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TSET INC
Form 10-Q
February 14, 2002

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended DECEMBER 31, 2001

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

For the transition period from _____ to _____

Commission File No. 000-30191

TSET, INC.

(Exact name of registrant as specified in its charter)

NEVADA

(State of other jurisdiction of incorporation or organization)

87-0440410

(I.R.S. Employer Identification Number)

464 Common Street, Suite 301, Belmont, MA

(Address of principal executive offices)

02478

(Zip Code)

Registrant's telephone number, including area code:

(617) 993-9965

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

(2) has been subject to such filing requirements for the past 90 days.

/X/ Yes

/ / No

As of February 8, 2001, there were 37,602,284 shares outstanding of the issuer's common stock.

PART I

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FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The following comprise our condensed (unaudited) consolidated financial statements for the three months and six months ended December 31, 2001.

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| | December 31, 2001 | June 30, 2001 |
|---|----------------------|---------------------|
| | ----- | ----- |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 66,042 | \$ 32,619 |
| Accounts receivable, net | - | |
| Prepays and other current assets | 140,594 | 37,679 |
| | ----- | ----- |
| TOTAL CURRENT ASSETS | 206,636 | 70,298 |
| | ----- | ----- |
| PROPERTY AND EQUIPMENT | | |
| Less: Accumulated Depreciation | (25,681) | (18,016) |
| | ----- | ----- |
| NET PROPERTY AND EQUIPMENT | 37,042 | 44,707 |
| | ----- | ----- |
| OTHER ASSETS | | |
| Intangibles | 2,347,053 | 2,431,524 |
| Deferred financing fees | 588,281 | 520,800 |
| | ----- | ----- |
| TOTAL OTHER ASSETS | 2,935,334 | 2,952,324 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 3,179,012 | \$ 3,067,329 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 1,225,835 | \$ 323,045 |
| Accrued expenses | 821,836 | 1,284,268 |
| Notes payable, current portion | 427,114 | 313,900 |
| | ----- | ----- |
| TOTAL CURRENT LIABILITIES | 2,474,785 | 1,921,213 |
| | ----- | ----- |
| LONG TERM LIABILITIES | | |
| Notes payable | 270,000 | - |

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| | | |
|--|--------------|--------------|
| TOTAL LONG TERM LIABILITIES | 270,000 | - |
| Net liabilities of discontinued operations | 741,426 | 667,550 |
| TOTAL LIABILITIES | 3,486,211 | 2,588,763 |
| REDEEMABLE WARRANTS | 686,000 | - |
| SHAREHOLDERS' EQUITY | | |
| Common stock, authorized 500,000,000 shares of \$.001 par value | 36,427 | 34,001 |
| Capital in excess of par value | 13,225,392 | 12,418,350 |
| Deferred equity compensation | - | - |
| Retained earnings (Accumulated deficit) | (14,255,018) | (11,973,785) |
| TOTAL SHAREHOLDERS' EQUITY | (993,199) | 478,566 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 3,179,012 | \$ 3,067,329 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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| | TSET. INC. AND SU | | |
|--|---|-------------|-------|
| | INCOME STAT | | |
| | FOR THE THREE MONTHS ENDED DECEMBER 31, | | FOR T |
| | 2001 | 2000 | (UN |
| | (UNAUDITED) | (UNAUDITED) | --- |
| Sales | \$ 40,056 | \$ - | \$ |
| Cost of sales | 40,056 | - | |
| Gross Margin | - | - | |
| Selling, General and Administrative expenses: | | | |
| Compensation and benefits | 83,636 | 378,814 | |
| Research and development | 48,643 | 59,300 | |
| Professional services | 880,559 | 267,584 | |
| Depreciation and amortization | 71,674 | 76,677 | |
| Other selling general & administrative expenses | 128,433 | 161,468 | |
| Total Selling, General and Administrative expenses | 1,212,945 | 943,843 | |
| Net Operating Income (Loss) | (1,212,945) | (943,843) | |
| Other Income / (expense) | 1,217 | 4,541 | |

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| | | | |
|---|----------------|----------------|----|
| Interest Expense | (16,871) | - | |
| Minority Interests | - | - | |
| Net Income (Loss) Before Taxes | \$ (1,228,599) | \$ (939,302) | \$ |
| Provision for Taxes | - | - | |
| Net Income (Loss) from continuing operations | (1,228,599) | (939,302) | |
| Income (Loss) from discontinued operations, net of income tax of \$0 | - | (430,139) | |
| Loss on disposal of discontinued operations, net of income tax of \$0 | - | - | |
| Net Income (Loss) | \$ (1,228,599) | \$ (1,369,441) | \$ |
| Basic Earnings (Loss) Per Share | | | |
| Income (loss) from continuing operations | (0.03) | (0.03) | |
| Loss from discontinued operations | - | (0.01) | |
| Net Income (loss) | \$ (0.03) | \$ (0.04) | \$ |
| Diluted Earnings (Loss) Per Share | | | |
| Income (loss) from continuing operations | (0.03) | (0.03) | |
| Loss from discontinued operations | - | (0.01) | |
| Net Income (loss) | \$ (0.03) | \$ (0.04) | \$ |

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

TSET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the six months ended D | |
|---|----------------------------|----|
| | 2001 (Unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss from continuing operations | \$ (2,281,233) | \$ |
| Adjustments to reconcile net loss to net cash (used in) provided by operations: | | |
| Depreciation and amortization | 143,347 | |
| Common stock issued for compensation/services | 788,361 | |
| Change In: | | |

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| | |
|--|-----------|
| Accounts receivable | - |
| Prepaid expenses and other assets | (170,396) |
| Accounts payable | 902,790 |
| Accrued expenses and other liabilities | (112,432) |
| | ----- |
| Net cash (used in) provided by continuing operations | (729,563) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchases of property and equipment | - |
| Investment in patent protection | (51,211) |
| Investment in discontinued operations | 73,876 |
| | ----- |
| Net cash (used in) provided by investing activities | 22,665 |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Issuance of common stock | 707,107 |
| Proceeds from short-term borrowings | 33,214 |
| Repayments of short-term borrowings | - |
| | ----- |
| Net cash (used in) provided by financing Activities | 740,321 |
| | ----- |
| NET (DECREASE) INCREASE IN CASH | 33,423 |
| CASH | |
| Beginning of period | 32,619 |
| | ----- |
| End of period | \$ 66,042 |
| | ===== |

Supplemental schedule of non-cash investing and financing activities:

| | | |
|--|----|---------|
| Debt satisfied with stock | \$ | 100,000 |
| Note payable issued in satisfaction of accrued liabilities | \$ | 350,000 |

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

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TSET, INC. AND SUBSIDIARIES
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| | Common Stock | | Capital in Excess of Par Value |
|--|--------------|-----------|--------------------------------------|
| | Shares | Amount | |
| BALANCE at June 30, 2001 | 34,000,978 | \$ 34,001 | \$ 12,418,350 |
| Shares issued on July 6, 2001 for cash | 238,806 | 239 | 79,761 |
| Shares issued on July 20, 2001 as compensation | 250 | - | 113 |
| Shares issued on October 1, 2001 for consulting services | 360,000 | 360 | 100,440 |
| Shares issued on October 1, 2001 as compensation | 2,250 | 2 | 1,446 |
| Shares issued on October 1, 2001 for cash | 1,000,000 | 1,000 | 446,982 |
| Shares issued on November 30, 2001 for cash | 100,000 | 100 | 23,400 |
| Shares issued on December 10, 2001 for cash | 50,000 | 50 | 10,950 |
| Shares issued on December 12, 2001 for cash | 100,000 | 100 | 20,900 |

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| | | | |
|---|------------|-----------|---------------|
| Shares issued on December 13, 2001 for cash | 75,000 | 75 | 16,050 |
| Shares issued on December 14, 2001 for cash | 500,000 | 500 | 107,000 |
| Net loss for the period ended December 31, 2001 | | | |
| BALANCE at December 31, 2001 | 36,427,284 | \$ 36,427 | \$ 13,225,392 |

The accompanying notes are an integral part of this financial statement.

TSET, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS
 (UNAUDITED)

NOTE 1 - ACCOUNTING MATTERS

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments necessary to present fairly the information set forth therein have been included. Operating results for the three-month and six-month periods ended December 31, 2001 are not necessarily indicative of the results that may be experienced for the fiscal year ending June 30, 2002.

These financial statements are those of the Company and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in the preparation of the consolidated financial statements. Aperion Audio, Inc. is disclosed as discontinued operations in these financial statements.

The accompanying financial statements should be read in conjunction with the TSET, Inc. Form 10K for the fiscal year ended June 30, 2001 filed on October 15, 2001.

RECENT ACCOUNTING PRONOUNCEMENTS. On July 20, 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." These statements make significant changes to the accounting for business combinations, goodwill, and intangible assets.

SFAS No. 141 establishes new standards for accounting and reporting requirements for business combinations and will require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method will be prohibited. This statement is effective for business combinations initiated after June 30, 2001.

SFAS No. 142 establishes new standards for goodwill acquired in a business combination, eliminates amortization of goodwill and instead sets forth methods to periodically evaluate goodwill for impairment. Intangible assets with a determinable useful life will continue to be amortized over that period. The

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Company expects to adopt this statement during the quarter ending September 30, 2002. Goodwill and intangible assets acquired after June 30, 2001 will be subject immediately to the non-amortization and amortization provisions of the statement. The Company does not currently have any goodwill recorded on its financial statements and it is expected that there will be no immediate impact on the Company's financial statements as a result of the adoption of this statement.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 143, "Accounting for Asset Retirement Obligations." This statement addresses the financial accounting and reporting for the retirement of tangible long-lived assets and the associated asset retirement costs. The Company believes the adoption of SFAS 143 will have no significant impact on its financial statements.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. The Company believes the adoption of SFAS 144 will have no significant impact on its financial statements.

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NOTE 2 -- INCOME TAXES

The composition of deferred tax assets and the related tax effects at December 31 and June 30, 2001 are as follows:

| | December 31, 2001 | June 30, 2001 |
|---|-------------------|---------------|
| | ----- | ----- |
| Benefit from carryforward of net operating losses | \$ 2,710,439 | \$ 2,225,520 |
| Other temporary differences | 1,008,189 | 1,008,189 |
| Less: | | |
| Valuation allowance | (3,718,628) | (3,233,709) |
| | ----- | ----- |
| Net deferred tax asset | \$ - | \$ - |
| | ===== | ===== |

The other temporary differences shown above relate primarily to loss on discontinued operations, 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:

| | December 31, 2001 | | June 30, 2001 | |
|--|-------------------|----------------------|---------------|----------------------|
| | Amount | % of pre-tax Loss | Amount | % of pre-tax Loss |
| | ----- | ----- | ----- | ----- |
| Benefit for income tax at federal statutory rate | \$ 775,619 | 34.0% | \$ 3,374,793 | 34.0% |
| Non-deductible expenses | (290,700) | (12.7)% | (357,007) | (3.6)% |
| Disposed subsidiary NOL | - | - | (578,370) | (5.2)% |
| Increase in valuation allowance | (484,920) | (21.3)% | (2,439,416) | (24.6)% |
| | ----- | ----- | ----- | ----- |

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\$ - 0.0% \$ - 0.0%
=====

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

At December 31, 2001, for federal income tax and alternative minimum tax reporting purposes, the Company has approximately \$7.2 million of unused net operating losses available for carryforward to future years. The benefit from carryforward of such net operating losses will expire in various years between 2011 and 2023 and could be subject to limitations if significant ownership changes occur in the Company. Of the \$7.2 million of unused net operating losses noted above, approximately \$153,000 relates to losses incurred by the Company's subsidiary, EdgeAudio. In fiscal years prior to June 30, 2000, EdgeAudio did not file its tax returns on a consolidated basis with the Company. Accordingly, the \$153,000 loss incurred by EdgeAudio is further subject to separate limitations that restrict the ability of the Company to use such losses.

NOTE 3 - SEGMENTS OF BUSINESS

The Company operates principally in one segment of business: The Kronos segment licenses, manufactures and distributes air movement and purification devices utilizing the Kronos(TM) technology. All other segments have been disposed of or discontinued. In the six months ended December 31, 2001, the Company operated only in the U.S.

NOTE 4 - EARNINGS PER SHARE

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

NOTE 5 - DISCONTINUED OPERATIONS

In early January 2001, management committed to a formal plan of action to sell or otherwise dispose of Atomic Soccer. Agreement was reached with a buyer group, that included current and former Atomic Soccer management, to sell them the outstanding shares of common stock of Atomic Soccer for \$1,000. The transaction was effective on April 11, 2001. On September 14, 2001 the board

approved a formal plan of action to sell or otherwise dispose of Aperion Audio (formerly EdgeAudio). The Company has accrued \$150,000 for anticipated operating loses during the phase-out period. As a result, both Atomic Soccer and Aperion are included in the financial statements as discontinued operations.

The Company's audited consolidated financial statements for all periods have been reclassified to report separately results of operations and operating cash flows from continuing operations and the discontinued operations. The net revenues are included in the financial statements under Net Income (Loss) from Discontinued Operations. The assets and liabilities of Aperion at December 31, 2001 are included in the balance sheet Net Liabilities of Discontinued

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Operations. Net assets of discontinued operations at December 31, 2001 and operating results of discontinued operations for the six-months ended December 31, are as follows:

Net Liabilities of Discontinued Operations

| | Aperion Audio |
|----------------------------|---------------|
| Current Assets | \$ 422,541 |
| Net Property and Equipment | 46,268 |
| Current Liabilities | (682,893) |
| Minority Interest | (527,342) |
| | ----- |
| Net Assets (Liabilities) | \$ (741,426) |
| | ===== |

Operating Resulting of Discontinued Operations:

For the six months ended December 31,

| | 2001 | | 2000 | |
|-------------------------|------------|--------------|--------------|--------------|
| | Aperion | Atomic | Aperion | Total |
| | ----- | ----- | ----- | ----- |
| Sales | \$ 410,512 | \$ 466,565 | \$ 368,225 | \$ 834,790 |
| Cost of Sales | (143,816) | (295,177) | (191,222) | (486,399) |
| Depn and Amort | (6,618) | (143,598) | (129,868) | (273,466) |
| General and Admin | (356,892) | (266,397) | (645,628) | (912,025) |
| | ----- | ----- | ----- | ----- |
| Operating Income (Loss) | (96,813) | (238,607) | (598,423) | (837,100) |
| Other Income | 21,360 | 735 | - | 735 |
| Interest Expense | (16,247) | (42,357) | (6,873) | (49,230) |
| Provision for Future | | | | |
| Operating Losses | 73,361 | - | - | - |
| Minority Interest | 18,340 | - | 95,100 | 95,100 |
| | ----- | ----- | ----- | ----- |
| Income (Loss) Pre-Tax | 0 | (280,229) | (510,266) | (790,495) |
| Income Taxes | - | - | - | - |
| Loss From Discontinued | | | | |
| Operations | \$ 0 | \$ (280,229) | \$ (510,266) | \$ (790,495) |
| | ===== | ===== | ===== | ===== |

NOTE 6 - NOTES PAYABLE

On October 15, 2001, the Company entered into an agreement with Jeffrey D. Wilson pursuant to which the Company issued a promissory note for compensation which was accrued but not paid to him during the time he served as an executive officer of the Company. The amount of the note is \$350,000 and is disclosed in the financial statements as follows:

| | |
|--------------------------------|-----------|
| Notes payable, current portion | \$ 80,000 |
| Notes payable | 270,000 |
| | ----- |
| Total note payable | \$350,000 |
| | ===== |

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NOTE 7 - ISSUANCE OF WARRANTS

On July 9, 2001, the Company signed an agreement to utilize the strategic planning and business plan execution services of The Eagle Rock Group, LLC. The Eagle Rock Group will work with the Kronos Air Technologies team to fully develop and capitalize the Kronos™ technology.

Pursuant to the agreement that we entered into with The Eagle Rock Group, we issued to The Eagle Rock Group a ten-year warrant granting them the right to purchase 1,400,000 shares of our common stock at an exercise price of \$0.68 per share. The warrant was valued at \$686,000 using the Black-Scholes option valuation mode and was initially recorded as deferred equity compensation to amortized into current period professional services expense at a rate of \$137,200 per month over 5 months. Amortization for the three-months and six-months ended December 31, 2001 was \$274,400 and \$411,600, respectively. The shares underlying the warrant have piggy-back and demand registration rights, as well as subscription rights in the event that we issue any rights to all of our stockholders to subscribe for shares of our common stock. In addition, the warrant contains redemption rights in the event that we enter into a transaction that results in a change of control of our company.

NOTE 8 - SUBSEQUENT EVENTS

On January 11, 2002, Aperion Audio, Inc. (f/k/a EdgeAudio.com, Inc.), a company to which TSET owns common shares, initiated arbitration in a dispute over the Agreement and Plan of Reorganization between the parties. Aperion Audio, Inc. requests damages of \$213,900 plus consequential damages. Discovery is ongoing.

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

INTRODUCTORY STATEMENTS

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

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

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obligation to publicly release the results of any revision to these forward-looking statements that may be made to reflect any future events or circumstances.

GENERAL

Historically, we had been seeking select business opportunities globally among a wide range of prospects. Over the past two years, we made several investments, including Kronos Air Technologies, Inc. and EdgeAudio.com, Inc. After further evaluation of these investments, we believe our investment in and the full development of Kronos Air Technologies and the Kronos™ technology represents the single best opportunity for us. As a result, we have prioritized our management and financial resources to fully capitalize on this investment opportunity. Effective October 10, 2001, Jeffrey D. Wilson resigned as Chairman of the Board and Chief Executive Officer of the Company, as well as Chairman of the Board of Kronos Air Technologies and EdgeAudio, respectively. Effective December 31, 2001, Erik W. Black resigned as Executive Vice-President of the Company. Messrs. Wilson and Black remain as directors of the Company. Effective November 15, 2001, Daniel R. Dwight was appointed President and Chief Executive Officer of Kronos. A more detailed explanation of Kronos Air Technologies and the current status of EdgeAudio and the other investments made by us are discussed below.

We have reorganized our Company to prioritize and focus management and financial resources on Kronos Air Technologies and the Kronos™ technology. This reorganization has resulted in the decision to sell or to no longer pursue other investment opportunities previously identified. We sold our investment in Atomic Soccer in April 2001; decided not to pursue investments in Cancer Detection International, Electric Management Units, and Cancer Treatment Centers in July 2001; established a formal plan to dispose of EdgeAudio in September 2001; and terminated by mutual consent of both parties a contract to distribute Computerized Thermal Imaging equipment in August 2000.

Based on our decision to focus our resources on Kronos Air Technologies, several actions were taken, most of which impacted the results of operations. On April 11, 2001, we sold Atomic Soccer. The sale resulted in a loss of \$2,297,000. During our fourth quarter of 2001, we determined that the assets of EdgeAudio were impaired and we recognized an impairment loss of \$2,294,000. On September 14, 2001, the board authorized management to pursue a formal plan for disposal of EdgeAudio. The anticipated loss from operations during the phase-out period is \$150,000. We do not anticipate a loss on the sale of EdgeAudio. Based upon our decision to discontinue development of Cancer Detection International and, we have recognized an impairment loss of the remaining goodwill of \$273,000 associated with that investment.

On January 18, 2002, we began trading shares of our common stock under a new ticker symbol (KNOS). At the same time, we announced that our Company will be doing business under the name of Kronos Advanced Technologies, Inc. We anticipate asking our shareholders to vote for the approval of an amendment to our Articles of Incorporation for a name change of our Company to Kronos Advanced Technologies at our annual meeting in 2002.

Kronos Air Technologies is focused on the development and commercialization of an air movement and purification technology known as Kronos™ that is more fully described below. The Kronos™ technology operates through the application of high-voltage management across paired electrical grids that creates an ion exchange which move air and gases at high velocities while removing odors, smoke, and particulates, as well as killing pathogens, including bacteria. We believe the technology is cost-effective and is more

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energy-efficient than current alternative fan and filter technologies. Kronos™ has multiple U.S. and international patents pending.

The Kronos™ device is comprised of state-of-the-art high-voltage electronics and electrodes attached to one or more sets of corona and target electrodes housed in a self-contained casing. The device can be flexible in size, shape and capacity and can be used in embedded electronic devices, standalone room devices, and integrated HVAC and industrial applications. The Kronos™ device has no moving parts or degrading elements and is composed of cost-effective, commercially available components.

The Kronos™ technology combines the benefits of silent air movement, air cleaning, and odor removal. Because the Kronos™ air movement system is a silent, non-turbulent, and energy-efficient air movement and cleaning system, we believe that it is ideal for air circulation, cleaning and odor removal in all types of buildings as well as compact, sealed environments such as airplanes, submarines and cleanrooms. Additionally, because it has no moving parts or fans, a Kronos™ device can instantly block or reverse the flow of air between adjacent areas for safety in hazardous or extreme circumstances.

The U.S. Department of Defense and Department of Energy have provided Kronos Air Technologies with various grants and contracts to develop, test and evaluate the Kronos™ technology. Since May 2001, the total potential value of Small Business Innovation Research (SBIR) contracts awarded to Kronos Air Technologies has been \$1.7 million. In December 2001, Kronos Air Technologies was awarded an SBIR contract sponsored by the U.S. Army. This contract is potentially worth up to \$850,000 in product development and testing support for Kronos Air Technologies. Phase One of the contract is worth up to \$120,000 in funding to investigate and analyze the feasibility of the Kronos™ technology to reduce humidity in heating, ventilation and air conditioning (HVAC) systems. Dehumidification is essential to making HVAC systems more energy efficient. Phase Two of the contract is worth up to \$730,000 in additional funding for product development and testing.

In May 2001, Kronos Air Technologies was awarded its first SBIR contract sponsored by the U.S. Navy. That contract is potentially worth \$837,000 in product development and testing support. The first phase of the contract is worth up to \$87,000 in funding for manufacturing and testing prototype devices for air movement and ventilation onboard naval vessels. The second phase of the contract is worth up to \$750,000 in additional funding. In January 2002, Kronos Air Technologies received a Phase II invitation letter for this grant with a potential \$750,000 commitment. The Kronos™ devices manufactured under this contract will be embedded in an existing HVAC systems to move air more efficiently than the traditional, fan based technology.

RESULTS OF OPERATIONS

The Company's net loss from continuing operations for the current year second quarter and six months was \$1.2 million and \$2.3 million, respectively, compared with a net loss of \$0.9 million and \$1.5 million for the corresponding periods of the prior year. The increase in the net loss was the result of increased professional fees and consulting services offset by a decrease in salaries and other general and administrative expenses.

REVENUE. Revenues are generated through sales of Kronos™ devices at Kronos Air Technologies, Inc. Revenue for the current year second quarter was \$40,000 and for the current year six months was \$65,000. No revenue was recorded during the corresponding periods of the prior year. These revenues were

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primarily from our U.S. Navy Small Business Innovative Research contract.

COST OF SALES. Cost of sales for the current year second quarter was \$40,000 and \$50,000 for the current year six months, respectively. Cost of sales is primarily research and development costs associated with our U.S. Navy Small Business Innovative Research contract.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, General and Administrative expenses in the current year second quarter and six months increased \$269,000 and \$786,000, respectively, to \$1.2 million and \$2.3 million. The increase in the current year second quarter was primarily due to non-cash stock warrants to the Eagle Rock Group of \$411,600, non-cash stock options/grants of \$25,000 and cash-based fees paid/acrued to management consultants, legal and accounting professionals engaged by the company of \$176,000. This was partially offset by a reduction in payroll and related costs of \$291,000. The increase for the current year six months was primarily due to non-cash stock warrants to the Eagle Rock Group of \$686,000, non-cash stock options/grants of \$56,000 and cash-based fees paid/acrued to management consultants, legal and accounting professionals engaged by the company of \$496,000. This was partially offset by a reduction in payroll and related costs of \$418,000 and a reduction in travel related costs of \$63,000.

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CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2001

Our total assets at December 31, 2001 were \$3.2 million compared with \$3.1 million at June 30, 2001, an increase of \$100,000. Total assets at December 31, 2001 were comprised primarily of \$2.4 million of patents/intellectual property and \$588,000 of deferred financing fees. Total assets at June 30, 2001 were comprised primarily of \$2.4 million of patents/intellectual property and \$520,800 of deferred financing fees. Total current assets at December 31, 2001 and June 30, 2001 were \$206,000 and \$70,000, respectively, while total current liabilities for those same periods were \$2.5 million and \$1.9 million, respectively, creating a working capital deficit of \$2.3 million and \$1.9 million at each respective period end. This working capital deficit is primarily due to accrued expenses for compensation, management consulting and other professional services. Shareholders' equity as of December 31, 2001 and June 30, 2001 was \$(993,000) and \$479,000, respectively, representing a decrease of \$1.4 million. The decrease in shareholders' equity is primarily the result of incurring a \$2.3 million loss from continuing operations for the six months ended December 31, 2001, partially offset through the sale and issuance of \$809,000 of common stock.

LIQUIDITY AND CAPITAL RESOURCES

Historically we have relied principally on the sale of common stock to finance our operations. Going forward, in addition to continued sales of common stock, we plan to rely on the proceeds from Small Business Innovation Research (SBIR) contracts with the U.S. Navy and Army as well as other government contracts and grants, and cash flow generated from the sale of Kronos™ devices. We have also entered into a common stock purchase agreement with Fusion Capital under which we have the right, subject to certain conditions, to draw down approximately \$12,500 per day from the sale of common stock to Fusion Capital. The SBIR contracts are potentially worth up to \$1.7 million in product development and testing support for Kronos Air Technologies. The first phase of the contracts is worth up to \$207,000 in funding. If awarded to Kronos Air Technologies, the second phase of the contracts would be worth up to \$1.5 million in additional funding. In January 2002, Kronos Air Technologies received

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a Phase II invitation letter for this grant with a potential \$750,000 commitment.

Net cash flow used on operating activities was \$1.1 million for the current year six months. We were able to satisfy some of our cash requirements for this period through the issuance and sale of our common stock.

On June 19, 2001, we entered into a common stock purchase agreement with Fusion Capital. Pursuant to the common stock purchase agreement, Fusion Capital has agreed to purchase on each trading day during the term of the agreement, \$12,500 of our common stock or an aggregate of \$10.0 million. The \$10.0 million of our common stock is to be purchased over a 40-month period, subject to a six-month extension or earlier termination at our sole discretion and subject to certain events. The purchase price of the shares of common stock will be equal to a price based upon the future market price of our common stock without any fixed discount to the then-current market price. On November 13, 2001, the common stock purchase agreement was amended to establish a floor price. Fusion Capital is obligated to purchase shares under the agreement as long as the share price exceeds a floor of \$0.25. We plan to draw down as much as \$3.0 million annually from Fusion Capital which management believes should more than offset our operating cash flow deficits. However, there can be no assurance of how much cash we will receive, if any, under the common stock purchase agreement with Fusion Capital.

GOING CONCERN OPINION

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

We can make no assurance that we will be able to successfully transition from research and development to manufacturing and selling commercial products on a broad basis. While attempting to make this transition, we will be subject to all the risks inherent in a growing venture, including, but not limited to, the need to develop and manufacture reliable and effective products, develop marketing expertise and expand our sales force.

CERTAIN RISK FACTORS

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

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

We have only recently begun implementing our plan to prioritize and concentrate our management and financial resources to fully capitalize on our investment in Kronos Air Technologies and have yet to establish any history of profitable operations. We incurred a net operating loss of \$2.2 million for the current year six months. We have incurred net losses from continuing operations

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of \$3.6 million and \$1.4 million for the fiscal years ended June 31, 2001 and 2000. We have incurred net losses from continuing operations of \$1.2 million for the three months ended December 31, 2001. We have incurred annual operating losses of \$9.9 million, \$2.0 million and \$52,000 respectively, during the past three fiscal years of operation. As a result, at December 31, 2001 and June 30, 2001 we had an accumulated deficit of \$14.3 million and \$12.0 million, respectively. Our revenues have not been sufficient to sustain our operations. We expect that our revenues will not be sufficient to sustain our operations for the foreseeable future. Our profitability will require the successful commercialization of our Kronos™ technology. No assurances can be given when this will occur or that we will ever be profitable.

Our independent auditors have added an explanatory paragraph to their audit opinion issued in connection with the financial statements for the years ended June 30, 2001 and June 30, 2000 relative to our ability to continue as a going concern. Our ability to obtain additional funding will determine our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

At December 31, 2001 we had a working capital deficit of \$2.3 million. At June 30, 2001 we had a working capital deficit of \$1.9 million. The independent auditor's report for the years ended June 30, 2001 and June 30, 2000, includes an explanatory paragraph to their audit opinion stating that our recurring losses from operations and working capital deficiency raise substantial doubt about our ability to continue as a going concern. We had an operating cash flow deficit of \$11,000 in 1999, an operating cash flow deficit of \$288,000 in 2000 and an operating cash flow deficit of \$1.6 million in 2001. We do not currently have sufficient financial resources to fund our operations or those of our subsidiaries. Therefore, we need additional funds to continue these operations.

We only have the right to receive \$12,500 per trading day under the common stock purchase agreement unless our stock price equals or exceeds \$3.00, in which case the daily amount may be increased at our option. Since we initially registered 5,000,000 shares for sale by Fusion Capital pursuant to the common stock purchase agreement, the selling price of our common stock to Fusion Capital will have to average at least \$2.00 per share for us to receive the maximum proceeds of \$10,000,000 without registering additional shares of common stock or filing a post-effective amendment with respect to the number of shares registered. On November 13, 2001, Fusion Capital established a floor price of \$0.25 under the common stock purchase agreement. Fusion Capital, therefore, has no obligation to purchase shares under the common stock purchase agreement if the price would be less than the floor price. Assuming a purchase price of \$0.25 per share (the floor price) and the purchase by Fusion Capital of the full 5,000,000 shares under the common stock purchase agreement, proceeds to us would only be \$1,250,000 unless we choose to register more than 5,000,000 shares, which we have the right, but not the obligation, to do. The extent we rely on Fusion Capital as a source of funding will depend on a number of factors including, the prevailing market price of our common stock and the extent to which we are able to secure working capital from other sources, such as through the sale of our Kronos™ air movement and purification systems. If obtaining sufficient financing from Fusion Capital were to prove prohibitively expensive and if we are unable to commercialize and sell the products or technologies of our subsidiaries, we will need to secure another source of funding in order to satisfy our working capital needs. Even if we are able to access the funds available under the common stock purchase agreement, we may still need additional capital to fully implement our business, operating and development plans. Should the financing we require to sustain our working capital needs be unavailable or prohibitively expensive when we require it, the consequences

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would be a material adverse effect on our business, operating results, financial condition and prospects.

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WE HAVE VERY LIMITED SALES AND MARKETING CAPABILITIES FOR OUR KRONOSTM PRODUCTS AND OUR FAILURE TO DEVELOP ANY OF THESE CAPABILITIES WOULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS

We have no experience marketing or distributing commercial quantities of our Kronos Air Technologies' products. Kronos Air Technologies does not have any relationships with third parties to market or distribute the KronosTM products. If Kronos Air Technologies is unable to hire sales and marketing personnel or if it cannot enter into satisfactory arrangements with third parties to market and distribute the KronosTM products on commercially reasonable terms, the consequences would be a material adverse effect on our business, operating results, financial condition and prospects. There can be no assurance that we will be able to hire sales and marketing personnel or be able to enter into satisfactory arrangements with third parties to market and distribute the KronosTM products.

COMPETITION IN THE MARKET FOR AIR MOVEMENT AND PURIFICATION DEVICES MAY RESULT IN THE FAILURE OF THE KRONOSTM PRODUCTS TO ACHIEVE MARKET ACCEPTANCE

Kronos Air Technologies presently faces competition from other companies that are developing or that currently sell air movement and purification devices. Many of these competitors have substantially greater financial, research and development, manufacturing, and sales and marketing resources than we do. Many of the products sold by Kronos Air Technologies' competitors already have brand recognition and established positions in the markets that we have targeted for penetration. There can be no assurance that the KronosTM products will compete favorably with the products sold by our competitors.

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:

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

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

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could cause our stock price to decline.

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

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

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

The purchase price for the common stock to be issued to Fusion Capital pursuant to the common stock purchase agreement will fluctuate based on the price of our common stock. All shares issued to Fusion Capital will be freely tradable. Fusion Capital may sell none, some or all of the shares of common stock purchased from us at any time. We expect that the shares sold to Fusion Capital will be sold over a period of up to 40 months from the date of the common stock purchase agreement. Depending upon market liquidity at the time, a sale of shares by Fusion Capital at any given time could cause the trading price of our common stock to decline. The sale of a substantial number of shares of our common stock by Fusion Capital, or anticipation of such sales, could make it more difficult for us to sell equity or equity-related securities in the future at a time and at a price that we might otherwise wish to effect sales.

OUR FAILURE TO FILE FEDERAL AND STATE INCOME TAX RETURNS FOR CALENDAR YEARS 1997 THROUGH 2001 MAY RESULT IN THE IMPOSITION OF INTEREST AND PENALTIES

We failed to file federal and state income tax returns for calendar years 1997 through 2000, respectively. We believe that we had operating losses for each year during the period 1997 through 2000, and that there are no expected income taxes due and owing for those years. We anticipate filing these returns in 2002. When filed, these returns could be subject to review and potential examination by the respective taxing authorities. Should any of these returns come under examination by federal or state authorities, our positions on certain income tax issues could be challenged. The impact, if any, of the potential future examination cannot be determined at this time. If our positions are successfully challenged, the results may have a material impact on our financial position and results of operations.

PART II

ITEM 1. LEGAL PROCEEDINGS

On February 2, 2001, we initiated legal proceedings in Clackamas County, Oregon against W. Alan Thomson, Ingrid T. Fuhriman, and Robert L. Fuhriman II, each of whom were formerly executive officers and members of the Board of Directors of Kronos Air Technologies. This suit alleges breach of fiduciary duties and breach of contract by these individuals, and seeks, among other things, relief of claims. Thomson, Fuhriman and Fuhriman have filed for enforcement of their respective employment agreements and related damages. Pursuant to those agreements, the proceedings have been moved into arbitration in King County, Washington, and arbitrators have been selected. Discovery is ongoing.

On January 11, 2002, Aperion Audio, Inc. (f/k/a EdgeAudio.com, Inc.), a company to which Kronos Advanced Technologies owns common shares, initiated arbitration in a dispute over the Agreement and Plan of Reorganization between the parties. Aperion Audio, Inc. requests damages of \$213,900 plus consequential damages. Discovery is ongoing.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On October 1, 2001, we authorized the issuance of 360,000 common shares pursuant to a consulting agreement, valued at \$.28 per share (the fair market value for our shares as of such date), at an aggregate value of \$100,800, to Fusion Capital LLC, in exchange for consulting services.

On October 1, 2001, we authorized the issuance of 1,000,000 common shares pursuant to a pledge, valued at \$.448 per share, at an aggregate value of \$447,982, to Fusion Capital, LLC, in exchange for \$447,982 cash.

On October 1, 2001, we issued 2,250 common shares, valued \$.452 per share (the fair market value for 1,000 of our shares on April 9, 2001 and 1,250 of our shares on September 7, 2001), at an aggregate value of \$1.447.50, to an employee of the Company, as compensation.

From November 30, 2001 through December 14, 2001, we issued 825,000 common shares, at an average value of \$0.21712 per share, at an aggregate value of \$179,125, to Fusion Capital, LLC pursuant to the Common Stock Purchase Agreement between our Company and Fusion Capital, in exchange for \$179,125 in cash.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

None.

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ITEM 5. EXHIBITS

| EXHIBIT NO. | DESCRIPTION | LOCATION |
|-------------|--|--|
| 2.1 | Articles of Merger for Technology Selection, Inc. with the Nevada Secretary of State | Incorporated by reference to Exhibit 2.1 to the Registrant's Registration Statement on Form S-1 filed on August 7, 2001 (the "REGISTRATION STATEMENT") |
| 3.1 | Articles of Incorporation | Incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 filed on August 7, 2001 |

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| EXHIBIT NO. | DESCRIPTION | LOCATION |
|-------------|---|---|
| 3.2 | Bylaws | Incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 5.1 | Opinion re: Legality | Incorporated by reference to Exhibit 5.1 to Amendment No. 1 to Form S-1 filed on October 19, 2001 |
| 10.1 | Employment Agreement, dated April 16, 1999, by and between TSET, Inc. and Jeffrey D. Wilson | Incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.2 | Deal Outline, dated December 9, 1999, by and between TSET, Inc. and Atomic Soccer, USA, Ltd. | Incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.3 | Letter of Intent, dated December 27, 1999, by and between TSET, Inc. and Electron Wind Technologies, Inc. | Incorporated by reference to Exhibit 10.3 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.4 | Agreement, dated February 5, 2000, by and between DiAural, LLC and EdgeAudio, LLC | Incorporated by reference to Exhibit 10.4 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.5 | Stock Purchase Agreement, dated March 6, 2000, by and among TSET, Inc., | Incorporated by reference to Exhibit 10.5 to the Registration |

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| | Atomic Soccer USA, Ltd., Todd P. Ragsdale, James Eric Anderson, Jewel Anderson, Timothy Beglinger and Atomic Millennium Partners, LLC | Statement on Form S-1 filed on August 7, 2001 |
| 10.6 | Acquisition Agreement, dated March 13, 2000, by and among TSET, Inc., High Voltage Integrated, LLC, Ingrid Fuhriman, Igor Krichtafovitch, Robert L. Fuhriman and Alan Thompson | Incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.7 | Letter of Intent, dated April 18, 2000, by and between TSET, Inc. and EdgeAudio.com, Inc. | Incorporated by reference to Exhibit 10.7 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.8 | Lease Agreement, dated May 3, 2000, by and between Kronos Air Technologies, Inc. and TIAA Realty, Inc. | Incorporated by reference to Exhibit 10.8 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.9 | Agreement and Plan of Reorganization, dated May 4, 2000, by and among TSET, Inc., EdgeAudio.com, Inc., LYNK Enterprises, Inc., Robert Lightman, J. David Hogan, Eric Alexander and Eterna Internacional, S.A. de C.V. | Incorporated by reference to Exhibit 10.9 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.10 | Letter Agreement, dated May 4, 2000, by and between TSET, Inc. and Cancer Detection International, LLC | Incorporated by reference to Exhibit 10.10 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.11 | Employment Agreement, dated May 19, 2000, by and between TSET, Inc. and Richard A. Papworth | Incorporated by reference to Exhibit 10.11 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.12 | Finders Agreement, dated August 21, 2000, by and among TSET, Inc., Richard F. Tusing and Daniel R. Dwight | Incorporated by reference to Exhibit 10.12 to the Registration Statement on Form S-1 filed on August 7, 2001 |

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| EXHIBIT NO. | DESCRIPTION | LOCATION |
|----------------|---|--|
| ----- | ----- | ----- |
| 10.13 | Contract Services Agreement, dated June 27, 2000, by and between Chinook Technologies, Inc. and Kronos Air Technologies, Inc. | Incorporated by reference to Exhibit 10.13 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.14 | Letter of Intent, dated July 17, 2000, by and between Kronos Air Technologies, Inc. and Polus Technologies, Inc. | Incorporated by reference to Exhibit 10.14 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.15 | Consulting Agreement, dated August 1, 2000, by and among TSET, Inc., Richard F. Tusing and Daniel R. Dwight | Incorporated by reference to Exhibit 10.15 to the Registration Statement on Form |

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| | | S-1 filed on August 7, 2001 |
|-------|--|--|
| 10.16 | Preferred Stock Purchase Agreement, dated September 12, 2000, by and between EdgeAudio.com, Inc. and Bryan Holbrook | Incorporated by reference to Exhibit 10.16 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.17 | Shareholders Agreement, dated September 12, 2000, by and among TSET, Inc., Bryan Holbrook and EdgeAudio.com, Inc. | Incorporated by reference to Exhibit 10.17 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.18 | Amendment to Agreement and Plan of Reorganization dated September 12, 2000, by and among TSET, Inc., EdgeAudio.com, Inc., LYNK Enterprises, Inc., Robert Lightman, J. David Hogan, Eric Alexander and Eterna Internacional, S.A. de C.V. | Incorporated by reference to Exhibit 10.18 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.19 | Agreement Regarding Sale of Preferred Stock, dated November 1, 2000, by and between EdgeAudio.com, Inc. and Bryan Holbrook | Incorporated by reference to Exhibit 10.19 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.20 | Amendment to Subcontract, dated December 14, 2000, by and between Bath Iron Works and High Voltage Integrated | Incorporated by reference to Exhibit 10.20 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.21 | Consulting Agreement, dated January 1, 2001, by and between TSET, Inc. and Dwight, Tusing & Associates | Incorporated by reference to Exhibit 10.21 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.22 | Employment Agreement, dated March 18, 2001, by and between TSET, Inc. and Alex Chriss | Incorporated by reference to Exhibit 10.22 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.23 | Stock Option Agreement, dated April 9, 2001, by and between TSET, Inc. and Jeffrey D. Wilson | Incorporated by reference to Exhibit 10.23 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.24 | Stock Option Agreement, dated April 9, 2001, by and between TSET, Inc. and Jeffrey D. Wilson | Incorporated by reference to Exhibit 10.24 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.25 | Stock Option Agreement, dated April 9, 2001, by and between TSET, Inc. and Daniel R. Dwight | Incorporated by reference to Exhibit 10.25 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.26 | Stock Option Agreement, dated April 9, 2001, by and between TSET, Inc. and Richard F. Tusing | Incorporated by reference to Exhibit 10.26 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.27 | Stock Option Agreement, dated April 9, | Incorporated by reference to |

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2001, by and between TSET, Inc. and Charles D. Strang

Exhibit 10.27 to the Registration Statement on Form S-1 filed on August 7, 2001

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| EXHIBIT NO. | DESCRIPTION | LOCATION |
|----------------|--|--|
| 10.28 | Stock Option Agreement, dated April 9, 2001, by and between TSET, Inc. and Richard A. Papworth | Incorporated by reference to Exhibit 10.28 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.29 | Stock Option Agreement, dated April 9, 2001, by and between TSET, Inc. and Richard A. Papworth | Incorporated by reference to Exhibit 10.29 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.30 | Stock Option Agreement, dated April 9, 2001, by and between TSET, Inc. and Erik W. Black | Incorporated by reference to Exhibit 10.30 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.31 | Stock Option Agreement, dated April 9, 2001, by and between TSET, Inc. and J. Alexander Chriss | Incorporated by reference to Exhibit 10.31 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.32 | Stock Option Agreement, dated April 9, 2001, by and between TSET, Inc. and Charles H. Wellington | Incorporated by reference to Exhibit 10.32 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.33 | Stock Option Agreement, dated April 9, 2001, by and between TSET, Inc. and Igor Krichtafovitch | Incorporated by reference to Exhibit 10.33 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.34 | Letter Agreement, dated April 10, 2001, by and between TSET, Inc. and Richard A. Papworth | Incorporated by reference to Exhibit 10.34 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.35 | Letter Agreement, dated April 12, 2001, by and between TSET, Inc. and Daniel R. Dwight and Richard F. Tusing | Incorporated by reference to Exhibit 10.35 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.36 | Finders Agreement, dated April 20, 2001, by and between TSET, Inc. and Bernard Aronson, d/b/a Bolivar International Inc. | Incorporated by reference to Exhibit 10.36 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.37 | Indemnification Agreement, dated May 1, 2001, by and between TSET, Inc. and Jeffrey D. Wilson | Incorporated by reference to Exhibit 10.37 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.38 | Indemnification Agreement, dated May 1, 2001, by and between TSET, Inc. and | Incorporated by reference to Exhibit 10.38 to the |

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|-------|---|--|
| | Daniel R. Dwight | Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.39 | Indemnification Agreement, dated May 1, 2001, by and between TSET, Inc. and Richard F. Tusing | Incorporated by reference to Exhibit 10.39 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.40 | Indemnification Agreement, dated May 1, 2001, by and between TSET, Inc. and Charles D. Strang | Incorporated by reference to Exhibit 10.40 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.41 | Indemnification Agreement, dated May 1, 2001, by and between TSET, Inc. and Richard A. Papworth | Incorporated by reference to Exhibit 10.41 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.42 | Indemnification Agreement, dated May 1, 2001, by and between TSET, Inc. and Erik W. Black | Incorporated by reference to Exhibit 10.42 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.43 | Stock Option Agreement, dated May 3, 2001, by and between TSET, Inc. and Jeffrey D. Wilson | Incorporated by reference to Exhibit 10.43 to the Registration Statement on Form S-1 filed on August 7, 2001 |

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| EXHIBIT NO. | DESCRIPTION | LOCATION |
|----------------|---|--|
| ----- | ----- | ----- |
| 10.44 | Common Stock Purchase Agreement, dated June 19, 2001, by and between TSET, Inc. and Fusion Capital Fund II, LLC | Incorporated by reference to Exhibit 10.44 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.45 | Registration Rights Agreement, dated June 19, 2001, by and between TSET, Inc. and Fusion Capital Fund II, LLC | Incorporated by reference to Exhibit 10.45 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.46 | Mutual Release and Settlement Agreement, dated July 7, 2001, by and between TSET, Inc. and Foster & Price Ltd. | Incorporated by reference to Exhibit 10.46 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.47 | Letter Agreement, dated July 9, 2001, by and between TSET, Inc. and The Eagle Rock Group, LLC | Incorporated by reference to Exhibit 10.47 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.48 | Finders Agreement, dated July 17, 2001, by and between TSET, Inc. and John S. Bowles | Incorporated by reference to Exhibit 10.48 to the Registration Statement on Form S-1 filed on August 7, 2001 |
| 10.49 | Warrant Agreement, dated July 16, 2001, by and between TSET, Inc. and The Eagle Rock Group, LLC | Incorporated by reference to Exhibit 10.49 to the Registration Statement on Form |

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S-1 filed on August 7, 2001

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| 10.50 | Agreement and Release, dated October 10, 2001, by and between TSET, Inc. and Jeffrey D. Wilson | Incorporated by reference to Exhibit 10.50 to the Registrant's Form 10-K for the year ended June 30, 2001 filed on October 15, 2001 |
| 10.51 | Promissory Note dated October 10, 2001 payable to Mr. Jeffrey D. Wilson | Incorporated by reference to Exhibit 10.51 to the Registrant's Form 10-K for the year ended June 30, 2001 filed on October 15, 2001 |
| 10.52 | Consulting Agreement, dated October 10, 2001, by and between TSET, Inc. and Jeffrey D. Wilson | Incorporated by reference to Exhibit 10.52 to the Registrant's Form 10-K for the year ended June 30, 2001 filed on October 15, 2001 |
| 10.53 | Consulting Agreement effective October 1, 2001, by and among TSET, Inc., Steven G. Martin and Joshua B. Scheinfeld | Incorporated by reference to Exhibit 10.53 to the Registrant's Form 10-Q for the quarterly period ended September 30, 2001 filed on November 19, 2001 |
| 10.54 | Letter Agreement dated November 13, 2001 by and between TSET, Inc. and Fusion Capital Fund II, LLC | Incorporated by reference to Exhibit 10.54 to the Registrant's Form 10-Q for the quarterly period ended September 30, 2001 filed on November 19, 2001 |
| 11.1 | Statement re: Computation of Earnings | Not applicable |
| 12.1 | Statement re: Computation of Ratios | Not applicable |
| 15.1 | Letter re: Unaudited Interim Financial Information | Not applicable |
| 18.1 | Letter re: Change in Accounting Principals | Not applicable |
| 24.1 | Power of Attorney | Not applicable |
| 27.1 | Financial Data Schedule | Not applicable |

SIGNATURES

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

DATED: FEBRUARY 14, 2002 TSET, INC.

By: /s/ Daniel R. Dwight

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Daniel R. Dwight
President and Chief Executive Officer

By: /s/ Richard A. Papworth

Richard A. Papworth
Chief Financial Officer