by reference to Exhibit 99.7 to the Registrant's 8-K filed on May 15, 2003
10.30	Warrant No. 2 dated May 9, 2003, issued to HoMedics	Incorporated by reference to Exhibit 99.7 to the Registrant's 8-K filed on May 15, 2003 2002
10.31	Promissory Note by and among Kronos Advanced Technologies, Inc., and Richard A. Papworth	Incorporated by reference to Exhibit 10.67 to the Registrant's Form 10-Q for the quarterly period ended March 31, 2004 filed on May 17, 2004
10.32	Promissory Note by and among Kronos Advanced Technologies, Inc., and Daniel R. Dwight	Incorporated by reference to Exhibit 10.67 to the Registrant's Form 10-Q for the quarterly period ended March 31, 2004 filed on May 17, 2004
10.33	Promissory Note by and among Kronos Advanced Technologies, Inc., and Richard F. Tusing	Incorporated by reference to Exhibit 10.67 to the Registrant's Form 10-Q for the quarterly period ended March 31, 2004 filed on May 17, 2004
10.34	Promissory Note by and among Kronos Advanced Technologies, Inc., and Igor Krichtafovitch	Incorporated by reference to Exhibit 10.67 to the Registrant's Form 10-Q for the quarterly period ended March 31, 2004 filed on May 17, 2004
10.35	Promissory Note by and among Kronos	Incorporated by reference to

	Advanced Technologies, Inc., and J. Alexander Chriss	Exhibit 10.67 to the Registrant's Form 10-Q for the quarterly period ended March 31, 2004 filed on May 17, 2004
10.36	Securities Purchase Agreement, dated October 15, 2004, by and between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 99.5 to the Registrant's Form 8-K filed on November 12, 2004
10.37	Investor Registration Rights Agreement, dated October 15, 2004, by and between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 99.6 to the Registrant's Form 8-K filed on November 12, 2004
10.38	Escrow Agreement, dated October 15, 2004, by and between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 99.7 to the Registrant's Form 8-K filed on November 12, 2004
10.39	Amended and Restated Warrant No. 1, dated October 25, 2004, issued to FKA Distributing Co. d/b/a HoMedics, Inc.	Incorporated by reference to Exhibit 99.11 to the Registrant's Form 8-K filed on November 12, 2004
10.40	Amended and Restated Warrant No. 2, dated October 25, 2004, issued to FKA Distributing Co. d/b/a HoMedics, Inc.	Incorporated by reference to Exhibit 99.12 to the Registrant's Form 8-K filed on November 12, 2004
10.41	Warrant No. 3, dated October 25, 2004, issued to FKA Distributing Co. d/b/a HoMedics, Inc.	Incorporated by reference to Exhibit 99.13 to the Registrant's
10.42	Amended and Restated Registration Rights Agreement, dated October 25, 2004, by And between Kronos Advanced Technologies Inc., a Nevada corporation and FKA Distributing Co. d/b/a HoMedics, a Michigan corporation	Incorporated by reference to Exhibit 99.14 to the Registrant's Form 8-K filed on November 12, 2004
10.43	Termination Agreement dated March 28, 2005, by and between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 10.63 to the Registrant's Form SB-2 filed on April 19, 2005
10.44	Standby Equity Distribution Agreement, dated April 13, 2005, by and between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 10.64 to the Registrant's Form SB-2 filed on April 19, 2005
10.45	Registration Rights Agreement, dated April 13, 2005, by and between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 10.65 to the Registrant's Form SB-2 filed on April 19, 2005
10.46	Escrow Agreement, dated April 13, 2005, by and between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 10.66 to the Registrant's Form SB-2 filed on April 19, 2005

10.47	Placement Agent Agreement, dated April 13, 2005, by and between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 10.67 to the Registrant's Form SB-2 filed on April 19, 2005
10.48	Form of Equity-Back Promissory Note in the principal amount of $2,000,000 dated March 7, 2005 between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 10.68 to the Registrant's Form SB-2 filed on April 19, 2005
10.49	Form of Equity-Back Promissory Note in the principal amount of $2,000,000 dated June 22, 2005 between Kronos Advanced Technologies, Inc. and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 10.59 to the Registrant's Form 10-KSB filed on September 28, 2005

EXHIBIT NO.	DESCRIPTION	LOCATION
31.1	Certification of Chief Executive Officer pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Provided herewith
31.2	Certification of Principal Financial Officer pursuant to U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Provided herewith
32	Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Provided herewith

Signatures

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

DATED: November 14, 2006

KRONOS ADVANCED TECHNOLOGIES, INC.

By: /s/ DANIEL R. DWIGHT

Daniel R. Dwight
President and Chief Executive Officer

By: /s/ DANIEL R. DWIGHT

Daniel R. Dwight

Chief Financial Officer