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

FORM 8-K

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

Date of Report (Date of earliest event reported): January 4, 2007

SAVE THE WORLD AIR, INC.

(Exact name of registrant as specified in charter)

**Nevada
(State or other
jurisdiction of
incorporation)**

**0-29185
(Commission File
Number)**

**52-2088326
(IRS Employer
Identification No.)**

**5125 Lankershim Boulevard, North Hollywood, California 91601
(Address of principal executive offices) (Zip Code)**

Registrant's telephone number, including area code: (818) 487-8000

**Not Applicable
(Former name or former address, if changed since last report)**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01 Entry into a Material Definitive Agreement

On January 4, 2007, the Company entered into a Consulting Agreement (the "Consulting Agreement") with Spencer Clarke LLC ("Spencer Clarke") pursuant to which Spencer Clarke has agreed that for a twelve-month period beginning January 4, 2007, Spencer Clarke will provide the Company with financial consulting services (including but not limited to executive search, strategic partnerships, research on new markets, strategic visibility, etc) to help further develop the Company's strategic business plan.

For Spencer Clarke's services the Company has agreed to pay Spencer Clarke a non-refundable fee of \$20,000 per month, payable in advance. The first payment, in the amount of \$60,000 and covering three months, is payable by the Company on March 1, 2007. The Company will also reimburse Spencer Clarke for expenses it incurs in connection with the performance of its services under the Consulting Agreement, provided that expenses in excess of \$2,000 require the Company's prior approval before such expenses may be incurred by Spencer Clarke.

The Company has agreed to indemnify Spencer Clarke against any losses, claims, damages or liabilities to which Spencer Clarke may become subject arising out of or in connection with the services it renders under the Consulting Agreement, unless it is finally judicially determined that such losses, claims, damages or liabilities arose primarily out of the gross negligence or bad faith of Spencer Clarke. The Company has also agreed to reimburse Spencer Clarke immediately for any legal or other expenses they reasonably incur in connection with investigating, preparing to defend or defending any lawsuits or other proceedings arising out of or in connection with their rendering of services under the Consulting Agreement; provided, however, that in the event of a final judicial determination that the alleged losses, claims, damages or liabilities arose primarily out of the gross negligence or bad faith of Spencer Clarke, Spencer Clarke will remit to the Company any amounts reimbursed, but the amount which Spencer Clarke must remit in such event is limited to the fee payable by the Company to Spencer Clarke under the Consulting Agreement.

Item 9.01 Financial Statements and Exhibits

(a) Financial Statements

None

(b) ProForma Financial Information

None

(c) Exhibits

10.1 Consulting Agreement dated January 4, 2007 between the Company and Spencer Clarke LLC.

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 hereunto duly authorized.

Date: January 10, 2007

SAVE THE WORLD AIR, INC.

By: /s/ Bruce McKinnon
Bruce McKinnon
Chief Executive Office and President

Spencer Clarke LLC
Securities Investment Banking
Member NASD MSRB SIPC SIA

Confidential

January 4, 2007

Save the World Air, Inc.
5125 Lankershim Boulevard
North Hollywood, California 91601

Attention: Mr. Bruce H. McKinnon, Chief Executive Officer

Re: Consulting Agreement between Spencer Clarke LLC and Save the World Air, Inc.

Dear Mr. McKinnon:

This will confirm the terms of our mutual understanding and agreement (“Agreement”) in connection with the efforts of Spencer Clarke LLC (“Spencer Clarke”) shall be named the exclusive advisor to Save the World Air, Inc. (the “Company” or “SWA”).

Scope of Services. For a period of twelve (12) months beginning on January 4, 2007, Spencer Clarke will provide the Company with financial consulting services (including but not limited to executive search, strategic partnerships, research on new markets, strategic visibility, etc.) to help further develop the Company’s strategic business plan.

Fee. Pursuant to this agreement the Company will employ Spencer Clarke as a financial consultant for a non-refundable monthly fee of Twenty Thousand Dollars (\$20,000) exclusive of any actual out-of-pocket expenses approved by the Company. It is understood that the monthly fees for the first three months totaling Sixty Thousand Dollars (\$60,000) shall be due on March 1, 2007, and the remaining nine monthly fees shall be due the first of each month thereafter.

Expenses. SWA will reimburse Spencer Clarke for those costs, fees and expenses incurred by Spencer Clarke in connection with this engagement, including but not limited to, due diligence, travel, communication, marketing, and the legal fees and expenses of Spencer Clarke’s counsel. SWA will reimburse Spencer Clarke’s expenses as incurred, and it is understood that any expenditure by Spencer Clarke on behalf of this engagement that is in excess of \$2,000 will need the prior approval of SWA prior to incurrence.

505 Park Avenue 4th Floor New York, NY 10022
888.505.PARK(7275) 212.446.6100 FAX 212.446.6191
www.spencerclarke.com

Indemnification. SWA shall:

(a) indemnify Spencer Clarke and hold it harmless against any losses, claims, damages or liabilities to which Spencer Clarke may become subject arising in any manner out of or in connection with the rendering of services by Spencer Clarke hereunder, unless it is finally judicially determined that such losses, claims, damages or liabilities arose primarily out of the gross negligence or bad faith of Spencer Clarke; and

(b) reimburse Spencer Clarke immediately for any legal or other expenses reasonably incurred by it in connection with investigating, preparing to defend or defending any lawsuits or other proceedings arising in any manner out of or in connection with the rendering of services by Spencer Clarke hereunder; provided, however, that in the event a final judicial determination is that the alleged losses, claims, damages or liabilities arose primarily out of the gross negligence or bad faith of Spencer Clarke, Spencer Clarke will remit to SWA any amounts reimbursed under this subparagraph (b). Notwithstanding anything to the contrary stated herein, in no event shall the amount payable by Spencer Clarke hereunder exceed the Fee payable to Spencer Clarke pursuant to this Agreement.

SWA agrees that (i) the indemnification and reimbursement commitments set forth in this paragraph shall apply whether or not Spencer Clarke is a formal party to any such lawsuits, claims or other proceedings, (ii) Spencer Clarke is entitled to retain separate counsel of its choice in connection with any of the matters to which such commitments relate, and such commitments shall extend upon the terms set forth in this paragraph to any controlling person, director, officer, employee or agent of Spencer Clarke; provided, however, that to the extent that Spencer Clarke retains separate counsel in connection with any matter set forth in this subparagraph (b), such counsel shall coordinate its efforts with counsel to SWA.

Amendments. No amendment or waiver of any provision of this Agreement, or consent to any departure by either party from any such provision, shall in any event be effective unless the same shall be in writing and signed by the parties to this Agreement and then such amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

Governing Law. This Agreement shall be construed and enforced in accordance with the laws of New York and shall inure to the benefit of, and be binding upon, Spencer Clarke and SWA and their respective successors and assigns.

[signatures on next page]

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January 4, 2007
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If the foregoing correctly sets forth our Agreement, please sign and return the enclosed copy of this letter.

Sincerely,

SPENCER CLARKE LLC

By: /s/ Reid H. Drescher
Name: Reid H. Drescher
Title: CEO

ACCEPTED AND AGREED TO: as of January 4, 2007

SAVE THE WORLD AIR, INC.

By: /s/ Bruce H. McKinnon
Name: Bruce H. McKinnon
Title: CEO

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