UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended March 31, 2004.

or

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________to __________

Commission File Number 0-29185

SAVE THE WORLD AIR, INC.

(Exact name of registrant as specified in its charter)

Nevada	**52-2088326**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

5125 Lankershim Boulevard
North Hollywood, California 91601
(Address, including zip code, of principal executive offices)

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

Securities registered pursuant to Section 12(b) of the Exchange Act: None.

Securities registered pursuant to Section 12(g) of the Exchange Act: Common Stock, $0.001 par value.

Check whether the Registrant (1) 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. Yes x No o

The number of shares of the Registrant's Common Stock outstanding as of March 31, 2004 was 34,691,821 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Transitional Small Business Disclosure Format (Check one): Yes o No x

Table of Contents

SAVE THE WORLD AIR, INC.
FORM 10-QSB
INDEX

PART I

Item 1. Financial Statements

SAVE THE WORLD AIR, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

THREE MONTHS ENDED MARCH 31, 2004

CONTENTS

Table of Contents

SAVE THE WORLD AIR, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

BALANCE SHEETS
MARCH 31, 2004 AND DECEMBER 31, 2003

	March 31, 2004 (unaudited)	December 31, 2003
ASSETS		
Current assets		
Cash	$ 462,533	$ 926,052
Total current assets	462,533	926,052
Property and equipment, net of accumulated depreciation	38,822	35,244
	$ 501,355	$ 961,296

See notes to financial statements.

SAVE THE WORLD AIR, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

BALANCE SHEETS - Continued
MARCH 31, 2004 AND DECEMBER 31, 2003

	March 31, 2004 (unaudited)	December 31, 2003
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities		
Income taxes payable	$ 6,991	$ 5,991
Payables to related parties	36,478	57,903
Accrued expenses	606,728	713,580
Total current liabilities	650,197	777,474
Due to founding executive officer	1,017,208	1,017,208
Commitments and contingencies		
Stockholders' deficiency		
Common stock, $.001 par value: 200,000,000 shares authorized, 34,691,821 and 34,128,261 shares issued and outstanding at March 31, 2004 and December 31, 2003, respectively	34,692	34,128
Common stock to be issued	—	6,250
Additional paid-in capital	10,714,046	10,162,177
Deferred compensation	(810,610)	(708,333)
Deficit accumulated during the development stage	(11,104,178)	(10,327,608)
Total stockholders' deficiency	(1,166,050)	(833,386)
	$ 501,355	$ 961,296

See notes to financial statements.

SAVE THE WORLD AIR, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENTS OF OPERATIONS (unaudited)
THREE MONTHS ENDED MARCH 31, 2004 AND 2003 AND
FOR THE PERIOD FROM INCEPTION (FEBRUARY 28, 1998)
TO MARCH 31, 2004

	The three months ended March 31, 2004	The three months ended March 31, 2003	Cumulative since inception
Net sales	$	$ —	$ —
Expenses	775,970	604,981	11,073,071
Net loss before interest income	(775,970)	(604,981)	(11,073,071)
Interest income	400	—	840
Net loss before provision for income taxes	(775,570)	(604,981)	(11,072,231)
Provision for income taxes	1,000	1,020	6,947
Net loss	$ (776,570)	$ (606,001)	$(11,079,178)
Net loss per share, basic and diluted	$ (0.02)	$ (0.03)	
Weighted average shares outstanding, basic and diluted	34,556,765	22,565,847	

See notes to financial statements.

Table of Contents

SAVE THE WORLD AIR, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENTS OF STOCKHOLDERS' DEFICIENCY
FROM INCEPTION (FEBRUARY 28, 1998) TO MARCH 31, 2004

	Price per share	Common Stock Shares	Common Stock Amount	Common stock to be issued	Additional paid-in capital
Balance, February 18, 1998 (date of inception)		—	$ —	$ —	$ —
Issuance of common stock on April 18, 1998	.0015 — .01	10,030,000	10,030	—	14,270
Net loss		—	—	—	—
Balance, December 31, 1998 (as corrected, see Note 1)		**10,030,000**	**10,030**		**14,270**
Issuance of common stock on May 18, 1999	1.00 — 6.40	198,003	198	—	516,738
Issuance of common stock for ZEFS on September 14, 1999	.001	5,000,000	5,000	—	—
Stock issued for professional services on May 18, 1999	0.88	69,122	69	—	49,444
Net Loss		—	—	—	—
Balance, December 31, 1999 (as corrected, see Note 1)		**15,297,125**	**15,297**	**—**	**580,452**
Stock issued for employee compensation on February 8, 2000	1.03	20,000	20	—	20,580
Stock issued for consulting services on February 8, 2000	1.03	100,000	100	—	102,900
Stock issued for professional services on April 18, 2000	3.38	27,000	27	—	91,233
Stock issued for directors fees on April 18, 2000	3.38	50,000	50	—	168,950
Stock issued for professional services on May 19, 2000	4.06	5,000	5	—	20,295
Stock issued for directors fees on June 20, 2000	4.44	6,000	6	—	26,634
Stock issued for professional services on June 20, 2000	4.44	1,633	2	—	7,249
Stock issued for professional services on June 26, 2000	5.31	1,257	1	—	6,674
Stock issued for employee compensation on June 26, 2000	5.31	22,000	22	—	116,798
Stock issued for consulting services on June 26, 2000	5.31	9,833	10	—	52,203
Stock issued for promotional services on July 28, 2000	4.88	9,675	9	—	47,205
Stock issued for consulting services on July 28, 2000	4.88	9,833	10	—	47,975
Stock issued for consulting services on August 4, 2000	2.13	35,033	35	—	74,585
Stock issued for promotional services on August 16, 2000	2.25	25,000	25	—	56,225
Stock issued for consulting services on September 5, 2000	2.25	12,833	13	—	28,861
Stock issued for consulting services on September 10, 2000	1.50	9,833	10	—	14,740
Stock issued for consulting services on November 2, 2000	0.88	9,833	10	—	8,643
Stock issued for consulting services on November 4, 2000	0.88	9,833	10	—	8,643
Stock issued for consulting services on December 20, 2000	0.50	19,082	19	—	9,522

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Deficit accumulated	Total stockholders'

	Deferred compensation	during the development stage	development stage deficiency
Balance, February 18, 1998 (date of inception)			
	$ —	**$ —**	**$ —**
Issuance of common stock on April 18, 1998	—	—	24,300
Net loss	—	(21,307)	(21,307)
Balance, December 31, 1998 (as corrected, see Note 1)	**—**	**(21,307)**	**2,993**
Issuance of common stock on May 18, 1999	—	—	516,936
Issuance of common stock for ZEFS on September 14, 1999	—	—	5,000
Stock issued for professional services on May 18, 1999	—	—	49,513
Net Loss	—	(1,075,264)	(1,075,264)
Balance, December 31, 1999 (as corrected, see Note 1)	**—**	**(1,096,571)**	**(500,822)**
Stock issued for employee compensation on February 8, 2000	—	—	20,600
Stock issued for consulting services on February 8, 2000	—	—	103,000
Stock issued for professional services on April 18, 2000	—	—	91,260
Stock issued for directors fees on April 18, 2000	—	—	169,000
Stock issued for professional services on May 19, 2000	—	—	20,300
Stock issued for directors fees on June 20, 2000	—	—	26,640
Stock issued for professional services on June 20, 2000	—	—	7,251
Stock issued for professional services on June 26, 2000	—	—	6,675
Stock issued for employee compensation on June 26, 2000	—	—	116,820
Stock issued for consulting services on June 26, 2000	—	—	52,213
Stock issued for promotional services on July 28, 2000	—	—	47,214
Stock issued for consulting services on July 28, 2000	—	—	47,985
Stock issued for consulting services on August 4, 2000	—	—	74,620
Stock issued for promotional services on August 16, 2000	—	—	56,250
Stock issued for consulting services on September 5, 2000	—	—	28,874
Stock issued for consulting services on September 10, 2000	—	—	14,750
Stock issued for consulting services on November 2, 2000	—	—	8,653
Stock issued for consulting services on November 4, 2000	—	—	8,653
Stock issued for consulting services on December 20, 2000	—	—	9,541

See notes to financial statements.

Table of Contents

SAVE THE WORLD AIR, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENTS OF STOCKHOLDERS' DEFICIENCY - Continued
FROM INCEPTION (FEBRUARY 28, 1998) TO MARCH 31, 2004

	Price per share	Common Stock Shares	Common Stock Amount	Common stock to be issued	Additional paid-in capital
Stock issued for filing services on December 20, 2000	0.50	5,172	5	—	2,581
Stock issued for professional services on December 26, 2000	0.38	12,960	13	—	4,912
Other stock issuance on August 24, 2000	2.13	2,000	2	—	4,258
Common shares cancelled		(55,000)	(55)	—	(64,245)
Net loss		—	—	—	—
Balance, December 31, 2000 (as corrected, see Note 1)		**15,645,935**	**15,646**	**—**	**1,437,873**
Stock issued for consulting services on January 8, 2001	0.31	9,833	10	—	3,038
Stock issued for consulting services on February 1, 2001	0.33	9,833	10	—	3,235
Stock issued for consulting services on March 1, 2001	0.28	9,833	10	—	2,743
Stock issued for legal services on March 13, 2001	0.32	150,000	150	—	47,850
Stock issued for consulting services on April 3, 2001	0.25	9,833	10	—	2,448
Stock issued for legal services on April 4, 2001	0.25	30,918	31	—	7,699
Stock issued for professional services on April 4, 2001	0.25	7,040	7	—	1,753
Stock issued for consulting services on April 5, 2001	0.25	132,600	132	—	33,018
Stock issued for filing fees on April 30, 2001	1.65	1,233	1	—	2,033
Stock issued for filing fees on September 19, 2001	0.85	2,678	2	—	2,274
Stock issued for professional services on September 28, 2001	0.62	150,000	150	—	92,850
Stock issued for directors services on October 5, 2001	0.60	100,000	100	—	59,900
Stock issued for legal services on October 17, 2001	0.60	11,111	11	—	6,655
Stock issued for consulting services on October 18, 2001	0.95	400,000	400	—	379,600
Stock issued for consulting services on October 19, 2001	1.25	150,000	150	—	187,350
Stock issued for exhibit fees on October 22, 2001	1.35	5,000	6	—	6,745
Stock issued for directors services on November 2, 2001	0.95	1,000,000	1,000	—	949,000
Stock issued for consulting services on November 7, 2001	0.85	20,000	20	—	16,980
Stock issued for consulting services on November 20, 2001	0.98	43,000	43	—	42,097
Stock issued for consulting services on November 27, 2001	0.98	10,000	10	—	9,790
Stock issued for consulting services on November 28, 2001	0.98	187,000	187	—	183,073
Intrinsic value of options issued to employees		—	—	—	2,600,000

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Deferred compensation	Deficit accumulated during the development stage	Total stockholders' development stage deficiency
Stock issued for filing services on December 20, 2000	—	—	2,586
Stock issued for professional services on December 26, 2000	—	—	4,925
Other stock issuance on August 24, 2000	—	—	4,260
Common shares cancelled	—	—	(64,300)
Net loss	—	(1,270,762)	(1,270,762)
Balance, December 31, 2000 (as corrected, see Note 1)	**—**	**(2,367,333)**	**(913,814)**
Stock issued for consulting services on January 8, 2001	—	—	3,048
Stock issued for consulting services on February 1, 2001	—	—	3,245

Stock issued for consulting services on March 1, 2001	—	—	2,753
Stock issued for legal services on March 13, 2001	—	—	48,000
Stock issued for consulting services on April 3, 2001	—	—	2,458
Stock issued for legal services on April 4, 2001	—	—	7,730
Stock issued for professional services on April 4, 2001	—	—	1,760
Stock issued for consulting services on April 5, 2001	—	—	33,150
Stock issued for filing fees on April 30, 2001	—	—	2,034
Stock issued for filing fees on September 19, 2001	—	—	2,276
Stock issued for professional services on September 28, 2001	—	—	93,000
Stock issued for directors services on October 5, 2001	—	—	60,000
Stock issued for legal services on October 17, 2001	—	—	6,666
Stock issued for consulting services on October 18, 2001	—	—	380,000
Stock issued for consulting services on October 19, 2001	—	—	187,500
Stock issued for exhibit fees on October 22, 2001	—	—	6,751
Stock issued for directors services on November 2, 2001	—	—	950,000
Stock issued for consulting services on November 7, 2001	—	—	17,000
Stock issued for consulting services on November 20, 2001	—	—	42,140
Stock issued for consulting services on November 27, 2001	—	—	9,800
Stock issued for consulting services on November 28, 2001	—	—	183,260
Intrinsic value of options issued to employees	(2,600,000)	—	—

See notes to financial statements.

Table of Contents

SAVE THE WORLD AIR, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENTS OF STOCKHOLDERS' DEFICIENCY - Continued
FROM INCEPTION (FEBRUARY 28, 1998) TO MARCH 31, 2004

	Price per share	Common Stock Shares	Common Stock Amount	Common stock to be issued	Additional paid-in capital
Fair value of options issued to non-employees for services		—	—	—	142,318
Amortization of deferred compensation		—	—	—	—
Net loss		—	—	—	—
Balance, December 31, 2001		**18,085,847**	**18,086**	**—**	**6,220,322**
Stock issued for directors services on December 10, 2002	0.40	2,150,000	2,150	—	857,850
Common stock paid for, but not issued (2,305,000 shares)	0.15-0.25	—	—	389,875	—
Fair value of options issued to non-employees for services		—	—	—	54,909
Amortization of deferred compensation		—	—	—	—
Net loss		—	—	—	—
Balance, December 31, 2002		**20,235,847**	**20,236**	**389,875**	**7,133,081**
Stock issued, previously paid for	0.15	1,425,000	1,425	(213,750)	212,325
Stock issued, previously paid for	0.25	880,000	880	(220,000)	219,120
Stock and warrants issued for cash on March 20, 2003	0.25	670,000	670	—	166,830
Stock and warrants issued for cash on April 4, 2003	0.25	900,000	900	—	224,062
Stock and warrants issued for cash on April 8, 2003	0.25	100,000	100	—	24,900
Stock and warrants issued for cash on May 8, 2003	0.25	1,150,000	1,150	—	286,330
Stock and warrants issued for cash on June 16, 2003	0.25	475,000	475	—	118,275
Stock issued for legal services on June 27, 2003	0.55	83,414	83	—	45,794
Debt converted to stock and warrants on June 27, 2003	0.25	2,000,000	2,000	—	498,000
Stock and warrants issued for cash on July 11, 2003	0.25	519,000	519	—	129,231
Stock and warrants issued for cash on September 29, 2003	0.25	1,775,000	1,775	—	441,976
Stock and warrants issued for cash on October 21, 2003	0.25	1,845,000	1,845	—	459,405
Stock and warrants issued for cash on October 28, 2003	0.25	1,570,000	1,570	—	390,930
Stock and warrants issued for cash on November 19, 2003	0.25	500,000	500	—	124,500
Finders' fees related to stock issuances		—	—	43,875	(312,582)
Common stock paid for, but not issued (25,000 shares)	0.25	—	—	6,250	—
Amortization of deferred comp		—	—	—	—
Net loss for year ended December 31, 2003		—	—	—	—
Balance, December 31, 2003		**34,128,261**	**34,128**	**6,250**	**10,162,177**

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Deferred compensation	Deficit accumulated during the development stage	Total stockholders' development stage deficiency
Fair value of options issued to non-employees for services	—	—	142,318
Amortization of deferred compensation	191,667	—	191,667
Net loss	—	(2,735,013)	(2,735,013)

Balance, December 31, 2001	**(2,408,333)**	**(5,102,346)**	**(1,272,271)**
Stock issued for directors services on December 10, 2002	—	—	860,000
Common stock paid for, but not issued (2,305,000 shares)	—	—	389,875
Fair value of options issued to non-employees for services	(54,909)	—	—
Amortization of deferred compensation	891,182	—	891,182
Net loss	—	(2,749,199)	(2,749,199)
Balance, December 31, 2002	**(1,572,060)**	**(7,851,545)**	**(1,880,413)**
Stock issued, previously paid for	—	—	—
Stock issued, previously paid for	—	—	—
Stock and warrants issued for cash on March 20, 2003	—	—	167,500
Stock and warrants issued for cash on April 4, 2003	—	—	224,962
Stock and warrants issued for cash on April 8, 2003	—	—	25,000
Stock and warrants issued for cash on May 8, 2003	—	—	287,480
Stock and warrants issued for cash on June 16, 2003	—	—	118,750
Stock issued for legal services on June 27, 2003	—	—	45,877
Debt converted to stock and warrants on June 27, 2003	—	—	500,000
Stock and warrants issued for cash on July 11, 2003	—	—	129,750
Stock and warrants issued for cash on September 29, 2003	—	—	443,751
Stock and warrants issued for cash on October 21, 2003	—	—	461,250
Stock and warrants issued for cash on October 28, 2003	—	—	392,500
Stock and warrants issued for cash on November 19, 2003	—	—	125,000
Finders' fees related to stock issuances	—	—	(268,707)
Common stock paid for, but not issued (25,000 shares)	—	—	6,250
Amortization of deferred comp	863,727	—	863,727
Net loss for year ended December 31, 2003	—	(2,476,063)	(2,476,063)
Balance, December 31, 2003	**(708,333)**	**(10,327,608)**	**(833,386)**

See notes to financial statements.

SAVE THE WORLD AIR, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENTS OF STOCKHOLDERS' DEFICIENCY - Continued
FROM INCEPTION (FEBRUARY 28, 1998) TO MARCH 31, 2004

	Price per share	Common Stock Shares	Common Stock Amount	Common stock to be issued	Additional paid-in capital
Common stock issued, previously paid for	0.25	25,000	25	(6,250)	6,225
Stock issued for director services on March 31, 2004	0.25	50,000	50	—	12,450
Stock issued for previously accrued finders fees on March 31, 2004	0.15	82,500	82	—	12,293
Stock issued for previously accrued finders fees on March 31, 2004	0.25	406,060	407	—	101,199
Options issued to employees		—	—	—	359,582
Options issued to non-employees		—	—	—	60,120
Amortization of deferred comp		—	—	—	—
Net loss for three months ended March 31, 2004		—	—	—	—
Balance, March 31, 2004 (unaudited)		**34,691,821**	**$34,692**	**$ —**	**$10,714,046**

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Deferred compensation	Deficit accumulated during the development stage	Total stockholders' development stage deficiency
Common stock issued, previously paid for	—	—	—
Stock issued for director services on March 31, 2004	—	—	12,500
Stock issued for previously accrued finders fees on March 31, 2004	—	—	12,375
Stock issued for previously accrued finders fees on March 31, 2004	—	—	101,606
Options issued to employees	(359,582)	—	—
Options issued to non-employees	(60,120)	—	—
Amortization of deferred comp	317,425	—	317,425
Net loss for three months ended March 31, 2004	—	(776,570)	(776,570)
Balance, March 31, 2004 (unaudited)	**$ (810,610)**	**$ (11,104,178)**	**$ (1,166,050)**

See notes to financial statements.

Table of Contents

SAVE THE WORLD AIR, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENTS OF CASH FLOWS (unaudited)
THREE MONTHS ENDED MARCH 31, 2004 AND 2003 AND
FOR THE PERIOD FROM INCEPTION (FEBRUARY 18, 1998)
TO MARCH 31, 2004

	March 31, 2004	March 31, 2003	Cumulative since inception
Cash flows from operating activities			
Net loss	$(776,570)	$(606,001)	$(11,104,178)
Adjustments to reconcile net loss to net cash used in operating activities:			
Write off of intangible assets	—	—	505,000
Fair value of options issued for services	—	—	642,318
Issuance of common stock for services	12,500	—	3,322,354
Amortization of deferred compensation	317,425	226,226	2,264,001
Depreciation	1,292	1,223	7,024
Changes in operating liabilities:			
Income taxes payable	1,000	1,064	6,991
Accrued expenses	7,129	12,276	720,709
Net cash used in operating activities	(437,224)	(365,212)	(3,635,781)
Cash flows from investing activities			
Purchase of property and equipment	(4,870)	—	(42,296)
Net cash used in investing activities	(4,870)	—	(42,296)
Cash flows from financing activities			
Increase (decrease) in payables to related parties	(21,425)	59,618	32,928
Advances from founding executive officer	—	—	517,208
Issuance of common stock for cash	—	211,375	3,590,474
Common stock issuable	—	349,942	—
Net cash provided by (used in) financing activities	(21,425)	620,935	4,140,610
Net increase (decrease) in cash	(463,019)	255,723	462,533
Cash, beginning of period	926,052	107,489	—
Cash, end of period	$ 462,533	$ 363,212	$ 462,533

See notes to financial statements.

Table of Contents

SAVE THE WORLD AIR, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENTS OF CASH FLOWS - Continued (unaudited)
THREE MONTHS ENDED MARCH 31, 2004 AND 2003 AND
FOR THE PERIOD FROM INCEPTION (FEBRUARY 18, 1998)
TO MARCH 31, 2004

	March 31, 2004	March 31, 2003	Cumulative since inception
Supplemental disclosures of cash flow information			
Cash paid during the year for			
Interest	$ —	$ —	$ —
Income taxes	$ —	$ —	$ —
Non-cash investing and financing activities			
Acquisition of intangible asset through advance from related party and issuance of common stock	$ —	$ —	$ 505,000
Deferred compensation for stock options issued for services	419,702	—	3,074,611
Purchase of property and equipment financed by advance from related party	—	—	3,550
Conversion of related party debt to equity	—	—	500,000
Stock issued for previously accrued finders fee	113,981	—	113,981

See notes to financial statements.

SAVE THE WORLD AIR, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2004 (unaudited)

1. Organization and basis of presentation

Basis of presentation

The accompanying interim condensed financial statements are unaudited, but in the opinion of management of Save the World Air, Inc. (the Company), contain all adjustments, which include normal recurring adjustments, necessary to present fairly the financial position at March 31, 2004, the results of operations for the three months ended March 31, 2004 and 2003, and cash flows for the three months ended March 31, 2004 and 2003. The balance sheet as of December 31, 2003 is derived from the Company's audited financial statements.

Certain information and footnote disclosures normally included in financial statements that have been prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission, although management of the Company believes that the disclosures contained in these financial statements are adequate to make the information presented therein not misleading. For further information, refer to the financial statements and the notes thereto included in the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003, as filed with the Securities and Exchange Commission.

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

The results of operations for the three months ended March 31, 2004 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2004.

SAVE THE WORLD AIR, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS - Continued
THREE MONTHS ENDED MARCH 31, 2004 (unaudited)

1. Organization and basis of presentation - Continued

Description of business

Save the World Air, Inc. (the "Company") was incorporated in Nevada on February 18, 1998 under the name Mandalay Capital Corp. The Company changed its name to Save the World Air, Inc. on February 11, 1999 following the signing of an agreement by and between the Company and Jeffrey Alan Muller, the Company's founding executive officer and director, with respect to the Company's purchase of the Zero Emission Fuel-Saving Device (the "Agreement"). Under the terms of the Agreement, the Company issued 5,000,000 shares of its common stock to Mr. Muller and agreed to pay him a total of $500,000 for the marketing and distribution rights of the device, and a $10 royalty for every unit of the device sold. The Company acquired the worldwide exclusive manufacturing, marketing and distribution rights for the Zero Emission Fuel-Saving Device ("ZEFS") by entering into the Agreement. The ZEFS is a product, which is fitted to an internal combustion engine and is expected to reduce carbon monoxide hydrocarbons and toxic exhaust emissions. The ZEFS is currently undergoing testing to determine the achievable levels of reduced emissions and commercial viability.

Significant matters

On December 19, 2001, the Securities and Exchange Commission ("SEC") filed civil charges in federal district court in New York, New York, against the Company, Mr. Muller, and others associated with the promotion of Company stock sales, alleging that they engaged in a fraudulent scheme to manipulate the market for the Company's stock.

The SEC's complaint alleges that from at least February 1999 through at least April 2001, the Company and Mr. Muller carried out a fraudulent promotional campaign using press releases, Internet postings, an elaborate Internet website, and televised media events to disseminate false and materially misleading information about the Company's product and commercial prospects. The complaint also alleges that the Company's and Mr. Muller's actions led to the artificial inflation of the price and trading volume of the Company stock, causing its market capitalization to be as much as $218,728,062. The promotional information distributed by the Company and Mr. Muller included: (1) announcements of significant licensing agreements and other important business developments, and (2) announcements concerning public automotive demonstrations that purportedly proved or would prove that the ZEFS materially reduces emissions and improves fuel economy in motor vehicles. The complaint further alleges that the purported licensing agreements and other purported

SAVE THE WORLD AIR, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS - Continued
THREE MONTHS ENDED MARCH 31, 2004 (unaudited)

1. Organization and basis of presentation - Continued

Significant matters - Continued

business events simply did not exist, and the then current ZEFS demonstrations did not prove that the ZEFS actually worked as represented. At the same time that he publicly promoted the Company, Mr. Muller privately sold millions of shares of the Company's restricted stock that, if sold at then-prevailing market prices, would have provided him with over $9 million in personal profits. He concealed these sales by failing to disclose in SEC filings, as required, any changes in his beneficial ownership in the Company. The SEC complaint also states that the Company and Mr. Muller made at least nine SEC filings that contain false financial statements and disclosures.

In October 2001, Edward Masry became the Company's new President and Chief Executive Officer. Because of the nature and scope of the SEC's allegations regarding the Company's financial statements and SEC filings, Masry has assembled a new management team and newly constituted board of directors for the Company, in addition to selecting new independent auditors and corporate counsel.

The Company entered into discussions with the SEC concerning the SEC's complaint and negotiated a consent order in which it agreed, among other terms, to observe all securities laws. Based upon this consent order and related judgment, the proceedings against the Company were terminated. The Company has since caused an investigation into the facts and circumstances surrounding the allegations in the SEC's complaint. Based upon review of the history leading to the filing of the complaint, the Company's board of directors authorized the filing of cross-claims against Mr. Muller and others (including ten offshore companies) seeking disgorgement of stock obtained from the Company, to invalidate the transfer of several million shares to Mr. Muller and family members for inadequate or no consideration, rescission of stock options transferred to Mr. Muller and/or his family members, for the transfer of rights to patent claims from Mr. Muller to the Company and rescission of royalty rights held by Mr. Muller and/or his family members. Upon filing of the cross complaint, in July 2002, the Company obtained a temporary restraining order against Mr. Muller which, among other things, prohibits Mr. Muller from serving as an officer or director of the Company and enjoins Mr. Muller and others from selling, conveying, transferring or encumbering any shares which Mr. Muller controls or in which he has an interest. The Company believes the temporary restraining order may affect as many as seventeen million shares or more of the Company's stock, in the form of issued shares and option rights.

In the course of the legal proceedings, the Company has obtained complete control over all ownership claims to the ZEFS patent rights and all royalty interests previously held and claimed by Mr. Muller and certain others.

SAVE THE WORLD AIR, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS - Continued
THREE MONTHS ENDED MARCH 31, 2004 (unaudited)

1. Organization and basis of presentation - Continued

Significant matters - Continued

The Company has continued to prosecute its claims and has substantially completed all pretrial procedures in preparation for the disposition of the case through dispositive pretrial motions and/or eventual trial on the merits of the claims. Based upon the substantial discovery completed and other evidence obtained to date, the Company believes there is very little risk of an adverse decision on the merits of its cross complaint.

Based on the status of current legal proceedings, the Company believes it will not have to pay $1,017,208 of advances due to Mr. Muller. The Company also believes that the option Mr. Muller holds to purchase 10,000,000 shares of the Company's stock will be cancelled.

Development stage enterprise

The Company is a development stage enterprise as defined by Statement of Financial Accounting Standards (SFAS) No. 7, "Accounting and Reporting by Development Stage Enterprises." All losses accumulated since the inception of the Company have been considered as part of the Company's development stage activities.

A team has been assembled for the research and development of the technology and potential markets for the ZEFS and to establish relationships with potential customers. Significant design work has been completed, and patent applications have been filed in 64 countries. There is no assurance that any of the filed patents will be granted. The Company is continuing in its product development efforts and several studies are underway to evaluate the effectiveness of the ZEFS in eliminating pollutants and emissions from internal combustion engines. The Company has had no sales to date. As such, the Company continues to remain a development stage enterprise. The ability of the Company to commercialize its products will depend on, among other things, the Company's ability to demonstrate the merits of the ZEFS and develop markets and distribution channels.

SAVE THE WORLD AIR, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS - Continued
THREE MONTHS ENDED MARCH 31, 2004 (unaudited)

2. Net loss per share

Basic earnings (loss) per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution, using the treasury stock method, that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. In computing diluted earnings per share, the treasury stock method assumes that outstanding options and warrants are exercised and the proceeds are used to purchase common stock at the average market price during the period. Options and warrants will have a dilutive effect under the treasury stock method only when the average market price of the common stock during the period exceeds the exercise price of the options and warrants. For the three months ended March 31, 2004 and the year ended December 31, 2003, the dilutive impact of outstanding stock options of 15,172,652 and 14,000,000, respectively, and 13,367,414 warrants in 2003 has been excluded because their impact on the loss per share is antidilutive.

3. New accounting pronouncements

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The provisions of SFAS No. 150 are effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities, which are subject to the provisions of this statement for the first fiscal period beginning after December 15, 2004. The Company believes that the adoption of SFAS No. 150 will not have an impact on its financial position or results of operations.

SAVE THE WORLD AIR, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS - Continued
THREE MONTHS ENDED MARCH 31, 2004 (unaudited)

3. New accounting pronouncements - Continued

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), which clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements", relating to consolidation of certain entities. In December 2003, the FASB issued a revised version of FIN 46 ("FIN 46R") that replaced the original FIN 46. FIN 46R requires identification of a company's participation in variable interest entities ("VIEs"), which are defined as entities with a level of invested equity that is not sufficient to fund future activities to permit it to operate on a standalone basis. For entities identified as a VIE, FIN 46R sets forth a model to evaluate potential consolidation based on an assessment of which party to the VIE, if any, bears a majority of the exposure to its expected losses, or stands to gain from a majority of its expected returns. FIN 46R also sets forth certain disclosures regarding interests in VIEs that are deemed significant even if consolidation is not required. The Company is not currently participating in, or invested in, any VIEs, as defined in FIN 46R. The implementation of the provisions of FIN 46R in 2003 did not have a significant effect on the Company's consolidated financial statement presentation or disclosures.

4. Certain relationships and related transactions

Due to founding executive officer

All of the marketing and manufacturing rights for the ZEFS were acquired from Mr. Muller, for 5,000,000 shares of common stock, $500,000 and a $10 royalty for each unit sold (see discussion below), pursuant to the Agreement entered into in December 1998, by and between the Company and Mr. Muller. Working capital advances in the amount of $517,208 and payment in the amount of $500,000 for marketing and distribution rights of the ZEFS are due to Mr. Muller. Such amounts are interest free and do not have any due dates for payment.

In January 2000, the Company entered into an agreement offering Mr. Muller and Lynne Muller, Mr. Muller's wife, the option to purchase 5,000,000 shares each at $0.10 per share as consideration for work performed for the Company. Mrs. Muller subsequently transferred her option to Mr. Muller.

Table of Contents

SAVE THE WORLD AIR, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS - Continued
THREE MONTHS ENDED MARCH 31, 2004 (unaudited)

4. Certain relationships and related transactions - Continued

Due to founding executive officer - Continued

In connection with the Company's legal proceedings against Mr. Muller, the Company is attempting to obtain a judgment that will relieve the Company of $1,017,208, which represents all amounts due Mr. Muller. These amounts include the $500,000 due for the marketing and distribution rights of the ZEFS and the working capital advances of $517,208. As described in the Significant Matters section of Note 1, the Company has already been relieved of the $10 royalty interest that Mr. Muller held for each unit sold. In addition, the Company is also attempting to obtain a judgment that will cancel the options to purchase 10,000,000 shares granted to Mr. and Mrs. Muller, collectively. Based on the status of current legal proceedings, the Company does not believe that it will have to pay Mr. Muller the $500,000 for the rights to the ZEFS device and the $517,208 of advances. The Company also believes that the option Mr. Muller holds to purchase 10,000,000 shares of the Company's stock will be cancelled and no longer valid.

Due to related parties

Masry & Vititoe, a law firm in which Edward Masry is a partner, has advanced $36,478 and $57,903 as of March 31, 2004 and December 31, 2003 to the Company for working capital purposes. The advances payable to Masry & Vititoe were allocations to the Company for shared expenses, primarily payroll. These advances are unsecured, non-interest bearing, and are due on demand.

5. Stockholders' deficiency

As of March 31, 2004, the Company has authorized 200,000,000 shares of its common stock and 34,153,261 shares were issued and outstanding. As described in Note 1, estimates and judgments were used by management to determine the fair value for certain issuances of the outstanding shares.

The Company's significant stockholders are as follows:

	Number of shares	Percentage ownership
Mr. Jeffrey Muller and controlled by Mr. Muller through beneficial ownership	8,716,710	25.1%
Mr. Edward Masry	3,000,000	8.6%
Mr. Edward Skoda	4,000,000	11.5%
Remaining stockholders	18,975,111	54.8%
	34,691,821	100.0%

Table of Contents

SAVE THE WORLD AIR, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS - Continued
THREE MONTHS ENDED MARCH 31, 2004 (unaudited)

6. Stock options

The Company issues stock options to employees, directors and consultants under no formal plan. Employee options vest according to the terms of the specific grant and expire from 5 to 10 years from date of grant. Non-employee option grants to date are vested upon issuance or up to one year. The weighted average remaining contractual life of employee options outstanding at March 31, 2004 was 7.32 years. Stock option activity for the years ended December 31, 2002 and 2003, was as follows:

	Options	Weighted Avg. Exercise Price
Options outstanding, January 1, 2003	14,000,000	$ 0.13
Options granted	—	1.00
Options exercised	—	—
Options cancelled	—	—
Options, December 31, 2003	14,000,000	0.13
Options granted	1,172,652	1.03
Options exercised	—	—
Options cancelled	—	—
Options, March 31, 2004	15,172,652	$ 0.20

Options outstanding at March 31, 2004 and the related weighted average exercise price and remaining life information is as follows:

Range of exercise prices	Total options outstanding	Weighted average remaining life in years	Total weighted average exercise price	Options exercisable	Weighted average exercise price
$ 0.10	10,000,000	N/A	$ 0.10	10,000,000	$ 0.10
0.10	3,000,000	6.83	0.10	2,000,000	0.10
0.40	750,000	8.79	0.40	750,000	0.40
0.50	150,000	3.71	0.50	150,000	0.50
1.00	100,000	8.67	1.00	100,000	1.00
.98	900,000	4.75	.98	—	—
1.15	193,912	4.75	1.15	—	—
1.27	78,740	4.75	1.27	—	—
$ 0.10-$1.27	15,172,652	5.55	$ 0.20	13,000,000	$ 0.19

Table of Contents

SAVE THE WORLD AIR, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS - Continued
THREE MONTHS ENDED MARCH 31, 2004 (unaudited)

6. Stock options – Continued

The 10,000,000 options exercisable at $0.10 per share in the table above are held by Mr. Muller. The options have been accounted for as employee stock options under the provisions of APB No. 25. Accordingly, no compensation expense has been recorded in the statements of operations. However, the $1,000,000 fair value of the options has been reflected in the pro forma net loss below. The 10,000,000 options do not have an expiration date and vested in 1999. For purposes of computing fair value method stock-based employee compensation expense for the 10,000,000 employee options above, a ten-year life was used in the Black-Scholes option-pricing model, as ten years is the longest term for other option grants.

Intrinsic value of employee options

Certain employee options were granted with exercise prices less the than fair market value of the Company's stock at the date of grant. As the grants were to employees, the intrinsic value method, as allowed under APB No. 25, was used to calculate the related compensation expense. For the three months ended March 31, 2004, $302,395 of employee deferred compensation was amortized and recognized as expense. The remaining deferred compensation expense will be recognized over the remaining vesting periods of the employee options through 2004.

The Company has elected to account for stock-based compensation using the intrinsic value method prescribed in APB No. 25 and related interpretations, and follow the pro forma disclosure requirements of SFAS No. 123. Accordingly, no compensation expense has been recognized related to the granting of stock options, except as noted above. The following table illustrates the effect on net income as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

	March 31, 2004	December 31, 2003	Cumulative since inception
Net loss, as reported	$ (776,570)	$(2,476,063)	$(11,104,177)
Less: total fair value method stock-based employee compensation expense	(573,906)	(949,977)	(2,782,188)
Add: deferred compensation amortization for below market employee options	302,395	850,000	2,194,062
Pro forma net loss	$(1,048,081)	$(2,576,040)	$(11,692,303)
Pro forma loss per share	$ (0.03)	$ (0.10)	

SAVE THE WORLD AIR, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS - Continued
THREE MONTHS ENDED MARCH 31, 2004 (unaudited)

7. Going concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying financial statements, the Company has a net loss of $776,570, a negative cash flow from operations of $437,224, a working capital deficiency of $187,664 and a stockholders' deficiency of $1,166,050. These factors raise substantial doubt about its ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company's ability to raise additional funds and implement its business plan. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Item 2. Management's Discussion and Analysis

This Quarterly Report on Form 10-QSB contains forward-looking statements. These forward-looking statements include predictions regarding our future:

- research and development expenses;
- scientific test results;
- general and administrative expenses;
- liquidity and sufficiency of existing cash;
- technology;
- the outcome of pending or threatened litigation.

You can identify these and other forward-looking statements by the use of words such as "may," "will," "expects," "anticipates," "believes," "estimates,", "continues," or the negative of such terms, or other comparable terminology. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements.

Such statements, which include statements concerning future revenue sources and concentrations, selling, general and administrative expenses, research and development expenses, capital resources, additional financings and additional losses, are subject to risks and uncertainties, including, but not limited to, those discussed elsewhere in this Form 10-QSB, that could actual results to differ materially from those projected.

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth below under the heading "Risk Factors" in our Annual Report on Form 10-KSB for the year ended December 31, 2003. All forward-looking statements included in this document are based on information available to us on the date hereof. We assume no obligation to update any forward-looking statements.

The forward-looking statements set forth in this Form 10-QSB are as of March 31, 2004, and we undertake no duty to update this information.

Overview

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Financial Statements and notes thereto included in Part I, Item 1 of this Form 10-QSB and the Financial Statements and notes thereto contained in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003.

The company is a development stage company that has not yet commenced operations and does not generate revenue. The company's current focus is on research and development of proprietary devices that can be installed on motor vehicles and which are designed to reduce harmful emissions, improve fuel efficiency and improve performance. Our prototype device is called "ZEFS". We have devoted the bulk of our efforts to complete the design and development of our production models and raise the financing required to do so and fund our expenses.

We anticipate that these research and development efforts will continue for at least the remainder of 2004. We do not envision generating any significant revenue in 2004, although limited marketing activities later in 2004 could produce nominal revenue. We will need to raise additional capital to fund continuing research and development activities and meet our operating expenses, including marketing activities, for the remainder of 2004.

Results of Operation

To date, we have not generated any revenues and our business is in the development stage.

Our operating costs and expenses consist primarily of research and development expenses and general and administrative expenses. We expect our operating costs to increase once we begin to manufacture and market the ZEFS device, which we do not expect to occur earlier than the fourth quarter of 2004. Our research and development expenses include contractual payments to RAND Corporation, consultants' fees, capital expenditures, cost of services and supplies We expect our research and development costs to increase as we continue to develop the ZEFS device and develop new applications of our technology.

Our general and administrative expenses include compensation expenses related to executive and other administrative personnel, facility lease, the costs of our insurance and legal and accounting support. We expect our general and administrative expenses to increase as we expand our infrastructure in support of our anticipated increased operations, which we do not expect to occur earlier than the fourth quarter of 2004.

We had a net loss of $751,570 for the three months ended March 31, 2004, compared to a net loss of $ 606,001 for the three months ended March 31, 2003. The increase in loss is primarily attributable to an increase in research and development expenses as a result of the agreement we entered into with RAND Corporation in December 2002. We expect an increase in net loss through 2004 attributable to increased research and development, and general and administrative expenses, as well as the commencement of marketing activities.

Liquidity and Capital Resources

We have incurred negative cash flow from operations in the developmental stage since our inception in 1998. As of March 31, 2004 we had cash of $462,533 and an accumulated deficit of $11,104,178. Our 2004 negative operating cash flows were funded primarily through the net proceeds of a private financing that we commenced in November 2002 and completed in October 2003. We anticipate additional operating losses, which may increase, through at least the remainder of 2004 as we expand our research and development program, provide for general and administrative expenses and commence marketing activities, without the benefit of revenue.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying financial statements, the Company has a net loss of $776,570, a negative cash flow from operations of $437,224, a working capital deficiency of $187,664 and a stockholders' deficiency of $1,166,050. These factors raise substantial doubt about its ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company's ability to raise additional funds and implement its business plan. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

We believe that we have sufficient cash to fund our operations through approximately July 2004. We will need to raise additional capital or incur new debt to fund our operations as described above and management is actively pursuing financing possibilities. However, there can be no assurance that additional equity or debt financing will be available or, if it is available, that is will be available on terms that are favorable to the Company. If we are unable to obtain additional capital, we may be required to delay, reduce the scope of, or eliminate our research and development programs, or relinquish rights to technologies that we might otherwise seek to develop or commercialize.

Capitalization

In the action by the Securities and Exchange Commission (the "SEC") against Jeffrey Muller, the founder and former sole director of the Company, and others, we seek, among other relief, the cancellation of all shares of our common stock controlled, directly or indirectly, by Mr. Muller and his affiliates, options to purchase an additional 10,000,000 shares of our common stock, and Mr. Muller's original royalty agreement. See "Part II, Item 1, Legal Proceeding". The cancellation of these shares and options would have a significant positive effect on our capitalization.

Critical Accounting Policies

Our discussion and analysis of financial condition and results of operations is based upon our Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these Financial Statements and related disclosures requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, expenses, and related disclosure of contingent assets and liabilities. We evaluate, on an on-going basis, our estimates and judgments, including those related to the useful life of the assets. We base our estimates on historical experience and assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The methods, estimates and judgments we use in applying our most critical accounting policies have a significant impact on the results that we report in our Financial Statements. The SEC considers an entity's most critical accounting policies to be those policies that are both most important to the portrayal of a company's financial condition and results of operations and those that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about matters that are inherently uncertain at the time of estimation. We believe the following critical accounting policies, among others, require significant judgments and estimates used in the preparation of our Financial Statements:

Stock-Based Compensation

We account for stock-based compensation to employees as defined by using the intrinsic-value method prescribed in Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees."

We account for stock option and warrant grants issued to non-employees using the guidance of SFAS No. 123, "Accounting for Stock-Based Compensation" and EITF No. 96-18: "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services," whereby the fair value of such option and warrant grants is determined using the Black-Scholes option pricing model at the earlier of the date at which the non-employee's performance is completed or a performance commitment is reached.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Certain significant estimates were made in connection with preparing our financial statements as described in Note 1 of our Financial Statements. See Item 1, Part I, Financial Statements. Actual results could differ from those estimates.

New Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity.” SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The provisions of SFAS No. 150 are effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities., which are subject to the provisions of this statement for the first fiscal period beginning after December 15, 2004. The Company believes that the adoption of SFAS No. 150 will not have an impact on its financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, “Consolidation of Variable Interest Entities” (“FIN 46”), which clarifies the application of Accounting Research Bulletin No. 51, “Consolidated Financial Statements”, relating to consolidation of certain entities. In December 2003, the FASB issued a revised version of FIN 46 (“FIN 46R”) that replaced the original FIN 46. FIN 46R requires identification of a company’s participation in variable interest entities (“VIEs”), which are defined as entities with a level of invested equity that is not sufficient to fund future activities to permit it to operate on a standalone basis. For entities identified as a VIE, FIN 46R sets forth a model to evaluate potential consolidation based on an assessment of which party to the VIE, if any, bears a majority of the exposure to its expected losses, or stands to gain from a majority of its expected returns. FIN 46R also sets forth certain disclosures regarding interests in VIEs that are deemed significant even if consolidation is not required. The Company is not currently participating in, or invested in, any VIEs, as defined in FIN 46R. The implementation of the provisions of FIN 46R in 2003 did not have a significant effect on the Company’s consolidated financial statement presentation or disclosures.

Item 3. Controls and Procedures

(a) Evaluation of disclosure controls and procedures: Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-QSB. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

(b) Changes in internal control over financial reporting: There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-QSB that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

On December 19, 2001, the SEC filed civil charges in the United States Federal District Court, Southern District of New York, against us, our former President and then sole director Jeffrey Muller, and others, alleging that we and the other defendants were engaged in a fraudulent scheme to promote our stock. The SEC complaint alleged the existence of a promotional campaign using press releases, Internet postings, an elaborate website, and televised media events to disseminate false and materially misleading information as part of a fraudulent scheme to manipulate the market for stock in our corporation, which was then controlled by Mr. Muller. On March 22, 2002, we signed a Consent to Final Judgment of Permanent Injunction and Other Relief in settlement of this action as against the corporation only, which the court approved on July 2, 2002. Under this settlement, we were not required to pay any fines or restitution. The SEC's action continues against Mr. Muller and others.

On July 2, 2002, after an investigation by our newly constituted board of directors, we filed a cross-complaint in the SEC action against Mr. Muller and others seeking injunctive relief, disgorgement and financial restitution for a variety of acts and omissions in connection with sales of our stock and other transactions occurring between 1998 and 2002. Among other things, we allege that Mr. Muller and certain others sold stock without consideration and without registration under federal securities laws; engaged in self-dealing and entered into various undisclosed related-party transactions; misappropriated for their own use proceeds from sales of our stock; and entered into various undisclosed arrangements regarding the control, voting and disposition of their stock. We contend that we are entitled to a judgment canceling all of the approximately 8,716,710 shares of our common stock which we believe are controlled, directly or indirectly, by Mr. Muller, divesting Mr. Muller of any right to exercise options for 10,000,000 shares of our stock, the entry of an existing preliminary injunction to prevent Mr. Muller from any involvement with the company and a monetary judgment against Muller and others in the amount of several million dollars. We are also seeking cancellation of the previous royalty arrangement with Mr. Muller.

On July 30, 2002, the U.S. Federal District Court, Southern District of New York, granted our application for a preliminary injunction against Mr. Muller and others, which prevents Mr. Muller and other cross-defendants from selling, transferring, or encumbering any of our assets and property, from selling or transferring any of our stock that they may own or control, or from taking any action to injure us or our business and shareholders. The order also prevents Mr. Muller from exercising any control over our corporation and serving as an officer or director of our company. While we believe that we have valid claims, there can be no assurance that an adverse result or settlement would not have a material adverse effect on our financial position or cash flow.

In the course of the litigation, we have obtained control over Mr. Muller's patent rights to the ZEFS device. Under a Buy-Sell Agreement between Jeffrey Muller and us dated December 29, 1998, Mr. Muller, who was listed on the ZEFS devise patent application as the inventor of the ZEFS device, granted us the marketing, manufacturing and distribution rights to the ZEFS device. In conjunction with these proceedings, a settlement agreement was reached whereby the $10 per unit royalty previously due to Mr. Muller was terminated and replaced with a $.20 per unit royalty payable to the bankruptcy trustee. On November 7, 2002, under our settlement with the Muller bankruptcy trustee, the trustee transferred all ownership and legal rights to this international patent application for the ZEFS device to us.

The SEC filed a motion for summary judgement on May 28, 2004. Further proceedings for pretrial motions have been assigned to U.S. Magistrate Frank Mass. Judge Mass postponed and rescheduled the filing date for the Company to file its motion for summary judgment until July 16, 2004. After a period of time during which Mr. Muller will have an opportunity to reply and the Company and the SEC will have an opportunity to respond, it is expected that a hearing to resolve the issues raised in these motions will be calendared during September 2004.

Although the outcome of this litigation cannot be predicted with any degree of certainty, we are optimistic that the Court's ruling will either significantly narrow the issues for any later trial or will result in a disposition of the case in a manner favorable to the company. While we believe that we have valid claims, there can be no assurance that an adverse result or settlement would not have a material adverse effect on our financial position or cash flow.

Item 2. Changes in Securities

On October 14, 2003, the Company sold 25,000 shares of common stock to one individual. These shares were not issued until February 3, 2004.

In January 2004, the Company issued 50,000 shares of common stock to Jack Bradham, for his services on the Company's advisory board.

In February 2004, the Company issued an aggregate 488,560 shares of common stock to various individuals who provided services to the Company in connection with its private offering of common stock between November 2002 and October 2003.

The issuance of the shares described above was made in reliance on the exemptions from registration set forth in Section 4(2) of the Securities Act of 1933 (the "Act"), as amended. We made no public solicitation in connection with the issuance of the above-mentioned securities. We relied on representation from the purchasers of the securities that they purchased the securities for investment only and not with a view to any distribution thereof and that they were aware of our business affairs and financial condition and had sufficient information to reach an informed and knowledgeable decision regarding their acquisition of the securities.

In March 2004, the Board of Directors approved the issuance stock options for an aggregate 1,172,652 shares of the Company's common stock to 11 individuals, who are employees, directors or consultants of the Company. These options were issued pursuant to the Company's 2004 Stock Option Plan approved by the Board of Directors on the same date, subject to stockholder approval of the plan at the 2004 annual meeting of stockholders. The stockholders approved the plan at the 2004 annual meeting, which was held on May 24, 2004.

The Company intends to register the shares of common stock which may be issued upon exercise of the options in a registration statement on Form S-8 to be filed with the Securities and Exchange Commission.

Table of Contents

Item 6. Exhibits and Reports on Form 8-K

The exhibits listed below are required by Item 601 of Regulation S-B.

Exhibit No.	Description
10.1(1)	Commercial Sublease between the Registrant and KZ Golf, Inc., dated October 16, 2003.
10.2(1)	General Tenancy Agreement between the Registrant and Autumlee Pty Ltd., dated November 15, 2003.
10.3(2)	Agreement between the Registrant and RAND, dated December 13, 2002.
10.4(1)*	Agreement between the Registrant and RAND, dated May 7, 2003.
10.5	Modification No. 1 dated as of August 21, 2003 to Exhibit 10.4
10.6	Modification No. 2 dated as of October 17, 2003 to Exhibit 10.4
10.7	Modification No. 3 dated as of January 20, 2004 to Exhibit 10.4
10.8(3)	Deed and Document Conveyance between the Trustee of the Property of Jeffrey Ann Muller and Lynette Anne Muller (Bankrupts).
10.9(3)	Assignment and Bill of Sale between Pro Hart and the Registrant dated May 28, 2002.
31.1	Certification of Chief Executive Officer of Quarterly Report Pursuant to Rule 13(a)—15(e) or Rule 15(d)—15(e).
31.2	Certification of Chief Financial Officer of Quarterly Report Pursuant to 18 U.S.C. Section 1350.
32	Certification of Chief Executive Officer and Chief Financial Officer of Quarterly Report pursuant to Rule 13(a)—15(e) or Rule 15(d)—15(e).

* Confidential Treatment Requested.

(1) Incorporated by reference from Registrant’s Form 10-KSB for fiscal year ended December 31, 2002.

(2) Incorporated by reference from Registrant’s Form 8-K filed on December 30, 2002.

(3) Incorporated by reference from Registrant’s Form 8-K filed on November 12, 2002

Table of Contents

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

SAVE THE WORLD AIR, INC.

Date: July 14, 2004

By: /s/ Edward L. Masry
Edward L. Masry
Chief Executive Officer

EXHIBIT INDEX

Exhibit No.	Description
10.1(1)	Commercial Sublease between the Registrant and KZ Golf, Inc., dated October 16, 2003.
10.2(1)	General Tenancy Agreement between the Registrant and Autumlee Pty Ltd., dated November 15, 2003.
10.3(2)	Agreement between the Registrant and RAND, dated December 13, 2002.
10.4(1)*	Agreement between the Registrant and RAND, dated May 7, 2003.
10.5	Modification No. 1 dated as of August 21, 2003 to Exhibit 10.4
10.6	Modification No. 2 dated as of October 17, 2003 to Exhibit 10.4
10.7	Modification No. 3 dated as of January 20, 2004 to Exhibit 10.4
10.8(3)	Deed and Document Conveyance between the Trustee of the Property of Jeffrey Ann Muller and Lynette Anne Muller (Bankrupts).
10.9(3)	Assignment and Bill of Sale between Pro Hart and the Registrant dated May 28, 2002.
31.1	Certification of Chief Executive Officer of Quarterly Report Pursuant to Rule 13(a)—15(e) or Rule 15(d)—15(e).
31.2	Certification of Chief Financial Officer of Quarterly Report Pursuant to 18 U.S.C. Section 1350.
32	Certification of Chief Executive Officer and Chief Financial Officer of Quarterly Report pursuant to Rule 13(a)—15(e) or Rule 15(d)—15(e).

---

* Confidential Treatment Requested.

(1) Incorporated by reference from Registrant’s Form 10-KSB for fiscal year ended December 31, 2002.

(2) Incorporated by reference from Registrant’s Form 8-K filed on December 30, 2002.

(3) Incorporated by reference from Registrant’s Form 8-K filed on November 12, 2002.

EXHIBIT 10.5

AGREEMENT NO. STWA-TEST-CONTRACT, MODIFICATION NO. 1

BETWEEN

RAND CORPORATION

AND

SAVE THE WORLD AIR, INC.

FOR

DEVICE FOR SAVING FUEL AND REDUCING EMISSIONS

This Contract Modification is entered into as of the 21st day of August 2003.

The following Articles are revised as shown below:

9. SUBCONTRACTS
To perform the work called for under this Agreement, RAND reserves the right, in its sole discretion, to subcontract such work to third parties selected by RAND based on quality and price. Funding for subcontracted work is not included in the price of this contract as stated in section 11. RAND will provide summary information to Save the World Air, Inc regarding any potential subcontractor. The contract will then be amended to add the necessary funding and payment terms. RAND will not enter into any subcontract relationship prior to receiving payment(s) from Save the World Air, Inc. sufficient to cover the subcontract obligation.

Awarded Subcontracts:
Task 4: Additional Engine Testing (Testing Phase 111) - $75,000 to ATDS

11. PAYMENT SCHEDULE:
Payment by Save the World Air, Inc. to RAND for the work supported by this Agreement will be paid in accordance with the following payment schedule. If the timeline specified below changes due to, among other things, availability of information, availability of testing facilities and length of time for completion, RAND and Save the World Air, Inc. shall discuss such changes and mutually agree on a revised timeline The parties anticipate that the Funding as stated will cover all of RAND'S expenses and fees incurred in the performance of the work, provided, however, that if RAND notifies Save the World Air, Inc. that its expenses and fees may be in excess of the stated Funding, RAND shall not be obligated to incur any expenses or fees in excess of the Funding, and the parties shall endeavor in good faith to renegotiate the amount of available Funding. Any
modifications to costs and fees outlined below shall require A written instrument, signed by both parties to this Agreement. All references to "Tasks" or "Task" below refer to, and are qualified in their entirety by, the descriptions on Attachment A hereto. Total cost for RAND'S work on the contract, inclusive of subcontract costs, is $300,000 to be allocated as follows:

1. $25,000 upon signing of agreement by both parties

2. Beginning May 1, 2003, $25,000 per month for eight (8) months upon presentation of monthly invoices.

3. 30 days past execution of Modification 1, pay $75,000.

ACCEPTED FOR:

RAND Corporation	Save the World Air, Inc.
Name Signed: /s/ Joanne B. Shelby	Name Signed: /s/ Eugene E. Eichler

	---------------------		----------------------
Name Typed:	Joanne B. Shelby	Name Typed:	
	----------------		----------------------
Title:	Director, Contracts & Grants	Title:	
	----------------------------		-----------------------
Date:	8/21/03	Date:	9/18/03
	-------		-------

EXHIBIT 10.6

AGREEMENT NO. STWA-TEST-CONTRACT, MODIFICATION NO. 2

BETWEEN

RAND CORPORATION

AND

SAVE THE WORLD AIR, INC.

FOR

DEVICE FOR SAVING FUEL AND REDUCING EMISSIONS

This Contract Modification is entered into as of the 17th day of October 2003.

The following Articles are revised as shown below:

9. SUBCONTRACTS
To perform the work called for under this Agreement, RAND reserves the right, in its sole discretion, to subcontract such work to third parties selected by RAND based on quality and price. Funding for subcontracted work is not included in the price of this contract as stated in section 11. RAND will provide summary information to Save the World Air, Inc regarding any potential subcontractor. The contract will then be amended to add the necessary funding and payment terms. RAND will not enter into any subcontract relationship prior to receiving payment(s) from Save the World Air, Inc. sufficient to cover the subcontract obligation.

Awarded Subcontracts:
Task 4: Additional Engine Testing (Testing Phase 111) - $75,000 to ATDS
Task 2: Pre-Combustion Fuel Testing (Testing Phase I) - $65,000 to Temple University

11. PAYMENT SCHEDULE:
Payment by Save the World Air, Inc. to RAND for the work supported by this Agreement will be paid in accordance with the following payment schedule. If the timeline specified below changes due to, among other things, availability of information, availability of testing facilities and length of time for completion, RAND and Save the World Air, Inc. shall discuss such changes and mutually agree on a revised timeline. The parties anticipate that the Funding as stated will cover all of RAND'S expenses and fees incurred in the performance of the work; provided, however, that if RAND notifies Save the World Air, Inc. that its expenses and fees may be in excess of the stated Funding, RAND shall not be obligated to incur any expenses or fees in excess of the Funding, and the parties shall endeavor in good faith to renegotiate the amount of available Funding. Any modifications to costs and fees outlined below shall require a written instrument, signed by both parties to this Agreement. All references to "Tasks" or "Task" below refer to, and are qualified in their entirety by, the descriptions on Attachment A hereto. Total cost for RAND'S work on the contract, inclusive of subcontract costs, is $365,000 to be allocated as follows:

1. $25,000 upon signing of agreement by both parties

2. Beginning May 1,2003, $25,000 per month for eight (8) months upon presentation of monthly invoices.

3. 30 days past execution of Modification 1, pay $75,000. (received payment Oct. 7, 2003)

4. 30 days past execution of Modification 2, pay $65,000. (received payment Oct. 7, 2003)

ACCEPTED FOR:

RAND Corporation		Save the World AIR, Inc.	
Name Signed:	/s/ Joanne B. Shelby	Name Signed:	/s/ Eugene E. Eichler
Name Typed:	Joanne B. Shelby	Name Typed:	Eugene E. Eichler
Title:	Director, Contracts & Grants	Title:	Chief Operating Officer
Date:	10/13/03	Date:	10-17-2003

EXHIBIT 10.7

AGREEMENT NO. STWA-TEST-CONTRACT, MODIFICATION NO. 3

BETWEEN

RAND CORPORATION

AND

SAVE THE WORLD AIR, INC.

FOR

DEVICE FOR SAVING FUEL AND REDUCING EMISSIONS

This Contract Modification is entered into as of the 20th day of January 2004.

The following Articles are revised as shown below:

1. WORK SCOPE
RAND will use its best efforts in performance of the attached scope of work Revision 1 Exhibit A).

2. TERM
The term of this Agreement will run from May 07,2003 to July 7,2004

11. PAYMENT SCHEDULE:
Payment by Save the World Air, Inc. to RAND for the work supported by this Agreement will be paid in accordance with the following payment schedule. If the timeline specified below changes due to, among other things, availability of information, availability of testing facilities and length of time for completion, RAND and Save the World Air, Inc. shall discuss such changes and mutually agree on a revised timeline. The parties anticipate that the Funding as stated will cover all of RAND'S expenses and fees incurred in the performance of the work; provided, however, that if RAND notifies Save the World Air, Inc. that its expenses and fees may be in excess of the stated Funding, RAND shall not be obligated to incur any expenses or fees in excess of the Funding, and the parties shall endeavor in good faith to renegotiate the amount o f available Funding. Any modifications to costs and fees outlined below shall require a written instrument, signed by both parties to this Agreement. All references to "Tasks" or "Task" below refer to, and are qualified in their entirety by, the descriptions on Attachment A hereto. Total cost for RAND'S work on the contract, inclusive of subcontract costs, is $665,000 to be allocated as follows:

1. $25,000 upon signing of agreement by both parties
Exhibit A Addendum to STWA Contract SOW

Task 6 Run a series of tests on 2 different vehicles at ATDS

RAND proposes as a next step that STWA supply another carbureted vehicle and RAND will oversee testing with new protocols at ATDS. In addition, STWA might consider also supplying a fuel-injected to be tested as well. In addition, RAND will systematically evaluate the individual smog tests that were done, to map them graphically and see if there are any patterns that can help.

Additional RAND Costs: $50,000 to be paid $25,000 on Feb 1 and $25,000 on March 1.

Additional Lab Costs: Some of the costs will be covered under existing funds, and RAND will supply an accounting of the costs and inform STWA of additional funds that may be needed for ATDS

Task 7 Oversee testing of a small engine at the University of California Riverside. RAND will execute A contract with the University of California Riverside to test the new small engine device. RAND will oversee and evaluate the testing in the same manner that RAND is working with ATDS.

Additional RAND Costs: $25,000 to be paid March 1

Lab Costs: To be determined. RAND will send a letter to STWA with the testing amount which STWA will pay before RAND executes a contract.

Task 8 Oversee R&D efforts by Australian team.

RAND will work with and help guide the efforts of the Australian team by helping to design tests and interpret results. RAND would be responsible for helping focus the R&D efforts, set reporting guidelines, and oversee the efforts of the group in Australia. The R&D team needs to focus on getting the existing device into marketable form, and hone their testing abilities. RAND will evaluate the materials provided to us, and work with them on a testing regime that we can compare to others, and develop consistent framework and guidelines for further development.

Additional RAND costs including travel up to $200,000. STWA will pay $25,000 on February 1. On the 25th each month RAND will estimate the time and material cost needs of the following month and STWA will be billed for that amount. Any funds left over from the month will be rolled into the next months requirements. If RAND exceeded the months costs, additional costs will be billed the following month.

2. Beginning May 1, 2003, $25,000 per month for eight (8) months upon presentation of monthly invoices.

3. 30 days past execution of Modification 1, pay $75,000. (received payment Oct. 7, 2003)

4. 30 days past execution of Modification 2, pay $65,000. (received payment Oct. 7, 2003)

5. 30 days past execution of Modification 3, pay $50,000 ($25,000 each for Tasks 6 and 7)

6. On March 1,2004 pay $50,000 ($25,000 each for Tasks 6 and 7)

7. 30 days past execution of Modification 3, pay $25,000 for Task 8. On the 25th each month RAND will estimate the time and material cost needs of the following month and STWA will be billed for that amount. Any funds left over from the month will be rolled into the next month's requirements. If RAND exceeded the months costs, additional costs will be billed the following month. Total cap for Task 8: $200,000.

ACCEPTED FOR

RAND Corporation		Save the World Air, Inc.	
Name Signed:	/s/ Joanne B. Shelby	Name Signed:	/s/ Eugene E. Eichler
Name Typed:	Joanne B. Shelby	Name Typed:	Eugene E. Eichler
Title:	Director, Contracts & Grants	Title:	Chief Operating Officer
Date:	1/20/04	Date:	2/6/04

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
AND RULES 13A-14 AND 15D-14 UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Edward L. Masry, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Save the World Air, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 14, 2004

/s/ EDWARD L. MASRY

Edward L. Masry
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
AND RULES 13A-14 AND 15D-14 UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Eugene Eichler, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Save the World Air, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 14, 2004

/s/ EUGENE EICHLER

Eugene Eichler
Chief Financial Officer

EXHIBIT 32

CERTIFICATION OF PERIODIC FINANCIAL REPORT BY THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, we, the undersigned Chief Executive Officer and Chief Financial Officer of Save the World Air, Inc. (the "Company"), hereby certify, based on our knowledge, that the Quarterly Report on Form 10-QSB of the Company for the quarter ended March 31, 2004 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ EDWARD L. MASRY

Date: July 14, 2004 ----------------------------

Edward L. Masry
Chief Executive Officer

/s/ EUGENE EICHLER

Date: July 14, 2004 ----------------------------

Eugene Eichler
Chief Financial Officer