

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

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### FILER

#### **KRONOS ADVANCED TECHNOLOGIES INC**

CIK: **1108248** | IRS No.: **870440410** | State of Incorp.: **NV** | Fiscal Year End: **0630**  
Type: **10QSB** | Act: **34** | File No.: **000-30191** | Film No.: **08839386**  
SIC: **3564** Industrial & commercial fans & blowers & air purifying equip

#### Mailing Address

333 S STATE ST  
PMB 111  
LAKE OSWEGO OR 97034

#### Business Address

333 S STATE ST  
PMB111  
LAKE OSWEGO OR 97034  
5035981900

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-QSB**

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

For the quarterly period ended March 31, 2008

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  
(State or other jurisdiction of incorporation or organization)

87-0440410  
(I.R.S. Employer Identification No.)

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

(617) 364-5089  
(Registrant's telephone number, including area code)

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

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

Yes  No

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

Yes  No

As of May 12, 2008, there were 487,626,791 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 nine months ended March 31, 2008.

**KRONOS ADVANCED TECHNOLOGIES, INC.**  
**CONSOLIDATED BALANCE SHEETS**

	<u>March 31,</u> 2008 <u>(Unaudited)</u>	<u>June 30,</u> 2007
<b>Assets</b>		
Current Assets		
Cash	\$3,579,377	\$363,955
Accounts Receivable	10,000	5,027
Other Current Assets	12,138	12,138
<b>Total Current Assets</b>	<u>3,601,515</u>	<u>381,120</u>
Net Property and Equipment	8,083	6,548
Intangibles	1,450,433	1,723,150
<b>Total Assets</b>	<u><u>\$5,060,031</u></u>	<u><u>\$2,110,818</u></u>
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities		
Accounts payable	\$277,894	\$359,019
Accrued interest expenses	423,802	21,303
Accrued expenses	83,893	125,000
Deferred revenue	230,769	-
Notes payable, current portion	1,487,000	859,000
Notes payable to directors and officers	171,981	225,006
<b>Total Current Liabilities</b>	<u>2,675,339</u>	<u>1,589,328</u>
Long Term Liabilities		
Notes payable	4,773,559	3,600,000
Discount for Beneficial Conversion Feature	(3,774,760 )	(3,365,845 )
<b>Total Long Term Liabilities</b>	<u>998,799</u>	<u>234,155</u>
<b>Total Liabilities</b>	<u>3,674,138</u>	<u>1,823,483</u>
Stockholders' Equity		
(Common stock, authorized 500,000,000 shares of \$0.001 par value; Issued and outstanding - 487,626,691 and 242,342,803, respectively)	487,627	242,343
Capital in excess of par value	36,705,794	33,513,598
Accumulated deficit	(35,807,528 )	(33,468,606 )
<b>Total Stockholders' Equity</b>	<u>1,385,893</u>	<u>287,335</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u><u>\$5,060,031</u></u>	<u><u>\$2,110,818</u></u>

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

**KRONOS ADVANCED TECHNOLOGIES, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three months ended March 31,		Nine months ended March 31,	
	2008	2007	2008	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues	\$3,279,231	\$34,902	\$3,598,286	\$156,384
Cost of revenues	257,797	1,754	401,469	93,373
Gross Profit	<u>3,021,433</u>	<u>33,138</u>	<u>3,196,817</u>	<u>63,011</u>
Selling, General and Administrative expenses				
Compensation and benefits	588,135	379,314	1,705,987	1,092,306
(includes equity compensation of \$541,444 and \$148,394 for the nine months ended March 31, 2008 and 2007, respectively)				
Research and development	106,654	3,104	228,447	38,101
Professional services	191,905	79,380	552,066	264,483
Depreciation and amortization	109,940	108,632	329,274	336,322
Insurance	63,157	18,272	122,691	112,819
Facilities	30,160	28,975	90,481	70,538
Other	95,993	114,410	312,013	387,855
Selling, General and Administrative expenses	<u>1,185,944</u>	<u>732,086</u>	<u>3,340,959</u>	<u>2,302,423</u>
Net Operating Gain (Loss)	1,835,490	(698,938 )	(144,142 )	(2,239,412 )
Accretion of Note	(523,581 )	-	(1,696,085 )	-
Interest Expense	(179,784 )	(87,981 )	(498,694 )	(261,936 )
Net Gain (Loss)	<u>\$1,132,125</u>	<u>\$(786,919 )</u>	<u>\$(2,338,921 )</u>	<u>\$(2,501,349 )</u>
Net Gain (Loss) Per Share				
- Basic and diluted	<u>\$0.00</u>	<u>\$(0.00 )</u>	<u>\$(0.01 )</u>	<u>\$(0.01 )</u>
Weighted average shares outstanding				
- Basic and diluted	<u>487,626,691</u>	<u>226,619,118</u>	<u>325,658,791</u>	<u>185,967,097</u>

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

**KRONOS ADVANCED TECHNOLOGIES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the nine months ended March 31,	
	2008	2007
	(Unaudited)	(Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss from operations	\$(2,338,921 )	\$(2,501,349 )
Adjustments to reconcile net loss to net cash used in operations:		
Accretion of note discount	1,696,084	-
Stock options granted for compensation/services	577,513	240,942
Depreciation and amortization	329,274	336,322
Change provided (used) in:		
Accounts receivable	(4,973 )	9,067
Prepaid expenses and other assets	-	26,232
Transfer of patents	257,797	-
Deferred revenue	230,769	(20,000 )
Accounts payable	(81,125 )	240,515
Accrued expenses and other liabilities	344,100	108,205
Net cash Provided (Used) in Operations	1,010,518	(1,560,067 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases on property & equipment	(5,396 )	(2,194 )
Investment in patent protection	(310,488 )	(83,087 )
Net cash Used in Investing Activities	(315,884 )	(85,281 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of common stock	754,967	1,379,938
Proceeds from short-term borrowings	628,000	-
Repayments of short-term borrowings	(35,739 )	130,476
Proceeds from long-term borrowings	1,905,000	(438,237 )
Repayments of long term debt	(731,440 )	-
Net cash Provided by Financing Activities	2,520,788	1,072,217
<b>NET INCREASE (DECREASE) IN CASH</b>	3,215,422	(573,170 )
<b>CASH</b>		
Beginning of period	363,954	598,323
End of period	\$3,579,376	\$25,153
<b>Supplemental schedule of non-cash investing and financing activities:</b>		
Interest paid in cash	\$59,573	\$194,000
Accounts payable/accrued expenses converted to notes payable	\$731,440	\$130,476

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

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

**NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS**

Kronos Advanced Technologies, Inc. ("Kronos" or the "Company") is a Nevada corporation. The Company's shares began trading on the over-the-counter bulletin board exchange on August 28, 1996 under the symbol "TSET." Effective January 12, 2002, the Company began doing business as Kronos Advanced Technologies, Inc. and, as of January 18, 2002, it changed the Company ticker symbol to "KNOS." On March 31, 2008, AirWorks Funding LLLP ("AirWorks") and Hilltop Holding Company, LP ("Hilltop") converted \$731,440 of their Secured Convertible Promissory Notes into 243,813,400 shares of Kronos common stock resulting in a change of control of Kronos (refer to Note 9 - Commitments and Contingencies).

**NOTE 2 - BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements of Kronos have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments necessary to present fairly the information set forth therein have been included. Operating results for the three and nine months ended March 31, 2008 are not necessarily indicative of the results that may be experienced for the fiscal year ending June 30, 2008.

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, 2007, which was filed on September 28, 2007.

**NOTE 3 - 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 year ended June 30, 2007. Prior to the nine months ended March 31, 2008, the Company had used more cash than that provided from cash in its operations. The Company is currently using its resources 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 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:

*Tessera.* In March 2008, Kronos executed an Intellectual Property Transfer and License Agreement with Tessera Technologies, Inc. ("Tessera") for the transfer and license of certain intellectual property ("IP") rights related to Kronos proprietary technologies to Tessera. Kronos received \$3.5 million from Tessera in exchange for the transfer of select Kronos patents covering micro-cooling applications and for an exclusive license to the Kronos technology for ionic micro-cooling of integrated circuit devices or discrete electrical components. Kronos retained the rights to use these patents for all applications outside of the field of micro-cooling. Tessera further has the right to acquire additional Kronos IP relating to micro-cooling applications for four quarterly payments of \$0.5 million each beginning in July 1, 2008.

*Washington Technology Center.* In June 2007, 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. This Phase III award follows the Company's Phase I and Phase II awards in December 2005 and June 2006, respectively.

*Retailer.* In October 2007, Kronos executed a Letter of Intent for the development, manufacture and sale of air purification devices based upon Kronos' proprietary air movement and purification technology with a leading national retailer. It is expected that Kronos and the retailer would enter into a definitive purchase and supply agreement providing for the exclusive sale of private label residential standalone air purifiers through the retailer's distribution channels. Actual purchases of the products are dependent on the successful development of the product, the negotiation of a definitive purchase and supply agreement incorporating the terms of the letter of intent, other usual and customary terms and the retailers' discretion. Under the terms of the Letter of Intent, the retailer has paid Kronos \$250,000 towards the development costs of the new products and will contribute marketing resources to assist in the product development process. The intent of the parties is for Kronos to lead and manage all development, production and manufacturing activities for the Kronos air purifier and for the retailer to actively market the Kronos air purifier through their distribution channels. In December 2007, Kronos completed design and developed of an Alpha Prototype for the customer. In January 2008, the parties initiated negotiations of a definitive Product Development and Purchase Agreement. In February 2008, the retailer filed for bankruptcy, which could negatively impact the Company's ability to finalize a definitive agreement and receive additional funds from the retailer. In March 2008, Kronos' contract manufacturing partner completed development of a Beta Prototype. During the nine months ended March 31, 2008, Kronos received \$250,000 in product development fees.

*EOL.* In December 2005, Kronos executed a non-exclusive License Agreement with EOL LLC, a Russian Federation corporation ("EOL"), based in Korolev, Moscow Region. EOL is leveraging the Kronos technology to produce, market, and distribute Kronos commercial air purification products, bacteriological and virus destruction devices 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 is providing Kronos a fixed percentage royalty on every product sold, as well as upfront licensing and quarterly maintenance fees. The initial medical products are currently being marketed in Russia and Ukraine and marketing plans are being put in place in, Kazakhstan, Moldova and Byelorussia. During the fiscal year ended June 30, 2007, Kronos earned \$104,000 in revenue from the sale of power supplies, other electrical components and engineering services and from the royalty from the sale of finished products by EOL. During the nine months ended March 31, 2008, Kronos earned \$45,000 in licensing fees.

*Global Appliance Manufacturers.* 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. This next generation range hood device represented the culmination of more than twelve 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. In January 2007, the prototype design was modified based on customer input and a revised unit was shipped to the customer. In addition to financial support, the customer has also provided Kronos with product components for Kronos testing and evaluation. In February 2007, a second global appliance manufacturer committed to purchase additional prototypes from Kronos. During the fiscal year ended June 30, 2007, Kronos earned \$37,000 in revenue from the development of prototype devices for the residential range hood market place. In October 2007, Kronos shipped the additional prototypes to the customer for testing and evaluation. During the nine months ended March 31, 2008, Kronos earned \$34,000 in product development fees.

#### **NOTE 4 - 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 by the Company. All significant intercompany accounts and transactions have been eliminated in the preparation of the consolidated financial statements. At March 31, 2008, the Company 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 account 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 when purchased of three months or less, to be cash equivalents. The Company maintains cash and cash equivalents with high-credit, quality financial institutions. At March 31, 2008 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 accounts receivables based on a review of the current status of existing receivables and management's evaluation of periodic aging of accounts. Accounts receivable are shown net of allowances for doubtful accounts of \$0 at March 31, 2008 and June 30, 2007. 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 the Company's 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 its 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 the Company's 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 the Company's 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 the Company's strategic business objectives, and utilization of the asset. The Company capitalizes to Intangibles the legal cost and filings fees for securing patents for the Company's proprietary technology.

*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.

*License Revenue.* Nonrefundable, up-front perpetual license fees with standalone value that are not dependent on any future performance by the Company under the arrangements are recognized as revenue upon the earlier of when payments are received or collection is assured, but are deferred if we have continuing performance obligations. Term license fees are recognized over the term of the license.

*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 SFAS 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. SFAS No. 123R requires entities to recognize stock compensation expense for awards of equity instruments to employees based on the grant-date fair value of those awards (with limited exceptions). Kronos elected to implement the provisions of SFAS No. 123R in the fiscal year ended June 30, 2005.

## Recent Accounting Pronouncements

In February 2007, the FASB issued FASB Statement No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities--Including an amendment of FASB Statement No. 115." This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is expected to expand the use of fair value measurement, which is consistent with the FASB's long-term measurement objectives for accounting for financial instruments. This statement applies to all entities, including not-for-profit organizations. Most of the provisions of this statement apply only to entities that elect the fair value option. However, the amendment to FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available-for-sale and trading securities. Some requirements apply differently to entities that do not report net income. Management believes this statement will have no impact on the financial statements of the Company once adopted.

In December 2007, the FASB issued FASB Statement No. 141 (revised 2007), "Business Combinations." This statement replaces FASB Statement No. 141, Business Combinations. This statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This statement defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. This statement's scope is broader than that of Statement 141, which applied only to business combinations in which control was obtained by transferring consideration. By applying the same method of accounting--the acquisition method--to all transactions and other events in which one entity obtains control over one or more other businesses, this statement improves the comparability of the information about business combinations provided in financial reports. This statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. This replaces Statement 141's cost-allocation process, which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. This statement applies to all transactions or other events in which an entity (the acquirer) obtains control of one or more businesses (the acquirer), including those sometimes referred to as "true mergers" or "mergers of equals" and combinations achieved without the transfer of consideration, for example, by contract alone or through the lapse of minority veto rights. This statement applies to all business entities, including mutual entities that previously used the pooling-of-interests method of accounting for some business combinations. It does not apply to: (a) the formation of a joint venture, (b) the acquisition of an asset or a group of assets that does not constitute a business, (c) a combination between entities or businesses under common control, or (d) a combination between not-for-profit organizations or the acquisition of a for-profit business by a not-for-profit organization. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. Management believes this statement will have no impact on the financial statements of the Company once adopted.

In December 2007, the FASB issued FASB Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements," which was an amendment of ARB No. 51. This statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. This statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Before this statement was issued, limited guidance existed for reporting noncontrolling interests. As a result, considerable diversity in practice existed. So-called minority interests were reported in the consolidated statement of financial position as liabilities or in the mezzanine section between liabilities and equity. This statement improves comparability by eliminating that diversity. A noncontrolling interest, sometimes called a minority interest, is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. The objective of this statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards that require: (a) the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity, (b) the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income, (c) changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. A parent's ownership interest in a subsidiary changes if the parent purchases additional ownership interests in its subsidiary or if the parent sells some of its ownership interests in its subsidiary. It also changes if the subsidiary reacquires some of its ownership interests or the subsidiary issues additional ownership interests. All of those transactions are economically similar, and this statement requires that they be accounted for similarly, as equity transactions, (d) when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value. The gain or loss on the deconsolidation of the subsidiary is measured using the fair value of any noncontrolling equity investment rather than the carrying amount of that retained investment, and (e) entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. This statement shall be applied prospectively as of the beginning of

the fiscal year in which this statement is initially applied, except, for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. Management believes this statement will have no impact on the financial statements of the Company once adopted. Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the financial statements upon adoption.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133," which requires additional disclosures about the objectives of the derivative instruments and hedging activities, the method of accounting for such instruments under SFAS No. 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on our financial position, financial performance, and cash flows. SFAS No. 161 is effective for the Company beginning January 1, 2009. Management believes that, for the foreseeable future, this Statement will have no impact on the financial statements of the Company once adopted.

#### NOTE 5 – TESSERA TRANSACTION

On March 31, 2008, Kronos executed an Intellectual Property Transfer and License Agreement with Tessera Technologies, Inc. ("Tessera") for the transfer and license of certain intellectual property ("IP") rights related to Kronos proprietary technologies to Tessera. Kronos received an upfront and nonrefundable fee of \$3.5 million from Tessera in exchange for the transfer of select Kronos patents covering micro-cooling applications, an exclusive license to Kronos' additional U.S. Patents and patents pending and related foreign patent applications for ionic micro-cooling of integrated circuit devices or discrete electrical components ("Ionic Micro-cooling"); as well as a twelve month term option license to acquire additional Kronos' U.S. Patents and related foreign patents for Ionic Micro-cooling. Tessera further has the right to acquire this additional Kronos IP relating to micro-cooling applications for \$2 million payable in four quarterly payments of \$0.5 million each beginning in July 1, 2008. Kronos retained the rights to use all its patents for all applications outside of the field of micro-cooling. Upon the receipt of the \$3.5 million from Tessera, Kronos recognized \$3,269,231 as revenue for the nonrefundable, up-front license and IP transfer granted to Tessera and \$230,769 as deferred revenue for term license granted to Tessera. The deferred revenue will be recognized over the twelve month term of the license.

#### NOTE 6 -- INCOME TAXES

The composition of deferred tax assets and the related tax effects at March 31, 2008 and June 30, 2007 were as follows:

	March 31, 2008 (unaudited)	June 30, 2007
Benefit from carryforward of capital and net operating losses	\$(7,687,000 )	\$(7,698,000 )
Other temporary differences	(157,000 )	(157,000 )
Options issued for services	(208,000 )	(551,000 )
Less:		
Valuation allowance	8,052,000	8,406,000
Net deferred tax asset	<u>\$-</u>	<u>\$-</u>

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

	March 31, 2008 (Unaudited)		June 30, 2007	
	Amount	% of Pre-Tax Loss	Amount	% of Pre-Tax Loss
Benefit for income tax at:				
Federal statutory rate	\$266,000	34.0 %	\$(799,000 )	(34.0 )%
State statutory rate	16,000	2.0 %	(47,000 )	(2.0 )%
Non-deductible expenses	72,000	2.4 %	24,000	1.0 %
Increase in valuation allowance	(354,000 )	(33.6 )%	822,000	35.0 %
	<u>\$-</u>	<u>0.0 %</u>	<u>\$-</u>	<u>0.0 %</u>

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

At March 31, 2008, the Company has approximately \$20.3 million of unused Federal net operating losses, \$2.3 million of capital losses and \$16.1 million of state net operating losses available for carryforward to future years. As a result of the conversion of certain of the Secured Convertible Promissory Notes in December 2007, the Company has had a "change of ownership" as defined under section 382 of the Internal Revenue Code. Due to this change of ownership, the Company's net operating losses, as of the date of change, are subject to an annual limitation. This limitation is equal to the value of the Company's stock at the date of change, multiplied by an interest factor (approximately 4.5%). Any losses incurred after the date of change are not subject to limitation.

#### NOTE 7 - SEGMENTS OF BUSINESS

The Company has only one reportable segment, which consists of developing, licensing, manufacturing and distributing air movement and purification devices utilizing the Kronos technology. For the nine months ended March 31, 2008 and the fiscal year ended June 30, 2007 the Company operated only in the U.S.

#### NOTE 8 - EARNINGS PER SHARE

Weighted average shares outstanding used in the earnings per share calculation were 325,658,791 and 185,967,097 for the nine months ended March 31, 2008 and 2007, respectively.

As of March 31, 2008, there were outstanding options to purchase 90,259,775 shares of the Company's common stock and outstanding warrants to purchase 15,792,342 shares of the Company's common stock. These options and warrants have been excluded from the earnings per share calculation as their effect is anti-dilutive. As of March 31, 2007, there were outstanding options to purchase 25,499,538 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.

#### NOTE 9 - CONVERTIBLE NOTES PAYABLE AND NOTES PAYABLE

The Company had the following obligations as of as of March 31, 2008 and June 30, 2007:

	March 31, 2008 (Unaudited)	June 30, 2007
Obligations to AirWorks Funding LLLP (1)	\$3,928,535	\$2,480,000
Obligations to Hilltop Holding Company, LP (1)	1,273,024	920,000
Obligations to Sands Brothers (2)	859,000	859,000
Obligations to Gumbinner and Sun (1)	200,000	200,000
Obligation to current employees (3)	166,572	202,307
Discount for beneficial conversion feature (4)	(3,774,760)	(3,365,845)
	<u>2,652,371</u>	<u>1,295,462</u>
Less: Current portion	<u>1,653,572</u>	<u>1,061,307</u>
Total long term obligations, net of current portion	<u>\$998,799</u>	<u>\$234,155</u>

(1) These notes bear interest at the rate of 12%, are secured by the assets of the Company and are convertible into shares of Kronos common stock at \$0.003 or are payable in full on June 19, 2010. On April 1, 2008, the Company made a \$628,000 principle payment on the notes to AirWorks and Hilltop. Under the terms of a Letter Agreement between AirWorks, Hilltop and the Company dated April 22, 2008 amending the Funding Agreement and Letter Agreement between Sun, Gumbinner and the Company dated April 30, 2008, AirWorks, Hilltop, Sun and Gumbinner may not convert prior to June 30, 2008 any outstanding principal amount of their respective notes, or any accrued and unpaid interest thereon, to the extent such conversion would require the Company to issue shares of Common Stock in excess of Kronos' authorized and unissued shares of Common Stock.

(2) These notes bear interest at the rate of 12%, are secured by the assets of the Company and are payable in full on April 30, 2008. The notes were paid in full by the Company on April 1, 2008.

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

(4) Under GAAP, the Company recorded a discount for the beneficial conversion feature ("BCF") on the amount of the convertible debt issued to AirWorks, Hilltop, Sun and Gumbinner. The amount of BCF discount was calculated using the Black-Scholes model. Because the maximum value of the BCF discount can not exceed the full value of the issued debt, the Company recorded the discount at the full value of the debt. The Company is amortizing the BCF discount over the three year life of the debt. For the nine months ended March 31, 2008, the Company recorded a BCF discount amortization of \$1,696,085.

#### NOTE 10 - COMMITMENTS AND CONTINGENCIES

In June 2007, Kronos entered into a Funding Agreement with a group of lenders providing for a loan, at the discretion of the lenders, in the aggregate amount of up to \$18,159,000. At the initial closing, the Company received an initial advance of \$4,259,000. After payment in full of the amounts due under a convertible debenture issued to Cornell Capital Partners and the settlement agreement obligation to HoMedics and payment of the expenses of the transaction, the remainder of \$1,069,000 was used for working capital purposes. The initial new lenders were: (i) AirWorks Funding LLLP, a newly-formed limited partnership; (ii) Critical Capital Growth Fund, L.P. and various Sands Brothers Venture Funds, all of which are affiliates of Laidlaw and Co. (UK) Ltd. and (iii) RS Properties I LLC, a New York-based private investment company. RS Properties assigned to Hilltop Holding Company, LP, a Delaware limited partnership, ("Hilltop") its promissory note together with certain other rights and agreements relating thereto, including, without limitation, its rights and obligations under the Funding Agreement. During the nine months ended March 31, 2008, the Company received an additional \$2,533,000 in funding under the terms of the Funding Agreement and related notes.

The loan is secured by all of the Company's assets and is convertible into shares of the Company's common stock at a conversion price of \$0.003 per share, subject to adjustment under certain circumstances. The Company recorded a discount for BCF on the amount of the convertible debt. The amount of BCF discount was calculated using the Black-Scholes model. Because the maximum value of the BCF discount can not exceed the full value of the issued debt, the Company recorded the discount at the full value of the debt. The Company is amortizing the BCF discount over the three year life of the debt. A Under the terms of a Letter Agreement between AirWorks, Hilltop and the Company dated April 22, 2008 amending the Funding Agreement, AirWorks and Hilltop may not convert prior to June 30, 2008 any outstanding principal amount of the Airworks Note or the Hilltop Note, or any accrued and unpaid interest thereon, to the extent such conversion would require the Company to issue shares of Common Stock in excess of Kronos' authorized and unissued shares of Common Stock. Future installments under the Funding Agreement, up to \$11,995,000, may be advanced at the discretion of the lenders, even if not requested by the Company. Under the Funding Agreement and related notes, the Company pays interest on the notes at the rate of 12% per annum. Of the total amount of the initial advance, monthly interest payments commenced on July 1, 2007 on \$859,000, which represented the Critical Capital and Sands note. On March 13, 2008, Critical Capital and Sands Brothers agreed to extend the maturity date of their note until April 30, 2008. On April 1, 2008, the Company repaid Critical Capital and Sands Brothers the full principal amount and interest on the note. With respect to all other loan amounts, interest is paid quarterly starting January 1, 2008 and outstanding principal is due and payable June 19, 2010, unless earlier converted at the option of the lenders. The interest owed had been accrued but not paid by the Company. On May 13, 2008, the Company paid the interest (\$107,442) owed through March 31, 2008 to Hilltop. The maximum loan amount is advanced under the Funding Agreement and related notes and the lenders convert the entire amount of the loan into Kronos common stock at the noted conversion price, the lenders would own approximately 93.3% of the Company's total equity on a fully diluted, as converted basis. On December 31, 2007, AirWorks and Hilltop converted \$731,440 of their Secured Convertible Promissory Notes into 243,813,400 shares of Kronos common stock resulting in a change of control of Kronos. On April 1, 2008, the Company repaid \$628,000 of the AirWorks and Hilltop notes.

In April 2007, Kronos entered into Convertible Promissory Notes with two accredited investors, Fred R. Gumbinner and Richard A. Sun. The Company received \$200,000 in funding. In June 2007, the terms of the Convertible Promissory Notes were modified to match the funding terms of the AirWorks and Hilltop notes. The loan is secured by all of the Company's assets and is convertible into shares of the Company's common stock at a conversion price of \$0.003 per share, subject to adjustment under certain circumstances. The Company recorded a discount for BCF on the amount of the convertible debt. The amount of BCF discount was calculated using the Black-Scholes model. Because the maximum value of the BCF discount can not exceed the full value of the issued debt, the Company recorded the discount at the full value of the debt. The Company is amortizing the BCF discount over the three year life of the debt. Under the terms of Letter Agreements between Gumbinner, Sun and the Company dated April 30, 2008, Gumbinner and Sun may not convert prior to June 30, 2008 any outstanding principal amount of their notes, or any accrued and unpaid interest thereon, to the extent such conversion would require the Company to issue shares of Common Stock in excess of Kronos' authorized and unissued shares of Common Stock. Interest is paid quarterly starting January 1, 2008 and outstanding principal is due and payable June 19, 2010, unless earlier converted at the option of the lenders.

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 two years and will automatically renew for successive one year terms unless Kronos or Mr. Dwight provide the other party with written notice within three months of the end of the initial term or any subsequent renewal term. Mr. Dwight's employment agreement was last renewed on August 15, 2007. In April 2006, the Board of Directors increased Mr. Dwight's 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 is 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 was for two years and will automatically renew for successive one year terms unless Kronos or Mr. Tusing provide the other party with written notice within three months of the end of the initial term or any subsequent renewal term. Mr. Tusing's employment agreement was last renewed on November 1, 2007. 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.

In October 2006, Thompson E. Fehr filed a complaint in the Second Judicial District Court of Weber County in the state of Utah against Kronos with respect to prior services rendered to High Voltage Integrated, Inc. totaling \$47,130, excluding claims for damages and legal costs. The Company is rigorously defending itself. As the Company believes this complaint is without merit, the Company believes a financial loss is remote and therefore has not recorded a contingent liability for this matter in its financial statements.



In March 2007, Allstate Insurance Company, as subrogee of David Buell, filed a complaint in the Circuit Court for the County of Oakland in the state of Michigan against HoMedics, Inc. and Kronos with respect to damages related to a fire in the home of Mr. Buell which resulted in \$244,155 in damages. In May, 2007 the case was transferred to United States District Court, in the Eastern District of Michigan. In December 2007, all the parties agreed to full resolution of this matter without any admission of liability by Kronos and without any payments by Kronos. Kronos obtained a full release from Allstate. In January 2008, the District Court dismissed the case as to Kronos with prejudice.

**NOTE 11 - SUBSEQUENT EVENTS**

On April 1, 2008, the Company repaid \$859,000 plus all the interest and fees (\$59,487) owed on the Critical Capital and Sands Brothers Note and made a partial principal payment of \$628,000 on the AirWorks and Hilltop Notes.

On May 13, 2008, the Company paid the interest (\$107,442) owed on the Hilltop Note through March 31, 2008 to Hilltop.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

### INTRODUCTORY STATEMENTS

#### FORWARD LOOKING STATEMENTS AND ASSOCIATED RISKS

THIS REPORT 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 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 REPORT GENERALLY. IN LIGHT OF THESE RISKS AND UNCERTAINTIES, THERE CAN BE NO ASSURANCE THAT THE FORWARD-LOOKING STATEMENTS CONTAINED IN THIS REPORT 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 is a product development, production and licensing company that continues to develop and patent technology that, among other things, 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 and funds are available, we intend to enter additional markets in the future. The Company currently has been issued thirteen U.S. patents and six international patents. To date, our ability to execute our strategy has been restricted by our limited amount of capital.

Kronos is focused on developing 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 (see "Independent Testing - Product Claims Platform" below).

The Company has begun establishing strategic partners with select companies both domestically and internationally for standalone and embedded applications of our proprietary technology. The Company and its partners are in various stages of developing Kronos-based products.

#### 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, bacteria and viral removal, biohazard destruction, 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. Summary results from select independent testing facilities are provided below. The tests were conducted in the U.S. unless otherwise indicated.

### Filtration Testing Results:

- Environmental Health and Engineering - reduced particle matter by up to 47% compared to days when the Kronos air purifiers were not operating in the waiting room of a pediatric office while patients were present.
- 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; and
- 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:

- Environmental Health and Engineering (viral analysis by the University of Wisconsin Department of Pediatrics and Medicine):
  - collection and removal of a wide range of respiratory viruses, including influenza A, influenza B, human rhinoviruses, human coronavirus, respiratory syncytial virus, adenovirus, and bocavirus, from the waiting room of a pediatric office while patients were present.
- 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); and
- Dr. Sergey Stoylar, a bacteriologist from the American Bacteriological Society - 100% destruction of *Bacillus subtilis* 168 (bacteria simulant).



## Medical Product Approval

In September 2006, the Russian Research Institute of Medical Equipment approved EOL's Kronos-based Tree 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 Tree air purification device for medical use.

## Market Segmentation

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

Kronos' current focus is on the first three 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 facilities.

- 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.

- 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.

Kronos is currently developing products for the air movement and purification and air purification for unique spaces markets through specific customer contracts. Kronos has granted an exclusive license to Tessera for ionic micro-cooling of integrated circuit devices or discrete electrical components. These contracts 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

*Residential Products.* In October 2007, Kronos executed a Letter of Intent for the development, manufacture and sale of air purification devices based upon Kronos' proprietary air movement and purification technology with a leading national retailer. It is expected that Kronos and the retailer would enter into a definitive purchase and supply agreement providing for the exclusive sale of private label residential standalone air purifiers through the retailer's distribution channels. Actual purchases of the products are dependent on the successful development of the product, the negotiation of a definitive purchase and supply agreement incorporating the terms of the letter of intent, other usual and customary terms and the retailers' discretion. Under the terms of the Letter of Intent, the retailer has paid Kronos \$250,000 towards

the development costs of the new products and will contribute marketing resources to assist in the product development process. The intent of the parties is for Kronos to lead and manage all development, production and manufacturing activities for the Kronos air purifier and for the retailer to actively market the Kronos air purifier through their distribution channels. In December 2007, Kronos completed design and developed of an Alpha Prototype for the customer. In January 2008, the parties initiated negotiations of a definitive Product Development and Purchase Agreement. In February 2008, the retailer filed for bankruptcy, which could negatively impact the Company's ability to finalize a definitive agreement and receive additional funds from the retailer. In March 2008, Kronos' contract manufacturing partner completed development of a Beta Prototype. During the nine months ended March 31, 2008, Kronos earned \$250,000 in product development fees.

*Medical Products.* In December 2005, the Company executed a non-exclusive license agreement with EOL LLC, a Russian Federation company ("EOL"), for manufacturing and distributing Kronos-based commercial standalone products in Russia and other select Commonwealth of Independent States. The initial medical products are currently being marketed in Russia and Ukraine and marketing plans are being implanted in, 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. During the fiscal year ended June 30, 2007, Kronos earned \$104,000 in revenue from the sale of power supplies, other electrical components and engineering services and from the royalty from the sale of finished products by EOL. During the nine months ended March 31, 2008, Kronos earned \$35,000 in revenue from licensing fees.

In August 2006, the Russian Research Institute of Medical Equipment began the process for product certification of the EOL's Kronos-based Tree air purification 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 October 2006, Scientific Institution of Health Care, Central Clinical Hospital #2 in Moscow completed a second clinical trial. As a result of these clinical trials, the Russian Research Institute approved the Kronos-based Tree 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 Tree air purification device for medical use.

The Company is in discussions to enter the U.S. medical market with one or more medical products distribution companies.

*Commercial and Other Standalone Products.* Utilizing our 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.

### **Embedded Platform**

*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 (the "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 WTC contributed \$100,000 as a Phase II grant for the project. Kronos provided \$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 is leading a team of scientists and engineers from Kronos and Intel Corporation who are also collaborating on the project. In September 2006, Kronos hired a former Intel employee to lead Kronos' development of micro cooling applications. In June 2007, the Company and the University of Washington were awarded a Phase III grant for continued funding. This additional funding is to support the further development of prototype products. The WTC is contributing \$100,000. Kronos will provide \$20,000 in funding and \$20,000 in in-kind services, including use of the Kronos Research and Product Development Facility.

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.

In March 2008, Kronos executed an Intellectual Property Transfer and License Agreement with Tessera Technologies, Inc. ("Tessera") for the transfer and license of certain intellectual property (IP) rights related to Kronos proprietary technologies to Tessera. Kronos received \$3.5 million from Tessera in exchange for the transfer of select Kronos patents covering micro-cooling applications and for an exclusive license to the Kronos technology for the field of ionic micro-cooling of integrated circuit devices or discrete electrical components. Kronos retained the rights to use these patents for applications outside of the field of micro-cooling. Tessera has the further right to acquire additional Kronos IP relating to micro-cooling applications for four quarterly payments of \$0.5 million each beginning in July 1, 2008. The two companies have the option to continue to jointly develop new technologies in this field.



*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. This next generation range hood device represented the culmination of more than twelve 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. In January 2007, the prototype design was modified based on customer input and a revised unit was shipped to the customer. In addition to financial support, the customer has also provided Kronos with product components for Kronos testing and evaluation. In February 2007, a second global appliance manufacturer committed to purchase additional prototypes from Kronos. During the year ended June 30, 2007, Kronos earned \$37,000 in revenue from the development of prototype devices for the residential range hood market place. In October 2007, Kronos shipped the additional prototypes to the customer for testing and evaluation. During the nine months ended March 31, 2008, Kronos earned \$34,000 in product development fees.

*Commercial Products.* In June 2006, the Company executed its first license for embedded applications of Kronos technology with DESA LLC ("DESA"). 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. In January 2007, DESA committed additional funds for Kronos exploration of a second Kronos-based product application. By May 2007, various prototype configurations for each of the two product applications were under test and evaluation by Kronos and DESA. During the nine months ended March 31, 2008, Kronos and DESA developed a plan for product commercialization. During the nine months ended March 31, 2008, Kronos and DESA developed a plan for product commercialization, which the Company has not begun implementing pending the prioritization of resources.

In addition, Kronos has developed an air filtration and purification mechanism capable of performing to HEPA quality standards, while eliminating bacteria and viruses. The Company believes 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 commercialize, market and distribute Kronos based commercial embedded air filtration and purification devices.

*Transportation Products.* In April 2006, Kronos was invited to serve as a member and an industrial partner in the Federal Aviation Administration's (the "FAA") Air Transportation Airliner Cabin Environment Research Center of Excellence. In this capacity, Kronos is providing 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.

## **Patents and Intellectual Property**

Kronos has been issued thirteen patents by the United States Patent and Trademark Office and six international patents. 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>Date</u>	<u>U.S. Patent #</u>	<u>Patent Title</u>	<u>Description</u>	<u>Protection</u>
August 2007	7,262,564	Alternative Geometries and Voltage Supply Management	geometry, voltage ratios and power requirements for improved operational performance	2024
July 2007	7,248,003	Electric Field Management	effective electric field management for reduced sparking	2025
October 2006	7,122,070	Method of and Apparatus for Electrostatic Fluid Acceleration	inertialess power supply for safe operation and spark prevention	2025
August 2006	7,157,704	Corona Discharge Electrode and Method	method of generating air flow and air cleaning with	2023

		of Operating	reduced amount of ozone by-product and with extended life-span of the electrodes	
July 2006	7,150,780	Electrostatic Air Cleaning Device	method for improving the efficiency of electrodes for filtering micron and sub-micron size particles	2024

May 2006	7,053,565	Electrostatic Fluid Accelerator - Power Management	effective powering of the electrodes for high level of air velocity	2024
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	2023
August 2005	6,937,455	Spark Management Method and Device	analysis, detection and prevention of sparks in a high voltage field - creating safe, effective electrostatic technology products	2022
July 2005	6,919,698	Voltage Management for Electrostatic Fluid Accelerator	materials and geometry allowing for spark free operation and use of light weight, inexpensive materials as the electrodes	2023
May 2005	6,888,314	Electrostatic Fluid Accelerator - Electrode Design Geometries	electrode design geometries and attributes including micro channeling to achieve unique air movement and purification performance	2022
April 2004	6,727,657	Electrostatic Fluid Accelerator for and a Method of Controlling Fluid	synchronization of multiple stages of arrays - increasing air flow and air flow efficiency	2022
December 2003	6,664,741	Method of and Apparatus for Electrostatic Fluid Acceleration Control of a Fluid Flow	ratio of voltage for producing ion discharge to create air movement and base level filtration	2022
January 2003	6,504,308	Electrostatic Fluid Accelerator	electrode density core for producing ion discharge to create air movement and base level filtration	2019

### **International Patents**

Kronos has received formal notification from the Canadian Intellectual Property Office, the Mexican Institute of Industrial Property, Commonwealth of Australia Patent Office, the Intellectual Property Office of New Zealand and the Ukrainian Patent Office indicating that six patents have been examined and allowed for issuance as patents. There are a number of other patent applications corresponding to Kronos' thirteen 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

### **Intellectual Property Transfer**

In March 2008, Kronos transferred U.S. Patents 6,919,698 and 7,157,704 and related foreign patents and patent applications to Tessera in conjunction with the execution of the Intellectual Property Transfer and License Agreement and the receipt of \$3.5 million from Tessera. The Agreement provides Tessera the additional right to acquire U.S. Patents 6,504,308 and 6,888,314 and related foreign patents upon the payment of an additional \$2.0 million.

## **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 Nine Months Ended March 31, 2008 ("2008") Compared with the Nine Months Ended March 31, 2007 ("2007").**

Our net losses for 2008 and 2007 were \$2,339,000 and \$2,501,000, respectively. The \$162,000, or 6%, decrease in the net loss for 2008, as compared to 2007 was principally the result of a \$3,134,000 increase in gross profit, partially offset by a \$1,696,000 in accretion of note discount, a \$1,039,000, or 45%, increase in operating costs to \$3,341,000, and \$237,000, or 91%, increase in interest expense to \$499,000.

*Revenue.* Revenues are generated through the licensing of Kronos technology and through sales of services for design and development of Kronos devices at Kronos Air Technologies, Inc. Revenues for 2008 were \$3,598,000 compared with \$156,000 for 2007, an increase of \$3,442,000. Revenues for 2008 were from our agreements with Tessera, a national retailer, global consumer products company and EOL. In comparison, revenues for 2007 were from our agreements with EOL, GE and DESA.

*Cost of Sales.* Cost of sales for 2008 was \$401,000 compared with \$93,000 for 2007, an increase of \$308,000, or 331%. Cost of sales for 2008 primarily consisted of the cost of the patents transferred to Tessera and the product development costs associated with our national retailer and global consumer products company agreements. In comparison, cost of goods sold for 2007 primarily consisted of product development costs associated with our EOL, GE and DESA agreements.

*Selling, General and Administrative Expenses.* Selling, General and Administrative expenses for 2008 increased \$1,039,000, or 45%, to \$3,341,000. The increase was principally the result of a \$614,000, or 56%, increase in compensation and benefits primarily as a result of a \$393,000, or 266%, increase in the expense for amortization of stock options that vested, a \$288,000, or 109%, increase in professional services as a result of an increase in advisory services from our majority shareholder, as well as legal expenses and a \$190,000, or 500%, increase in product development costs.

*Accretion of Note Discount.* Accretion of note discount for 2008 of \$1,696,000 represented the amortization of the beneficial conversion feature of the AirWorks, Hilltop, Sun and Gumbinner promissory notes.

*Interest Expense.* Interest expense for 2008 was \$499,000 compared to \$262,000 for the corresponding period of the prior year. The \$237,000, or 90%, increase in interest expense for 2008, as compared to 2007, was principally the result of the increase in the debt outstanding in 2008 primarily to AirWorks, Hilltop, Sands and Critical Capital compared with debt outstanding in 2007 primarily to HoMedics.

### **Consolidated Balance Sheet as of March 31, 2008 Compared with June 30, 2007**

Our total assets at March 31, 2008 were \$5,060,000 compared with \$2,111,000 at June 30, 2007. Total assets at March 31, 2008 and June 30, 2007 were comprised primarily of \$3,579,000 and \$364,000, respectively, of cash and \$1,450,000 and \$1,723,000, respectively, of patents/intellectual property. Total current assets at March 31, 2008 and June 30, 2007 were \$3,602,000 and \$381,000, respectively, while total current liabilities for such periods were \$2,675,000 and \$1,589,000, respectively. This created a working capital surplus of \$927,000 at March 31, 2008 and a working capital deficit of \$1,208,000 at June 30, 2007.

Stockholders' surplus as of March 31, 2008 was \$1,386,000. The recording of the discount on the beneficial conversion feature on AirWorks, Hilltop, Sun and Gumbinner promissory notes (\$2,079,000), the issuance of equity from the conversion of promissory notes into stock (\$731,000), the issuance of stock options for services (\$604,000), and the issuance of stock for services (\$24,000) were partially offset by the \$2,339,000 net loss for 2008.

### **LIQUIDITY AND CAPITAL RESOURCES**

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

Net cash flow generated from operating activities was \$1,011,000 for the nine months ended March 31, 2008 principally as a result of the Tessera transaction. We estimate that achievement of our business plan will require additional funding. We anticipate that the source of funding will be obtained pursuant to equity funding from the Funding Agreement and the potential for Tessera to exercise their option to acquire additional IP from Kronos, which are described below. There are no assurances that these sources of funding will be available to the Company or adequate to meet our cash flow needs.

In March 2008, Kronos executed an Intellectual Property Transfer and License Agreement with Tessera Technologies, Inc. ("Tessera") for the transfer and license of certain intellectual property ("IP") rights related to Kronos proprietary technologies to Tessera. Kronos received \$3.5 million from Tessera in exchange for the transfer of select Kronos patents covering micro-cooling applications and for an exclusive license to the Kronos technology for ionic micro-cooling of integrated circuit devices or discrete electrical components. Kronos retained the rights to use these patents for all applications outside of the field of micro-cooling. Tessera further has the right to acquire additional Kronos IP relating to micro-cooling applications for four quarterly payments of \$0.5 million each beginning in July 1, 2008. The two companies have the option to continue to jointly develop new technologies in this field.

In June 2007, Kronos entered into a Funding Agreement with a group of lenders providing for a loan, at the discretion of the lenders, in the aggregate amount of up to \$18,159,000. At the initial closing, the Company received an initial advance of \$4,259,000. After payment in full of the amounts due under a convertible debenture issued to Cornell Capital Partners and the settlement agreement obligation to HoMedics and payment of the expenses of the transaction, the remainder of \$1,069,000 was used for working capital purposes. The initial new lenders were: (i) AirWorks Funding LLLP, a newly-formed limited partnership; (ii) Critical Capital Growth Fund, L.P. and various Sands Brothers Venture Funds, all of which are affiliates of Laidlaw and Co. (UK) Ltd. and (iii) RS Properties I LLC, a New York-based private investment company. RS Properties assigned to Hilltop Holding Company, LP, a Delaware limited partnership, ("Hilltop") its promissory note together with certain other rights and agreements relating thereto, including, without limitation, its rights and obligations under the Funding Agreement. During the nine months ended March 31, 2008, the Company received an additional \$2,533,000 in funding under the terms of the Funding Agreement and related notes.

The loan is secured by all of the Company's assets and is convertible into shares of the Company's common stock at a conversion price of \$0.003 per share, subject to adjustment under certain circumstances. Under the terms of a Letter Agreement between AirWorks, Hilltop and the Company dated April 22, 2008 amending the Funding Agreement, AirWorks and Hilltop may not convert prior to June 30, 2008 any outstanding principal amount of the Airworks Note or the Hilltop Note, or any accrued and unpaid interest thereon, to the extent such conversion would require the Company to issue shares of Common Stock in excess of Kronos' authorized and unissued shares of Common Stock. Future installments under the Funding Agreement, up to \$11,995,000, may be advanced at the discretion of the lenders, even if not requested by the Company. Under the Funding Agreement and related notes, the Company pays interest on the notes at the rate of 12% per annum. Of the total amount of the initial advance, monthly interest payments commence on July 1, 2007 on \$859,000, which was initially due and payable on March 31, 2008. On March 13, 2008, Critical Capital and Sands Brothers agreed to extend the maturity date of their note until April 30, 2008. On April 1, 2008, the Company repaid Critical Capital and Sands Brothers the full principal amount and interest on the note. With respect to all other loan amounts, interest is paid quarterly starting January 1, 2008 and outstanding principal is due and payable June 19, 2010, unless earlier converted at the option of the lenders. The interest owed had been accrued but not paid by the Company. On May 13, 2008, the Company paid the interest (\$107,442) owed on the Hilltop Note through March 31, 2008 to Hilltop. The maximum loan amount is advanced under the Funding Agreement and related notes and the lenders convert the entire amount of the loan into Kronos common stock at the noted conversion price, the lenders would own approximately 93.3% of the Company's total equity on a fully diluted, as converted basis. On December 31, 2007, AirWorks and Hilltop converted \$731,440 of their Secured Convertible Promissory Notes into 243,813,400 shares of Kronos common stock resulting in a change of control of Kronos. On April 1, 2008, the Company repaid \$628,000 of the AirWorks and Hilltop notes.

## **GOING CONCERN OPINION**

The Report of Independent Registered Public Accounting Firm for the years ended June 30, 2007 and 2006 included an explanatory paragraph that stated 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, manufacture 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 do not have sufficient cash to continue operations and to support our debt obligations and will require additional financing to sustain our operations.**

At March 31, 2008, we had a working capital surplus of \$927,000. However, Kronos historically has had working capital deficits, including a working capital deficit of \$1,208,000, at June 30, 2007. The Report of Independent Registered Public Accounting Firm for the year ended June 30, 2007, includes an explanatory paragraph to their audit opinion stating that our recurring losses from operations and working capital deficiency raise doubt about our ability to continue as a going concern. Funding may be available to Kronos through AirWorks and Hilltop and through the acquisition of IP by Tessera. However, Kronos has not determined if this funding will be sufficient, because the lenders, at their sole discretion, control the timing of and whether such funding will occur and Tessera has, at their sole discretion, the option to acquire additional Kronos IP.

**We have a limited operating history with significant losses.**

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 a history of profitable operations. We incurred a net loss of \$2,339,000 for the nine months ended March 31, 2008 and a net loss of \$2,351,000 for the fiscal year ended June 30, 2007. As a result, at March 31, 2008 and June 30, 2007, we had an accumulated deficit of \$35,508,000 and \$33,469,000, respectively. We have sustained our operations through the issuance of our common stock, the incurrence of debt and the licensing of our technology. 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. If we do not achieve profitability we could be forced to curtail or cease our business operations.

**Existing stockholders will experience significant dilution from our sale of shares under any equity financing.**

The sale of shares pursuant to the conversion of the AirWorks, Hilltop Sun and Gumbinner Secured Convertible Promissory Notes, the exercise of stock options and 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 December 2007, AirWorks and Hilltop converted \$731,440 of their Secured Convertible Promissory Notes into 243,813,400 shares of Kronos common stock resulting in a change in control of Kronos and dilution to the Company's existing stockholders.

**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 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 or cease 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 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. If we are unable to enforce protection of our intellectual property, we could be forced to curtail or cease our business operations.

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

Our net intangible assets of approximately \$1,450,000 as of March 31, 2008 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 29% of our total assets as of March 31, 2008. 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 Kronos-based products. 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: (i) With a price of less than \$5.00 per share; (ii) That are not traded on a "recognized" national exchange; or (iii) In issuers with net tangible assets less than \$2,000,000 (if the issuer has been in continuous operation for at least three years) or \$5,000,000 (if in continuous operation for less than three years), or with average revenues of less than \$6,000,000 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 and product development 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 product 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 March 31, 2008, the Company carried out an evaluation, under the supervision and with the participation of the Company's Principal Officer/Principal Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to Rule 13a-15 of the Exchange Act. It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. Based on that evaluation, the Company's management, including the Company's Principal Executive Officer/Principal Financial Officer, concluded that the Company's disclosure controls and procedures were ineffective at this reasonable assurance level as of March 31, 2008.

*Changes in Internal Controls over Financial Reporting.* In connection with the evaluation of the Company's internal controls over financial reporting during the Company's three months ended March 31, 2008, the Company's Principal Executive Officer/Principal Financial Officer has determined that there were no changes to the Company's internal controls over financial reporting during the quarter that have materially affected or is reasonably likely to affect the Company's internal control over financial reporting.

## **PART II**

### **ITEM 1. LEGAL PROCEEDINGS**

From time to time the Company may be subject to law suits in the normal course of business.

In October 2006, Thompson E. Fehr filed a complaint in the Second Judicial District Court of Weber County in the state of Utah against Kronos with respect to prior services rendered to High Voltage Integrated, Inc. totaling \$47,130 excluding claims for damages and legal costs. The Company is rigorously defending itself. As the Company believes this complaint is without merit, the Company believes a financial loss is remote and therefore has not recorded a contingent liability for this matter in its financial statements.

In March 2007, Allstate Insurance Company, as subrogee of David Buell, filed a complaint in the Circuit Court for the County of Oakland in the state of Michigan against HoMedics, Inc. and Kronos with respect to damages related to a fire in the home of Mr. Buell which resulted in \$244,155 in damages. In May, 2007 the case was transferred to United States District Court, in the Eastern District of Michigan. In December 2007, all the parties agreed to full resolution of this matter without any admission of liability by Kronos and without any payments by Kronos. Kronos obtained a full release from Allstate. In January 2008, the District Court dismissed the case as to Kronos with prejudice.

## ITEM 6. 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
3.2	Bylaws	Incorporated by reference to Exhibit 3.2 to the Registration Statement
10.1	Amendment No.1 to Kronos Advanced Technologies, Inc. Secured Convertible Promissory Note with Sands, et. al. dated December 31, 2007	Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on January 7, 2008
10.2	Amendment No.2 to Kronos Advanced Technologies, Inc. Secured Convertible Promissory Note with Sands, et. al. dated March 13, 2008	Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on March 14, 2008
10.3	Intellectual Property Transfer and License Agreement between Kronos Advanced Technologies, Inc. and Tessera Technologies, Inc. dated March 31, 2008	Provided herewith
10.4	Letter Agreement amending the Funding Agreement between Kronos Advanced Technologies, Inc. AirWorks Funding LLLP and Hilltop Holding Company, LP dated April 22, 2008	Provided herewith
31	Certification of Chief Executive 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.

KRONOS ADVANCED TECHNOLOGIES, INC.

DATED: May 14, 2008

By: /s/ DANIEL R. DWIGHT

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Daniel R. Dwight  
President, Chief Executive Officer and  
Chief Financial Officer

## Intellectual Property Transfer and License Agreement

**THIS INTELLECTUAL PROPERTY TRANSFER AND LICENSE AGREEMENT** (the "Agreement") is made as of March 31, 2008 (the "Effective Date"), by and between **KRONOS ADVANCED TECHNOLOGIES, INC.**, a Nevada corporation with a principal address at 464 Common Street, Suite 301, Belmont, MA 98052 ("Kronos") and **TESSERA TECHNOLOGIES, INC.**, a Delaware corporation having a principal address at 3099 Orchard Drive, San Jose, CA 95134 ("Tessera").

### 1. DEFINITIONS

1.1 **"Additional Patent Rights"** means the Patent Rights listed on Exhibit B.

1.2 **"Affiliate"** means an entity that, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with Tessera or Kronos. For this purpose, "control" will mean possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such entity, whether through ownership of voting securities or other interests, by contract or otherwise. An entity shall be deemed an Affiliate only for so long as such control exists.

1.3 **"Change of Control"** means as used with respect to any either party, shall mean a change in the possession, directly or indirectly, of the power, either to (i) vote 50% or more of the securities having ordinary voting power with respect to such party; or (ii) determine the majority of the board of directors of such party; or (iii) direct or cause the direction of the management policies of such party, whether through ownership of voting securities or by contract or otherwise.

1.4 **"Confidential Information"** shall mean any information disclosed by one party to the other in connection with this Agreement, whether in electronic, written, graphic, oral, machine readable or other tangible or intangible form, that is marked or identified at the time of disclosure as "Confidential" or "Proprietary" or in some other manner so as to clearly indicate its confidential nature. In order to be treated as "Confidential Information," information that is disclosed orally must be identified at the time of disclosure or promptly thereafter as confidential or proprietary.

1.5 **"Development Program"** means the joint development program agreed upon by the parties to further develop the Technology in the Field in accordance with that certain Joint Development Agreement between the parties of even date herewith.

1.6 **"Field"** means the field of ionic micro-cooling of integrated circuit devices or discrete electrical components.

1.7 **"Licensed Technology"** means the Patent Rights owned by Kronos that are not included in the Transferred Technology but that have application in the Field, including the Additional Patent Rights, as well as all Technology owned or controlled by Kronos that has application in the Field.

1.8 **"Patent Rights"** shall mean all rights in and to U.S. and foreign patents and patent applications claiming any inventions or discoveries made, developed, conceived, or reduced to practice, including all divisions, substitutions, continuations, continuations-in-part, and any reissues, re-examinations and extensions thereof.

1.9 **"Program Technology"** means all Technology and related Patent Rights and other intellectual property rights other than trademark rights first created or reduced to practice by either party under the Development Program and all Technology and related intellectual property rights applicable to the field of electrostatic fluid accelerators first created or reduced to practice by either party during the term of the Joint Development Agreement.

1.10 **"Technology"** whether in electronic, written or other media, means designs, design and manufacturing documentation (such as bill of materials, build instructions and test reports), schematics, algorithms, routines, formulae, software, databases, lab notebooks, specifications, current best method of assembly, tooling specifications, design methods and techniques, proprietary software, process data, yields, reliability data, and other engineering data and test results, development and lab equipment requirements, processes, and know-how.

1.11 **"Tessera Intellectual Property"** means the Transferred Technology and all Program Technology having the primary function of ionic micro-cooling of integrated circuit devices or discrete electrical components, and any improvements or derivatives of the Program Technology developed during the term of the Development Program having the primary function of ionic micro-cooling of integrated circuit devices or discrete electrical components.

1.12 **"Transferred Technology"** means the Patent Rights listed on Exhibit A, and upon final payment of amounts due hereunder, the Additional Patent Rights, including any patents that issue from any applications listed on Exhibit B, and any foreign counterparts, reissues, renewals, divisionals, continuations, or continuations in part of the patents, or of patents that issue from the applications, listed on Exhibit B.

## 2. ASSIGNMENT AND LICENSING

2.1 **Assignment to Tessera.** Kronos hereby assigns to Tessera all of Kronos's right, title and interest in and to the Patent Rights listed on Exhibit A pursuant to the completed assignment agreement in Exhibit C hereto. When Tessera makes the final quarterly payment pursuant to Section 3.1 below, Kronos shall assign to Tessera all of Kronos' right, title and interest in and to the Additional Patent Rights, as well as to any patents that issue from any applications listed on Exhibit B, and any foreign counterparts, reissues, renewals, divisionals, continuations, or continuations in part of the patents, or of patents that issue from the applications, listed on Exhibit B. If Tessera is unable for any reason, after reasonable effort, to secure Kronos' signature on any document needed in connection with the actions specified above, Kronos hereby irrevocably designates and appoints Tessera and its duly authorized officers and agents as its agent and attorney in fact, which appointment is coupled with an interest, to act for and in its behalf to execute, verify and file any such documents and to do all other lawfully permitted acts to accomplish the assignment to Tessera of all Transferred Technology with the same legal force and effect as if executed by Kronos.

2.2 **License to Tessera.** Subject to the terms and conditions of this Agreement, Kronos grants to Tessera and its Affiliates, and agrees to grant to Tessera and its Affiliates automatically upon creation of the applicable Patent Rights, an exclusive (even as to Kronos, except for purposes of research, development and demonstration), perpetual, irrevocable, worldwide license, with right to sublicense, under and to the Licensed Technology, provided however, that notwithstanding anything in this Agreement to the contrary, all license and rights granted to Tessera to and under the Additional Patent Rights shall expire at the earlier of (i) the assignment of the Additional Patent Rights under Section 2.1 or April 1, 2009, to make, have made, use, import, offer to sell, and sell products and services in the Field. For purposes of clarity, the foregoing license grant does not require Kronos to deliver to Tessera any particular element of Kronos' Technology and shall be deemed as a covenant by Kronos not to assert any claims of copyright infringement or trade secret misappropriation against Tessera for activities that Tessera undertakes in the Field. Actual disclosures of Technology by Kronos to Tessera will also be covered by this license grant, whether under this Agreement or under the Development Agreement between the parties of even date herewith.

2.3 **Licenses to Kronos.** Subject to the terms and conditions of this Agreement, Tessera hereby grants to Kronos and its Affiliates, and agrees to grant to Kronos and its Affiliates automatically upon creation of the applicable Intellectual Property, (a) a perpetual, irrevocable, exclusive (even as to Tessera, except for purposes of research, development and demonstration), worldwide license, with right to sublicense, under and to the Transferred Technology and any other Patent Rights that Kronos assigns to Tessera pursuant to this Agreement to make, have made, use, import, offer to sell and sell products and services outside the Field and (b) a perpetual, royalty-free, exclusive (even as to Tessera, except for purposes of research, development and demonstration), worldwide license, with right to sublicense, under and to the Program Technology owned or controlled by Tessera to make, have made, use, import, offer to sell, and sell products and services limited to the field of electrostatic fluid accelerators outside the Field.

2.4 **Ownership.** As between the parties, Tessera shall be the owner of all right, title and interest in and to the Tessera Intellectual Property. If ownership by Tessera of an invention within the Tessera Intellectual Property would impact the patentability of such invention or validity or term of any patent or application claiming such invention, then such invention and all Patent Rights covering such invention shall be owned by Kronos, subject to assignment to Tessera upon request from Tessera at such time as such impact ceases to have effect. Such invention and any patent covering such invention that may issue, owned by Kronos, shall be subject to the exclusive license to Tessera set forth in Section 2.2 above, until such time thereafter as Kronos assigns such invention and patent to Tessera, which invention and any patent covering such invention shall then be subject to the license grant set forth in Section 2.3 above.

2.5 **Reservation of Rights.** No right, title or interest is granted by either party whether expressly or by implication to or under any of its Patent Rights or rights in Technology, other than those ownership rights and licenses expressly granted in this Agreement. In addition, and notwithstanding any other provision in this Agreement to the contrary, neither party grants the other any rights or licenses to use any of its trademarks. Each party reserves to itself all rights not expressly granted under this Agreement.

### 3. PAYMENT TERMS

3.1 **Payment.** In consideration for the assignment of the Transferred Technology and the license of the Licensed Technology, Tessera agrees to pay Kronos Three Million, Five Hundred Thousand Dollars (\$3,500,000) upon the Effective Date of this Agreement. In addition, Tessera agrees to make additional payments of Five Hundred Thousand Dollars (\$500,000) per calendar quarter (each an "Installment Payment"), with the first Installment Payment due July 1, 2008, the second Installment Payment due October 1, 2008, the third Installment Payment due January 1, 2009, and the final Installment Payment due April 1, 2009. Tessera may, at its option, accelerate payments and pay all Installment Payments early. Upon any such early complete payment of all the Installment Payments, the Additional Patent Rights to be assigned pursuant to Section 2.1 above shall be immediately assigned upon receipt of all Two Million Dollars (\$2,000,000) of the Installment Payments.

3.2 **Taxes.** Tessera may withhold from payments due under this Agreement taxes as are required to be withheld under applicable law. If any tax is withheld by Tessera, Tessera will provide Kronos with receipts or other evidence of such withholding and payment to the applicable tax authorities.

### 4. PATENT ADMINISTRATION, PROSECUTION AND ENFORCEMENT

#### 4.1 Patent Prosecution.

(a) As between the parties, Tessera shall have the first right to prepare, file, prosecute and maintain, at its own expense and in consultation with Kronos, patent applications covering any of the Tessera Intellectual Property, regardless of inventorship, and to conduct any interferences, re-examinations, reissues, oppositions or requests for patent term extension or governmental equivalents thereto. In the event that Tessera does not file, prosecute or maintain any patent or patent application regarding any Program Technology within the Tessera Intellectual Property, then Kronos shall have the right to assume such activities at its own expense but without affecting the ownership and license provisions set forth in this Agreement.

(b) As between the parties, Kronos shall have the first right to prepare, file, prosecute and maintain, at its own expense any patent applications covering any of the Licensed Technology or any Program Technology owned or controlled by Kronos, and to conduct any interferences, re-examinations, reissues, oppositions or requests for patent term extension or governmental equivalents thereto, but in each instance in consultation with Tessera and subject in each instance to the prior written approval of Tessera as to any action relating to the Additional Patent Rights. In the event that Kronos does not file, prosecute or maintain any patent or patent application regarding any Additional Patent Rights, then Tessera shall have the right to assume such activities at its own expense but without affecting the ownership and license provisions set forth in this Agreement.



4.2 **Cooperation.** Subject to Section 4.1, Tessera and Kronos shall both use reasonable efforts to keep the other fully informed as to the status of patent matters with respect to the Program Technology, the Transferred Technology and the Licensed Technology, including by providing the other the opportunity to review and comment on complete copies of any documents a reasonable time in advance of applicable filing dates and prosecution deadlines, and upon request, providing to the other party copies of any substantive documents that a party receives from the United States Patent and Trademark Office and any foreign patent offices, promptly after receipt, including notice of all official actions, interferences, reissues, reexaminations, oppositions, or requests for patent term extensions. Tessera and Kronos shall each reasonably cooperate with and assist the other at its own expense in connection with such activities, at the other party's request. Each party shall reasonably accommodate requests of the other party with respect to content, filing and prosecuting its own patent applications directed to Program Technology, Transferred Technology and Licensed Technology, and will equitably allocate marginal external costs, other than its principle outside patent counsel fees attributable to such accommodation. Each party agrees to assign a representative who will (a) facilitate communication between the parties regarding patents and patent applications with respect to Program Technology as well as with respect to the Transferred Technology and Licensed Technology, (b) discuss and provide input on patent strategy with respect to Program Technology, Transferred Technology and Licensed Technology, and (c) review applications and other substantive papers with respect to Program Technology, Transferred Technology and Licensed Technology prior to filing with the patent office. Subject to Section 2.1, Kronos hereby assigns and agrees to assign when created its interest in all Program Technology having the primary function of ionic micro-cooling of integrated circuit devices or discrete electrical components, and shall cooperate in effecting such assignment at no cost to Tessera (e.g., by providing declarations or other documentation that may be reasonably necessary to perfect such assignment).

#### 4.3 **Enforcement.**

(a) **Notice.** Each party shall promptly notify the other of its knowledge of any actual or potential commercially material infringement of the Program Technology, Transferred Technology or Licensed Technology by a Third Party.

(b) **Program Technology.** Tessera shall have the initial right, but not the obligation, to take reasonable legal action to enforce Patent Rights and other intellectual property rights in and to the Program Technology, against commercially material infringements that involve the manufacture, use, sale, offer for sale or import of those inventions in the Field. If Tessera does not take action sufficient to halt such infringement within six (6) months following receipt of notice of such infringement, and Tessera grants consent in its sole discretion on a case-by-case basis, then Kronos shall have the right, but not the obligation, to take action to stop such infringement at its sole expense. Kronos shall have the initial right, but not the obligation, to take reasonable legal action to enforce Patent Rights and other intellectual Property rights relating to the Program Technology, against commercially material infringements that involve the manufacture, use, sale, offer for sale or import of those inventions relating to electrostatic fluid accelerators outside of the Field, provided that Kronos first obtains Tessera's prior written consent regarding enforcing any Patent Rights or other intellectual property rights owned by Tessera, such consent not to be unreasonably conditioned, delayed or withheld. If Kronos does not take action sufficient to halt such infringement within six (6) months following receipt of notice of such infringement, and Kronos grants consent in its sole discretion on a case-by-case basis, then Tessera shall have the right, but not the obligation, to take action to stop such infringement at its sole expense.

(c) **Licensed Technology and Transferred Technology.** For so long as Tessera maintains an exclusive license to the Licensed Technology, Tessera shall have the initial right, but not the obligation, to take reasonable legal action to enforce Patent Rights relating to the Licensed Technology, against commercially material infringements that involve the manufacture, use, sale, offer for sale or import of those inventions in the Field. If Tessera does not take action sufficient to halt such infringement within six (6) months following receipt of notice of such infringement then Kronos shall have the right, but not the obligation, to take action to stop such infringement at its sole expense. Kronos shall have the initial right, but not the obligation, to take reasonable legal action to enforce Patent Rights relating to the Transferred Technology, against commercially material infringements that involve the manufacture, use, sale, offer for sale or import of those inventions outside of the Field, provided that Kronos first obtains Tessera's prior written consent regarding enforcing any Patent Rights or other intellectual property rights owned by Tessera, such consent not to be unreasonably conditioned, delayed or withheld. If Kronos does not take action sufficient to halt such infringement within six (6) months following receipt of notice of such infringement, then Tessera shall have the right, but not the obligation, to take action to stop such infringement at its sole expense.

(d) **Cooperation; Costs.** Each party agrees to render such reasonable assistance in connection with enforcement activities described in this Section 4.3 as the enforcing party may request. The reasonable out of pocket costs of such assistance shall be paid by the party bringing such action. Costs of maintaining any such action shall be paid by and belong to the party bringing the action.

(e) **Recoveries.** Unless otherwise agreed by the parties on a case-by-case basis, only the party bringing a claim pursuant to this Section 4.3 will be entitled to receive any damages or settlement recovered from any action under this Section 4.3.

(f) **Third Party Claims of Infringement.** If the manufacture, use or sale of any Program Technology pursuant to this Agreement results in any claim, suit or proceeding alleging patent infringement against Kronos or Tessera, the party named as the defendant in that claim, suit or proceeding shall promptly notify the other party hereto in writing setting forth the facts of such claims in reasonable detail. Kronos, to the extent that such claim, suit or proceeding relates to electrostatic fluid accelerators outside of the Field, or Tessera, to the extent that such claim, suit or proceeding relates to the Field, shall have the exclusive right and obligation to defend and control the defense of any such claim, at its own expense; provided, however, neither the defendant nor the defending party shall enter into any settlement which admits or concedes that any aspect of the Program Technology is invalid or unenforceable or materially affects the rights of the other party, or does not unconditionally release the other party from liability, without the prior written consent of the other party. The defending party shall keep the other party hereto reasonably informed of all material developments in connection with any such claim, suit or proceeding. The other party shall, upon request, provide reasonable assistance and cooperation to the defending party and may elect to participate in the defense of the claim, suit or proceeding, at its own expense using counsel of its own choice.

## 5. REPRESENTATIONS AND WARRANTIES

5.1 **Mutual Representations and Warranties.** Each party represents and warrants that:

- (a) It is a corporation duly organized and existing under the laws of the state of its incorporation, and is in good standing in such jurisdiction.
- (b) It has all requisite legal power and authority to execute, deliver and perform the Agreement.
- (c) The execution, delivery and performance of the Agreement by such party have been duly authorized by all necessary corporate action on the part of such party. The Agreement constitutes valid and binding obligations of such party, enforceable against such party in accordance with their terms. The execution and delivery of the Agreement and the performance of their terms by such party does not conflict with the terms of any material agreement to which such party is a party.
- (d) Such party has all rights to grant the licenses and rights to the other party pursuant to this Agreement.

5.2 **Additional Representations and Warranties.** Kronos further represents and warrants to Tessera that (i) the use of the Transferred Technology in the Field and the use of the Licensed Technology in the Field do not infringe or misappropriate the intellectual property rights of any third party; (ii) no third party is infringing or misappropriating the Transferred Technology or the Licensed Technology in the Field and no claims or lawsuits are pending or to Kronos' knowledge threatened with respect to the infringement or misappropriation of any Transferred Technology or Licensed Technology; and (iii) each of Kronos' employees and independent contractors that invented, made, conceived, reduced to practice or developed the Transferred Technology and the Licensed Technology executed an agreement with Kronos that assigns to Kronos the employee's or independent contractor's right, title and interest in and to the intellectual property rights in such Transferred Technology and Licensed Technology; and (iv) no current or former officer, director, stockholder, employee, consultant or independent contractor of Kronos has any right, claim or interest in or with respect to any Transferred Technology or Licensed Technology.

5.3 **DISCLAIMER OF WARRANTIES.** EXCEPT FOR THE REPRESENTATIONS, WARRANTIES AND COVENANTS EXPRESSLY SET FORTH IN THIS SECTION 5, EACH OF KRONOS AND TESSERA HEREBY DISCLAIMS ALL REPRESENTATIONS AND WARRANTIES REGARDING THE TRANSFERRED TECHNOLOGY, THE LICENSED TECHNOLOGY AND THE TESSERA INTELLECTUAL PROPERTY, WHETHER EXPRESS, STATUTORY OR IMPLIED, INCLUDING ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

## 6. INDEMNIFICATION

Kronos hereby agrees to indemnify, defend and hold Tessera and Tessera's Affiliates harmless from and against any and all liabilities, losses, damages, costs and expenses (including reasonable attorneys' fees) incurred by Tessera or its affiliates as the result of any third party claims, demands, suits or actions arising out of any breach of Kronos' representations and

warranties in Section 5.2 (hereafter "Indemnification"). Tessera agrees to give Kronos prompt written notice of any such claim, to give Kronos sole control over the defense or settlement of such claim so long as Kronos does not settle or compromise a claim in any manner that materially affects the rights granted to Tessera under this Agreement or that does not unconditionally release Tessera and its Affiliates from liability, and to give Kronos reasonable assistance in the defense or settlement of such claim upon Kronos' request and at Kronos' expense. Tessera may engage counsel at its own expense to participate in the settlement or defense of any such claim.

## 7. LIMITATION OF LIABILITY.

EXCEPT FOR A BREACH OF A LICENSE GRANT OR A CONFIDENTIALITY OBLIGATION, AND EXCEPT TO SATISFY ANY INDEMNITY OBLIGATION, IN NO EVENT SHALL EITHER PARTY OR ITS RESPECTIVE AFFILIATES BE LIABLE FOR ANY LOST PROFITS, OR FOR ANY SPECIAL, EXEMPLARY, CONSEQUENTIAL OR INCIDENTAL DAMAGES, WHETHER IN CONTRACT, WARRANTY, TORT, STRICT LIABILITY OR OTHERWISE, EVEN IF NOTIFIED OF THE LIKELIHOOD OF SUCH A CLAIM. EXCEPT FOR A BREACH OF A LICENSE GRANT OR A CONFIDENTIALITY OBLIGATION, AND EXCEPT TO SATISFY ANY INDEMNITY OBLIGATION, IN WHICH CASE EITHER PARTY'S CUMULATIVE LIABILITY TO THE OTHER UNDER THIS AGREEMENT SHALL NOT EXCEED TWICE THE AMOUNTS PAID BY TESSERA UNDER THIS AGREEMENT TO KRONOS, IN NO EVENT SHALL EITHER PARTY'S CUMULATIVE LIABILITY TO THE OTHER UNDER THIS AGREEMENT EXCEED THE AMOUNTS PAID BY TESSERA UNDER THIS AGREEMENT TO KRONOS. THE PARTIES ACKNOWLEDGE AND AGREE THAT THE FOREGOING LIMITATIONS OF LIABILITY ARE AN ESSENTIAL ELEMENT OF THIS AGREEMENT AND THAT IN THEIR ABSENCE THE TERMS OF THIS AGREEMENT WOULD BE SUBSTANTIALLY DIFFERENT.

## 8. CONFIDENTIALITY

8.1 **Confidentiality.** Except as otherwise expressly provided herein, the parties agree that the receiving party shall not, except as expressly provided in this Section 8, disclose to any third party, or use for any purpose except as set forth in Section 8.2 below, any Confidential Information furnished to it by the disclosing party pursuant to this Agreement, except in each case to the extent that it can be established by the receiving party by competent proof that such information:

- (a) was already known to the receiving party, other than under an obligation of confidentiality, at the time of disclosure;
- (b) was generally available to the public or otherwise part of the public domain at the time of its disclosure to the receiving party;
- (c) became generally available to the public or otherwise part of the public domain after its disclosure and other than through any act or omission of the receiving party in breach of this agreement;

(d) was independently developed by the receiving party without use of, or reference to, the other party's confidential information, as demonstrated by documented evidence prepared contemporaneously with such independent development; or

(e) was disclosed to the receiving party, other than under an obligation of confidentiality, by a third party authorized and entitled to disclose such information to others without restriction.

8.2 **Permitted Use and Disclosures.** Notwithstanding the restrictions of Section 8.1, each party hereto may (a) use Confidential Information disclosed to it by the other to the extent necessary for that party to perform its obligations under the Development Program and (b) use or disclose Confidential Information disclosed to it by the other party to the extent such use or disclosure is reasonably necessary in (i) exercising the rights and licenses granted hereunder, (ii) prosecuting or defending litigation, (iii) complying with applicable laws, governmental regulations or court orders or submitting information to tax or other governmental authorities (including the Securities and Exchange Commission), (iv) preparing, filing and prosecuting patent applications as specified in this Agreement, or (v) making a permitted sublicense or otherwise exercising license rights expressly granted pursuant to this Agreement; in each case, provided that if a party is required to make any such disclosure, other than pursuant to an arrangement to restrict disclosure and use, it will give reasonable advance notice to the other party of such disclosure requirement, and in each case it will use reasonable efforts to secure confidential treatment of such information (whether through protective order or otherwise), except to the extent inappropriate with respect to patent applications, and use reasonable efforts to permit the other party an opportunity maintain confidentiality of its affected Confidential Information. It is understood that either party may also disclose the Confidential Information of the other party upon receipt of the written consent to such disclosure by a duly authorized representative of the other party.

8.3 **Nondisclosure of Terms.** Each of the parties hereto agrees not to disclose the terms of this Agreement to any third party without the prior written consent of the other party hereto, which consent shall not be unreasonably withheld, except to such party's attorneys, accountants, advisors, investors and financing sources and their advisors and others on a need to know basis under circumstances that reasonably ensure the confidentiality thereof, to the extent required by law, in connection with the enforcement of this Agreement or rights under this Agreement or in connection with a merger, acquisition, financing transaction or proposed merger, acquisition or financing transaction, or the like.

8.4 **Publication of Results.** Any manuscript or other public disclosure by Tessera or Kronos describing the scientific results of the Development Program to be published within the term of the Development Program, or within one (1) year after the end of the Development Program, shall be provided to the other party for review at least ninety (90) days prior to its submission. Further, to avoid the loss of patent rights as a result of premature public disclosure of patentable information, the reviewing party may, within thirty (30) days of receiving such a proposed disclosure, notify the disclosing party in writing that, subject to Section 4, the reviewing party desires to file a patent application on any invention disclosed in such scientific results, in which case the disclosing party shall withhold publication or disclosure of such scientific results until the earlier of (a) the time the patent application is filed thereon, (b) the

time the parties both determine, after consultation, that no patentable invention exists, or (c) ninety (90) days after the disclosing party received notice of the reviewing party's desire to file such patent application. Further, if such scientific results contain Confidential Information of the receiving party that is subject to the use and nondisclosure restrictions under this Section 8, the disclosing party agrees to remove such Confidential Information from the proposed publication or disclosure or obtain the disclosing party's prior consent for such disclosure.

## 9. NON-COMPETITION.

9.1 **Tessera.** During the term of this Agreement, Tessera agrees not to engage in any activity in the field of electrostatic fluid accelerators other than in the Field, including the license of any intellectual property rights for use in the field of electrostatic fluid accelerators outside the Field other than in collaboration with Kronos.

9.2 **Kronos.** During the term of this Agreement, Kronos agrees not to engage in any activity in the Field, other than cooperating with Tessera in the Development Program and any mutually agreed commercialization efforts related to the Program Technology, without Tessera's prior written consent on a case-by-case basis.

## 10. TERM

10.1 **Term.** The term of this Agreement will commence on the Effective Date and will continue in force until December 31, 2014, unless terminated earlier.

10.2 **Termination.** This Agreement may be terminated by mutual written consent, or may be terminated for cause upon thirty (30) days prior written notice, identifying the material breach giving rise to the right to terminate for cause. A termination for cause will be effective at the end of such thirty (30) day notice period if the identified material breach has not been cured. Notwithstanding any of the foregoing, an election not to pay an Installment Payment or a failure to make an Installment Payment shall not be deemed a material breach of this Agreement.

10.3 **Repurchase Right for Failure to Commercialize.** If Tessera does not use commercially reasonable efforts to license or use the rights acquired and licensed from Kronos under this Agreement during the term of this Agreement, then Kronos shall have the option to terminate this Agreement and repurchase the Transferred Technology from Tessera for a fee of Five Million Dollars (\$5,000,000). Upon a purchase of the Transferred Technology by Kronos from Tessera, Kronos agrees to grant Tessera a perpetual, irrevocable, non-exclusive, non-transferable, worldwide right and license, without right of sublicense, to use, make, have made, import, offer to sell and sell products and services covered by the applicable Patent Rights in the Transferred Technology and the Licensed Technology.

10.4 **Licenses upon Expiration or Termination.** If this Agreement expires or terminates, the assignment under Section 2.1 and the licenses granted under Section 2, and if applicable Section 10.2, will survive subject to compliance with any applicable payment or other obligations. If the Agreement is terminated pursuant to Section 10.2 or otherwise is terminated by Kronos for cause, then the sublicense right under Section 2.2 shall terminate, though any such termination will not affect sublicenses already granted by Tessera.

10.5 **Accrued Rights and Obligations; Survival.** Expiration or termination of this Agreement will not affect any accrued rights or obligations. The provisions of Sections 1, 2, 4, 5, 6, 7, 8, 10.4, 10.5 and 11 will survive expiration or termination of this Agreement for any reason.

## 11. MISCELLANEOUS

11.1 **Rights in Bankruptcy.** All rights and licenses granted to either party under or pursuant to this Agreement are, and will otherwise be deemed to be, for purposes of Section 365(n) of the U.S. Bankruptcy Code (the "Bankruptcy Code"), licenses of rights to "intellectual property" as defined under Section 101 of the Bankruptcy Code. The parties agree that each party, as licensee of such rights under this Agreement, will retain and may fully exercise all of its rights and elections as a licensee of intellectual property under the Bankruptcy Code.

11.2 **Governing Law.** This Agreement and any dispute arising from the construction, performance or breach hereof shall be governed by and construed and enforced in accordance with the laws of the State of California, without reference to its conflict of law principles.

11.3 **Assignment.** Neither party shall assign this Agreement, in whole or in part, without the prior written consent of the other party, which consent shall not be unreasonably conditioned, delayed or withheld; provided, however, that either party may assign this Agreement without such consent, to a parent, subsidiary, or Affiliate. Any purported assignment without such consent shall be void and of no effect. Subject to the foregoing sentence, this Agreement will be binding on and inure to the benefit of the parties and their respective successors and permitted assigns.

11.4 **Representation by Legal Counsel.** Each party hereto represents that it has been represented by legal counsel in connection with this Agreement and acknowledges that it has participated in the drafting hereof. In interpreting and applying the terms and provisions of this Agreement, the parties agree that no presumption shall exist or be implied against the party that drafted such terms and provisions.

11.5 **Waiver.** It is agreed that no waiver by either party hereto of any breach or default of any of the covenants or agreements herein set forth shall be deemed a waiver as to any subsequent and/or similar breach or default.

11.6 **Severability.** In the event that any provision of this Agreement becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect to the fullest extent permitted by law without said provision, and the parties shall amend the Agreement to the extent feasible to lawfully include the substance of the excluded term to as fully as possible realize the intent of the parties and their commercial bargain except to the extent that such amendment can not preserve the essential purpose of this Agreement.

11.7 **Independent Contractors.** The relationship of the parties hereto is that of independent contractors. The parties hereto are not deemed to be agents, partners or joint ventures of the others for any purpose as a result of this Agreement or the transactions contemplated thereby.

11.8 **Compliance with Laws.** In exercising their rights under the license granted hereunder, each party shall fully comply in all material respects with the requirements of any and all applicable laws, regulations, rules and orders of any governmental body having jurisdiction over the exercise of rights and the performance of obligations by either party under this Agreement.

11.9 **Export Control Regulations.** The rights and obligations of the parties under this Agreement, shall be subject in all respects to United States laws and regulations as shall from time to time govern the license and delivery of Technology abroad, including the United States Foreign Assets Control Regulations, Transaction Control Regulations and Export Control Regulations, as amended, and any successor legislation issued by the Department of Commerce, International Trade Administration, or Office of Export Licensing.

11.10 **Notices.** All notices, requests and other communications hereunder shall be in writing and shall be hand delivered, or sent by express delivery service with confirmation of receipt, or sent by registered or certified mail, return receipt requested, postage prepaid, or by facsimile transmission (with written confirmation copy by registered first-class mail), in each case to the respective address or facsimile number indicated below. Any such notice shall be deemed to have been given when received. Either party may change its address or facsimile number by giving the other party written notice, delivered in accordance with this Section. Notwithstanding the foregoing, communications under Section 4 may be conducted by electronic mail.

For Kronos:

Daniel Dwight, President & CEO  
464 Common Street, Suite 301  
Belmont MA 98052  
Fax: 617.364.5085  
Email: [ddwight@kronosati.com](mailto:ddwight@kronosati.com)  
Phone: 617.364.5087

With copy to:

Rey Pascual  
Paul, Hastings, Janofsky & Walker  
600 Peachtree Street, N.E., Suite 2400  
Atlanta GA 30308  
Fax: 404.685.5227  
Email: [reypacual@paulhastings.com](mailto:reypacual@paulhastings.com)  
Phone: 404.815.2227

For Tessera:

John Price, Corporate Controller  
3099 Orchard Drive  
San Jose, CA 95134  
Fax: (408) 952-4369  
Email: [jprice@essera.com](mailto:jprice@essera.com)  
Phone: (408) 952-4307



11.11 **Force Majeure.** Neither party shall lose any rights hereunder or be liable to the other party for damages or losses on account of failure of performance by the defaulting party if the failure is occasioned by war, strike, fire, Act of God, earthquake, flood, lockout, embargo, act of terrorism, governmental acts or orders or restrictions, failure of suppliers, or any other reason where failure to perform is beyond the reasonable control and not caused by the negligence, intentional conduct or misconduct of the non-performing party and such party has exerted all reasonable efforts to avoid or remedy such force majeure; provided, however, that in no event shall a party be required to settle any labor dispute or disturbance.

11.12 **Headings; Construction.** The headings to the clauses, sub-clause and parts of this Agreement are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement. The terms "this Agreement," "hereof," "hereunder" and any similar expressions refer to this Agreement and not to any particular Section or other portion hereof. As used in this Agreement, the words "include" and "including," and variations thereof, will be deemed to be followed by the words "without limitation" and "discretion" means sole discretion.

11.13 **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same agreement.

11.14 **Complete Agreement.** This Agreement with its Exhibits, constitutes the entire agreement, both written and oral, between the parties with respect to the subject matter hereof, and all prior agreements respecting the subject matter hereof (including confidentiality agreements), either written or oral, express or implied, shall be abrogated and canceled. No amendment or change hereof or addition hereto shall be effective or binding on either of the parties hereto unless reduced to writing and executed by the respective duly authorized representatives of Tessera and Kronos.

IN WITNESS WHEREOF, the Parties have by duly authorized persons executed this Agreement as of the date first written above.

KRONOS

TESSERA

By: /s/ Daniel Dwight

By: /s/ Charles A. Webster

Title: President & CEO

Title: Chief Financial Officer

Date: 3-31-08

Date: 3-31-08

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**EXHIBIT A****TRANSFERRED TECHNOLOGY**

## U.S. Patent Applications and Patents

Serial No.	Filing Date	Patent/Publication No.	Issue Date/ Publication Date
10/352,193	Jan 28, 2003	6,919,698	Jul 19, 2005
11/046,711	Feb 1, 2005	US 2005-0151490 A1	Jul 14, 2005
10/724,707	Dec 2, 2003	7,157,704	Jan 2, 2007
11 /347,565	Feb 6, 2006	US 2006-0226787 A1	Oct 12, 2006

## Foreign Patent Applications and Patents

Country/Region	Application Serial No.	Filing Date	Patent/ Publication No.	Publication Date
Australia	AU20040296485	Nov 29, 2004	AU2004296485	Jun 23, 2005
Canada	CA20042547951	Nov 29, 2004	CA2547951	Jun 23, 2005
China	CN20048041207	Nov 29, 2004	CN1918685	Feb 21, 2007
EPO	EP20040816999	Nov 29, 2004	EP1695368	Aug 30, 2006
Japan	JP20060542637T	Nov 29, 2004	JP2007513484T	May 24, 2007
Mexico	MX2006PA06296	Jun 2, 2006	MXPA06006296	Aug 23,2006

**EXHIBIT B****LICENSED TECHNOLOGY**

## U.S. Patent Applications and Patents

Serial No.	Filing Date	Patent/Publication No.	Issue Date/Publication Date
09/419,720	Oct 14, 1999	6,504,308	Jan 7, 2003
90/007,276	Oct 29, 2004		
10/295,869	Nov 18, 2002	6,888,314	May 3, 2005
11/119,748	May 3, 2005	US 2005-0200289 A1	Sep 15, 2005

## Foreign Patent Applications and Patents

Country/Region	Application Serial No.	Filing Date	Patent/Publication No.	Publication Date
Australia	AU20010010847D	Oct 13, 2000	AU1084701	Apr 23, 2001
Australia	AU20010010847	Oct 13, 2000	AU773626B	May 27, 2004
Australia	AU20040205310	Aug 27, 2004	2004205310	Sep 23, 2004
Canada	CA20002355659	Oct 13, 2000	CA2355659	Apr 19, 2001
EPO	EP20000972147	Oct 13, 2000	EP1153407	Nov 14, 2001
Hong Kong	02103656.7	Oct 13, 2000		
Japan	JP20010530889T	Oct 13, 2000	JP2003511640T	Mar 25, 2003
Mexico	MX2001PA06037	Jun 14, 2001	MXPA01006037	Apr 11, 2005

## EXHIBIT C

### ASSIGNMENT AGREEMENT

This ASSIGNMENT AGREEMENT ("Assignment Agreement") is made and entered into as of March 28, 2008 (the "Effective Date"), by and between KRONOS ADVANCED TECHNOLOGIES, INC., a Nevada corporation having a principal address at 464 Common Street, Suite 301, Belmont, MA 98052 ("Kronos") and TESSERA TECHNOLOGIES, INC., a Delaware corporation having an address at 3099 Orchard Drive, San Jose, CA 95134 ("Tessera").

Whereas, the Parties are entering into that certain Intellectual Property Transfer and License Agreement, dated March 28, 2008 between Kronos and Tessera (the "IP Transfer Agreement");

Whereas, under the IP Transfer Agreement, among other things, Kronos has agreed to assign its rights in and to the Transferred Technology (as such term is defined in the IP Transfer Agreement) to Tessera;

Whereas, Kronos assigns, and Tessera accepts the assignment of the Transferred Technology, all of under the terms and conditions set forth below;

Now, Therefore, in consideration of the foregoing and the covenants and promises contained herein, the parties agree as follows:

1. **Assignment.** Kronos hereby assigns and conveys to Tessera Kronos's (and its Affiliates') entire right, title and interest in and to the Patent Rights listed in Exhibit A, together with all powers, privileges, and benefits. Such assignment is effective as of the Effective Date. Tessera hereby accepts such assignment.
  2. **No additional consideration.** Beyond the consideration set forth in the IP Transfer Agreement, Tessera shall not currently or in the future owe any further consideration to Kronos for or in respect of Tessera's exercise of the rights assigned to Tessera hereunder.
  3. **Further Documentation to Perfect and Record.** Kronos shall execute and deliver to Tessera or its representatives all other documents and instruments, to be prepared by Tessera, as are necessary for Tessera to perfect or record any of the rights that are granted to it under this Agreement, promptly after requested by Tessera, but only if such documents and instruments are necessary due to Kronos having previously been the assignee of record for the Transferred Technology. Kronos shall cause employees, ex-employees and consultants who are named inventors on any Transferred Technology to do the same, except to the extent they are at the time employed by Tessera, in which case Tessera is better placed to obtain cooperation of these people directly.
-

In Witness Whereof, the parties have executed this Agreement by their respective authorized representatives as of the date first set forth above.

Kronos

Tessera

By: /s/ Daniel Dwight

By: Charles A. Webster

Title: President & CEO

Title: Chief Financial Officer

Date: 3-31-08

Date: March 28, 2008

April 22, 2008

AirWorks Funding LLLP  
655 Madison Avenue  
23<sup>rd</sup> Floor  
New York, NY 10021  
Attn: Richard E. Perlman

Hilltop Holding Company, LP  
c/o SIAR Capital LLC  
New York, NY 10021  
Attn: Jack Silver

Dear Messrs. Perlman and Silver:

This Letter Agreement is made by and among Kronos Advanced Technologies, Inc., a Nevada Company (“**Kronos**”), AirWorks Funding LLLP, a Georgia limited liability limited partnership (“**Airworks**”) and Hilltop Holding Company, LP, a Delaware limited partnership (“**Hilltop**”, and together with Airworks, the “**Lenders**”).

On June 19, 2007, pursuant to a Funding Agreement by and among Kronos, Airworks and RS Properties I LLC (“**RS Properties**”), Kronos issued certain secured convertible promissory notes in the aggregate amount of up to \$17,300,000. Subsequently, RS Properties assigned to Hilltop its promissory note in the amount of \$6,480,000, together with certain other rights and agreements relating thereto, including, without limitation, its rights and obligations under the Funding Agreement.

The parties hereby agree to amend the Funding Agreement Section 5.15, as follows:

“5.15 Conversion Limitation. Notwithstanding anything to the contrary contained herein, in the Airworks Note or in the RS Properties Note, prior to June 30, 2008. Airworks and RS Properties may not convert any outstanding principal amount of the Airworks Note or the RS Properties Note, or any accrued and unpaid interest thereon, to the extent such conversion would require Borrower to issue shares of Common Stock in excess of Borrower’s authorized and unissued shares of Common Stock.” -

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This Letter Agreement shall be deemed a modification of the Funding Agreement. The Funding Agreement was amended by adding a new Section 5.15 in a Side Letter Agreement dated September 13, 2007. Except as specifically modified hereby, the Funding Agreement shall be deemed controlling and effective. This Letter Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Letter Agreement as of the date set forth above.

**KRONOS**

Kronos Advanced Technologies, Inc.

By: \_\_\_\_\_  
Daniel R. Dwight  
President and CEO

**LENDERS**

AirWorks Funding LLLP

By: \_\_\_\_\_  
Richard Perlman

Hilltop Holding Company, LP

By: \_\_\_\_\_  
Jack Silver

**EXHIBIT 31**

**OFFICER'S CERTIFICATE  
PURSUANT TO SECTION 302\***

I, Daniel R. Dwight, President, Chief Executive Officer, and Chief Financial Officer certify that:

1. I have reviewed this Form 10-QSB for the period ended March 31, 2008, of Kronos Advanced Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) for the small business issuer and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Omitted;
  - (c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: May 14, 2008

By: /s/ Daniel R. Dwight  
Daniel R. Dwight  
President, Chief Executive Officer and  
Chief Financial Officer

\*The introductory portion of paragraph 4 of the Section 302 certification that refers to the certifying officers' responsibility for establishing and maintaining internal control over financial reporting for the company, as well as paragraph 4(b), have been omitted in accordance with Release Nos. 33-8618 and 34-52492 (September 22, 2005) because the compliance period has been extended for small business issuers until the first fiscal year ending on or after July 15, 2007.



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

In connection with the Quarterly Report of Kronos Advanced Technologies, Inc. (the "Company") on Form 10-QSB for the fiscal quarter ended March 31, 2008 as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: May 14, 2008

By: /s/ Daniel R. Dwight  
Daniel R. Dwight  
President, Chief Executive Officer and  
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authentications, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Sherb & Co., LLP and will be retained by Sherb & Co. LLP and furnished to the U.S. Securities and Exchange Commission or its staff upon request.