

Kronos Advanced Technologies, Inc. (KNOS)



DANIEL R. DWIGHT has served as a Director of Kronos Advanced Technologies, Inc., since November 2000 and President and Chief Executive Officer of the company since October 2001. He has extensive experience in private equity and operations in a wide variety of high growth and industrial businesses. Mr. Dwight spent 17 years with General Electric, which included 10 years of operations, manufacturing and business development experience, and seven years of international investment and private equity experience with GE Capital. He initiated GE Capital's entry in the Asia private equity market, and between 1995 and 1999 the Asian equity portfolio grew to include consolidations, leveraged buyouts, growth capital and minority investments

in diverse industries. Mr. Dwight is a member of the American Society of Heating, Refrigeration and Air-Conditioning Engineers, Inc. (ASHRAE).

SECTOR – POLLUTION & TREATMENT CONTROLS (ACN606) TWST: Would you give us a history and an overview of Kronos?

Mr. Dwight: Kronos is in the air movement and purification business. We have developed a proprietary technology to move, filter and purify air without any motors, fans or filters. The technology is based on using electrical current to generate ions that move the air across the product platform, which silently filters and purifies air in the process. We take particulates out of the air stream and remove biohazards, carcinogens in second-hand cigarette smoke and the like to a greater extent than anything that is on the market today.

And we have proven our technology. Independent tests have verified that Kronos' technology removes 99.97% of 0.1 micron and above sized particles and impurities, and reduces hazardous gases and smoke by 95%. When tested on anthrax and bacteria simulants, a respective 95% and 100% destruction rate resulted.

TWST: Air handling is a big business. Who is the target customer for this?

Mr. Dwight: We are seeking to address the multi-billion dollar Indoor Air Quality (IAQ) market. Because our technology is completely scalable, it can be built in any shape or size, either as a standalone product or embedded across any residential or commercial platform, and fulfill needs in both the residential and commercial markets.

We have already announced relationships to develop consumer products with leading residential and marketing partners including IKEA and HoMedics — a company that distributes products through major retailers including Sears, Home Depot, Wal-Mart, Bed, Bath and Beyond and Linens N' Things.

We have also signed agreements with leading automotive, and aircraft manufacturers to embed our technology into car and airplane cabins. Given the rising concern about air quality, particularly in the transportation sector, and transportation providers' need to ensure air safety and security, the Kronos technology will be a tremendous benefit to these companies. We recently entered into a

Prototype Development and Evaluation Agreement with a leading global manufacturer of luxury automobiles.

We're limited to what we can say about our partnerships because whether standalone or embedded, they are all unique applications of our technology and obviously we believe we provide our partners a sustainable competitive advantage.

Historically, we've also done a lot of work with the U.S. Navy. Currently, Northrop Grumman is testing our embedded technology in the ventilation systems of ships. We're now actively looking at various potential partners in the heating, ventilation and air conditioning business for commercial and residential applications. Again, we take the technology and install it in the ventilation system. In addition, we are collaborating with the University of Washington on the development of a microelectronics cooling system utilizing our breakthrough technology.

What's really unique about our technology is that it doesn't block the airflow like a system that utilizes a typical HEPA-type filter. You can actually see right through one of our devices. As a result, 85% of the buildings today, such as the one we're in now, don't have filtration. If your landlord were to add filtration to the current system, it would block airflow in the ducts. The end result would be air filtration but you would have to change the over-all air handling system because more pressure would be needed to push air through it. With our technology, you can retrofit the building without altering the air handlers, which completely changes the economics for the landlord. From a marketing standpoint, there are growing calls for improved indoor air quality from both a personal health and safety standpoint as well as homeland security reasons. We also plan to develop large air movement and purification products to assist the industrial scrubber and hazardous gas destruction marketplace.

TWST: You touched on Gulfstream with the planes. Is there a cost savings in the manufacturing for putting your system in versus what they're using today?

Mr. Dwight: Absolutely. We don't just provide the technology, but work with partners to help develop applications for their existing and new products, specifically based on their

needs. Is the customer looking for a replacement for a fan? In that case, we provide improved energy efficiency in a lighter weight device with no noise. The absence of noise is a key driver for a lot of customers.

"If you can add in the ability to filter the air, that's a benefit I don't have today," a customer might say. So we discuss whether there's a premium for that, and of course, there is. We want the customer to charge as much as they can for the premium benefit that we provide because we're working under a licensing model. That way we end up with a higher royalty. So the more they sell, the more cash flow we would generate.

TWST: Is the technology that you're licensing all patent protected?

Mr. Dwight: We have eight patents and several others pending. Our utility patents apply to the technology within the product. We have multiple patent claims to create a web of protection against anyone who may try and copy the technology.

"Kronos has a game-changing technology in the multi-billion Indoor Air Quality market. It's a big market opportunity. The technology is proprietary. It's patented. We have, through our existing relationships, confirmation on the technology. It's been validated by our customers and by independent testing facilities."

TWST: Is the technology in use today?

Mr. Dwight: We're moving from the prototype stage into commercialization; we are at the point of pre-production.

TWST: You mentioned standalone home use for this product. How does it compare with what's been on the market?

Mr. Dwight: Kronos technology is able to silently purify and move the air, capturing 99.97% of air particles. Other products on the market today cannot.

The traditional HEPA-type filter products available are fan-based so they're very noisy and only offer approximately 60%-90% filtration.

The other choice is ion-based devices, with Sharper Image's product being one of them. They've eliminated the noise issue but provide very little air movement. And what air they do move, they filter at only about 60%.

TWST: So there's no mystery technology?

Mr. Dwight: Let me explain it this way. Our technology is based on corona discharge, which was first discovered in 1709. Corona discharge is not a technology but a phenomenon that results from an ion discharge when high voltage is run through a wire. However, how we take the components and how we put them together, the combination of geometry and material science; that is really what makes Kronos a proprietary technology. We don't have to use exotic materials or highly customized components to make the technology do what it does. The technology is cost competitive. There's nothing about how we put these devices together or the components we use that makes it expensive.

TWST: If we look out over the next 12 or 18 months, what benchmarks or milestones do you want to be judged on?

Mr. Dwight: From an execution standpoint, there are two things we have to do. We have to get product to market with our existing customers. Second is development of new applications. With HoMedics and IKEA in particular, we really need to drive those products to market. We are also actively looking and are in discussion with other potential strategic partners.

TWST: In terms of getting product to market, what's the game plan going to be?

Mr. Dwight: As a business, we've become more involved in the product development process with our partners, because we've learned that in order for our partners to get the full benefit of our technology, we must assist them in developing the applications. If you have a technology that's doing 99.99% filtration, you have to have a product that is, among other things, airtight. If it's not and you allow dirty air to go around it, then our device isn't doing what our technology is capable of. That's an example of what we need to do in helping our partners. Remaining directly involved with our partners has dramatically improved our ability to move faster, which is what we need to do.

TWST: Is the home market likely to be the first one to open up for you?

Mr. Dwight: It should be, and that was by design from our standpoint. It's easier and faster to develop a standalone product than it is to go through the intricacies of embedding it into another system and then selling the benefits of that embedded system.

We are dealing in some of the markets with the fact that people haven't experienced anything this innovative in a long time. I recently came out of a meeting with a potential partner and we started talking about Willis Carrier, the guy who invented the air conditioner. That's going back a long time. Another example is variable-drive motors. That's 20-25 years old.

TWST: What's the downside on this product?

Mr. Dwight: From a technology standpoint, there isn't. As I just described, it's more that we're doing something very innovative and we need to educate people within the Indoor Air Quality industry. When it comes to innovation, they don't move at the speed in which other high-tech industries do, such as microchips and software, where people are used to constant change.

But many HVAC-type customers are really beginning to see the upside, particularly the opportunity of putting our technology into places today where there isn't filtration. If you look at the market, 85% of the buildings in this country don't have filtration.

TWST: Even with HEPA filters?

Mr. Dwight: Yes. It's too expensive. And the higher the energy costs go, the more expensive it gets. From the calls we've been getting from landlords, designers and architects, we know there is demand to add filtration into existing buildings. But as soon as the designers show the landlord the cost of replacing all the building's air handling equipment to create the pressure system necessary to move air through a HEPA filter, the landlords say, "You've crossed the line of what I'm willing to do for my tenants." HEPA is just too expensive. The Kronos technology makes it possible.

By embedding Kronos technology in the building, the only cost is adding in the technology and not changing the air handler. Another advantage is that we actually generate air with our de-

vice, which takes some of the energy away from the existing system, so there's a savings involved from an energy standpoint. The sales proposition is there. It's just a matter of finding the right partners and getting it done.

TWST: Is anybody else working in the same space?

Mr. Dwight: Not that we're seeing, and we're actively looking at who's out there. We see it mainly from the standpoint of just talking to all the HVAC players and other potential partners, the people in the automotive industry, the airplane manufacturers, for example. We also look at it from an intellectual property standpoint. As we're filing more patents, we're obviously looking at whatever prior art is out there. The speed at which we're now getting patents through the U.S. Patent Office and some of the foreign offices is an indication that very little has been done in this area before. We're now getting more phone calls than we're making on the business development side, which means that at least the market is beginning to recognize that we're out there. We're beginning to get attention.

"We have a big market, proprietary technology and the opportunities are virtually unlimited. You can take our technology, put it anywhere today that you either have a fan or a filter or want one. We can do it any shape or size. You can embed it or you can have it standalone."

TWST: Do you have the management team in place that you need at this point?

Mr. Dwight: Definitely. Our management team has been together now for more than four years. I come out of 17 years with GE and GE Capital. I spent 10 in manufacturing and operations, seven in private equity and investment, so I've been on both sides of the fence.

Our Chief Operating Officer was involved in the very early days of MCI, during its growth and success. He has a lot of intellectual property and business development experience.

The inventor of the technology is our Chief Technology Officer. He has 35-40 years of high-voltage physics expertise.

From a personnel development standpoint, we're really utilizing our management talent to develop our resources at ground level — the people who are actually helping to take the technology and help us commercialize it. Our most recent hires have really focused on product development expertise and the ability to work with customers in developing the product so we can execute.

TWST: Have you been able to find that talent?

Mr. Dwight: It's out there. It's a tough market, but we're finding people. We want people who have a passion for what we're doing. The other area where we've developed expertise is in the ability to take our technology and model it through software. The benefit is that when a customer asks, "Can you do this? How would you do it?" we can actually model it for them before we have to build anything. Again, that improves the cycle time and reduces the cost. For us, it's the speed at which we can get things turned around for our customer that's important.

TWST: From a financial point of view, do you have the resources to get you where you want to go?

Mr. Dwight: There is a risk but I believe we have the financing to get the technology to market. Because we're working on an application development licensing model, we get to cash flow breakeven very quickly once the product gets to market because we're not positioning ourselves to be in the manufacturing production business. We don't have to expend those resources. Our resources go toward the people to develop the applications.

TWST: Is there any manufacturing difficulty that you envision in getting product to market?

Mr. Dwight: Where we are now, with one of our customers in particular, is what I would call pre-production. As we speak, we're getting product out of a low-cost contract manufacturer in Mexico and China. As sophisticated as our technologies may be and as important as the tolerances may be in making the technology do what it does, we're doing that specifically to demonstrate our ability to maintain those tolerances in a low-cost production environment. All indications are that we don't have a problem.

We want to be certain that all of this can be done in a very low-cost environment to make the components, mold them and assemble them so they're cost effective. We want all of the devices, from the first one to the millionth one, identical.

TWST: It doesn't look like the stock market is paying much attention to what you're doing.

Mr. Dwight: Until now, it hasn't been and we've been very focused on rigorous testing and ensuring our technology delivers.

Now that we're at the inflection point of moving into commercialization, we need to let more people know what we're doing and where we are. We want potential investors to know that we're working toward executing by both getting the existing products to market and developing new ones.

TWST: When you talk to investors, what's their prime question or concern at this juncture?

Mr. Dwight: We're in the unique position of being a pre-revenue technology company in a public vehicle. For us, we need to execute and regardless of the vehicle we're in, if we can execute, we believe our shareholders will be rewarded.

TWST: When you're talking to potential investors at this juncture, what two or three reasons would you give them to take a look at Kronos?

Mr. Dwight: You have with Kronos a company that has a game-changing technology in the multi-billion Indoor Air Quality market. It's a big market opportunity. The technology is proprietary. It's patented. We have, through our existing relationships, confirmation on the technology. It's been validated by our customers and by independent testing facilities.

So we have a big market, proprietary technology and the opportunities are virtually unlimited. You can take our technology, put it anywhere today that you either have a fan or a filter or want one. Again, we can do it any shape or size. You can embed it or you can have it standalone. How many other technologies are out there that have that potential?

TWST: It sounds like this is the next iteration of the ion filter.

Mr. Dwight: It's the next generation.

TWST: Since there's been some negative publicity on some of the ion filters that have been out there in terms of not really being effective, can that be a roadblock to your getting this up and running in the consumer market?

Mr. Dwight: We know that our technology works, is proven, and we have partners that are adept in the consumer market. The advantage we have is that HoMedics and IKEA have track records for successfully launching new product. That's part of the reason we elected to partner with them. Clearly, it's about getting out there and showing what the technology can really do.

TWST: Thank you. (TJM)

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Forward-Looking Statements

With the exception of historical information contained in this interview, this interview includes forward-looking statements and comments. Such statements are necessarily subject to risks and uncertainties, some of which are significant in scope and nature beyond the Company's control. Forward-looking statements, by their nature, involve substantial risks and uncertainties. As a result, actual results may differ materially depending on many factors, including those described above. The Company cautions that historical results are not necessarily indicative of the Company's future performance. Other risks are summarized under the caption "Certain Business Risk Factors" in the Company's Annual Report on Form 10-KSB for the year ended June 30, 2004 as filed with the Securities and Exchange Commission.