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

Form 10-K /A

þ ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008
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.)*

235 Tennant Avenue
Morgan Hill, California 95037
(Address, including zip code, of principal executive offices)

(408)-778-0101
(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.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates (excluding voting shares held by officers and directors) as of June 30, 2008 was $21,360,524.

The number of shares of the Registrant's Common Stock outstanding as of March 2, 2009 was 64,498,834 shares.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III (Items 9, 10, 11 and 12) of this Form 10K is herein incorporated by reference to Registrant's definitive Proxy Statement for its 2009 Annual Meeting of Stockholders.

SAVE THE WORLD AIR, INC.
FORM 10-K
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PART I

Forward-Looking Statements

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

- revenues and profits;
- customers;
- research and development expenses and efforts;
- scientific and other third-party test results;
- sales and marketing expenses and efforts;
- liquidity and sufficiency of existing cash;
- technology and products;
- the outcome of pending or threatened litigation; and
- the effect of recent accounting pronouncements on our financial condition and results of operations.

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.

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." 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.

Item 1. ***Business***

The discussion of our business is as of the date of filing this report, unless otherwise indicated.

Overview

Save the World Air, Inc. ("STWA" or "Company" or "we") designs, licenses and develops products to increase engine performance, reduce harmful emissions and increase fuel efficiency. We are a green technology company that leverages a suite of patented, patent-pending and licensed intellectual properties related to the treatment of fuels. Technologies patented by or licensed to us utilize either magnetic or uniform electrical fields to alter physical characteristics of fuels and are designed to create cleaner combustion. Cleaner combustion has been shown to improve performance, enhance fuel economy and/or reduce harmful emissions in laboratory testing.

We have three product lines; MAG ChargR™ and ECO ChargR™, ELEKTRA™ and AOT (Applied Oil Technology).

MAG ChargR is past the development stage and we believe that an initial small run of several thousand units may be manufactured and sold by the end of second quarter 2009. We believe ELEKTRA may be nearing the end of the product development cycle which we believe could culminate in an upcoming Society of Automotive Engineers (SAE) test to prove and certify the level of fuel savings. AOT is in the research and development phase.

The Company believes that its current product line represents a large addressable market of approximately $6.9 billion made up of existing tractor trailer owners, diesel fleet managers, diesel OEM manufacturers, individual automobile enthusiasts and motorcycle OEM manufacturers.

We have obtained a license from Temple University for their patent-pending uniform electric field technology, called ELEKTRA. The ELEKTRA technology consists of passing fuel through a dynamically-controlled strong electrical field. Although ELEKTRA has a similar effect on fuels as our ZEFS and MK IV technologies, ELEKTRA incorporates a uniform electrical field principle versus the fixed magnetic field used by ZEFS™ and MK IV™ technologies in the MAG ChargR and ECO ChargR products.

The Company holds US Patent # 6901917, effective May 21, 2001 for "DEVICE FOR SAVING FUEL AND REDUCING EMISSIONS" covered in the United States, Australia, Canada, China, Russia, India, Indonesia and Mexico for the ZEFS technology used in the MAG ChargR and ECO ChargR.

We are also working with Temple University and have had discussions with domestic and international corporations to develop the AOT (Applied Oil Technology) product line for oil refineries and pipelines. The AOT product line uses the same dynamically-controlled strong electrical field concepts to reduce viscosity as ELEKTRA but is designed for pipeline applications that use thicker, more viscous fuels than the ELEKTRA market. The AOT product is intended to improve the speed of highly viscous fluids such as crude oil traveling through pipelines.

Our MAG ChargR™ and ECO ChargR™ products use fixed magnetic fields to alter some physical properties of fuel by incorporating our patented and patent-pending ZEFS and MK IV technologies. We differentiate MAG ChargR and ECO ChargR products based on their differing attributes and marketing focus. ECO ChargR products are primarily designed to reduce harmful emissions and MAG ChargR products are primarily designed to enhance performance and fuel economy. Our ECO ChargR product is intended to reduce exhaust emissions in vehicle and small utility motors. We intend that the ECO ChargR will be marketed primarily to original equipment manufacturers ("OEMs") as well as to pilot and government-mandated emissions programs. Our MAG ChargR product is intended to increase power and improve mileage. MAG ChargR is being marketed to municipal fleets and to the specialty consumer accessories market for many types of vehicles, including but not limited to cars, trucks, motorcycles, scooters, all terrain vehicles ("ATVs"), snowmobiles, personal watercraft and small utility motors.

Our first revenues in 2006 and 2007 were generated from initial sales in Asia for our ECO ChargR product in the motorcycle industry. We plan on commencing sales of ECO ChargR to customers in the United States in the motorcycle industry in second quarter of 2009. We also plan on commencing initial sales of our MAG ChargR in the United States in the automobile and motorcycle industry in the second quarter of 2009. See "Recent Developments" and "Sales and Marketing" below.

We operate in a highly competitive industry. Many of our activities are subject to governmental regulation. We have taken aggressive steps to protect our intellectual property. See "Competition", "Government Regulation and Environmental Matters" and "Intellectual Property" below.

There are significant risks associated with our business, our Company and our stock. See "Risk Factors" below.

We are a development stage Company that generated minimal revenues in 2006 and 2007. We did not generate any sales or revenues in 2008. Our expenses to date have been funded primarily through the sale of stock and convertible debt, as well as proceeds from the exercise of stock purchase warrants. We raised capital in 2008 and will need to raise substantial additional capital in 2009, and beyond, to fund our sales and marketing efforts, continuing research and development, and certain other expenses, until our revenue base grows sufficiently to cover such expenditures. See "Management's Discussion and Analysis" below.

Our company was incorporated on February 18, 1998, as a Nevada corporation, under the name Mandalay Capital Corporation. We changed our name to Save the World Air, Inc. on February 11, 1999, following the acquisition of marketing and manufacturing rights of the ZEFS technologies. Our mailing address is 235 Tennant Avenue, Morgan Hill, California 95037. Our telephone number is (323) 932-7040. Our corporate website is www.stwa.com.

Our common stock is quoted under the symbol "ZERO" on the Over-the-Counter Bulletin Board.

Recent Developments

In December 2008, Dr. Luke Turgeon was retained by us as an engineering consultant to work on the design and engineering of the Company's ELEKTRA products for its commercialization. His depth of knowledge and experience in the designing of analog integrated circuits should be helpful to us in moving our efforts to produce and sell our ELEKTRA products.

On February 24, 2009, we received notice from the California Air Resources Board (CARB) that we have been issued an Executive Order (EO number D-659) approving the MagChargR products for sale in California. A CARB Executive Order is recognized by the EPA, meaning the product can also be legally sold in all 50 states subject to any applicable state regulations.

On February 20, 2009, we entered into a distribution agreement for the MagChargR with Magnumforce Race Car Fabrication, Inc. (Magnumforce). The agreement provides for an initial order of $125,000, payment of which is contingent upon Magnumforce selling our product to its customers. The product was tested in 2007 in connection with fuel savings and emission reduction and the CARB certification was necessary before distribution and sales could occur. Magnumforce manufactures and markets a broad line of racing and high performance products for Dodge, Chrysler and Plymouth vehicles through multiple points of distribution.

Our Business Strategy

Our business strategy is to fill the need created by three major trends, the increasing cost of fuel, the desire to reduce fuel consumption and the desire to reduce pollution related to transportation.

The Crisis of the Effect of Motor Emissions on Air Pollution

The incomplete and inefficient burning of fossil fuel in internal combustion engines results in unburned gases, such as hydrocarbons ("THC"), carbon monoxide ("CO") and oxides of nitrogen ("NOx") being expelled as harmful emission as a by-product of the engine's exhaust. These emissions have contributed to significant air pollution and depletion of the ozone layer that protects the world's atmosphere from harmful ultraviolet radiation. As a result, the world has experienced significant deterioration to its air quality since the beginning of the 20th century and the problem has gotten progressively worse with each passing year. Forecasts published by the World Resources Institute indicate that this trend will continue to accelerate.

According to the Goddard Institute for Space Studies, in 2000, the world's roads were supporting about 800 million vehicles, almost 500 million of which are cars and the remainder of which are trucks, buses, motorcycles and scooters. The United States, Japan and Europe account for the majority of motor vehicles, but future growth is expected to be most rapid in Asia and Latin America. Vehicle population is projected to increase by 50-100% by 2030. As a result, vehicles will continue to apply pressure to the environment and it is projected that emissions of all pollutants will be significantly higher in 2030 than today, unless additional controls on emissions are implemented.

In the United States, California, through the California Air Resources Board ("CARB"), continues to set the lowest emission standards for the country and the United State Environmental Protection Agency ("EPA") has indicated it may adopt lower emission standards, which would be applicable throughout the United States. California Governor Arnold Schwarzenegger has also announced his intent to seek greenhouse gas ("GHG") legislation and the United States Congress is also considering GHG legislation. See "Government Regulation and Environmental Matters" below.)

Governments internationally recognize the serious effects caused by air pollution and many nations have enacted legislation to mandate that engine manufacturers be required to reduce exhaust emissions caused by their products. As evidenced by the overwhelming participation in the establishment of the Kyoto Accord, many nations are moving towards tighter GHG emissions control as well. The European Union ("EU") currently requires all member nations to adopt EURO 3 emissions standards for motorcycles and EURO 4 emissions standards for automobiles and trucks. Some Eastern European countries contemplating EU admission, and certain Asian countries, have also announced gradual phase-in of EURO standards, including China, Indonesia, Vietnam, Thailand and India. See "Government Regulation and Environmental Matters" below.)

Notwithstanding initiatives such as these, much more needs to be done to reverse the harmful effects of decades of pollutants contributed by motor emissions. Yet, the cost of adding emissions control devices to engines or vehicles has always been a challenge, since manufacturers shift the cost of such devices to the consumer. In developing nations, where incomes are extremely low, economics and the lack of government resources have hampered progress. Nonetheless, we believe that the social and political realities of protecting our environment may result in further government mandates that manufacturers adopt solutions to reduce harmful motor emissions.

We believe there is a large worldwide demand for products which could increase fuel efficiency and enhanced performance in vehicles and our efforts and focus are directed toward that end.

Our Technologies and Products

ELEKTRA

We have obtained a license from Temple University for its patent-pending electric field technology, called ELEKTRA™. The ELEKTRA technology consists of passing fuel through a specific strong electrical field. A 2008 paper published by Dr. Rongjia Tao, Ph.D., Chair of the Physics Department at Temple University titled "Electrorheology Leads to Efficient Combustion" says that ELEKTRA lowers the viscosity of fuel, resulting in better atomization of the fuel and improved combustion.

Unlike MAG ChargR and ECO ChargR, the implementation of ELEKTRA will be essentially universal, with only a handful of engine models required to cover most applications. The ELEKTRA technology is designed to be installed in the fuel supply lines of vehicles and, because there are very few variations in the size and type of those lines, we anticipate that a relatively small number of variable capacity devices and a selection of installation adapters will cover most vehicle installations.

We have entered into three License Agreements with Temple University covering Temple University's current patent applications concerning certain electric field effects on gasoline, kerosene and diesel fuel particle size distribution, and concerning electric field effects on crude oil and edible oil viscosity. The License Agreements are exclusive and the territory licensed to us is worldwide. Pursuant to the License Agreements, we are required to pay to Temple University (i) license fees in the aggregate amount of $300,000. A payment of $50,000 was due on November 1, 2006; a payment of $100,000 was due on March 2, 2007; a payment of $75, 000 was due on February 2, 2008 and the final payment was due on February 2, 2009. Annual maintenance fees of $25,000 for the first license were due on November 1, 2007 and November 1, 2008. Annual maintenance payments of $125,000 for two of the licenses were due January 1, 2008. In addition, each License Agreement separately provides that we will pay royalties to Temple University on net sales of products incorporating the technology licensed under that License Agreement in an amount equal to 7% of the first $20 million of net sales, 6% of the next $20 million of net sales and 5% of net sales in excess of $40 million. Sales under the three License Agreements are not aggregated for purposes of calculating the royalties payable to Temple University. In addition, we have agreed to bear all costs of obtaining and maintaining patents in any jurisdiction where we direct Temple University to pursue a patent for either of the licensed technologies. Should we not wish to pursue a patent in a particular jurisdiction, that jurisdiction would not be included in the territory licensed to us.

At December 31, 2008 we were in default in the amount of $300,000 in connection with our payment obligations under the License Agreements and maintenance payments. On November 10, 2008, we received written notice from Temple University of a material breach relating to required payments under the License Agreements. The notice provides us with 60 days' notice to cure the material breach. Our failure to cure could result in a termination of the License Agreements. If the termination occurs, we estimate this would have a material adverse impact on our financial condition and operations. Under the License Agreements we are subject to a penalty of 1% per month of the amounts due and unpaid under the License Agreements. As of December 31. 2008, we estimate the penalty to be $40,250, and we have accrued this in the accompanying financial statements.

We have also entered into a research and development agreement (R&D Agreement) with Temple University to conduct further research on the ELEKTRA technology. Under the R&D Agreement Temple University will conduct a 24-month research project towards expanding the scope of, and developing products utilizing, the technologies covered under the License Agreements, including design and manufacture of prototypes utilizing electric fields to improve diesel, gasoline and kerosene fuel injection in engines using such fuels and a device utilizing a magnetic field to reduce crude oil viscosity for crude oil (paraffin and mixed base) and edible oil flow in pipelines. If the research project yields results within the scope of the technologies licensed pursuant to the License Agreements, those results will be deemed included as rights licensed to us pursuant to the License Agreements. If the research project yields results outside of the scope of the technologies covered by the License Agreements, we have a six-month right of first negotiation to enter into a new worldwide, exclusive license agreement with Temple University for the intellectual property covered by those results. Pursuant to the R&D Agreement, we will make payments to Temple University in the aggregate amount of $500,000.

At December 31, 2008 we were in default in the amount of $376,250 under the R&D Agreement. On November 10, 2008, we received written notice of default from Temple University. The notice provides us with 60 days to cure the material breach. Our failure to cure the breach could result in the termination of the R&D Agreement. If the termination occurs, we estimate this would have a material adverse impact on our financial condition and operations.

At November 30, 2008, we owed to Temple University a total of $716,500 for the License Agreements, Maintenance Fees, R&D Agreement and penalties. On January 9, 2009, we entered into a Letter Agreement with Temple University wherein Temple University granted to us an extension of time to cure the above-referenced breaches until March 31, 2009. The Letter Agreement provides for payments of $100,000 on each of January 31, 2009, February 28, 2009 and March 31, 2009. We made the January 31, 2009 payment but did not make the payment due on February 28, 2009. On March 26, 2009 we received a written extension for both the February 28, 2009 payment and the March 31, 2009 payment until April 30, 2009. All additional amounts past due as of November 10, 2008 will be re-negotiated on or before March 31, 2009, however, this has now been extended to April 30, 2009. A penalty equal to 1% of the amount due and unpaid on the first day of each calendar month will be added to the outstanding amount due Temple University.

We believe that the applications for products incorporating the ELEKTRA technology will include gas, diesel and bio-fuel injected motor vehicles, as well as applications in aviation, marine, oil pipeline and refining industries**.** Subject to our cash flow and liquidity limitations, we are currently developing diesel tractor trailer applications and our present intention, subject to change, is to seek joint venture partners to commercialize the ELEKTRA technology in various applications. Subject to adequate financing, we currently believe that we may be able to commence sales of ELEKTRA products by the third quarter of 2009.

Applied Oil Technology (AOT)

We have also entered into a research and development agreement ("R&D Agreement") with Temple University to conduct further research on the ELEKTRA technology. Under the R&D Agreement Temple University in conducting an ongoing research project towards expanding the scope of, and developing products utilizing, the technologies covered under the License Agreements, including a device utilizing a magnetic field to reduce crude oil viscosity for crude oil (paraffin and mixed base) and edible oil flow in pipelines.

ZEFS and MK IV Technologies in MAG ChargR and ECO ChargR

The ZEFS and the MK IV technology in the MAG ChargR and ECO ChargR products place a magnetic field in and around the fuel and air that lowers fuel thickness and influences oxygen to improve combustion. MAG ChargR and ECO ChargR contain permanent rare-earth magnets, which produce a very strong magnetic field. This field, when arranged in specific manner of shape and strength, causes a change in the fuel as it passes through the field. As fuel passes through the magnetic field, a change in the fuel occurs facilitating a decline in both viscosity and surface tension. This allows for finer atomization, resulting in a more optimized mixture and therefore more efficient combustion. Depending on the specific application of these products to specific makes and models of vehicles, this improved combustion may offer one or more of the following benefits; (i) lower emissions, (ii) more horsepower and torque and (iii) improved fuel economy.

The paper titled, "Viscosity Reduction in Liquid Suspensions by Electric or Magnetic Fields" published by Dr. Rongjia Tao, Ph.D., of Temple University, shows that applying a magnetic field reduces thickness (viscosity) of oil by 17%. The paper "Magnetic Field Effects on the Combustion Processes in Diffusion Flames" published by LSU in 2005 demonstrates that oxygen is attracted to a magnetic field. The ZEFS and MK IV technologies used in the MAG ChargR and ECO ChargR products use these properties of reduced fuel viscosity and influenced flow of oxygen to improve combustion.

Improved combustion increases engine power and performance. We have introduced the ECO ChargR, which incorporated our MK IV technology, and the MAG ChargR, which incorporates either our ZEFS or MK IV technologies, depending upon the application. We have designed and tested various versions of our MAG ChargR and ECO ChargR products for use on 2- and 4-stroke carbureted and fuel injection gasoline engines.

We differentiate our MAG ChargR and ECO ChargR products based on their differing attributes and marketing focus. ECO ChargR products are primarily designed for devices with engines that fall outside environmental regulation and often do not have emissions control systems. MAG ChargR products are primarily designed for engines already subject to environmental regulation and vehicles that often do already have some emissions control technology.

Additionally, ECO ChargR products are primarily designed to reduce harmful emissions and MAG ChargR products are primarily designed to enhance performance and fuel economy. The ECO ChargR is intended to reduce exhaust emissions in vehicle and small utility motors. ECO ChargR products will be marketed primarily to OEMs as well as to pilot and government-mandated emissions programs. The MAG ChargR is intended to increase power and improve mileage. MAG ChargR products will be marketed primarily to the specialty consumer accessories market for many types of vehicles, including but not limited to cars, trucks, motorcycles, scooters, ATVs, snowmobiles, personal watercraft and small utility motors. Because our MAG ChargR and ECO ChargR products are customized to specific brands, models and engine sizes, these products will require hundreds of individually developed models to accommodate the market.

MAG ChargR and ECO ChargR have been developed for one-, two- and four- barrel carbureted and fuel injection engines. These products are easily fitted to the base plates of carburetors and fuel injection systems; the devices are compact, there are no moving parts. They are also inexpensive to produce, extremely durable and unaffected by poor quality fuel.

We believe that testing by the Company, as well as by independent third-party laboratories, has demonstrated that both MAG ChargR and ECO ChargR generate significant reductions in THC and CO emissions and, in the case of MAG ChargR, also improve fuel efficiency by lowering gas consumption and increase engine performance.

Research and Development

In late 2005, we established a research and product development facility in Morgan Hill, California. We have tested products incorporating our ZEFS and MK IV technologies for multiple makes and models of automobiles, motorcycles and ATVs. We are engaged in research and development of additional prototypes and products, including ELEKTRA and other magnetic technologies and products, at our Morgan Hill facility.

The Company has entered into a research and development agreement (R&D Agreement) with Temple University to conduct further research on the ELEKTRA technology. Under the R&D Agreement Temple University will conduct a 24-month research project towards expanding the scope of, and developing products utilizing, the technologies covered under the License Agreements, including design and manufacture of prototypes utilizing electric fields to improve diesel, gasoline and kerosene fuel injection in engines using such fuels and a device utilizing a magnetic field to reduce crude oil viscosity for crude oil (paraffin and mixed base) and edible oil flow in pipelines.

Independent Laboratory and Scientific Testing

ECO ChargR (ZEFS Technology)

The four internationally recognized emissions standards testing agencies for the certification of motor vehicles, parts, systems and aftermarket devices are the EPA, CARB, United Kingdom Vehicle Certification Agency (“VCA”) and Technischer Überwachungs-Verein (TUV-Germany/EU).

Independent third-party laboratories have conducted tests of devices incorporating our ZEFS and MK IV technologies. We believe that research and testing using government standard test equipment in Thailand has demonstrated that the tested devices incorporating our ZEFS technology improves performance.

In 2006, testing on a device incorporating our MK IV technology for Harley-Davidson style motors was conducted at the EPA and CARB certified testing facility Olson Labs. We believe that these tests yielded results that would allow these motors to meet current and future EPA and CARB emissions standards without expensive fuel injection and catalytic converters.

Further testing on a used 4-stroke motorcycle incorporating our ZEFS technology was conducted in November 2005 in Bangkok, Thailand at Automotive Emission Laboratory, Pollution Control Department, Ministry of Natural Resources and Environment of Thailand, and was performed jointly with S.P. Suzuki of Thailand, the authorized distributor of Suzuki products in Thailand. The test results were as follows:

	THC (g/km)	CO (g/km)	NOx (g/km)	CO2 (g/km)
Without ECO ChargR (ZEFS)	0.536	0.162	9.67	52.851
With ECO ChargR (ZEFS)	0.52	0.104	1.42	48.553
% Change	-3.00%	-35.80%	-85.32%	-8.13%

In addition, during the testing horsepower increased at all ranges, peaking at 18.8% at 50km/h and fuel economy increased 33% over the baseline tests.

Additional testing was conducted in early March 2006 on a new Chinese-manufactured carbureted 4-stroke Suyijia SZK125 motorcycle incorporating our ZEFS technologies at Hong Kong Exhaust Emissions Laboratory ("HKEEL"). The test results were as follows:

	THC (g/km)	CO (g/km)	NOx (g/km)	CO2 (g/km)
Without ECO ChargR (ZEFS)	0.36	0.087	2.59	44.53
With ECO ChargR (ZEFS)	0.33	0.108	1.86	43.6
% Change	-8.3%	24.1%	-28.2%	-2.1%

In addition, during the testing fuel economy increased 7% over the baseline tests.

Also in May 2006, at the request of the office of the Minister of Energy for the Kingdom of Thailand, we participated in a "hot start" test at the testing laboratories of the Thai petroleum company, the PTT Public Company Limited, of products incorporating our MK IV technology for fuel efficiency. In this test, the Thai distributor for Suzuki Motorcycles, SP Suzuki, supplied a new 125cc 4-stroke Best motor scooter to be tested without our preparing or participating in the installation of a device incorporating our ECO ChargR (MK IV technology). The mean test results showed an average 5.13% improvement in fuel efficiency, as follows:

	Run 1 (l/km)	Run 2 (l/km)	Run 3 (l/km)	Average
Baseline FC Test Runs without MK IV Device	0.0196	0.0195	0.0193	0.0195
FC Test Runs with MK IV Device	0.0186	0.0184	0.0185	0.0185
Difference	0.0010	0.0011	0.0008	0.0010
Improvement	5.10%	5.64%	4.15%	5.13%

In February 2007, tests were performed at Olson Labs for the purpose of evaluating the emissions reduction and fuel efficiency improvement benefits of our ECO ChargR product. The mean test results were as follows:

Total Hydrocarbon (THC) Emissions (gms/km)

	Suzuki 110cc	RevTech 100cc	Merch 125cc
AVERAGE BASELINE	0.124	1.821	1.372
AVERAGE ECO ChargR	0.098	1.685	1.302
% Improvement	21.0%	7.5%	5.1%

Carbon Monoxide (CO) Emissions (gms/km)

	Suzuki 110cc	RevTech 100cc	Merch 125cc
AVERAGE BASELINE	1.729	29.086	21.201
AVERAGE ECO ChargR	1.231	18.160	15.805
% Improvement	28.8%	37.6%	25.5%

Oxides of Nitrogen (NOx) Emissions (gms/km)

	Suzuki 110cc	RevTech 100cc	Merch 125cc
AVERAGE BASELINE	0.066	0.136	0.287
AVERAGE ECO ChargR	0.063	0.196	0.268
% Improvement	4.5%	-44.0%	6.4%

Fuel Economy (miles per gallon)

	Suzuki 110cc	RevTech 100cc	Merch 125cc
AVERAGE BASELINE	241.97	39.68	34.83
AVERAGE ECO ChargR	253.16	41.08	34.82
% Improvement	4.6%	3.5%	0.0%

Sales and Marketing

According to the Goddard Institute for Space Studies, in 2000, the world's roads were supporting about 800 million vehicles, almost 500 million of which are cars and the remainder of which are trucks, buses, motorcycles and scooters. Vehicle population is projected to increase by 50-100% by 2030. As a result, vehicles will continue to apply pressure to the environment unless additional controls on emissions are implemented.

In the United States, California, through the California Air Resources Board ("CARB"), continues to set the strictest emission standards for the country and the United States Environmental Protection Agency ("EPA") has indicated it may adopt more stringent emission standards, which would be applicable throughout the United States. California Governor Arnold Schwarzenegger has also announced his intent to seek greenhouse gas ("GHG") legislation and the United States Congress is also considering GHG legislation.

Governments internationally recognize the serious effects caused by air pollution and many nations have enacted legislation to mandate that engine manufacturers be required to reduce exhaust emissions caused by their products. As evidenced by the overwhelming participation in the establishment of the Kyoto Accord, many nations are moving towards tighter GHG emissions control as well. The European Union ("EU") currently requires all member nations to adopt EURO 3 emissions standards for motorcycles and EURO 4 emissions standards for automobiles and trucks. Some Eastern European countries contemplating EU admission, and certain Asian countries, have also announced gradual phase-in of EURO standards, including China, Indonesia, Vietnam, Thailand and India.

Management believes that US EPA, CARB and international governments will continue to lower emission standards below even these recent levels. Yet, the cost of adding emissions control devices to engines or vehicles has always been a challenge, since manufacturers shift the cost of such devices to the consumer. In developing nations, where incomes are extremely low, economics and the lack of government resources have hampered progress.

We have three product lines; MAG ChargR™ and ECO ChargR™, ELEKTRA™ and AOT (Applied Oil Technology) The MAG ChargR is past the development stage and the Company believes that an initial small run of several thousand units may be manufactured and sold by the end of second quarter 2009. We believe that ELEKTRA may be nearing the end of the product development cycle which we believe could culminate in an upcoming SAE (Society of Automotive Engineers) test to prove and certify the level of fuel savings. AOT is in the research and development phase.

ELEKTRA

Management believes that there is a large and active market for a product such as ELEKTRA that can reduce the fuel consumption of diesel engines. In 2006, the US Department of Transportation published that there were 3.1 million "Truck, combination" (tractor trailers), Busses and Class I locomotives in service in the US. According to the Specialty Equipment Manufacturing Association's "2004/05 Diesel Market Study," there were 3.1 million Diesel Light Trucks registered in the US and 151,427 diesel cars sold in the US since 1991.

In a 2008 paper published by Dr. Rongjia Tao, Ph.D., Chair of the Physics Department at Temple University titled "Electrorheology Leads to Efficient Combustion," Dr. Tao stated that over six months of testing that ELEKTRA increased highway mileage of a Mercedes 300D 19% , from 32 mpg to 38 mpg and increased city mileage 12% to 15%.

The Company has had preliminary discussions with the American Trucking Association and with AITA (America's Independent Truckers Association, Inc) The SAE (Society of Automotive Engineers) has advised us that once the Type II fuel evaluation test results in verifying a meaningful fuel savings, they will publish a story on the product along with the test results and accompanying photos and contact information.

Subject to proper capitalization, we intend to embark upon a sales and marketing program through distributors in the trucking industry.

Applied Oil Technology

The pipeline construction industry in the U.S. was approximately $11 billion in 2007 according to October 27 2008 "Pipeline Construction U.S. Industry Report" from IBIS World. The overall pipeline industry is forecast to grow at 4.7%. Management is in the process of developing more specific analysis of the market for the AOT products.

MAG ChargR

In October 2004, we commenced initial marketing efforts for MAG ChargR and ECO ChargR products incorporating our ZEFS and MK IV technology. We are focused on selling or licensing our technologies and products domestically and internationally to the consumer specialty accessories market, to municipalities, to motorcycle, automobile, carburetor, fuel-injection and diesel engine manufacturers and exhaust and muffler OEMs. We have made presentations of our MAG ChargR and ECO ChargR products to OEMs in the United States, Asia and Europe. We have already had discussions with the Department of General Services in California which maintains a fleet of more than 50,000 vehicles including more than 5000 police cars.

On most automobiles, the MAG ChargR is installed between the throttle body and the intake manifold. The geometry of this part of the engine varies with each automobile make, manufacturer, year and engine displacement. STWA has identified dozens of MAG ChargR models that will fit popular models from Cadillac, Chevrolet, Chrysler, Dodge, Ford, GMC, Hummer, Isuzu, Jeep, Lincoln, Mercury, Mitsubishi, Nissan, Pontiac and Toyota. The MAG ChargR models selected include nine of the top 50 bestselling automobiles of all time.

In determining the order to bring MAG ChargR models to market, the following criteria have been considered.

- Size of the installed base of cars applicable to an individual MAG ChargR model
- Probability that the owner of such an automobile would purchase and aftermarket performance enhancement product
- Level of improvement that MAG ChargR delivers for a specific make, model, year and displacement

On February 20, 2009, we entered into a distribution agreement for the MagChargR with Magnumforce Race Car Fabrication, Inc. (Magnumforce). The agreement provides for an initial order of $125,000, payment of which is contingent upon Magnumforce selling our product to its customers. The product was tested in 2007 in connection with fuel savings and emission reduction and the CARB certification was necessary before distribution and sales could occur. Magnumforce manufactures and markets a broad line of racing and high performance products for Dodge, Chrysler and Plymouth vehicles through multiple points of distribution.

We have also had discussions with Brothers Performance and Motorcycle Products Consulting Incorporated (MPCI) to carry the MAG ChargR product.

According to SEMA, buying behavior has shifted in the last twelve months with enthusiasts now purchasing more performance products online than at retail. To that end, we have targeted online retailers as distribution partners.

ECO ChargR

In July 2006, we entered into a separate agreement with SS Sales, to provide exclusive marketing and promotional services in the western United States and western Canada for our MAG ChargR and ECO ChargR products. SS Sales will be paid a commission equal to 5% of the gross amount actually collected on contracts we enter into during the contract term for existing or future customers introduced by SS Sales. SS Sales is owned by Nathan Shelton, one of the directors of the Company since February 12, 2007. We also have an agreement pending with Scaffidi-Bolio & Associates to be our sales agents in a defined territory in the eastern United States and eastern Canada.

At this time we have devoted limited resources to the marketing of our ECO ChargR while we focus on our MAG ChargR and ELEKTRA. Management is reassessing on a continuing basis the devotion of the Company's resources to its products.

Manufacturing and Product Development

ELEKTRA

As a result of six months of field testing and refining, we are refitting the ELEKTRA with a new power supply and electronics to optimize the exposure of the fuel to the electric field in an attempt to create peak efficiency. Dr. Luke Turgeon and his company have recently been retained by us to bring simulation and electronic design skills in an attempt to allow us to go from design to a stable cost effective volume production in the fastest time possible.

Management believes that having the SAE (Society of Automotive Engineers) Type II test results verifying that ELEKTRA saves 10% of more on fuel consumption will be the milestone that will allow the Company to begin closing sales of the product. The 10% fuel savings target is for the after-market ELEKTRA product. Management believes that the OEM product, integrated into the manufacturer's design may be able to yield higher levels of fuel savings due to the fact that the manufacturer will have ELEKTRA communicate the engine's electronics to optimize the advantageous effect as the fuel flow changes over time.

Upon completion of our tests and the results being published, management will seek contracts within the trucking industry and the selection of a manufacturing company as follows:

Selecting a Manufacturing Partner

We intend to outsource the manufacturing of the ELEKTRA and are looking for three things in selecting a manufacturing partner. We are currently interviewing candidates.

- Existing proven, large-scale manufacturing and distribution for transportation OEMs
- Existing relationships with fleet managers of large diesel truck operators
- Forward-looking proactive corporate vision looking to bold expand their market share

Applied Oil Technology

The Company has signed a Non-Disclosure Agreement with a multi-national energy company with a market capitalization in excess of $250 billion. The Company is seeking to develop a manufacturing and product development plan for AOT.

MAG ChargR and ECO ChargR

As of December 15, 2008, the Company has built and tested three working prototypes of the MAG ChargR for the following make, model and engine configurations.

Make	Model	Year	Engine
Chrysler	SRT8	2006	6.1L Hemi
Dodge	Challenger	2008	6.1L Hemi
Chevrolet	Suburban	2005	4.6L Big Block

Of these three models, the Company has received and published the following test results for product performance.

Make	Model	Year	Engine	HP Increase @ 4680 RPM	Torque Increase @ 4680 RPM
Chrysler	SRT8	2006	6.1L Hemi	3.4%	5.4%
Chevrolet	Suburban	2005	Big Block	11.5%	8.9%

In order to start sales in California, the Company is required to obtain a certification for the MAG ChargR from the California Air Resources Board (CARB). The Company has received CARB certification and can now sell and distribute throughout the United States.

For the MAG ChargR product roll-out, we will attempt to have the product ready for the ten most popular general purpose automobiles listed above and the ten most popular Muscle Cars that fit our value proposition. According to Musclecarfacts.net on December 14, 2008, the ten most popular Muscle Cars in 2008 are, in order; the 2009 Camaro, the 1967 Camaro, the 1969 Camaro, the 1970 Challenger, the 1974 GTO, the 1970 AMX, the 1970 Barracuda, the 1969 AMX, the 1968 Camaro, and the 1968 AMX.

The manufacture of the magnets used in products incorporating our ZEFS or MK IV technologies requires a rare-earth metal, neodymium. Neodymium is readily available in China, at relatively stable prices.

Competition

The automotive and motor engine industry is highly competitive. We have many competitors in the United States and throughout the world developing technologies to make engines more environmentally friendly and fuel-efficient. Many of our competitors have greater financial, research, marketing and staff resources than we do. For instance, automobile manufacturers have already developed catalytic converters on automobiles in order to reduce emissions, but, as discussed above, this creates greenhouse gases and makes controlling emissions costly and complex. The industry has also proposed high-pressure fuel injection systems for gas and diesel applications but these modifications are extremely expensive.

Although we are unaware of any technologies that compete directly with our technologies, there can be no assurance that any unknown existing or future technology will be, superior to products incorporation our ZEFS and MK IV technologies, as well as any products we may produce incorporating the ELEKTRA technology may provide, the benefits of all of emission reductions, fuel efficiency and engine performance enhancement. There are competing products which provide one or more of the beneficial attributes of our ZEFS, MK IV and ELEKTRA technologies, but not all three benefits. Additionally, we believe that those competing products that show benefit in more than one area demonstrate greater benefit in only one area and provide only minimal improvements in other areas.

Competing emissions reduction products are largely comprised of catalytic converters and alternative fuels. Catalytic converters are much more expensive than products incorporating our ZEFS and MK IV technologies, and are sensitive and subject to damage caused by the poor quality or adulteration of fuel commonly used in developing nations. In addition, while catalytic converters reduce emissions, they do not improve fuel efficiency or engine performance. Domestically, there are a large number of manufacturers and distributors of catalytic converters, such as Engelhart Inc., Dow Corning Inc., Delphi Corporation and Car Sound Exhaust System, Inc., among others. Internationally, most catalytic converters are manufactured and distributed by Engelhart Inc., Delphi Corporation and a large number of smaller businesses in a fragmented industry.

Alternative fuels such as hydrogen, electricity, liquid natural gas and ethanol, generally require more costly conversions and the fuels are not readily available, if at all, in most of the world.

We are not aware of any other technology using magnetic, uniform electrical field fuel treatments or products based on such technology which has been proven to significantly improve fuel mileage. There are many products currently on the market that claim to increase fuel efficiency. We believe that the majority of these products have not undergone or provided independent scientific validation from a recognized third party, or testing at a certified laboratory. Fuel injection does improve fuel efficiency and performance, but is extremely expensive from the perspective of the developing nations of the world. Major domestic and international manufacturers and distributors of fuel injection systems include Delphi Corporation, Robert Bosch Corporation, Siemens Corporation, and a large number of smaller businesses in a fragmented industry.

We are not aware of any other technology using magnetic, uniform electrical field fuel treatments or products based on such technology which has been proven to significantly improve performance. There are many products which a consumer can purchase to increase overall performance. All of the most effective such products, including forced induction, nitrous oxide injection and exotic exhaust, are very expensive, increase emissions, reduce fuel efficiency and shorter the life of the engine. Major domestic and international manufacturers and distributors of performance-enhancing systems include Holley Performance Products, Inc., Nitrous Express Inc., Paxton Automotive Corporation, Eaton Corporation, Vortec Engineering LLC, Flowermaster, Inc., Hedman Manufacturing, Inc., Gibson Performance, Inc. and a large number of smaller businesses in a fragmented industry.

Government Regulation and Environmental Matters

Our research and development activities are not subject to any governmental regulations that would have a significant impact on our business and we believe that we are in compliance with all applicable regulations that apply to our business as it is presently conducted. Our products, as such, are not subject to certification or approval by the EPA or other governmental agencies domestically or internationally. Instead, such agencies test and certify a sample engine fitted with our products. Depending upon whether we manufacture or license our products in the future and in which countries such products are manufactured or sold, we may be subject to regulations, including environmental regulations, at such time.

U.S. Government Regulation

We are currently pursuing EPA and CARB executive order exemptions for our products. These exemptions would signify that our products do not adversely affect vehicles emissions and would allow our products to be used on emissions control equipped on and off-road vehicles. We are also submitting our technologies to the EPA under the "511 Program" which was established in 1970 to evaluate new emissions and fuel saving technologies for cars and trucks. In April 2007, we made a formal request that the EPA consider our carbureted 4-stroke engine device as part of this program, even though there are few carbureted cars and trucks left on the road, because the EPA is tightening emissions regulation on motorcycle, utility and non-road vehicles. We believe that these applications are well suited for our technologies. We are unable to estimate the time it may take for the EPA to act upon our application or predict whether or not such application will be favorably received, especially considering that we are asking the EPA to amend its existing program.

EU Regulation

The current EU emissions standard for motorcycles is EURO 3, and for automobiles and trucks the emissions standard is EURO 4. Although there is not a EURO 4 standard for motorcycles currently, the current trend appears to be for stricter regulation. On the other hand, the automobile standard is currently moving towards adopting EURO 5 standards by 2009 and EURO 6 by 2014. These standards are difficult to attain and the automotive industry is spending billions of Euros to engineer solutions. European auto manufacturers are becoming increasingly at odds with the European Commission ("EC"), the body which evaluates the industry and makes regulatory standards recommendations to the EU, over CO_2 emissions regulations.

The CO_2 emissions limits are currently a voluntary agreement between the EU and the auto manufacturers. The EU target is to reach an average CO_2 emission of 120 g/km for all new passenger cars by 2012. However it has become increasingly clear that the voluntary agreement will not succeed. The average CO_2 emissions per car have dropped only to 160 g/km in 2005, whereas the average was 186 g/km in 1995. Because of this, lawmakers have started considering regulation. In late 2005, the European Parliament passed a resolution in support of mandatory CO_2 emissions standards to replace the current voluntary agreement. In late 2006, the EC announced that it was working on a proposal for a legally-binding limit CO_2 emissions from cars. The EC is also proposing the doubling of the fuel efficiency of new cars by 2020.

Currently the only accepted method for reducing a vehicle's CO, THC and NOx emissions is catalytic converters, but this system converts these gases into largely CO_2 and N2O, both GHGs. Therefore the lower the CO, THC and NOx output, the higher the CO_2 production. The only remedy is increasing fuel efficiency and the automakers argue this is costly and results in small low-power vehicles which consumers will not want to buy.

Intellectual Property

ELEKTRA

On May 14, 2004, we filed a patent application in Australia with respect to certain technology (Method and Apparatus for a Treatment of a Fluid). We entered into a license agreement with Temple University (the "2004 License Agreement"), for a research project with Dr. Rongjia Tao as principal investigator. That project and the related products involve the development and commercialization of underwater and cold temperature applications for improving oil flow under different temperature and pressure conditions. In connection with the 2004 License Agreement, we assigned the original patent application for this technology to Temple University and agreed to assign all subsequent patent applications for this technology to Temple University. Under the 2004 License Agreement, we have the right to file additional patent applications, at our sole expense but for the benefit of Temple University, in various countries. We have exclusive rights to this technology only in countries where we file patent applications. In 2005, 2006 and 2007, we filed several additional patent applications in various countries. As a result of Dr. Tao's recently announced progress in reducing viscosity of crude oil with magnetic pulses, we believe that this technology may have commercial viability. We are maintaining the patent applications in the countries in which we have filed them, while we continue to explore the commercial benefits of pursuing this opportunity in these and possibly other countries.

Method and Apparatus for Treatment of a Fluid Patent Application

This is an apparatus for the magnetic treatment of oils to improve viscosity. Under the 2004 License Agreement with Temple University, we have filed the following patent applications, at our sole expense and for the benefit of Temple University, in order to secure rights to license this technology in these countries. US PTO Application #11/519168 was filed on May 13, 2005. The priority date is May 14, 2004 from Australian patent application 2004902563. This has been registered in other territories as follows.

Country	Number	Filing date	Status
GCC *	GCC/P/2005/5066	22 August 2005	Application filed – awaiting examination.
Brazil	0510871-3	13 May 2005	Examination to be requested by May 2008
Canada	2566739	13 May 2005	Examination to be requested by May 2010
China	200580023369.3	13 May 2005	Examination requested April 2007
Algeria	060593	13 May 2005	Application filed – awaiting examination
Eurasia **	200602114	13 May 2005	Under examination – response filed.
Egypt	PCT 1087/2006	13 May 2005	Application filed – awaiting examination
United Kingdom	0624025.3	13 May 2005	Under examination – response filed
Indonesia	WO0200603429	13 May 2005	Application filed – examination to be requested by 13 May 2008
Libya	To be advised		Application sent to agent
Mexico	PA/a/2006/013206	13 May 2005	Application filed – awaiting examination
Norway	20065632	13 May 2005	Application filed – awaiting examination
United States	11/519168	13 May 2005	Application filed – awaiting examination

* Covers Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates, and Bahrain.

** The Eurasian Patent Convention was signed on September 9, 1994 in Moscow by the Heads of the Governments of the Republic of Azerbaijan, the Republic of Armenia, the Republic of Belarus, Georgia, the Republic of Kazakstan, the Kyrgyz Republic, the Republic of Moldova, the Russian Federation, the Republic of Tajikistan, Ukraine and came into force on August 12, 1995 after Turkmenistan, Belarus and Tajikistan deposited their instruments of accession to the Convention to the WIPO Director General, on March 1, 1995, May 8, 1995 and May 12, 1995 respectively. To date, the Convention is also ratified by the Russian Federation, the Republic of Kazakhstan, Republic of Azerbaijan, the Kyrgyz Republic, the Republic of Moldova and the Republic of Armenia.

MAG ChargR and ECO ChargR

ZEFS Patent Applications

In December 1998, we acquired all of the marketing and manufacturing rights to the ZEFS technologies from the purported inventor of the technology in exchange for 5,000,000 shares of our common stock, $500,000 and $10 royalty for each unit sold. In November 2002, under our settlement with the bankruptcy trustee for the estate of the purported inventor and his wife, the trustee transferred all ownership and legal rights to an existing international patent application for the ZEFS MK I technology to us. In exchange for these rights, we issued to the bankruptcy trustee a warrant to purchase 500,000 shares of our common stock at $1.00 share and granted a $0.20 royalty on each device we sell.

In May 2002, we settled a dispute with Kevin "Pro" Hart, who claimed proprietary rights to the ZEFS technologies. In November 2002, under our settlement with the bankruptcy trustee for the estate of Mr. Hart, the trustee assigned all ownership and legal rights to the international patent application for the ZEFS technology to us, in exchange for an option to purchase 500,000 shares of our common stock at $1.00 share and a $0.20 royalty on each device we sell. Mr. Hart died in March 2006.

We obtained the patent application for the ZEFS MK1 device originally filed in Australia on May 19, 2000. The United States Patent and Trademark Office issued the patent on 7 June 2005 for the ZEFS MK1 device. The duration of the patent is 20 years from the date the original application was filed. Overall, we have applied for a patent on an international basis in approximately 64 countries worldwide.

ZEFS MK1—Device For Saving Fuel and Reducing Emissions. This fuel saving device has a disk- like nonmagnetic body provided with a central opening and a number of permanent magnets having opposed polarities positioned about the central opening to provide multidirectional magnetic fields. The device is positioned in a fuel air mixture to reduce emissions.

The following table summarizes the status of the ZEFS MK1 patent application in the following countries:

Country	Number	Filing date	Status
Australia	2001258057	21 May 2001	GRANTED
Canada (small entity status)	2409195	21 May 2001	Examination requested April 2006
China	01809802.9	21 May 2001	Under examination – response filed
Columbia	02115018	21 May 2001	Examination requested 23 July 2004.
Czech Republic	PV 2002-4092	21 May 2001	Accepted - awaiting Deed of Letters Patent
Eurasian +++	200201237	21 May 2001	GRANTED. Renewed in Russia only.
Europe ++	019331222.2	21 May 2001	Awaiting examination
Hong Kong	04100327.0	21 May 2001	Automatic grant upon grant of the Chinese application
India*	IN/PCT/2002/01523	21 May 2001	Under Examination – response filed
Indonesia	WO0200202844	21 May 2001	Accepted – awaiting Deed of Letters Patent

Korea [South]	2002-7015531	21 May 2001	Under examination – response filed.
Japan	586731/2001	21 May 2001	Examination to be requested by 21 May 2008
Mexico	PA/A/2002/011365	21 May 2001	GRANTED
New Zealand	523113	21 May 2001	GRANTED
Norway	20025531	21 May 2001	Awaiting examination
Poland	P358837	21 May 2001	Awaiting examination
Singapore	93310 [WO 01/90562]	21 May 2001	GRANTED
Sri Lanka	12918	21 May 2001	GRANTED
United States	6901917	21 May 2001	GRANTED
Vietnam	1-2002-01168	21 May 2001	GRANTED

++European patent application covers Austria Belgium Switzerland Liechtenstein Cyprus Germany Denmark Spain Finland France Great Britain Greece Ireland Italy Luxembourg Netherlands Portugal Sweden Turkey Lithuania Latvia Slovenia Romania Macedonia.

+++ The Eurasian Patent Convention was signed on September 9, 1994 in Moscow by the Heads of the Governments of the Republic of Azerbaijan, the Republic of Armenia, the Republic of Belarus, Georgia, the Republic of Kazakhstan, the Kyrgyz Republic, the Republic of Moldova, the Russian Federation, the Republic of Tajikistan and Ukraine.

MK IV Patent Applications

Device for Saving Fuel and Reducing Emissions. This device is similar to the Mark 1 device but uses stacked magnets. The following table summarizes the status of the MK IV patent application in the following countries:

Country	Number	Filing date	Status
China	NA	20 June 2006	Application sent to Agent
Japan	NA	20 June 2006	Application sent to Agent
Korea [South]	NA	20 June 2006	Application sent to Agent
Malaysia	PI 20062013	2 May 2006	Examination due by 2 May 2008
PCT	PCT/AU2006/000861	20 June 2006	Demand for IPE filed – IPRP favorable.
Taiwan	95115220	28 April 2006	Examination due by 29 April 2009
Thailand	0601001997	2 May 2006	Application filed - awaiting examination
United States	NA	20 June 2006	Application sent to Agent

The priority date is June 21, 2005 from Australian patent application 2005903248.

Trademarks

ECO ChargR™

Country	Number	Filing Date	Status
Australia	1121860	4 July 2006	GRANTED
Madrid *	1121860	4 January 2007	GRANTED
Canada	1330199	4 January 2007	Accepted – awaiting Registration Certificate
Indonesia	D00 2007 000330	4 January 2007	Application filed – awaiting examination
Malaysia	2007/00156	4 January 2007	Application filed – awaiting examination
Thailand	649741	4 January 2007	Application filed – awaiting examination
Taiwan	96000462	4 January 2007	Under examination – response filed.

* Madrid Protocol application designates the following countries:

- China
- European Community
- United States
- Japan
- Korea
- Singapore
- Vietnam

MAG ChargR™

Country	Number	Filing Date	Status
Australia	1121864	4 July 2006	Registered Co-Existence Agreement with Mag Instruments
Madrid	1121864	4 January 2007	GRANTED
Canada	1330200	4 January 2007	Under examination – response filed
Indonesia	D00 2007 000331	4 January 2007	Application filed – awaiting examination
Malaysia	2007/00157	4 January 2007	Application filed – awaiting examination
Thailand	649742	4 January 2007	Application filed – awaiting examination
Taiwan	96000465	4 January 2007	Allowed/Accepted.

STWA PERFORMANCE™

Country	Number	Filing Date	Status
Australia	1140033	11 July 2006	GRANTED
Madrid	1140033	10 July 2007	GRANTED

Non-Disclosure Agreements

To further protect our intellectual property, we have entered into agreements with certain employees and consultants, which limit access to, and disclosure or use of, our technology. There can be no assurance, however, that the steps we have taken to deter misappropriation of our intellectual property or third party development of our technology and/or processes will be adequate, that others will not independently develop similar technologies and/or processes or that secrecy will not be breached. In addition, although management believes that our technology has been independently developed and does not infringe on the proprietary rights of others, there can be no assurance that our technology does not and will not so infringe or that third parties will not assert infringement claims against us in the future. Management believes that the steps they have taken to date will provide some degree of protection; however, no assurance can be given that this will be the case.

Employees

As of December 31, 2008, we had seven full-time employees. As of such date, we also utilized the services of sixteen part-time consultants to assist us with various matters, including engineering investment relations, public relations, accounting and sales and marketing. We intend to hire additional personnel to provide services when they are needed on a full-time basis. We recognize that our efficiency largely depends, in part, on our ability to hire and retain additional qualified personnel as and when needed and we have adopted procedures to assure our ability to do so.

Item 1A. ***Risk Factors***

We have just begun to generate revenues, we have a history of losses, and we cannot assure you that we will ever become or remain profitable. As a result, you may lose your entire investment.

We generated our first revenues from operations in late 2006 and, accordingly, we have incurred net losses every year since our inception in 1998. For the fiscal years ended December 31, 2008 and 2007, we had net losses of $6,052,724 and $6,262,743, respectively. To date, we have dedicated most of our financial resources to research and development, general and administrative expenses and initial sales and marketing activities. We have funded all of our activities through sales of our securities, including equity and debt. We anticipate net losses and negative cash flow to continue until such time as our products are brought to market in sufficient amounts to offset operating losses. As planned, we have significantly expanded both our research and development efforts, and our sales and marketing efforts, during the past year. Consequently, we will need to generate substantial additional funds, from a combination of revenue and external financing activities, to fund our operations. Our ability to achieve profitability is dependent upon our continuing research and development, product development, and sales and marketing efforts, to deliver viable products and the company's ability to successfully bring them to market. Although our management is optimistic that we will succeed in marketing products incorporating our ZEFS, MK IV, CAT-MATE and ELEKTRA technologies, there can be no assurance that we will ever generate significant revenues or that any revenues that may be generated will be sufficient for us to become profitable or thereafter maintain profitability. If we cannot generate sufficient revenues or become or remain profitable, we may have to cease our operations and liquidate our business.

Our independent auditors have expressed doubt about our ability to continue as a going concern, which may hinder our ability to obtain future financing.

In their report dated March 27, 2009, our independent auditors stated that our consolidated financial statements for the year ended December 31, 2008 were prepared assuming that we would continue as a going concern. Our ability to continue as a going concern is an issue raised as a result of our recurring negative cash flows from operations and accumulated deficit. We had an accumulated deficit of $42,743,064 as of December 31, 2008. Our ability to continue as a going concern is subject to our ability to obtain significant additional capital to fund our operations and to generate revenue from sales, of which there is no assurance. The going concern qualification in the auditor's report could materially limit our ability to raise additional capital. If we fail to raise sufficient capital, we may have to liquidate our business and you may lose your investment.

Since we have not yet begun to generate positive cash flow from operations, our ability to continue operations is dependent on our ability to either begin to generate positive cash flow from operations or our ability to raise capital from outside sources.

We have not generated positive cash flow from operations and have relied on external sources of capital to fund operations. We had $59,346 in cash at December 31, 2008 and negative cash flow from operations of $2,163,656 for the year ended December 31, 2008.

We currently do not have credit facilities available with financial institutions or other third parties, and historically have relied upon best efforts third-party funding. Though we have been successful at raising capital on a best efforts basis in the past, we can provide no assurance that we will be successful in any future best-efforts financing endeavors. We will need to continue to rely upon financing from external sources to fund our operations for the foreseeable future. If we are unable to raise sufficient capital from external sources to fund our operations, we may need to curtail operations.

We will need substantial additional capital to meet our operating needs, and we cannot be sure that additional financing will be available.

As of December 31, 2008 and thereafter, our expenses ran, and are expected to continue to run, at a "burn rate" of approximately $200,000 per month, which amount could increase during 2009. We are not currently able to fund operations on a current basis, and we will require substantial additional capital in order to operate. In order to fund some of our capital needs, we conducted private offerings of our securities in 2007 and 2008. We also established what is generally referred to as an equity line of credit of up to $10,000,000 with Dutchess Private Equity Fund, LLP ("Dutchess"), under which we may put shares of our common stock to Dutchess for sale into the marketplace and receive the proceeds of these sales. From November 6, 2006 through December 31, 2006, we raised $380,095 gross proceeds from such puts, and between January 1, 2007 and June 12, 2007, we raised an additional $992,055 gross proceeds from such puts. We may need to rely substantially on additional puts from the equity line of credit unless and until we can arrange additional interim or permanent financings. Reliance on the equity line of credit could create downward pressure on the price of our common stock and is dilutive to our existing shareholders. While discussion regarding additional interim and permanent financings are being actively conducted, management cannot predict with certainty that the equity line of credit will be available to provide adequate funds, or any funds at all, or whether any additional interim or permanent financings will be available at all or, if it is available, if it will be available on favorable terms. If we cannot obtain needed capital, our research and development, and sales and marketing plans, business and financial condition and our ability to reduce losses and generate profits will be materially and adversely affected. Additionally risks specifically relating to our equity line of credit with Dutchess are set forth at the end of this section.

We will need additional capital to repay certain short-term debt as it matures.

We have $896,720 remaining principal amount of convertible subordinated notes due February 2009, August 2009, October 2009 and December 2009 to certain investors. In January 2009, we issued $250,000 convertible notes in our 2009 Winter Offering-I to certain investors, which will be due in April 2009. From February 13, 2009 to March 4, 2009 we issued $186,340 convertible notes in our 2009 Winter Offering-II to certain investors, which will be due in March 2010.

Due to the Company's limited capital resources, management cannot predict with certainty that there will be cash available to repay these obligations, and other obligations, on their respective maturity dates. If we do not raise adequate funds, we would be unable to repay these obligations as they mature during the next twelve months and we could default on such obligations.

As a company with an unproven business strategy, our limited history of operations makes evaluation of our business and prospects difficult.

Our business prospects are difficult to predict because of our limited operating history, early stage of development and unproven business strategy. Since our incorporation in 1998, we have been and continue to be involved in development of products using our technology, establishing manufacturing and marketing of these products to consumers and industry partners. Although we believe our technology and products in development have significant profit potential, we may not attain profitable operations and our management may not succeed in realizing our business objectives.

If we are not able to devote adequate resources to product development and commercialization, we may not be able to develop our products.

Our business strategy is to develop, manufacture and market products incorporating our ZEFS, MK IV and ELEKTRA technologies, and, to a lesser extent, our CAT-MATE technology. We also intend to develop, manufacture and market products incorporating the ELEKTRA technology. We believe that our revenue growth and profitability, if any, will substantially depend upon our ability to:

- raise additional needed capital for research and development;
- complete development of our products in development; and
- successfully introduce and commercialize our new products.

Certain of our products are still under various stages of development. Because we have limited resources to devote to product development and commercialization, any delay in the development of one product or reallocation of resources to product development efforts that prove unsuccessful may delay or jeopardize the development of other product candidates. Although our management believes that it can finance our product development through private placements and other capital sources, if we do not develop new products and bring them to market, our ability to generate revenues will be adversely affected.

The commercial viability of the ZEFS and CAT-MATE technologies remains largely unproven and we may not be able to attract customers.

Despite the fact that have entered into various distribution agreements and made some initial sales of our products to distributors, to the best of our knowledge, no consumer or automobile manufacturer has used the products incorporating the ZEFS or CAT-MATE technologies to reduce motor vehicle emissions to date. Accordingly, the commercial viability of our devices is not known at this time. If commercial opportunities are not realized from the use of products incorporating the ZEFS and CAT-MATE technologies, our ability to generate revenue would be adversely affected. There can be no assurances that we will be successful in marketing our products, or that customers will ultimately purchase our products. Failure to have commercial success from the sale of our products will significantly and negatively impact our financial condition.

The commercial viability of the ELEKTRA technology remains largely unproven and we may not be able to attract customers.

To the best of our knowledge, no consumer or automobile manufacturer has used the products incorporating the ELEKTRA technology to reduce motor vehicle emissions to date. Accordingly, the commercial viability of our devices is not known at this time. If commercial opportunities are not realized from the use of products incorporating the ELEKTRA technology, our ability to generate revenue would be adversely affected. There can be no assurances that we will be successful in marketing our products, or that customers will ultimately purchase our products. Failure to have commercial success from the sale of our products will significantly and negatively impact our financial condition.

If our products and services do not gain market acceptance, it is unlikely that we will become profitable.

The market for products that reduce harmful motor vehicle emissions is evolving and we have many successful competitors. Automobile manufacturers have historically used various technologies, including catalytic converters, to reduce exhaust emissions caused by their products. At this time, our technology is unproven, and the use of our technology by others is limited. The commercial success of our products will depend upon the adoption of our technology by auto manufacturers and consumers as an approach to reduce motor vehicle emissions. Market acceptance will depend on many factors, including:

- the willingness and ability of consumers and industry partners to adopt new technologies;
- the willingness and ability of consumers and industry partners to adopt new technologies;
- the willingness of governments to mandate reduction of motor vehicle emissions;
- our ability to convince potential industry partners and consumers that our technology is an attractive alternative to other technologies for reduction of motor vehicle emissions;
- our ability to manufacture products and provide services in sufficient quantities with acceptable quality and at an acceptable cost; and
- our ability to place and service sufficient quantities of our products.

If our products do not achieve a significant level of market acceptance, demand for our products will not develop as expected and it is unlikely that we will become profitable.

We need to outsource and rely on third parties for the manufacture, sales and marketing of our products, and our future success will be dependent on the timeliness and effectiveness of the efforts of these third parties.

We do not have the required financial and human resources or capability to manufacture market and sell our products. Our business model calls for the outsourcing of the manufacture, and sales and marketing of our products in order to reduce our capital and infrastructure costs as a means of potentially improving our financial position and the profitability of our business. Accordingly, we must enter into agreements with other companies that can assist us and provide certain capabilities that we do not possess. We have entered into certain distribution agreements, but we may not be successful in entering into additional such alliances on favorable terms or at all. Even if we do succeed in securing additional distribution agreements, we may not be able to maintain them. Furthermore, any delay in entering into agreements could delay the development and commercialization of our products and reduce their competitiveness even if they reach the market. Any such delay related to our existing or future agreements could adversely affect our business.

We do not currently have an agreement in place for the manufacture of products incorporating our ZEFS or MK IV technologies.

If any party to which we have outsourced certain functions fails to perform its obligations under agreements with us, the development and commercialization of our products could be delayed or curtailed.

To the extent that we rely on other companies to manufacture, sell or market our products, we will be dependent on the timeliness and effectiveness of their efforts. If any of these parties do not perform its obligations in a timely and effective manner, the commercialization of our products could be delayed or curtailed because we may not have sufficient financial resources or capabilities to continue such development and commercialization on our own.

Any revenues that we may earn in the future are unpredictable, and our operating results are likely to fluctuate from quarter to quarter.

We believe that our future operating results will fluctuate due to a variety of factors, including:

- delays in product development;
- market acceptance of our new products;
- changes in the demand for, and pricing, of our products;
- competition and pricing pressure from competitive products;
- manufacturing delays; and
- expenses related to, and the results of, proceedings relating to our intellectual property.

A large portion of our expenses, including expenses for our facilities, equipment and personnel, is relatively fixed and not subject to further significant reduction. In addition, we expect our operating expenses will increase in 2009 as we continue our research and development and increase our production and marketing activities, among other activities. Although we expect to generate revenues from sales of our products, revenues may decline or not grow as anticipated and our operating results could be substantially harmed for a particular fiscal period. Moreover, our operating results in some quarters may not meet the expectations of stock market analysts and investors. In that case, our stock price most likely would decline.

Nondisclosure agreements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information.

In order to protect our proprietary technology and processes, we rely in part on nondisclosure agreements with our employees, licensing partners, consultants, agents and other organizations to which we disclose our proprietary information. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover trade secrets and proprietary information, and in such cases we could not assert any trade secret rights against such parties. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position. Since we rely on trade secrets and nondisclosure agreements, in addition to patents, to protect some of our intellectual property, there is a risk that third parties may obtain and improperly utilize our proprietary information to our competitive disadvantage. We may not be able to detect unauthorized use or take appropriate and timely steps to enforce our intellectual property rights.

The manufacture, use or sale of our current and proposed products may infringe on the patent rights of others, and we may be forced to litigate if an intellectual property dispute arises.

If we infringe or are alleged to have infringed another party's patent rights, we may be required to seek a license, defend an infringement action or challenge the validity of the patents in court. Patent litigation is costly and time consuming. We may not have sufficient resources to bring these actions to a successful conclusion. In addition, if we do not obtain a license, do not successfully defend an infringement action or are unable to have infringed patents declared invalid, we may:

- incur substantial monetary damages;
- encounter significant delays in marketing our current and proposed product candidates;
- be unable to conduct or participate in the manufacture, use or sale of product

- candidates or methods of treatment requiring licenses;
- lose patent protection for our inventions and products; or
- find our patents are unenforceable, invalid, or have a reduced scope of protection.

Parties making such claims may be able to obtain injunctive relief that could effectively block our ability to further develop or commercialize our current and proposed product candidates in the United States and abroad and could result in the award of substantial damages. Defense of any lawsuit or failure to obtain any such license could substantially harm the company. Litigation, regardless of outcome, could result in substantial cost to and a diversion of efforts by the Company to operate its business.

We may face costly intellectual property disputes.

Our ability to compete effectively will depend in part on our ability to develop and maintain proprietary aspects of our technologies and either to operate without infringing the proprietary rights of others or to obtain rights to technology owned by third parties. Our pending patent applications, specifically patent rights of the MK IV, ELEKTRA and CAT-MATE technologies, may not result in the issuance of any patents or any issued patents that will offer protection against competitors with similar technology. Patents we have received for our ZEFS technologies, and which we may receive, may be challenged, invalidated or circumvented in the future or the rights created by those patents may not provide a competitive advantage. We also rely on trade secrets, technical know-how and continuing invention to develop and maintain our competitive position. Others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets.

We were involved in a patent infringement suit brought by our former sole director and executive officer.

In April 2005, Jeffrey A. Muller, the Company's former sole director and executive officer, filed a complaint against us seeking declaratory and injunctive relief and alleging unfair competition in connection with a claimed prior patent interest in the ZEFS technologies. Mr. Muller is seeking to have the patent rights in the ZEFS technologies that were previously transferred to us by Mr. Muller's bankruptcy trustee declared null and void. Muller's claims for patent infringement against the Company were dismissed and the case was closed on October 15, 2008, by order of George B. Daniels, United States District Judge, Southern District of New York.

We may not be able to attract or retain qualified senior personnel.

We believe we are currently able to manage our current business with our existing management team. However, as we expand the scope of our operations, we will need to obtain the full-time services of additional senior management and other personnel. Competition for highly-skilled personnel is intense, and there can be no assurance that we will be able to attract or retain qualified senior personnel. Our failure to do so could have an adverse effect on our ability to implement our business plan. As we add full-time senior personnel, our overhead expenses for salaries and related items will increase compensation packages, these increases could be substantial.

If we lose our key personnel or are unable to attract and retain additional personnel, we may be unable to achieve profitability.

Our future success is substantially dependent on the efforts of our senior management, particularly Cecil Bond Kyte, our Chief Executive Officer, Charles R. Blum, our President and Eugene E. Eichler, our Interim Chief Financial Officer. The loss of the services of members of our senior management may significantly delay or prevent the achievement of product development and other business objectives. Because of the scientific nature of our business, we depend substantially on our ability to attract and retain qualified marketing, scientific and technical personnel, including consultants. There is intense competition among specialized automotive companies for qualified personnel in the areas of our activities. If we lose the services of, or do not successfully recruit key marketing, scientific and technical personnel, the growth of our business could be substantially impaired. We do not maintain key man insurance for any of these individuals.

We expect to incur increased costs under the Sarbanes-Oxley Act of 2002.

As a public company, we incur significant legal, accounting and other expenses. In addition, the Sarbanes-Oxley Act of 2002, as well as related rules adopted by the SEC, has imposed substantial requirements on public companies, including certain corporate governance practices and requirements relating to internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. Effective disclosure of controls and procedures and internal controls are necessary for us to produce reliable financial reports and are important in helping prevent financial fraud generally. In order to accomplish this, we have retained an outside consulting firm to assist us in implementing proper procedures. We will incur significant up-front expenses to do so. If we are unable to achieve and maintain adequate disclosure controls and procedures and internal controls, our business and operating results could be harmed.

Changes in stock option accounting rules may adversely affect our reported operating results, our stock price, and our ability to attract and retain employees.

In December 2004, the Financial Accounting Standards Board ("FASB") published new rules that will require companies such as us to record all stock-based employee compensation as an expense. The new rules apply to stock options grants, as well as a wide range of other share-based compensation arrangements including restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. As required by FASB, we adopted these rules effective January 1, 2006. As a small company with limited financial resources, we have depended upon compensating our officers, directors, employees and consultants with such stock based compensation awards in the past in order to limit our cash expenditures and to attract and retain officers, directors, employees and consultants. Accordingly, if we continue to grant stock options or other stock based compensation awards to our officers, directors, employees, and consultants, our future earnings, if any, will be reduced (or our future losses will be increased) by the expenses recorded for those grants. These compensation expenses may be larger than the compensation expense that we would be required to record were we able to compensate these persons with cash in lieu of securities. Since we are a small company, the expenses we may have to record as a result of future options grants may be significant and may materially negatively affect our reported financial results.

Currently, there is only very limited trading in our stock, so you may be unable to sell your shares at or near the quoted bid prices if you need to sell your shares.

The shares of our common stock are thinly-traded on the OTC Bulletin Board, meaning that the number of persons interested in purchasing our common shares at or near bid prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company engaged in a high risk business which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that can generate or influence daily trading volume and valuation. Should we even come to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven, early stage company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous trading without negatively impacting our share price. We cannot provide any assurance that a broader or more active public trading market for shares of our common stock will develop or be sustained. Due to these conditions, we cannot give any assurance that shareholders will be able to sell their shares at or near bid prices or at all.

The market price of our stock is volatile.

The market price for our common stock has been volatile during the last year, ranging from a closing bid price of $0.86 on March 18, 2008 to a closing bid price of $0.12 on November 21, 2008, and a closing bid price of $0.40 on March 12, 2009. Additionally, the bid price of our stock has been both higher and lower than those amounts on an intra-day basis in the last year. Because our stock is thinly traded, its price can change dramatically over short periods, even in a single day. The market price of our common stock could fluctuate widely in response to many factors, including:

- developments with respect to patents or proprietary rights;
- announcements of technological innovations by us or our competitors;
- announcements of new products or new contracts by us or our competitors;
- actual or anticipated variations in our operating results due to the level of development expenses and other factors;
- changes in financial estimates by securities analysts and whether any future earnings of ours meet or exceed such estimates;
- conditions and trends in our industry;
- new accounting standards;
- general economic, political and market conditions and other factors; and
- the occurrence of any of the risks described in this Memorandum.

Substantial sales of common stock could cause our stock price to fall.

In the past year, there have been times when average daily trading volume of our common stock has been extremely low, and there have been many days in which no shares were traded at all. At other times, the average daily trading volume of our common stock has been high... Nevertheless, the possibility that substantial amounts of common stock may be sold in the public market may adversely affect prevailing market prices for our common stock and could impair our ability to raise capital through the sale of our equity securities.

Potential issuance of additional shares of our common stock could dilute existing stockholders.

We are authorized to issue up to 200,000,000 shares of common stock. To the extent of such authorization, our Board of Directors has the ability, without seeking stockholder approval, to issue additional shares of common stock in the future for such consideration as the Board of Directors may consider sufficient. The issuance of additional common stock in the future will reduce the proportionate ownership and voting power of the common stock offered hereby.

Our common stock is subject to penny stock regulation, which may make it more difficult for us to raise capital.

Our common stock is considered penny stock under SEC regulations. It is subject to rules that impose additional sales practice requirements on broker-dealers who sell our securities. For example, broker-dealers must make a suitability determination for the purchaser, receive the purchaser's written consent to the transaction prior to sale, and make special disclosures regarding sales commissions, current stock price quotations, recent price information and information on the limited market in penny stock. Because of these additional obligations, some broker-dealers may not effect transactions in penny stocks, which may adversely affect the liquidity of our common stock and shareholders' ability to sell our common stock in the secondary market. This lack of liquidity may make it difficult for us to raise capital in the future.

Item 1B. ***Unresolved Staff Comments***

None

Item 2. ***Properties***

Our Executive Offices and our engineering, production and testing facility is located at 235 Tennant Avenue, Morgan Hill, California, 95037. In September 2005, the Company entered into a lease for the term September 1, 2005 through August 31, 2007 and carried an option to renew for two additional years at the then prevailing market rate. Monthly rent was $2,240 per month under this lease. The lease was amended in February 2006 for additional space. Monthly rate under the amended lease was $4,160 per month. The Company renewed this lease on August 9, 2007 for an additional two-year term. The rent is $4,640 per month for the first six months of the new term of the lease and $5,480 per month for the remaining eighteen months of the new term of the lease. We believe that this space is adequate for our current and planned needs.

In May 2008, the Company entered into a lease agreement for its administrative offices in Los Angeles, California. The term of the lease was for $3,000 per month from June 1, 2008 through November 20, 2008. The Company is currently on a month to month basis with rent payment of $3,750.

Item 3. ***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 A. 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 admit fault and did not pay any fines or restitution.

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 of monies and stock 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 alleged that Mr. Muller and certain others sold Company stock without providing adequate consideration to us; sold insider shares without making proper disclosures and failed to make necessary filing required 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 arrangement regarding the control, voting and disposition of their stock.

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 prevented Mr. Muller and other cross-defendants from selling, transferring, or encumbering any assets and property previously acquired from us, from selling or transferring any of our stock that they may have owned or controlled, or from taking any action to injure us or our business and from having any direct contact with our shareholders. The injunctive order also prevented Mr. Muller or his nominees from engaging in any effort to exercise control over our corporation and from serving as an officer or director of our company.

In the course of the litigation, we have obtained ownership control over all patent rights to the ZEFS device.

On January 4, 2007, the Court entered a final judgment against Jeffrey Muller which barred Mr. Muller from serving as an officer or director of a public company for a period of 20 years, ordered Mr. Muller to disgorge any shares of our stock that he still owns and directed the Company to cancel any issued and outstanding shares of our stock still owned by Mr. Muller. Mr. Muller was also ordered to disgorge unlawful profits in the amount of $7.5 million and to pay a civil penalty in the amount of $100,000. Acting in accordance with the ruling and decision of the Court, we have canceled (i) 8,047,403 shares of common stock that had been held by Mr. Muller and/or his affiliates, (ii) options to acquire an additional 10,000,000 shares of our common stock held by Mr. Muller personally and (iii) $1,017,208 of debt which Mr. Muller claimed was owed to him by the Company. After an appeal filed by Mr. Muller was dismissed the Judgment against him is considered final.

On February 8, 2007, Federal Magistrate Judge Maas issued a post-judgment order, at our request, which further concluded that all of the shares of the Company's stock held by Mr. Muller or any of his nominees directly or indirectly owned or controlled were to be recaptured by the Company and were subject to disgorgement and forfeiture. The ruling provided that all shares, options and any other obligations allegedly owed by the Company to Mr. Muller were to be disgorged in our favor and confirmed the earlier judgment holding Mr. Muller liable for $7.5 million in actual damages, imposing a $100,000 fine and barring Mr. Muller from any involvement with a publicly traded company for 20 years. With prejudgment interest, this ruling brings the actual damages against Muller to over $11 million. Additionally, the Court clarified that the order required the disgorgement of any shares of the Company's stock that Mr. Muller or any of his nominees directly or indirectly owned or controlled. In furtherance of this order, the Company has taken action to cancel over 3.6 million shares which had been issued to offshore companies. The Order also confirmed the appropriateness of actions previously taken by the Company to acquire the patent rights and to consolidate the manufacturing, marketing and distribution rights with its ownership of all rights to the existing patents. On February 11, 2009, Judge Maas confirmed that his previous decision was modified and the Company's Motion for Summary Judgment was granted in favor of the Company as set forth in his order of February 8, 2007. A proposed Final Judgment in favor of the Company is pending before the United States District Court, Southern District of New York.

Patent Infringement Claims by Jeffrey A. Muller

In April 2005, Jeffrey A. Muller, the Company's former sole director and executive officer, filed a complaint against us in the Federal District Court for the Central District of California, seeking declaratory and injunctive relief and alleging unfair competition in connection with a claimed prior patent interest in the ZEFS device and stock option rights. In seeking declaratory relief, Mr. Muller is seeking to have the patent rights in the ZEFS device that were previously transferred to us by Mr. Muller's bankruptcy trustee declared null and void.

This lawsuit brought by Mr. Muller arose out of the same claims that were the subject of litigation in the Federal District Court for the Southern District of New York, in which the Court entered judgment against Mr. Muller. Those claims are pending further proceedings. While we believe that we have valid claims and defenses, there can be no assurance that an adverse result or outcome on the pending motions or a trial of this case would not have a material adverse effect on our financial position or cash flow. Muller's claims for patent infringement against the Company were dismissed and the case was closed on October 15, 2008, by order of George B. Daniels, United States District Judge, Southern District of New York.

Litigation Involving Scottish Glen Golf Company

We were involved in litigation with Scottish Glen Golf Company, Inc. (SGGC) doing business as KZ Golf, Inc., the Company's previous landlord on claims in the aggregate amount of $104,413. The Company does not dispute the fact that certain amounts of unpaid past rent are due but does dispute that it owes the aggregate of $104,413 demanded by SGGC; more than half of which are purported "late fees" which was assessed at the rate of $100 per day. It was the Company's position that the late fees are void and unenforceable and that the Company is entitled to a set-off for office space that reverted back to SGGC.

On April 30, 2008 the Company and SGGC settled their pending litigation relating to the Company's prior offices. The Company agreed to pay SGGC $51,000 in full settlement of SGGC's claims. On May 28, 2008 the initial payment of $34,000 was made and on July 9, 2008 the final payment of $17,000 was made and the Complaint was dismissed, with prejudice. The Company recorded $52,069 as other income and as a reduction of accounts payable.

Item 4. ***Submission of Matters to a Vote of Security Holders.***

Not Applicable

PART II

Item 5. ***Market for Common Equity and Related Stockholder Matters***

Through May 21, 2007, our common stock was traded on the Over the Counter Bulletin Board (the "OTCBB" under the symbol "ZERO". Effective May 22, 2007, our common stock was removed from the OTCBB and placed on the "Pink Sheets". Effective February 8, 2008, our common stock was reinstated and currently trades on the OTCBB. The following table sets forth the high and low bid prices of the Company's common stock for the quarters indicated as quoted on the Pink Sheets or the OTCBB, as applicable, as reported by Yahoo Finance. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

	2008		2007	
	High	Low	High	Low
First Quarter	$0.86	$0.30	$1.17	$0.60
Second Quarter	$0.79	$0.37	$0.80	$0.25
Third Quarter	$0.45	$0.27	$0.60	$0.17
Fourth Quarter	$0.40	$0.12	$0.48	$0.15

According to the records of our transfer agent, we had 907 stockholders of record of our common stock at March 2, 2009. The Company believes that the number of beneficial owners is substantially higher than this amount.

We do not pay a dividend on our common stock and we currently intend to retain future cash flows to finance our operations and fund the growth of our business. Any payment of future dividends will be at the discretion of our Board of Directors and will depend upon, among other things, our earnings, financial condition, capital requirements, level of indebtedness, contractual restrictions in respect to the payment of dividends and other factors that our Board of Directors deems relevant.

Issuances of Unregistered Securities in Last Fiscal Year

2007/2008 Winter Offering

From December 27, 2007 to February 29, 2008, the Company conducted an offering (the "2007/2008 Winter Offering") and issued convertible notes in the aggregate face amount of $521,400. These notes were sold for an aggregate purchase price of $474,000. The notes are convertible into 1,042,800 shares of the Company's common stock and in addition, investors received warrants entitling the holders to purchase up to 521,400 shares of the Company's common stock. (See "Details of Recent Financial Transactions".)

2008 Spring Offering

On May 27, 2008, the Company made an offering (the "2008 Spring Offering") with a certain investor and issued a Convertible Note in the amount of $66,000. The note was sold for a purchase price of $60,000. The note is convertible into 132,000 shares of the Company's common stock and in addition the investor received warrants entitling the holder to purchase up to 66,000 shares of the Company's common stock. (See "Details of Recent Financial Transactions".)

2008 Summer Offering

From July 17, 2008 to August 31, 2008, the Company conducted an offering (the "2008 Summer Offering") and issued Convertible Notes in the aggregate amount of $484,000. These Notes were sold for an aggregate purchase price of $440,000. The Notes are convertible into 1,423,530 shares of the Company's common stock and in addition, investors received warrants entitling the holders to purchase up to 711,764 shares of the Company's common stock. (See "Details of Recent Financial Transactions".)

2008 Fall Offering

From September 8, 2008 to October 31, 2008, the Company conducted an offering (the "2008 Fall Offering") and issued Convertible Notes in the aggregate amount of $198,220. These Notes were sold for an aggregate purchase price of $180,200. The Notes are convertible into 1,321,466 shares of the Company's common stock and in addition, investors received warrants entitling the holders to purchase up to 660,734 shares of the Company's common stock. (See "Details of Recent Financial Transactions".)

2008 Winter Offering

From November 24, 2008 to December 5, 2008, the Company conducted an offering (the "2008 Winter Offering") and issued Convertible Notes in the aggregate amount of $524,700. These Notes were sold for and aggregate purchase price of $477,000. The Notes are convertible into 3,086,470 shares of the Company's common stock and in addition, investors received warrants entitling the holders to purchase up to 1,543,235 shares if the Company's common stock. (See "Details of Recent Financial Transactions".)

Other Issuances

During the year ended December 31, 2008, convertible notes in the amount of $3,986,439 of our previously issued and outstanding Investor Notes were converted to 11,025,930 shares of common stock.

During the year ended December 31, 2008, we issued 2,744,898 shares of common stock in settlement of payables and loan in the amount of $963,396.

During the year ended December 31, 2008, we issued 1,635,000 shares of common stock for consulting services.

During the year ended December 31, 2008, we received $532,325 from warrants exercised and issued 1,064,650 shares of common stock.

Item 6. Selected Consolidated Financial Data

Not Applicable

Item 7. ***Management's Discussion and Analysis or Plan of Operation***

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and supplementary data referred to in Item 7 of this Form 10-K.

This discussion contains forward-looking statements that involve risks and uncertainties. Such statements, which include statements concerning future revenue sources and concentration, 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 above in Item 1 and elsewhere in this Form 10-K, particularly in "Risk Factors," that could cause actual results to differ materially from those projected. Unless otherwise expressly indicated, the information set forth in this Form 10-K is as of December 31, 2008, and we undertake no duty to update this information.

Overview

We are a development stage company that generated its first initial revenues in the fourth quarter of 2006. Our focus is on research and development, and initial sales and marketing, of products incorporating our proprietary and patented technology, which is designed to reduce harmful emissions, and/or improve fuel efficiency and engine performance on equipment and vehicles driven by internal combustion engines. We have devoted the bulk of our efforts to the completion of the design, the development of our production models, testing of devices and the promotion of our products in the marketplace. We anticipate that these efforts will continue during 2009.

Our expenses to date have been funded primarily through the sale of stock and convertible debt, as well as proceeds from the exercise of stock purchase warrants. We raised capital in 2008 and will need to raise substantial additional capital in 2009, and possibly beyond, to fund our sales and marketing efforts, continuing research and development, and certain other expenses, until our revenue base grows sufficiently.

Results of Operation

Revenues were $0 for the fiscal year ended December 31, 2008, compared to $39,000 a year ago, a decrease of $39,000. Cost of goods sold were $0 for the fiscal year ended December 31, 2008, compared to $10,720 for the fiscal year ended December 31, 2007. We realized a gross profit of $0 for the fiscal year ended December 31, 2008, compared to $28,280 for the fiscal year ended December 31, 2007, a decrease of $28,280.

Operating expenses were $3,298,918 for the fiscal year ended December 31, 2008, compared to $3,956,345 for the fiscal year ended December 31, 2007, a decrease of $657,427. The decrease is attributable to a decrease in cash expenses of $1,633,932 offset by an increase in non-cash expenses of $976,505. Specifically, the decrease in cash expenses is attributable to decreases in salaries and benefits expenses ($631,554); consulting and professional fees ($618,433); office and other expenses ($133,008); corporate expenses ($132,573); travel ($89,032); exhibit and trade shows ($29,332). The increase in non-cash expenses is attributable to increases in stocks, options and warrants given to employees, consultants and lawyer ($1,104,975); and bad debt ($1,380); offset by a decrease in depreciation expense ($129,850).

Research and development expenses were $652,363 for the fiscal year ended December 31, 2008, compared to $600,816 for the fiscal year ended December 31, 2007, an increase of $51,547. Our research and development expenses include contracts with RAND and Temple University, consultant's fees, travel, cost of services and supplies. The increase in research and development expenses is primarily attributable to an increase in contracts with RAND Corporation and Temple University of $156,903. This increase was offset by decreases in testing tools and supplies ($71,090); travel expenses ($18,169); and consultant's fees ($16,097).

Interest and other income was $200 for the fiscal year ended December 31, 2008, compared to $3,475 for the fiscal year ended December 31, 2007, a decrease of $3,275. This decrease is attributable to a decrease in dyno-testing and consulting income. Interest expense was $2,153,449 for the fiscal year ended December 31, 2008, compared to $1,736,537 for the fiscal year ended December 31, 2007. This increase of $416,912 is attributable to an increase in non-cash interest expense and financing fees of $413,562 and an increase in cash interest expense and financing fees of $3,350.

We had a net loss of $6,052,724 or $0.11 per share for the fiscal year ended December 31, 2008 compared to a net loss of $6,262,743, or $0.16 per share for the fiscal year ended December 31, 2007.

Liquidity and Capital Resources

General

We have incurred negative cash flow from operations in the developmental stage since our inception in 1998. As of December 31, 2008, we had cash of $59,346 and an accumulated deficit of $42,743,064. Our negative operating cash flow in 2008 was funded primarily through the sale convertible notes as well as sale of our stock by Dutchess Private Equity Fund, LLC ("Dutchess") under our equity line of credit.

The accompanying consolidated 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 consolidated financial statements, the Company had a net loss of $6,052,724 and a negative cash flow from operations of $2,163,656 for the year ended December 31, 2008, and had a working capital deficiency of $2,677,084 and a stockholders' deficiency of $2,589,865 at December 31, 2008. 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 upon the Company's ability to raise additional funds and implement its business plan. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

During 2008, we raised an aggregate of $2,163,525 gross and net proceeds from the sale of our stock and the issuance of debt, as follows:

- Gross and net proceeds of $474,000 from the issuance of convertible notes and warrants in a Spring 2008 offering. The face amount of the notes is $521,400.
- Gross and net proceeds of $60,000 from the issuance of convertible notes and warrants in a Spring 2008 offering. The face amount of the notes is $66,000.
- Gross and proceeds of $440,000 from the issuance of convertible notes and warrants in a Summer 2008 offering. The face amount of the notes is $484,000.
- Gross and net proceeds of $180,200 from the issuance of convertible notes and warrants in a Fall 2008 offering. The face amount of the notes is $198,220.
- Gross and net proceeds of $477,000 from the issuance of convertible notes and warrants in a Winter 2008 (2nd) offering. The face amount of the notes is $524,700.
- Gross and net proceeds of $532,325 from the issuance of stock upon exercise warrants.

Subsequent to fiscal year ended December 31, 2008 and through March 12, 2009, we raised an aggregate of $683,320 gross and net proceeds from issuance of convertible notes and warrants in our 2009 Winter Offering 1 & 2.

Details of Recent Financing Transactions

2007-2008 Winter Offering

From December 27, 2007 to February 29, 2008 the Company conducted an offering (the "2007-2008 Winter Offering") of up to $1,000,000 aggregate face amount of its convertible notes (the "2007- 2008 Winter Notes") with a small number of accredited investors. Of this amount, $521,400 aggregate face amount of the 2007-2008 Winter Notes were sold for an aggregate purchase price of $474,000 net proceeds. Therefore, while the stated interest rate on the 2008 Winter Notes is 0%, the implied interest rate on the 2007-2008 Winter Notes is 10%. The 2007-2008 Winter Notes mature on the first anniversary of their date of issuance. The 2007-2008 Winter Notes are convertible, at the option of the noteholder, into shares of common stock of the Company (the "Conversion Shares") at a conversion price equal to the average of the closing bid price of the Company's common stock for the five trading days preceding the closing date of the 2007-2008 Winter Offering (the "Conversion Price"). Up to $1,042,800 Conversion Shares are issuable at a Conversion Price of $0.50 per share.

Each of the investors in the 2007-2008 Winter Offering received, for no additional consideration, a warrant (the "2007-2008 Winter Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 50% of the number of shares of common stock into which the (2007-2008 Winter Notes) are convertible (the "2007-2008 Warrant Shares") Each 2007-2008 Winter Warrant is exercisable on a cash basis only at a Price of $0.50 per share, and is exercisable for a period of two years from the date of issuance. Up to 521,400 2007-2008 Warrant Shares are initially issuable on exercise of the 2007-2008 Winter Warrants. As of December 31, 2008, investors have converted $455,400 of the Convertible Notes into 910,800 shares of the Company's common stock. The outstanding balance at December 31, 2008 is $66,000. These Notes were converted in January 2009.

2008 Spring Offering

On May 27, 2008, the Company made an offering (the "2008 Spring Offering") with a certain investor of which, $66,000 face amount of the 2008 Spring Note was sold for $60,000 net proceeds. Therefore, while the stated interest rate on the 2008 Spring Note is 0%, the implied interest rate on the 2008 Spring Note is 10%. The 2008 Spring Note will mature on the first anniversary of the date of issuance. The 2008 Spring Note is convertible, at the option of the noteholder, into shares of common stock of the Company (the "Conversion Shares") at a conversion price equal to the average of the closing bid price of the Company's common stock for the five trading days preceding the closing date of the 2008 Spring Offering (the "Conversion Price"). The 132,000 Conversion Shares are issuable at a Conversion Price of $0.50 per share.

The investor in the 2008 Spring Offering received, for no additional consideration, a warrant (the " 2008 Spring Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 50% of the number of shares of common stock into which the (2008 Spring Notes) are convertible (the "2008 Spring Warrant Shares"). The 2008 Spring Warrant Shares is exercisable on a cash basis only at a Price of $0.50 per share, and is exercisable for a period of two years from the date of issuance. The 66,000 2008 Spring Warrant Shares are initially issuable upon exercise of the 2008 Spring Warrants. As of December 31, 2008, investors have converted $66,000 of the Convertible Notes into 132,000 shares of the Company's common stock. There was no outstanding balance at December 31, 2008.

2008 Summer Offering

From July 17, 2008 to August 31, 2008, the Company conducted an offering (the "2008 Summer Offering") of up to $600,000 aggregate face amount of its convertible notes "the"2008 Summer Offering) with a small number of accredited investors. Of this amount $484,000 aggregate face amount of the 2008 Summer Notes were sold for an aggregate purchase price of $440,000 net proceeds. Therefore, while the stated interest rate on the 2008 Summer Notes is 0%, the implied interest rate on the 2008 Summer Notes is 10%. The 2008 Summer Notes will mature on the first anniversary of the date of issuance. The 2008 Summer Notes are convertible, at the option of the noteholders, into shares of common stock of the Company (the "Conversion Shares") at a conversion price equal to the average of the closing bid price of the Company's common stock for the five trading days preceding the closing date of the 2008 Summer Offering (the "Conversion Price"). Up to 1,423,530 Conversion Shares are issuable at a Conversion Price of $0.34 per share.

Each of the investors in the 2008 Summer Offering received, for no additional consideration, a warrant (the " 2008 Summer Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 50% of the number of shares of common stock into which the (2008 Summer Notes) are convertible (the "2008 Summer Warrant Shares"). Each 2008 Summer Warrant is exercisable on a cash basis only at a price of $0.50 per share, and is exercisable for a period of two years from the date of issuance. Up to 711,764 2008 Summer Warrant Shares are initially issuable upon exercise of the 2008 Summer Warrants. As of December 31, 2008, investors have converted $143,000 of the Convertible Notes into 420,589 shares of the Company's common stock. The outstanding balance at December 31, 2008 was $341,000.

2008 Fall Offering

From September 8, 2008 to October 31, 2008, the Company conducted an offering (the "2008 Fall Offering") of up to $500,000 aggregate face amount of its Convertible Notes. A total of $198,220 aggregate face amount of the 2008 Fall Notes were sold for an aggregate purchase price of $180,220 net proceeds. Therefore, while the stated interest on the 2008 Fall Notes is 0%, the implied interest rate on the 2008 Fall Notes is 10%. The 2008 fall notes will mature on the first anniversary of the date of issuance. The 2008 Fall Notes are convertible, at the option of the noteholders, into shares of common stock of the Company (the "Conversion Shares") at a conversion price equal to the average of the closing bid price of the Company's common stock for the five trading days preceding the closing date of the 2008 Fall Offering (the "Conversion Price"). Up to 1,321,466 Conversion Shares are issuable at a Conversion Price of $0.15 per share.

Each of the investors in the 2008 Fall Offering received, for no additional consideration, a warrant (the " 2008 Fall Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 50% of the number of shares of common stock into which the (2008 Fall Notes) are convertible (the "2008 Fall Warrant Shares"). Each 2008 Fall Warrant is exercisable on a cash basis only at a price of $0.50 per share, and is exercisable for a period of two years from the date of issuance. Up to 660,734 2008 Fall Warrant Shares are initially issuable upon exercise of the 2008 Fall Warrants. As of December 31, 2008, investors have converted $46,200 of the Convertible Notes into 308,000 shares of the Company's common stock. The outstanding balance at December 31, 2008 was $152,020. During January 2009, $24,200 Notes were converted.

2008 Winter Offering

From November 24, 2008 to December 5, 2008, the Company conducted an offering (the "2008 Winter Offering") of up to $500,000 aggregate face amount of its Convertible Notes. A total of $524,700 aggregate face amount of the 2008 Winter Notes were sold for an aggregate purchase price of $477,000 net proceeds. Therefore, while the stated interest on the 2008 Winter Notes is 0%, the implied interest rate on the 2008 Winter Notes is 10%. The 2008 Winter Notes will mature on the first anniversary of the date of issuance. The 2008 Winter Notes are convertible, at the option of the noteholders, into shares of common stock of the Company (the "Conversion Shares") at a conversion price equal to the average of the closing bid price of the Company's common stock for the five trading days preceding the closing date of the 2008 Winter Offering (the "Conversion Price"). Up to 3,086,470 Conversion Shares are issuable at a Conversion Price of $0.17 per share.

Each of the investors in the 2008 Winter Offering received, for no additional consideration, a warrant (the " 2008 Winter Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 50% of the number of shares of common stock into which the (2008 Winter Notes) are convertible (the "2008 Winter Warrant Shares"). Each 2008 Winter Warrant is exercisable on a cash basis only at a price of $0.30 per share, and is exercisable for a period of two years from the date of issuance. Up to 1,543,235 2008 Winter Warrant Shares are initially issuable upon exercise of the 2008 Winter Warrants. As of December 31, 2008, investors have converted $187,000 of the Convertible Notes into 1,099,999 shares of the Company's common stock. The outstanding balance at December 31, 2008 was $337,700. During January 2009, $110,000 Notes were converted.

Summary

We have cash on hand to meet expenses only for a short period of time. In order to fund the repayment of our outstanding notes, we must raise additional funds. At December 31, 2008, these notes included the Winter 2007/2008 Notes due in February 2009, the Summer 2008 Notes due in August 2009, the Fall 2008 Notes due in October 2009 and the Winter 2008 Notes due in December 2009. In addition to the funds required to continue to operate our business, including without limitation the expenses we will incur in connection with the license and research and development agreements with Temple University, costs associated with product development and commercialization of the ELEKTRA technology, costs to manufacture and ship our products, costs to design and implement an effective system of internal controls and disclosure controls and procedures, costs of maintaining our status as a public company by filing periodic reports with the SEC, and costs required to protect our intellectual property. In addition, as discussed below, we have substantial contractual commitments, including without limitation salaries to our executive officers pursuant to employment agreements, certain severance payments to a former officer and consulting fees, during the remainder of 2009 and beyond.

In light of the Company's financial commitments over the next several months and its liquidity constraints, we have implemented cost reduction measures in all areas of operations, including but not limited to personnel lay-offs, marketing and advertising, deferral of placing orders to manufacturers of our ECO ChargR and MAG ChargR products for sale to our existing distributors, research and development and product development of ELEKTRA products, and certain other expenses. We intend to review these measures on an ongoing basis and make additional decisions as may be required.

Therefore, in addition to the completed 2008 Winter Offering, the 2009 Winter Offering and the 2009 Winter Offering #2, the Company is actively pursuing additional financing alternatives No assurance can be given that any future financing will be available or, if available, that it will be on terms that are satisfactory to the Company. At present, we have relatively few financing options available to us.

Contractual Obligations

The following table discloses our contractual commitments for future periods. Long-term commitments are comprised operating leases and minimum guaranteed compensation payments under employment and other agreements. See Note 10 to Notes to Consolidated Financial Statements, "Commitments and Contingencies".

Year ending December 31,	Operating Leases (1)	Guaranteed Payments
2009	$ 43,840	$ 466,200(2)
2010	0	142,567(3)
Total	$ 43,840	$ 608,767

(1) Consists of rent for our Morgan Hill Facility expiring on August 31, 2009. (For description of this property, see Part 1, Item 2, and "Property".

(2) Consists of an aggregate of $72,967 in total compensation, including base salary and certain contractually-provided benefits, to one executive officer, pursuant to an employment agreement that expires on July 25, 2009; $193,233 in total compensation, including base salary and certain contractually-provided benefits, to an executive officer, pursuant to an employment agreement that expires on January 30, 2010 and $200,000 in licensing and maintenance fees to Temple University.

(3) Consists of an aggregate of $17,567 in total compensation, including base salary and certain contractually-provided benefits to an executive officer, pursuant to an employment agreement that expires on January 30, 2010 and $125,000 in licensing and maintenance fees due to Temple University.

Licensing Fees to Temple University. For details of the licensing agreements with Temple University, see Part I, Item 1, "Business - Our Business Strategy - Our Technologies and Products".

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated 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 consolidated 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. . For a more detailed discussion of the accounting policies of the Company, see Note 2 of the Notes to the Consolidated Financial Statements, "Summary of Significant Accounting Policies".

We believe the following critical accounting policies, among others, require significant judgments and estimates used in the preparation of our consolidated financial statements.

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Certain significant estimates were made in connection with preparing our consolidated financial statements as described in Note 1 to Notes to Consolidated Financial Statements. See Item 7, "Financial Statements". Actual results could differ from those estimates.

Revenue Recognition

The Company has adopted Staff Accounting Bulletin 104, "Revenue Recognition" and therefore recognizes revenue based upon meeting four criteria:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services rendered;
- The seller's price to the buyer is fixed or determinable; and
- Collectability is reasonably assured.

The Company contract manufactures fixed magnetic field products and sells them to various original equipment manufacturers in the motor vehicle and small utility motor markets. The Company negotiates an initial contract with the customer fixing the terms of the sale and then receives a letter of credit or full payment in advance of shipment. Upon shipment, the Company recognizes the revenue associated with the sale of the products to the customer. Freight charges pertaining to shipments are recorded as General and Administrative Expense.

Accounts Receivable Allowance Policy

The Company reports accounts receivable in relation to sales of product. The Company performs an analysis of the receivable balances in order to determine if an allowance for doubtful accounts is necessary. As of December 31, 2008, no allowance is necessary.

Property and equipment and depreciation

Property and equipment are stated at cost. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets, generally ranging from three to ten years. Expenditures for major renewals and improvements that extend the useful lives of property and equipment are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the lease term.

Long-lived assets

The Company accounts for the impairment and disposition of long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." In accordance with SFAS No. 144, long-lived assets to be held are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. The Company periodically reviews the carrying values of long-lived assets to determine whether or not impairment to such value has occurred. No impairments were recorded for the year ended December 31, 2007. The Company recorded an impairment of approximately $505,000 during the period from inception (February 18, 1998) through December 31, 2007.

Stock-Based Compensation

On January 1, 2006, the Company adopted Statements of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123(R)") which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") for periods beginning in fiscal 2006. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 ("SAB 107") relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of the Company's fiscal year 2006. The Company's financial statements for the years ended December, 2008 and 2007 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the Company's financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Stock-based compensation expense recognized under SFAS 123(R) for employee and directors for the years ended December 31, 2008 and 2007 were $645,745 and $67,592, respectively.

The Company's determination of fair value of share-based payment awards to employees and directors on the date of grant uses the Black-Scholes model, which is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to our expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Forfeitures are recognized as incurred.

The Company accounts for stock option and warrant grants issued to non-employees for goods and services using the guidance of SFAS No. 123 and Emerging Issues Task Force ("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.

Recent accounting pronouncements

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" (SFAS 161). This Statement requires enhanced disclosures about an entity's derivative and hedging activities, including (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008.

In December 2007, the FASB issued FASB Statement No. 141 (R), "Business Combinations" (FAS 141(R)), which establishes accounting principles and disclosure requirements for all transactions in which a company obtains control over another business. Statement 141 (R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51". SFAS No. 160 establishes accounting and reporting standards that require that the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. SFAS No. 160 also requires that any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value when a subsidiary is deconsolidated. SFAS No. 160 also sets forth the disclosure requirements to identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. SFAS No. 160 must be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements are applied retrospectively for all periods presented.

Item 7A. ***Quantitative and Qualitative Disclosure About Market Risk***

Not Applicable

Item 8. ***Financial Statements***

Our consolidated financial statements as of and for the years ended December 31, 2008 and 2007 are presented in a separate section of this report following Item 14 and begin with the index on page F-1.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A(T). ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and Interim Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our Chief Executive Officer and Interim Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act") were ineffective as of December 31, 2008, due to the material weaknesses in our internal control over financial reporting described below.

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Internal control consists of procedures which are designed with the objective of providing reasonable assurance that our transactions are properly authorized, recorded and reported and our assets are safeguarded against unauthorized or improper use, to permit the preparation of our financial statements in conformity with generally accepted accounting principles.

We identified certain matters that constitute material weakness (as defined under the Public Company Accounting Oversight Board Auditing Standard No. 2) in our internal control over financial reporting as discussed on Management's Annual Report on Internal Control Over Financial Reporting below.

In light of the material weaknesses in internal control over financial reporting described below, we performed additional analysis and other post-closing procedures to ensure that our financial statements were prepared in accordance with generally accepted accounting principles. Despite material weaknesses in our internal control over financial reporting, we believe that the financial statements included in our Form 10-K for the period ended December 31, 2008 fairly present, in all material respects, our financial condition, results of operations, changes in shareholder's equity and cash flows for the periods presented.

Management's Annual Report on Internal Control over Financial Reporting.

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transaction and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitation, internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives.

Our Chief Executive Officer, Chief Financial Officer and Controller conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2008 based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). A material weakness is a deficiency or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Based on that assessment, we have identified the following material weaknesses and have implemented the following remediation of material weaknesses in internal control over financial reporting:

Lack of segregation of duties

We have limited staff in our corporate offices and, as such, there is a lack of segregation of duties. In December 2006 our Controller retired and in January 2007 our Chief Financial officer retired due to medical problems. We have subsequently hired an Interim Chief Financial Officer and a full-time Controller and our former Controller provides certain financial consulting services.

Lack of documented and reviewed system of internal control

We have an internal control weakness due to the lack of a documented and reviewed system of internal control. We have determined that to perform the processes and remediate this internal control deficiency, we will either need to engage an internal control consultant or reassign existing personnel. We have started to enhance some of our key internal control systems surrounding inventory purchasing and control, and to document those changes; however, this process is on-going and the implementation of policies and procedures may take several quarters.

As a result of the material weaknesses described above, management concluded that, as of December 31, 2008, we did not maintain effective internal control over financial reporting based on the criteria established in *Internal Control – Integrated Framework, issued by COSO*.

We have retained a consulting firm and are conducting an evaluation to design and implement adequate systems of accounting and financial statement disclosure controls. We expect to complete a review during 2009 to comply with the requirements of the SEC, which as required by SEC rules, will include an opinion from our auditors regarding management's report on internal control over financial reporting for our fiscal year ending 2009. We believe that the ultimate success of our plan to improve our internal control over financial reporting will require a combination of additional financial resources, outside consulting services, legal advice, additional personnel, further reallocation of responsibility among various persons, and substantial additional training of those of our officers, personnel and others, including certain of our directors such as our Chairman of the Board and committee chairs, who are charged with implementing and/or carrying out our plan. It should also be noted that the design of any system of controls and procedures 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.

Our annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting and management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only Management's report in this annual report.

Item 9B. ***Other Information***

On January 9, 2009, we entered into an Agreement with (Endeavor Group, LLC). We have retained Endeavor Group, LLC as our non-exclusive financial advisor and investment banking advisor to provide general financial advisory and investment banking service to us. We paid Endeavor Group, LLC $10,000 upon execution of the agreement and will pay additional fees relating to capital investments which may be received by us. We may issue to Endeavor stock certificates representing an aggregate of 500,000 shares of common stock of which 250,000 shares were issued upon execution of this Agreement, with the remaining 250,000 shares, to be issued as compensation for investment funds received by us, if any, if certain goals are met.

On January 28, 2009, we entered into an Agreement with a consultant to provide services to prepare a five year business plan including detailed income, balance and cash flow statements; capital requirements; use of proceeds; competition analysis and an AOT market analysis. The consultant is to be paid $7,000 for the first month and $5,000 for the second and third months of his services for a total of $17,500. The consultant has received 30,000 restricted shares of common stock.

On January 30, 2009, Cecil Bond Kyte was appointed Chief Executive Officer of the Company, replacing Charles R. Blum. Mr. Blum continues to serve as President of the Company.

From January 13, 2009, through January 26, 2009, the Company conducted and concluded a private offering (the "Winter 2009 Offering") of up to $250,000 aggregate face amount of its convertible notes (the "Winter 2009 Notes") with 8 accredited investors. A total of $250,000 aggregate face amount of the Winter 2009 Notes were sold for an aggregate purchase price of $250,000. The Winter 2009 Notes bear interest at 10% per annum, payable at maturity. The Winter 2009 Notes mature three months from their date of issuance. The Winter 2009 Notes are convertible, at the option of the noteholder, into shares of common stock of the Company (the "Conversion Shares") at an initial conversion price equal to the average of the closing bid price of the Company's common stock for the five trading days preceding the closing dates of the Winter 2009 Offering (the "Conversion Price"). Up to 694,444 Conversion Shares are initially issuable at a Conversion Price of $0.36 per share.

Each of the investors in the Winter 2009 Offering received, for no additional consideration, a warrant (the "Winter 2009 Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 50% of the number of shares of common stock into which the Winter 2009 Notes are convertible (the "Warrant Shares"). Each Winter 2009 Warrant is exercisable on a cash basis only at an initial price of $0.50 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 347,722 Warrant Shares are initially issuable on exercise of the Winter 2009 Warrants.

We received $250,000 in net proceeds in the Winter 2009 Offering which will be used for general corporate purposes and working capital.

From February 4, 2009 to March 11, 2009, we conducted and concluded a private offering (the "2009 Winter Offering #2") of up to $250,000 aggregate face amount of its convertible notes (the "Winter 2009 #2 Notes") with 17 accredited investors. A total of $247,302 aggregate face amount of the Winter 2009 #2 Notes were sold for an aggregate purchase price of $224,820. While the stated interest rate on the Winter 2009 #2 Notes is 0%, the actual interest rate on the Winter 2009 #2 Notes is 10% per annum. The Winter 2009 #2 Notes mature on the first anniversary of their date of issuance. The Winter 2009 #2 Notes are convertible, at the option of the noteholder, into shares of common stock of the Company (the "Conversion Shares") at an initial conversion price equal to the average of the closing bid price of the Company's common stock for the five trading days preceding the closing dates of the Winter 2009 #2 Offering (the "Conversion Price"). Up to 772,818 Conversion Shares are initially issuable at a Conversion Price of $0.32 per share.

Each of the investors in the Winter 2009 #2 Offering received, for no additional consideration, a warrant (the "Winter 2009 #2 Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 50% of the number of shares of common stock into which the Winter 2009 #2 Notes are convertible (the "Warrant Shares"). Each Winter 2009 #2 Warrant is exercisable on a cash basis only at an initial price of $0.50 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 386,409 Warrant Shares are initially issuable on exercise of the Winter 2009 #2 Warrants.

We received $224,820 in net proceeds in the Winter 2009 #2 Offering which will be used for general corporate purposes and working capital.

PART III

Information required by Part III is incorporated by reference from our Proxy Statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for our 2009 Annual Meeting of Stockholders, currently scheduled to be held on April 30, 2009 (the "Proxy Statement").

Item 10. ***Directors and Executive Officers of Registrant***

The information required by this section is incorporated by reference to the Proxy Statement.

Code of Business Conduct.

We have adopted codes of business conduct and ethics for our directors, officers and employees which also meet the requirements of a code of ethics under Item 406 of Regulation S-K. You can access the Company's Code of Business Conduct and Ethics and our Code of Ethics for Senior Executives and Financial Officers on the Corporate Governance page of the Company's website at www.stwa.com. Any shareholder who so requests may obtain a printed copy of the Code of Conduct by submitting a request to the Company's Corporate Secretary.

Item 11. ***Executive Compensation***

The information required by this section is incorporated by reference to the Proxy Statement.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this section is incorporated by reference to the Proxy Statement.

Item 13. ***Certain Relationships and Related Transactions***

The information required by this section is incorporated by reference to the Proxy Statement.

Item 14. ***Principal Accountant Fees and Services***

The Audit Committee has selected Weinberg & Company, P.A. to audit our financial statements for the fiscal year ended December 31, 2008.

Weinberg & Company, P.A. was first appointed in fiscal year 2003, and has audited our financial statements for fiscal years 2002 through 2008.

Audit and Other Fees

The following table summarizes the fees charged by Weinberg & Company, P.A. for certain services rendered to the Company during 2008 and 2007.

	Amount	
Type of Fee	**Fiscal Year 2008**	**Fiscal Year 2007**
Audit(1)	$ 103,850	$ 193,186
Audit Related(2)	0	0
Taxes (3)	0	0
All Other (4)	0	0
Total	$ 103,850	$ 193,186

(1) This category consists of fees for the audit of our annual financial statements included in the Company's annual report on Form 10-K and review of the financial statements included in the Company's quarterly reports on Form 10-Q. This category also includes advice on audit and accounting matters that arose during, or as a result of, the audit or the review of interim financial statements, statutory audits required by non-U.S. jurisdictions and the preparation of an annual "management letter" on internal control matters.

(2) Represents services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for those fiscal years, aggregate fees charged for assurance and related services that are reasonably related to the performance of the audit and are not reported as audit fees. These services include consultations regarding Sarbanes-Oxley Act requirements, various SEC filings and the implementation of new accounting requirements.

(3) Represents aggregate fees charged for professional services for tax compliance and preparation, tax consulting and advice, and tax planning.

(4) Represents aggregate fees charged for products and services other than those services previously reported.

PART IV

Item 15. ***Exhibits***

(a) The following documents are filed as part of this Form 10-K.

Financial Statements:

Reference is made to the contents to the consolidated financial statements of Save the World Air, Inc. under Item 7 of this Form 10-K.

(b) Exhibits:

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

Exhibit No.	Description
3.1(1)	Articles of Incorporation, as amended, of the Registrant.
3.2(1)	Bylaws of the Registrant.
10.1(2)	Commercial Sublease dated October 16, 2003 between the Registrant and KZ Golf, Inc.
10.2(9)	Amendment dated June 15, 2004 to Exhibit 10.1
10.3 (10)	Amendment dated August 14, 2005 to Exhibit 10.1
10.4(10)	General Tenancy Agreement dated March 14, 2006 between the Registrant and Autumlee Pty Ltd.
10.5(3)	Agreement dated December 13, 2002 between the Registrant and RAND.
10.6(2)**	Agreement dated May 7, 2003 between the Registrant and RAND.
10.7(5)	Modification No. 1 dated as of August 21, 2003 to Exhibit 10.5
10.8(5)	Modification No. 2 dated as of October 17, 2003 to Exhibit 10.5
10.9(5)	Modification No. 3 dated as of January 20, 2004 to Exhibit 10.5
10.10(4)	Deed and Document Conveyance between the Trustee of the Property of Jeffrey Ann Muller and Lynette Anne Muller (Bankrupts).
10.11(4)	Assignment and Bill of Sale dated May 28, 2002 between the Registrant and Kevin Charles Hart.
10.12(11)†	Amended and Restated Employment Agreement dated October 5, 2005 between the Registrant and Eugene E. Eichler.
10.13(15)†	Severance Agreement dated November 8, 2006 between the Registrant and Eugene E. Eichler
10.14(11)†	Amended and Restated Employment Agreement dated October 5, 2005 between the Registrant and Bruce H. McKinnon.
10.15(6)	Save the World Air, Inc. 2004 Stock Option Plan
10.16(8)	Form of Incentive Stock Option Agreement under 2004 Stock Option Plan
10.17(8)	Form of Non-Qualified Stock Option Agreement under 2004 Stock Option Plan
10.18(8)	Consulting Agreement dated as of October 1, 2004 between the Registrant and John Fawcett
10.19(7)	License Agreement dated as of July 1, 2004 between the Registrant and Temple University – The Commonwealth System of Higher Education
10.20(8)	Consulting Agreement dated as of November 19, 2004 between the Registrant and London Aussie Marketing, Ltd.
10.21(13)	Amendment dated September 14, 2006 to Exhibit 10.20
10.22(8)†	Employment Agreement dated September 1, 2004 with Erin Brockovich
10.23(15)†	Amendment dated as of July 31, 2006 to Exhibit 10.22
10.24(8)	Assignment of Patent Rights dated as of September 1, 2003 between the Registrant and Adrian Menzell
10.25(8)	Global Deed of Assignment dated June 26, 2004 between the Registrant and Adrian Menzell
10.26(11)†	Amended and Restated Employment Agreement dated as of March 1, 2006 between the Registrant and John Richard Bautista III
10.27(9)	Lease dated August 15, 2005 between the Registrant and Thomas L. Jackson
10.28(10)	Amendment dated February 1, 2006 to Exhibit 10.27
10.29(10)	Form of 9% Convertible Note issued in the 2005 Interim Financing
10.30(10)	Form of Stock Purchase Warrant issued in the 2005 Interim Financing
10.31(10)	Form of Stock Purchase Warrant issued in the 2005 Bridge Financing
10.32(11)	Form of Stock Purchase Warrant issued in 2006 Regulation S financing
10.33(11)	Form of Stock Purchase Warrant issued in 2006 PIPE financing
10.34(12)	Commercial Sublease between the Registrant and KZG Golf dated January 1, 2006
10.35(12)	Investment Agreement dated September 15, 2006 between the Registrant and Dutchess Private Equities Fund
10.36(12)	Registration Rights Agreement dated September 15, 2006 between the registrant and Dutchess Private Equities Fund, LLP
10.37(17)	License Agreement between the Registrant and Temple University dated February 2, 2007

10.38(17)	License Agreement between the Registrant and Temple University dated February 2, 2007
10.39(17)	R&D Agreement between the Registrant and Temple University dated February 2, 2007
10.40(14)	Note Purchase Agreement dated December 5, 2006 between the registrant and Morale Orchards LLC
10.41(14)	Form of Stock Purchase Warrant issued to Morale Orchards LLC
10.42(14)	Form of Convertible Note issued to Morale Orchards LLC
10.43(16)	Consulting Agreement dated January 4, 2007 between the Registrant and Spencer Clarke LLC
10.44(15)	Agreement dated as of July 15, 2006 between the Company and SS Sales and Marketing Group
10.45(15)	Engagement Agreement between the Registrant and Charles K. Dargan II
10.46(15)	Form of 10% Convertible Note issued in 2007 PIPE Offering
10.47(15)	Form of Stock Purchase Warrant issued in 2007 PIPE Offering
10.48(18)	Appointment of New Directors, Nathan Shelton, Steven Bolio and Dennis Kenneally
10.49(19)	Issuance of RAND Final Report
10.50(20)	Delisting from OTCBB to OTC Pink Sheets
10.51(21)	Resignation of Director, Dennis Kenneally
10.52(22)	Resignation of Officer, Bruce H. McKinnon
10.53(23)	Form of 10% Convertible Note issued in 2007 Spring Offering
10.54(23)	Form of Stock Purchase Warrant issued in 2007 Spring Offering
10.55(24)	Termination of North Hollywood Lease
10.56(25)	Modification Agreement of 10% 2007 PIPE Convertible Notes
10.57(26)	Form of 10% Convertible Note issued in 2007 Summer Offering
10.58(26)	Form of Stock Purchase Warrant issued in 2007 Summer Offering
10.59(27)	Resignation of Director, J. Joseph Brown
10.60(28)	Resignation of Chief Financial Officer and Appointment of Interim Chief Financial Officer
10.61(29)	Severance Agreement dated June 15, 2007 between Registrant and Bruce H. McKinnon
10.62(30)	Resignation of Director, Bruce H. McKinnon
10.63(31)	Second Modification Agreement of 10% 2007 PIPE Convertible Notes
10.64(32)	Form of 10% Convertible Note issued in 2007 Fall Offering
10.65(32)	Form of Stock Purchase Warrant issued in 2007 Fall Offering
10.66(33)	Resignation of Director, Joseph Helleis
10.67(34)	Form of 10% Convertible Note issued in 2007/8 Winter Offering
10.68(34)	Form of Stock Purchase Warrant issued in 2007/8 Winter Offering
10.69(34)	Modification and Satisfaction Agreement of Convertible Notes with Morale Orchards, LLP and Matthews & Partners
10.70(35)	Termination of employment relationship with John Bautista
10.71(36)	Form of 10% Convertible Note issued in 2008 Summer Offering Form of Stock Purchase Warrant issued in 2008 Summer Offering
10.72(37)	Form of 10% Convertible Note issued in 2008 Fall Offering Form of Stock Purchase Warrant issued in 2008 Fall Offering
10.73(38)	Form of 10% Convertible Note issued in 2008 Winter Offering Form of Stock Purchase Warrant issued in 2008 Winter Offering
10.74(39)	Letter Agreement with Temple University extending default date
10.75(40)	Notice of first payment to Temple University under Letter Agreement Announcement of date of 2009 Annual Shareholder Meeting Appointment of Cecil Bond Kyte as new Chief Executive Officer
10.76(41)	Form of 10% Convertible Note issued in 2009 Winter Offering Form of Stock Purchase Warrant issued in 2009 Winter Offering
10.77(42)*	Employment Agreement with Cecil Bond Kyte, January 30, 2009
10.78(43)	Form of 10% Convertible Note issued in 2009 Winter #2 Offering Form of Stock Purchase Warrant issued in 2009 Winter #2 Offering
21	List of Subsidiaries
24*	Power of Attorney (included on Signature Page)
31.1*	Certification of Chief Executive Officer of Annual Report Pursuant to Rule 13(a)—15(e) or Rule 15(d)—15(e).
31.2*	Certification of Chief Financial Officer of Annual Report Pursuant to 18 U.S.C. Section 1350.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer of Annual Report pursuant to Rule 13(a)—15(e) or Rule 15(d)—15(e).

*	Filed herewith.
**	Confidential treatment previously requested.
†	Management contract or compensatory plan or arrangement.

(1)	Incorporated by reference from Registrant's Registration Statement on Form 10-SB (Registration Number 000-29185), as amended, filed on March 2, 2000.
(2)	Incorporated by reference from Registrant's Form 10-KSB for the fiscal year ended December 31, 2002.
(3)	Incorporated by reference from Registrant's Form 8-K filed on December 30, 2002.
(4)	Incorporated by reference from Registrant's Form 8-K filed on November 12, 2002.
(5)	Incorporated by reference from Registrant's Form 10-QSB for the quarter ended March 31, 2004.
(6)	Incorporated by reference from Appendix C of Registrant's Schedule 14A filed on April 30, 2004, in connection with its Annual Meeting of Stockholders held on May 24, 2004.
(7)	Incorporated by reference from Registrant Form 8-K filed on July 12, 2004.
(8)	Incorporated by reference from registrant's Form 10-KSB for the fiscal year ended December 31, 2004.
(9)	Incorporated by reference from Registrant's Form 10-QSB for the quarter ended September 30, 2005
(10)	Incorporated by reference from Registrant's Form 10-KSB for the fiscal year ended December 31, 2005
(11)	Incorporated by reference from Registrant's Form SB-2 filed on June 28, 2006 (SEC File No. 333- 333-135415)
(12)	Incorporated by reference from Registrant's Form 8-K filed on September 21, 2006
(13)	Incorporated by reference from Registrant's Form SB-2 filed on October 6, 2006 (SEC File No. 333-137855)
(14)	Incorporated by reference from Registrant's Form 8-K filed on December 11, 2006
(15)	Incorporated by reference from Registrant's Form 10KSB for the fiscal year ended December 31, 2006
(16)	Incorporated by reference from Registrant's form 8-K filed on January 10, 2007
(17)	Incorporated by reference from Registrant's form 8K filed on February 8, 2007
(18)	Incorporated by reference from Registrant's form 8K filed on February 16, 2007
(19)	Incorporated by reference from Registrant's form 8K filed on May 3, 2007
(20)	Incorporated by reference from Registrant's form 8K filed on May 22 2007
(21)	Incorporated by reference from Registrant's form 8K filed on June 8, 2007
(22)	Incorporated by reference from Registrant's form 8K filed on June 15, 2007
(23)	Incorporated by reference from Registrant's form 8K filed on July 2, 2007
(24)	Incorporated by reference from Registrant's form 8K filed on July 18, 2007
(25)	Incorporated by reference from Registrant's form 8K filed on August 30, 2007
(26)	Incorporated by reference from Registrant's form 8K filed on October 9, 2007
(27)	Incorporated by reference from Registrant's form 8K filed on October 23, 2007
(28)	Incorporated by reference from Registrant's form 8K filed on November 9, 2007
(29)	Incorporated by reference form Registrant's Form 10QSB for the nine months ended September 30, 2007
(30)	Incorporated by reference from Registrant's form 8K filed on November 15, 2007
(31)	Incorporated by reference from Registrant's form 8K filed on December 11, 2007
(32)	Incorporated by reference from Registrant's form 8K filed on December 20, 2007
(33)	Incorporated by reference from Registrant's form 8K filed on February 25, 2008
(34)	Incorporated by reference from Registrant's form 8K filed on March 11, 2008
(35)	Incorporated by reference from Registrant's form 8K filed on March 27, 2008
(36)	Incorporated by reference from Registrant's form 8K filed on September 3, 2008
(37)	Incorporated by reference from Registrant's form 8K filed on November 6, 2008
(38)	Incorporated by reference from Registrant's form 8K filed on December 11, 2008
(39)	Incorporated by reference from Registrant's form 8K filed on January 13, 2009
(40)	Incorporated by reference from Registrant's form 8K filed on January 28, 2009
(41)	Incorporated by reference from Registrant's form 8K filed on January 29, 2009
(42)	Incorporated by reference from Registrant's form 10K for the twelve months ended December 31, 2009
(43)	Incorporated by reference from Registrant's form 8K filed on March 17, 2009

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.

By: /s/ CECIL BOND KYTE
Cecil Bond Kyte
Chief Executive Officer

Date: November 12 , 2009

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints, jointly and severally, Cecil Bond Kyte and Eugene E. Eichler, and each of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-KSB, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934 this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

NAME	TITLE	DATE
/s/ CECIL BOND KYTE Cecil Bond Kyte	Chief Executive Officer and Chairman of the Board of Directors	November 12 , 2009
/s/ CHARLES R. BLUM Charles R. Blum	President	November 12 , 2009
/s/ EUGENE E. EICHLER Eugene E. Eichler	Interim Chief Financial Officer	November 12, 2009
/s/ JOHN PRICE John Price	Director	November 12, 2009
/s/ NATHAN SHELTON Nathan Shelton	Director	November 12, 2009
/s/ STEVEN BOLIO Steven Bolio	Director	November 12, 2009

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

SAVE THE WORLD AIR, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE ENTERPRISE)
DECEMBER 31, 2008 AND 2007

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of:
Save The World Air, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of Save The World Air, Inc. and Subsidiary (a development stage enterprise) (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' deficiency and cash flows for the years then ended and for the period from February 18, 1998 (inception) to December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Save The World Air, Inc. and Subsidiary as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended and for the period from February 18, 1998 (inception) to December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has incurred recurring losses from operations since its inception. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/Weinberg & Company, P.A.

Weinberg & Company, P.A.
Los Angeles, California
March 27, 2009

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

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2008	**2007**
ASSETS		
Current assets		
Cash	$ 59,346	$ 47,660
Accounts receivable	80	1,380
Inventories	—	30,256
Other current assets	33,195	20,552
Total current assets	92,621	99,848
Property and Equipment, net	131,969	201,058
Other assets	11,250	4,500
Total assets	$ 235,840	$ 305,406
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities		
Accounts payable- related parties	$ 93,003	$ 323,413
Accounts payable – License Agreements	716,500	161,250
Accounts payable- other	384,467	555,736
Accrued expenses	795,448	742,719
Accrued research and development fees	8,347	53,347
Accrued professional fees	390,535	274,499
Loan payable- related party	78,280	83,596
Loans and other payable due to Morale/Matthews	—	1,748,452
Convertible debentures, net- related parties	12,466	227,136
Convertible debentures, net- others	290,659	495,044
Total current liabilities	2,769,705	4,665,192
Commitments and contingencies		
Stockholders' deficiency		
Common stock, $.001par value: 200,000,000 shares authorized, 62,940,891 and 46,470,413, shares issued and outstanding at December 31, 2008 and 2007, respectively	62,941	46,471
Common stock to be issued	16,500	4,000
Additional paid-in capital	40,129,758	32,280,083
Deficit accumulated during the development stage	(42,743,064)	(36,690,340)
Total stockholders' deficiency	(2,533,865)	(4,359,786)
Total liabilities and stockholder's deficiency	$ 235,840	$ 305,406

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		Inception (February 18, 1998) to December 31,
	2008	**2007**	**2008**
Net sales	$ —	$ 39,000	$ 69,000
Cost of goods sold	—	10,720	24,120
Gross profit	—	28,280	44,880
Operating expenses	3,062,537	3,956,345	29,921,858
Research and development expenses	652,363	600,816	5,458,593
Non-cash patent settlement cost	—	—	1,610,066
Loss before other income	(3,714,900)	(4,528,881)	(36,945,637)
Other income (expense)			
Other income (loss)	(4,648)	3,384	(1,140)
Interest income	—	91	16,342
Interest expense	(1,461,927)	(1,736,537)	(5,954,306)
Loss on disposition of equipment	(14,426)	—	(14,426)
Settlement of Debt Due Morale/ Matthews	(927,903)	—	(927,903)
Settlement of litigation and debt	71,880	—	1,089,088
Loss before provision for income taxes	(6,051,924)	(6,261,943)	(42,737,982)
Provision for income taxes	800	800	5,082
Net loss	$ (6,052,724)	$ (6,262,743)	$ (42,743,064)
Net loss per common share, basic and diluted	$ (0.11)	$ (0.16)	
Weighted average common shares outstanding, basic and diluted	55,130,756	38,378,845	

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
FROM INCEPTION (FEBRUARY 18, 1998) TO DECEMBER 31, 2008

	Price per Share	Common Stock Shares	Common Stock Amount	Common Stock to be Issued	Additional Paid-in Capital	Deferred Compensation	Deficit Accumulated During the Development Stage	Total Stockholders' Deficiency
Balance, February 18, 1998 (date of inception)		—	$ —	$ —	$ —	$ —	$ —	$ —
Issuance of common stock on April 18, 1998	.0015 - .01	10,030,000	10,030	—	14,270	—	—	24,300
Net loss		—	—	—	—	—	(21,307)	(21,307)
Balance, December 31, 1998		10,030,000	$ 10,030	$ —	14,270	$ —	$ (21,307)	$ 2,993
Issuance of common stock on May 18, 1999	1.00 - 6.40	198,003	198	—	516,738	—	—	516,936
Issuance of common stock for ZEFS on September 14, 1999	.001	5,000,000	5,000	—	—	—	—	5,000
Stock issued for professional services on May 18, 1999	0.88	69,122	69	—	49,444	—	—	49,513
Net loss		—	—	—	—	—	(1,075,264)	(1,075,264)
Balance, December 31, 1999		15,297,125	$ 15,297	$ —	$ 580,452	$ —	$ (1,096,571)	$ (500,822)
Stock issued for employee compensation on February 8, 2000	1.03	20,000	20	—	20,580	—	—	20,600
Stock issued for consulting services on February 8, 2000	1.03	100,000	100	—	102,900	—	—	103,000
Stock issued for professional services on April 18, 2000	3.38	27,000	27	—	91,233	—	—	91,260
Stock issued for directors fees on April 18, 2000	3.38	50,000	50	—	168,950	—	—	169,000
Stock issued for professional services on May 19, 2000	4.06	5,000	5	—	20,295	—	—	20,300
Stock issued for directors fees on June 20, 2000	4.44	6,000	6	—	26,634	—	—	26,640
Stock issued for professional services on June 20, 2000	4.44	1,633	2	—	7,249	—	—	7,251
Stock issued for professional services on June 26, 2000	5.31	1,257	1	—	6,674	—	—	6,675

(continued)

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

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY (continued)
FROM INCEPTION (FEBRUARY 18, 1998) TO DECEMBER 31, 2008

	Price per Share	Common Stock Shares	Common Stock Amount	Common Stock to be Issued	Additional Paid-in Capital	Deferred Compensation	Deficit Accumulated During the Development Stage	Total Stockholders' Deficiency
Stock issued for employee compensation on June26, 2000	5.31	22,000	22	—	116,798	—	—	116,820
Stock issued for consulting services on June26, 2000	5.31	9,833	10	—	52,203	—	—	52,213
Stock issued for promotional services on July28, 2000	4.88	9,675	9	—	47,205	—	—	47,214
Stock issued for consulting services on July28, 2000	4.88	9,833	10	—	47,975	—	—	47,985
Stock issued for consulting services on August4, 2000	2.13	35,033	35	—	74,585	—	—	74,620
Stock issued for promotional services on August16, 2000	2.25	25,000	25	—	56,225	—	—	56,250
Stock issued for consulting services on September5, 2000	2.25	12,833	13	—	28,861	—	—	28,874
Stock issued for consulting services on September 10, 2000	1.50	9,833	10	—	14,740	—	—	14,750
Stock issued for consulting services on November 2, 2000	0.88	9,833	10	—	8,643	—	—	8,653
Stock issued for consulting services on November 4, 2000	0.88	9,833	10	—	8,643	—	—	8,653
Stock issued for consulting services on December 20, 2000	0.50	19,082	19	—	9,522	—	—	9,541
Stock issued for filing services on December 20, 2000	0.50	5,172	5	—	2,581	—	—	2,586
Stock issued for professional services on December 26, 2000	0.38	12,960	13	—	4,912	—	—	4,925
Other stock issuance on August 24, 2000	2.13	2,000	2	—	4,258	—	—	4,260
Common shares cancelled		(55,000)	(55)	—	(64,245)	—	—	(64,300)
Net loss		—	—	—	—	—	(1,270,762)	(1,270,762)
Balance, December 31, 2000		15,645,935	$ 15,646	$ —	$1,437,873	$ —	$(2,367,333)	$ (913,814)
Stock issued for consulting services on January 8, 2001	0.31	9,833	10	—	3,038	—	—	3,048
Stock issued for consulting services on February 1, 2001	0.33	9,833	10	—	3,235	—	—	3,245
Stock issued for consulting services on March 1, 2001	0.28	9,833	10	—	2,743	—	—	2,753

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SAVE THE WORLD AIR, INC.
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CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY (continued)
FROM INCEPTION (FEBRUARY 18, 1998) TO DECEMBER 31, 2008

	Price per Share	Common Stock Shares	Common Stock Amount	Common Stock to be Issued	Additional Paid-in Capital	Deferred Compensation	Deficit Accumulated During the Development Stage	Total Stockholders' Deficiency
Stock issued for legal services on March 13, 2001	0.32	150,000	150	—	47,850	—	—	48,000
Stock issued for consulting services on April 3, 2001	0.25	9,833	10	—	2,448	—	—	2,458
Stock issued for legal services on April 4, 2001	0.25	30,918	31	—	7,699	—	—	7,730
Stock issued for professional services on April 4, 2001	0.25	7,040	7	—	1,753	—	—	1,760
Stock issued for consulting services on April 5, 2001	0.25	132,600	132	—	33,018	—	—	33,150
Stock issued for filing fees on April 30, 2001	1.65	1,233	1	—	2,033	—	—	2,034
Stock issued for filing fees on September 19, 2001	0.85	2,678	2	—	2,274	—	—	2,276
Stock issued for professional services on September 28, 2001	0.62	150,000	150	—	92,850	—	—	93,000
Stock issued for directors services on October 5, 2001	0.60	100,000	100	—	59,900	—	—	60,000
Stock issued for legal services on October 17, 2001	0.60	11,111	11	—	6,655	—	—	6,666
Stock issued for consulting services on October 18, 2001	0.95	400,000	400	—	379,600	—	—	380,000
Stock issued for consulting services on October 19, 2001	1.25	150,000	150	—	187,350	—	—	187,500
Stock issued for exhibit fees on October 22, 2001	1.35	5,000	6	—	6,745	—	—	6,751
Stock issued for directors	0.95	1,000,000	1,000	—	949,000	—	—	950,000
Stock issued for consulting services on November 7, 2001	0.85	20,000	20	—	16,980	—	—	17,000
Stock issued for consulting services on November 20, 2001	0.98	43,000	43	—	42,097	—	—	42,140
Stock issued for consulting services on November 27, 2001	0.98	10,000	10	—	9,790	—	—	9,800
Stock issued for consulting services on November 28, 2001	0.98	187,000	187	—	183,073	—	—	183,260
Intrinsic value of options issued to employees		—	—	—	2,600,000	(2,600,000)	—	—
Fair value of options issued to non-employees for services		—	—	—	142,318	—	—	142,318

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SAVE THE WORLD AIR, INC.
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CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY (continued)
FROM INCEPTION (FEBRUARY 18, 1998) TO DECEMBER 31, 2008

	Price per Share	Common Stock Shares	Common Stock Amount	Common Stock to be Issued	Additional Paid-in Capital	Deferred Compensation	Deficit Accumulated During the Development Stage	Total Stockholders' Deficiency
Amortization of deferred compensation			—	—	—	—	191,667	—	191,667
Net loss			—	—	—	—	—	(2,735,013)	(2,735,013)
Balance, December 31, 2001			18,085,847	$ 18,086	$ —	$6,220,322	$(2,408,333)	$(5,102,346)	$(1,272,271)
Stock issued for directors services on December 10, 2002	0.40	2,150,000	2,150	—	857,850	—	—	860,000
Common stock paid for, but not issued (2,305,000 shares)	0.15-0.25	—	—	389,875	—	—	—	389,875
Fair value of options issued to non-employees for services			—	—	—	54,909	(54,909)	—	—
Amortization of deferred compensation			—	—	—	—	891,182	—	891,182
Net loss for the year ended December 31, 2002			—	—	—	—	—	(2,749,199)	(2,749,199)
Balance, December 31, 2002			20,235,847	$ 20,236	$ 389,875	$7,133,081	$(1,572,060)	$(7,851,545)	$(1,880,413)
Common stock issued, previously paid for	0.15	1,425,000	1,425	(213,750)	212,325	—	—	—
Common stock issued, previously paid for	0.25	880,000	880	(220,000)	219,120	—	—	—
Stock issued for cash on March 20, 2003	0.25	670,000	670	—	166,830	—	—	167,500
Stock issued for cash on April 4, 2003	0.25	900,000	900	—	224,062	—	—	224,962
Stock issued for cash on April 8, 2003	0.25	100,000	100	—	24,900	—	—	25,000
Stock issued for cash on May 8, 2003	0.25	1,150,000	1,150	—	286,330	—	—	287,480
Stock issued for cash on June 16, 2003	0.25	475,000	475	—	118,275	—	—	118,750
Stock issued for legal services on June 27, 2003	0.55	83,414	83	—	45,794	—	—	45,877
Debt converted to stock on June 27, 2003	0.25	2,000,000	2,000	—	498,000	—	—	500,000
Stock and warrants issued for cash on July 11, 2003	0.25	519,000	519	—	129,231	—	—	129,750
Stock and warrants issued for cash on September 29, 2003	0.25	1,775,000	1,775	—	441,976	—	—	443,751
Stock and warrants issued for cash on October 21, 2003	0.25	1,845,000	1,845	—	459,405	—	—	461,250
Stock and warrants issued for cash on October 28, 2003	0.25	1,570,000	1,570	—	390,930	—	—	392,500
Stock and warrants issued for cash on November 19, 2003	0.25	500,000	500	—	124,500	—	—	125,000

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SAVE THE WORLD AIR, INC.
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CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY (continued)
FROM INCEPTION (FEBRUARY 18, 1998) TO DECEMBER 31, 2008

	Price per Share	Common Stock Shares	Common Stock Amount	Common Stock to be Issued	Additional Paid-in Capital	Deferred Compensation	Deficit Accumulated During the Development Stage	Total Stockholders' Deficiency
Finders' fees related to stock issuances			—	—	43,875	(312,582)	—	—	(268,707)
Common stock paid for, but not issued (25,000 shares)	0.25	—	—	—	6,250	—	—	—	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			34,128,261	$ 34,128	$ 6,250	$10,162,177	$ (708,333)	$(10,327,608)	$ (833,386)
Common stock issued, previously paid for	0.25	25,000	25	(6,250)	6,225	—	—	—
Stock issued for director services on March 31, 2004	1.50	50,000	50	—	74,950	—	—	75,000
Stock issued for finders fees on March 31, 2004	0.15	82,500	82	—	12,293	—	—	12,375
Stock issued for finders fees on March 31, 2004	0.25	406,060	407	—	101,199	—	—	101,606
Stock issued for services on April 2, 2004	1.53	65,000	65	—	99,385	—	—	99,450
Debt converted to stock on April 2, 2004	1.53	60,000	60	—	91,740	—	—	91,800
Stock issued upon exercise of warrants on May 21, 2004	0.20	950,000	950	—	189,050	—	—	190,000
Stock issued for directors services on June 8, 2004	1.70	600,000	600	—	1,019,400	—	—	1,020,000
Stock issued for cash on August 25, 2004	1.00	550,000	550	—	549,450	—	—	550,000
Stock issued upon exercise of options on August 30, 2004	0.40	4,000	4	—	1,596	—	—	1,600
Stock issued for cash on September 8, 2004	1.00	25,000	25	—	24,975	—	—	25,000
Stock issued for consulting services on September 15, 2004	1.31	50,000	49	—	65,451	—	—	65,500
Stock issued for patent settlement on September 22, 2004	1.24	20,000	20	—	24,780	—	—	24,800
Stock issued for research and development on October 6, 2004	1.40	65,000	65	—	90,935	—	—	91,000
Stock issued for cash on October 6, 2004	1.00	25,000	25	—	24,975	—	—	25,000
Stock issued for cash on October 15, 2004	1.00	150,000	150	—	149,850	—	—	150,000
Stock issued upon exercise of stock options on October 21, 2004	0.40	6,500	6	—	2,594	—	—	2,600
Stock issued for cash on November 3, 2004	1.00	25,000	25	—	24,975	—	—	25,000

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CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY (continued)
FROM INCEPTION (FEBRUARY 18, 1998) TO DECEMBER 31, 2008

	Price per Share	Common Stock Shares	Common Stock Amount	Common Stock to be Issued	Additional Paid-in Capital	Deferred Compensation	Deficit Accumulated During the Development Stage	Total Stockholders' Deficiency
Stock issued for cash on November 18, 2004	1.00	172,500	173	—	172,327	—	—	172,500
Stock issued for cash on December 9, 2004	1.00	75,000	75	—	74,925	—	—	75,000
Stock issued for cash on December 23, 2004	1.00	250,000	250	—	249,750	—	—	250,000
Finders fees related to stock issuances	—	—	—	—	(88,384)	—	—	(88,384)
Common stock paid for, but not issued (119,000 shares)	—	—	—	119,000	—	—	—	119,000
Intrinsic value of options issued to employees	—	—	—	—	248,891	(248,891)	—	—
Fair value of options issued to non-employees for services	—	—	—	—	55,381	(55,381)	—	—
Fair value of warrants issued for settlement costs	—	—	—		1,585,266	—	—	1,585,266
Fair value of warrants issued to non-employees for services	—	—	—	—	28,872	—	—	28,872
Amortization of deferred compensation	—	—	—	—	—	936,537	—	936,537
Net loss for year ended December 31, 2004	—	—	—	—	—	—	(6,803,280)	(6,803,280)
Balance, December 31, 2004		37,784,821	$ 37,784	$ 119,000	$15,043,028	$ (76,068)	$(17,130,888)	$(2,007,144)
Common stock issued, previously paid for	1.00	69,000	69	(69,000)	68,931	—	—	—
Stock issued upon exercise of warrants, previously paid for	1.00	50,000	50	(50,000)	49,950	—	—	—
Stock issued for cash on January 20, 2005	1.00	25,000	25	—	24,975	—	—	25,000
Stock issued upon exercise of warrants on January 31, 2005	0.40	500	1	—	199	—	—	200
Stock issued for cash on February 17, 2005	1.00	325,000	325	—	324,675	—	—	325,000
Stock issued for cash on March 31, 2005	1.00	215,000	215	—	214,785	—	—	215,000
Stock issued for cash on May 17, 2005	1.00	5,000	5	—	4,995	—	—	5,000
Stock issued for cash on June 7, 2005	1.00	300,000	300	—	299,700	—	—	300,000

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SAVE THE WORLD AIR, INC.
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CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY (continued)
FROM INCEPTION (FEBRUARY 18, 1998) TO DECEMBER 31, 2008

	Price per Share	Common Stock Shares	Common Stock Amount	Common Stock to be Issued	Additional Paid-in Capital	Deferred Compensation	Deficit Accumulated During the Development Stage	Total Stockholders' Deficiency
Stock issued for cash on August 5, 2005	1.00	480,500	480	—	480,020	—	—	480,500
Stock issued for cash on August 9, 2005	1.00	100,000	100	—	99,900	—	—	100,000
Stock issued for cash on October 27, 2005	1.00	80,000	80	—	79,920	—	—	80,000
Common stock cancelled on December 7, 2005	Various	(8,047,403)	(8,047)	—	8,047	—	—	—
Stock issued for settlement of payables on December 21, 2005	—	—	—	57,092	—	—	—	57,092
Stock issued for settlement of payables on December 31, 2005	—	—	—	555,429	—	—	—	555,429
Finders fees related to stock issuances	—	—	—	—	(109,840)	—	—	(109,840)
Intrinsic value of options issued to employees	—	—	—	—	243,750	(243,750)	—	—
Fair value of options issued for settlement costs	—	—	—	—	31,500	—	—	31,500
Fair value of warrants issued for settlement costs	—	—	—	—	4,957	—	—	4,957
Fair value of warrants issued to non-employees for services	—	—	—	—	13,505	—	—	13,505
Amortization of deferred compensation	—	—	—	—	—	177,631	—	177,631
Warrants issued with convertible notes	—	—	—	—	696,413	—	—	696,413
Intrinsic value of beneficial conversion associated with convertible notes	—	—	—	—	756,768	—	—	756,768
Net loss for year ended December 31, 2005	—	—	—	—	—	—	(3,115,186)	(3,115,186)
Balance, December 31, 2005		31,387,418	$ 31,387	$ 612,521	$18,336,178	$ (142,187)	$(20,246,074)	$(1,408,175)
Stock issued, for previously settled payables	—	846,549	847	(612,521)	611,674	—	—	—
Stock issued upon exercise of warrants on March 23, 2006	1.50	25,000	25	—	37,475	—	—	37,500
Stock issued upon exercise of warrants on March 27, 2006	1.50	50,000	50	—	74,950	—	—	75,000

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CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY (continued)
FROM INCEPTION (FEBRUARY 18, 1998) TO DECEMBER 31, 2008

	Price per Share	Common Stock Shares	Common Stock Amount	Common Stock to be Issued	Additional Paid-in Capital	Deferred Compensation	Deficit Accumulated During the Development Stage	Total Stockholders' Deficiency
Stock issued upon exercise of warrants on March 27, 2006	0.50	25,000	25	—	12,475	—	—	12,500
Stock issued upon exercise of warrants on March 30, 2006	1.00	10,000	10	—	9,990	—	—	10,000
Stock issued upon exercise of warrants on April 10, 2006	0.50	36,250	36	—	18,089	—	—	18,125
Common stock issued for convertible debt on April 10, 2006	0.70	269,600	270	—	188,450	—	—	188,720
Stock issued for cash on April 24, 2006	1.56	473,000	473	—	737,408	—	—	737,881
Stock issued upon exercise of warrants on April 26, 2006	0.50	125,000	125	—	62,375	—	—	62,500
Stock issued upon exercise of warrants on April 26, 2006	1.50	100,000	100	—	149,900	—	—	150,000
Common stock issued for convertible debt on April 26, 2006	0.70	35,714	36	—	24,964	—	—	25,000
Stock issued upon exercise of warrants on May 6, 2006	0.50	200,000	200	—	99,800	—	—	100,000
Stock issued upon exercise of warrants on May 15, 2006	1.50	25,000	25	—	37,475	—	—	37,500
Stock issued upon exercise of warrants on May 15, 2006	0.50	50,000	50	—	24,950	—	—	25,000
Stock issued for cash on June 7, 2006	1.89	873,018	872	—	1,649,136	—	—	1,650,008
Common stock issued for convertible debt on June 7, 2006	0.70	1,535,716	1,536	—	1,073,464	—	—	1,075,000
Stock issued upon exercise of warrants on June 8, 2006	0.50	900,000	900	—	449,100	—	—	450,000
Stock issued upon exercise of warrants on June 9, 2006	0.50	9,000	9	—	4,491	—	—	4,500
Stock issued upon exercise of warrants on June 23, 2006	0.50	150,000	150	—	74,850	—	—	75,000
Stock issued upon exercise of warrants on June 23, 2006	1.50	15,000	15	—	22,485	—	—	22,500
Common stock issued for convertible debt on June 30, 2006	0.70	219,104	219	—	153,155	—	—	153,374
Common stock issued for convertible debt on July 11, 2006	0.70	14,603	15	—	10,207	—	—	10,222
Common stock issued for convertible debt on August 7, 2006	0.70	1,540,160	1,540	—	1,076,572	—	—	1,078,112

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CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY (continued)
FROM INCEPTION (FEBRUARY 18, 1998) TO DECEMBER 31, 2008

	Price per Share	Common Stock Shares	Common Stock Amount	Common Stock to be Issued	Additional Paid-in Capital	Deferred Compensation	Deficit Accumulated During the Development Stage	Total Stockholders' Deficiency
Common stock issued upon exercise of warrants on August 7, 2006	1.50	175,000	175	—	262,325	—	—	262,500
Common stock issued upon exercise of warrants on August 21, 2006	1.50	50,000	50	—	74,950	—	—	75,000
Common stock issued for cash on August 22, 2006	1.00	14,519	15	—	14,504	—	—	14,519
Common stock issued upon exercise of warrants on August 23, 2006	1.00	3,683	4	—	3679	—	—	3,683
Common stock issued upon exercise of warrants on August 28, 2006	1.50	5,000	5	—	7,495	—	—	7,500
Common stock issued for convertible debt on September 13, 2006	0.70	4,286	4	—	2,996	—	—	3,000
Common stock issued upon exercise of warrants on September 13, 2006	0.50	150,000	150	—	74,850	—	—	75,000
Common stock issued for convertible debt on October 16, 2006	0.70	66,654	67	—	46,591	—	—	46,658
Common stock issued upon exercise of warrants on November 3, 2006	0.50	210,000	210	—	104,790	—	—	105,000
Common stock issued for put on equity line of credit on November 7, 2006	1.22	94,4700	94	—	115,368	—	—	115,462
Common stock issued for put on equity line of credit on November 14, 2006	1.14	7,300	7	—	8,349	—	—	8,356
Common stock issued for put on equity line of credit on November 27, 2006	0.83	27,500	28	—	22,913	—	—	22,941
Common stock issued for put on equity line of credit on November 28, 2006	0.82	36,500	36	—	30,059	—	—	30,095
Common stock issued for put on equity line of credit on December 6, 2006	0.78	73,863	74	—	57,244	—	—	57,318
Common stock issued for put on equity line of credit on December 26, 2006	0.55	18,800	19	—	10,377	—	—	10,396
Common stock issued for put on equity line of credit on December 31, 2006	0.59	229,050	229	—	135,300	—	—	135,529

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CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY (continued)
FROM INCEPTION (FEBRUARY 18, 1998) TO DECEMBER 31, 2008

	Price per Share	Common Stock Shares	Common Stock Amount	Common Stock to be Issued	Additional Paid-in Capital	Deferred Compensation	Deficit Accumulated During the Development Stage	Total Stockholders' Deficiency
Common stock paid for, but not issued		—	—	—	60,000	—	—	—	60,000
Fair value of options issued to employees and officers		—	—	—	—	2,253,263	—	—	2,253,263
Fair value of warrants issued for services		—	—	—	—	401,130	—	—	401,130
Write off of deferred compensation		—	—	—	—	(142,187)	142,187	—	—
Warrants issued for consulting		—	—	—	—	62,497	—	—	62,497
Warrants issued with convertible notes		—	—	—	—	408,596	—	—	408,596
Intrinsic value of beneficial conversion associated with convertible notes		—	—	—	—	851,100	—	—	851,100
Finders fees related to stock issuances		—	—	—	—	(284,579)	—	—	(284,579)
Fees paid on equity line of credit		—	—	—	—	(30,402)	—	—	(30,402)
Net loss for year ended December 31, 2006		—	—	—	—	—	—	(10,181,523)	(10,181,523)
Balance, December 31, 2006			40,081,757	$ 40,082	$ 60,000	$29,430,821	$ —	$(30,427,597)	$ (896,694)
Common stock issued for put on equity line of credit on January 11, 2007	0.63	63,000		63	—	39,659	—	—	39,722
Common stock issued for put on equity line of credit on January 22, 2007	0.73	58,150		58	—	42,246	—	—	42,304
Common stock issued for put on equity line of credit on February 9, 2007	0.73	35,800		36	—	26,009	—	—	26,045
Common stock issued for put on equity line of credit on February 16, 2007	0.70	162,000		162	—	112,979	—	—	113,141
Common stock issued for put on equity line of credit on February 26, 2007	0.66	71,000		71	—	46,761	—	—	46,832
Common stock issued for put on equity line of credit on March 5, 2007	0.66	42,600		43	—	28,056	—	—	28,099
Common stock issued for put on equity line of credit on March 12, 2007	0.67	92,900		93	—	62,085	—	—	62,178

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CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY (continued)
FROM INCEPTION (FEBRUARY 18, 1998) TO DECEMBER 31, 2008

	Price per Share	Common Stock Shares	Common Stock Amount	Common Stock to be Issued	Additional Paid-in Capital	Deferred Compensation	Deficit Accumulated During the Development Stage	Total Stockholders' Deficiency
Common stock issued for put on equity line of credit on March 19, 2007	0.64	47,500	48	—	30,362	—	—	30,410
Common stock issued for put on equity line of credit on March 26, 2007	0.63	7,500	7	—	4,722	—	—	4,729
Common stock issued for put on equity line of credit on March 31, 2007	0.61	25,500	25	—	15,558	—	—	15,583
Fees paid on equity line of credit	—	—	—	—	(32,723)	—	—	(32,723)
Warrants issued with convertible notes	—	—	—	—	291,936	—	—	291,936
Intrinsic value of beneficial conversion associated with convertible notes	—	—	—	—	274,312	—	—	274,312
Fair value of warrants issued to non-employee for services	—	—	—	—	35,340	—	—	35,340
Fair value of options issued to an officer	—	—	—	—	16,302	—	—	16,302
Common stock issued for put on equity line of credit on April 9, 2007	0.63	56,300	56	—	35,441	—	—	35,497
Common stock issued for put on equity line of credit on April 17, 2007	0.56	73,835	74	—	41,466	—	—	41,540
Common stock issued for put on equity line of credit on April 24, 2007	0.56	122,857	123	—	68,996	—	—	69,119
Common stock issued for put on equity line of credit on May 1, 2007	0.55	226,081	226	—	124,774	—	—	125,000
Common stock issued for put on equity line of credit on May 8, 2007	0.66	29,400	29	—	19,363	—	—	19,392
Common stock issued for put on equity line of credit on May 15, 2007	0.43	403,502	404	—	171,811	—	—	172,215
Common stock issued for put on equity line of credit on May 22, 2007	0.39	119,800	120	—	46,362	—	—	46,482
Common stock issued for put on equity line of credit on May 30, 2007	0.33	80,996	81	—	26,631	—	—	26,712
Common stock issued for put on equity line of credit on June 6, 2007	0.32	54,700	55	—	17,454	—	—	17,509

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CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY (continued)
FROM INCEPTION (FEBRUARY 18, 1998) TO DECEMBER 31, 2008

	Price per Share	Common Stock Shares	Common Stock Amount	Common Stock to be Issued	Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total Stockholders' Deficiency
Common stock issued for put on equity line of credit on June 15, 2007	0.27	94,500	95	—	25,571	—	25,666
Common stock issued for put on equity line of credit on June 21, 2007	0.31	12,500	12	—	3,868	—	3,880
Fees paid on equity line of credit	—	—	—	—	(46,641)	—	(46,641)
Warrants issued with convertible notes	—	—	—	—	260,718	—	260,718
Fair value of options issued to an officer	—	—	—	—	8,898	—	8,898
Common stock issued, previously paid for	—	2,597,524	2,597	(60,000)	57,403	—	—
Fair value of options issued to officers	—	—	—	—	20,574	—	20,574
Warrants issued with convertible notes	—	—	—	—	267,930	—	267,930
Common stock issued for convertible debt on October 5, 2007	0.53	51,887	52	—	27,448	—	27,500
Common stock issued for convertible debt on November 12, 2007	0.37	255,081	255	—	94,125	—	94,380
Common stock issued for convertible debt on November 12, 2007	0.53	51,887	52	—	27,448	—	27,500
Common stock issued for convertible debt on November 14, 2007	0.34	80,882	81	—	27,419	—	27,500
Common stock issued for convertible debt on November 14, 2007	0.37	95,227	95	—	35,105	—	35,200
Common stock issued for convertible debt on November 15, 2007	0.37	163,514	164	—	60,336	—	60,500
Common stock issued for convertible debt on November 16, 2007	0.37	71,351	71	—	26,329	—	26,400
Common stock issued for convertible debt on November 16, 2007	0.34	80,882	81	—	27,419	—	27,500
Warrants issued with convertible notes	—	—	—	—	158,652	—	158,652
Common stock to be issued for consulting services	—	—	—	4,000	—	—	4,000
Common stock issued for convertible debt on December 28, 2007	0.17	1,060,000	1,060	—	198,940	—	200,000
Fair value of options issued to an officer	—	—	—	—	21,818	—	21,818
Net loss for year ended December 31, 2007	—	—	—	—	—	(6,262,743)	(6,262,743)
Balance, December 31, 2007		46,470,413	$ 46,471	$ 4,000	$32,280,083	$(36,690,340)	$(4,359,786)

(continued)

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

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY (continued)
FROM INCEPTION (FEBRUARY 18, 1998) TO DECEMBER 31, 2008

	Price per Share	Common Stock Shares	Common Stock Amount	Common Stock to be Issued	Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total Stockholders' Deficiency
Common stock issued for convertible debt	0.17-0.53	5,575,082	5,574	16,500	1,936,171	—	1,958,245
Common stock issued for Morale/ Matthews settlement	0.38	7,421,896	7,422	—	2,776,289	—	2,783,711
Common stock issued for services	0.17 – 0.49	2,398,850	2,399	—	516,230	—	518,629
Common stock issued upon exercise of warrants	0.50	1,064,650	1,065	—	531,260	—	532,325
Fair value of options issued as compensations	—	—	—	—	645,745	—	645,745
Fair value of warrants issued and intrinsic value of beneficial conversion associated with convertible notes	—	—	—	—	1,323,077	—	1,323,077
Fair value of warrants issued to PIPE holders	—	—	—	—	116,913	—	116,913
Common stock issued for services	0.17	10,000	10	(4,000)	3,990	—	—
Net loss for year ended December 31, 2008	—	—	—	—	—	(6,052,724)	(6,052,724)
Balance, December 31, 2008		62,940,891	$ 62,941	$ 16,500	$ 40,129,758	$ (42,743,064)	$ (2,533,865)

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		Inception (February 18, 1998) to December 31,
	2008	2007	2008
Cash flows from operating activities			
Net Loss	$ (6,052,724)	$ (6,262,743)	$ (42,743,064)
Adjustments to reconcile net loss to net cash used in operating activities:			
Write off of intangible assets	—	—	505,000
Settlement of litigation and debt	—	—	(1,017,208)
Settlement of Debt Due Morale/Matthews	927,903	—	927,903
Stock based compensation expense	645,745	67,592	3,614,921
Issuance of common stock for services	518,629	4.000	5,190,731
Issuance of options for legal settlement	—	—	31,500
Issuance of warrants for legal settlement	—	—	4,957
Issuance of warrants for financing fees	116,913	35,340	152,253
Non-cash increase in convertible notes recorded as expense	89,470	74,492	163,962
Patent acquisition cost	—	—	1,610,066
Amortization of issuance costs and original issue debt discounts including beneficial conversion feature-part of interest expense	1,245,408	1,573,596	5,618,309
Amortization of deferred compensation	—	—	3,060,744
Loss on disposition of assets	14,426	—	14,426
Depreciation and amortization of leasehold improvements	37,530	167,380	393,129
Bad debt	1,300	—	1,300
Changes in operating assets and liabilities:			
Accounts receivable	—	(1,380)	(1,380)
Inventory	30,256	(8,942)	—
Prepaid expenses and other	(12,643)	60,680	(33,195)
Other assets	(6,750)	—	(11,250)
Accounts payable and accrued expenses	277,336	1,191,661	3,701,111
Net cash used in operating activities	(2,167,200)	(3,098,324)	(18,815,785)
Cash flows from investing activities			
Purchase of equipment	(345)	(46,415)	(553,452)
Proceeds from sale of equipment	17,477	—	17,478
Net cash used in investing activities	17,132	(46,415)	(535,974)
Cash flows from financing activities			
Net proceeds under equity line of credit	—	912,691	1,262,386
(Decrease) increase in payables to related parties and stockholder	(5,316)	103,930	610,064
Advances from founding executive officer	—	—	517,208
Net proceeds from issuance of convertible notes and warrants	1,634,745	2,157,800	6,460,423
Repayment of convertible notes	—	(226,250)	(226,250)
Proceeds from exercise of warrants	532,325	—	10,787,274
Net cash provided by financing activities	2,161,754	2,948,171	19,411,105
Net (decrease) increase in cash	11,686	(196,568)	59,346
Cash, beginning of period	47,660	244,228	—
Cash, end of period	$ 59,346	$ 47,660	$ 59,346
Supplemental disclosures of cash flow information			
Cash paid during the year for			
Interest	$ 1,355	$ 1,239	$ 136,399
Income taxes	$ —	$ 800	$ 3,482
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	—	—	3,202,931
Purchase of property and equipment financed by advance from related party	—	—	3,550
Conversion of related party debt to equity	—	—	515,000
Issuance of common stock in settlement of payable	—	—	113,981
Cancellation of stock	—	—	8,047
Conversion of accounts payable and accrued expenses to common stock	—	—	612,521
Conversion of related party debt to convertible debentures	—	—	45,000
Conversion of convertible debentures to common stock	1,958,245	526,480	4,931,679
Issuance of shares for settlement of loans and other payable to Morale/Matthews	2,783,711	—	2,783,711
Write off of deferred compensation	—	—	142,187
Non-cash equity-warrant valuation and intrinsic value of beneficial conversion associated with convertible notes	1,323,077	1,253,548	5,406,415

See notes to consolidated financial statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

1. Description of business

Description of business

Save the World Air, Inc. ("STWA") designs, licenses and develops products to increase engine performance, reduce harmful emissions and increase fuel efficiency. The Company is a green technology company that leverages a suite of patented, patent-pending and licensed intellectual properties related to the treatment of fuels. Technologies patented by or licensed to us utilize either magnetic or uniform electrical fields to alter physical characteristics of fuels and are designed to create cleaner combustion. Cleaner combustion has been shown to improve performance, enhance fuel economy and/or reduce harmful emissions in laboratory testing.

The Company was incorporated on February 18, 1998, as a Nevada corporation, under the name Mandalay Capital Corporation. The Company changed its name to Save the World Air, Inc. on February 11, 1999, following the acquisition of marketing and manufacturing rights of the ZEFS technologies. The mailing address is 235 Tennant Avenue, Morgan Hill, California 95037. The telephone number is (323) 932-7040. The corporate website is www.stwa.com. The common stock is quoted under the symbol "ZERO" on the Over-the-Counter Bulletin Board

The Company has three product lines; MAG ChargR™ and ECO ChargR™, ELEKTRA™ and AOT (Applied Oil Technology). MAG ChargR is past the development stage and the Company believes that an initial small run of several thousand units will be manufactured and sold by the end of second quarter 2009. ELEKTRA is nearing the end of the product development cycle which will culminate in an upcoming SAE (Society of Automotive Engineers) test to prove and certify the level of fuel savings. AOT is in the research and development phase.

The MAG ChargR™ and ECO ChargR™ are products which use fixed magnetic fields to alter some physical properties of fuel by incorporating our patented and patent-pending ZEFS and MK IV technologies. The Company differentiates MAG ChargR and ECO ChargR products based on their differing attributes and marketing focus. ECO ChargR products are primarily designed to reduce harmful emissions and MAG ChargR products are primarily designed to enhance performance and fuel economy. The ECO ChargR product is intended to reduce exhaust emissions in vehicle and small utility motors and will be marketed primarily to original equipment manufacturers ("OEMs") as well as to pilot and government-mandated emissions programs. The MAG ChargR product is intended to increase power and improve mileage and is being marketed to municipal fleets and to the specialty consumer accessories market for many types of vehicles, including but not limited to cars, trucks, motorcycles, scooters, all terrain vehicles ("ATVs"), snowmobiles, personal watercraft and small utility motors.

Consolidation policy

The accompanying consolidated financial statements of Save the World Air, Inc. and Subsidiary include the accounts of Save the World Air, Inc. (the Parent) and its wholly owned subsidiary STWA Asia Pte. Limited, incorporated on January 17, 2006. Intercompany transactions and balances have been eliminated in consolidation.

2. Summary of significant accounting policies

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.

The Company's focus is on product development and marketing of proprietary devices that are designed to reduce harmful emissions, and improve fuel efficiency and engine performance on equipment and vehicles driven by internal combustion engines and has not yet generated meaningful revenues. The technologies are called "ZEFS", "MK IV", "ELEKTRA" and "CAT-MATE". The Company is currently marketing its ECO and MAG ChargR products incorporating ZEFS and MK IV technologies, worldwide; and the Company is in the early stages of developing ELEKTRA products. Expenses have been funded through the sale of company stock, convertible notes and the exercise of warrants. The Company has taken actions to secure the intellectual property rights to the ZEFS, MK IV and CAT-MATE devices and is the worldwide exclusive licensee for patent pending technologies associated with the development of ELEKTRA.

The Company is subject to the usual risks associated with a development stage enterprise. These risks include, among others, those associated with product development, acceptance of the product by users and the ability to raise the capital necessary to sustain operations. Since its inception, the Company has incurred significant losses. The Company anticipates increasing expenditures over at least the next year as the Company continues its product development and evaluation efforts, and begins its marketing activities. Without significant revenue, these expenditures will likely result in additional losses.

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 had a net loss of $6,052,724 and a negative cash flow from operations of $2,167,200 for the year ended December 31, 2008, and had a working capital deficiency of $2,677,084 and a stockholders' deficiency of $2,533,865 at December 31, 2008. In addition, the Company is in default of its obligations under its License Agreements with Temple University (see Note 7). These factors raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon 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.

Revenue Recognition Policy

The Company has adopted Staff Accounting Bulletin 104, "Revenue Recognition" and therefore recognizes revenue based upon meeting four criteria:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services rendered;
- The seller's price to the buyer is fixed or determinable; and
- Collectability is reasonably assured.

The Company contracts with manufacturers of fixed magnetic field products and sells them to various original equipment manufacturers in the motor vehicle and small utility motor markets. The Company negotiates an initial contract with the customer fixing the terms of the sale and then receives a letter of credit or full payment in advance of shipment. Upon shipment, the Company recognizes the revenue associated with the sale of the products to the customer.

Accounts Receivable Allowance Policy

The Company reports accounts receivable in relation to sales of product. The Company performs an analysis of the receivable balances in order to determine if an allowance for doubtful accounts is necessary. As of December 31, 2008, no allowance is necessary.

Equipment and depreciation

Property and equipment are stated at cost. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets, generally ranging from three to ten years. Expenditures for major renewals and improvements that extend the useful lives of property and equipment are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the lease term.

Long-lived assets

The Company accounts for the impairment and disposition of long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." In accordance with SFAS No. 144, long-lived assets to be held are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. The Company periodically reviews the carrying values of long-lived assets to determine whether or not an impairment to such value has occurred. No impairments were recorded for the year ended December 31, 2008. The Company recorded an impairment of approximately $505,000 during the period from inception (February 18, 1998) through December 31, 2008.

Loss per share

Basic loss per share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted loss 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 loss of the Company. In computing diluted loss 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 may 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 years ended December 31, 2008 and 2007, the dilutive impact of outstanding stock options of 4,601,225 and 4,188,445, respectively, and outstanding warrants of 10,400,003, and 17,919,028 have been excluded because their impact on the loss per share is anti-dilutive.

Income taxes

Income taxes are recognized for the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets are recognized for the future tax consequences of transactions that have been recognized in the Company's financial statements or tax returns. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Stock-based compensation

On January 1, 2006, the Company adopted Statements of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123(R)") which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") for periods beginning in fiscal 2006. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 ("SAB 107") relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of the Company's fiscal year 2006. The Company's financial statements for the years ended December, 2008 and 2007 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the Company's financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Stock-based compensation expense recognized under SFAS 123(R) for employee and directors for the years ended December 31, 2008 and 2007 were $645,745 and $67,592, respectively.

The Company's determination of fair value of share-based payment awards to employees and directors on the date of grant uses the Black-Scholes model, which is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to our expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Forfeitures are recognized as incurred.

The Company accounts for stock option and warrant grants issued to non-employees for goods and services using the guidance of SFAS No. 123 and Emerging Issues Task Force ("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.

Reclassifications

Certain reclassifications have been made to 2007 balance sheet amounts to conform to the 2008 presentation.

Business and credit concentrations

The Company's cash balances in financial institutions at times may exceed federally insured limits. As of December 31, 2008 and 2007, before adjustments for outstanding checks and deposits in transit, the Company had $84,539 and $65,449, respectively, on deposit with three banks. The deposits are federally insured up to $250,000 on each bank.

Warranties

The Company has a warranty policy for its products. No warrant liability has been recorded as of December 31, 2008 based on the limited sales and such amount is deemed immaterial.

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market and primarily consist of finished goods.

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 the Company's financial statements. Actual results could differ from those estimates.

Fair value of financial instruments

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. This Statement defines fair value for certain financial and nonfinancial assets and liabilities that are recorded at fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This guidance applies to other accounting pronouncements that require or permit fair value measurements. On February 12, 2008, the FASB finalized FASB Staff Position (FSP) No.157-2, Effective Date of FASB Statement No. 157. This Staff Position delays the effective date of SFAS No. 157 for nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of SFAS No. 157 had no effect on the Company's consolidated financial position or results of operations.

Recent accounting pronouncements

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" (SFAS 161). This Statement requires enhanced disclosures about an entity's derivative and hedging activities, including (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008.

In December 2007, the FASB issued FASB Statement No. 141 (R), "Business Combinations" (FAS 141(R)), which establishes accounting principles and disclosure requirements for all transactions in which a company obtains control over another business. Statement 141 (R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51". SFAS No. 160 establishes accounting and reporting standards that require that the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. SFAS No. 160 also requires that any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value when a subsidiary is deconsolidated. SFAS No. 160 also sets forth the disclosure requirements to identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. SFAS No. 160 must be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements are applied retrospectively for all periods presented.

The Company does not believe that the adoption of the above recent pronouncements will have a material effect on the Company's consolidated results of operations, financial position, or cash flows.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

3. Certain relationships and related transactions

Loans from related parties

In May of 2007, a former officer and incumbent director of the Company loaned $31,404 to pay a company obligation and in August 2007, the same party loaned $50,000 to the Company so that it could pay certain operating expenses. These amounts are unsecured, bear interest at 6% per annum and are due on demand. At December 31, 2008 and 2007, the balance of these loans including interest was $78,280 and $83,596,.

Lease agreement with related party

During 2003, the Company entered into a sublease agreement with Scottish Glen Golf Company, Inc. (SGGC) to lease office space in North Hollywood, California for its principal executive offices. Bruce McKinnon, the former Chief Executive Officer and former Director of the Company, is a beneficial owner of the lessor.

In August 2005, the Company amended this sublease agreement. The original lease term was from November 1, 2003 through October 16, 2005 and carried an option to renew for two additional years with a 10 percent increase in the rental rate. Monthly rent under this lease is $3,740 per month under this lease. The Company exercised its option to renew the lease through October 15, 2007.

In January 2006, the Company further amended this sublease agreement, as a result of taking more space and obtaining expanded support services. The term of the sublease was amended to July 31, 2007 and carries an option to renew for two additional years with a 10 percent increase in the rental rate. Monthly rent is $6,208 per month under this amended sublease agreement. Additionally, the Company began leasing two additional office spaces for $964 per month beginning July 2006 on a month-to-month basis. The Company did not exercise its option to renew this sublease.

On July 12, 2007, SGGC presented to the Company a Three-Day Notice to Pay or Quit, demanding payment of unpaid rent, additional rent and penalties. On July 19, 2007, SGGC sued the Company in Los Angeles Superior Court, alleging unlawful detainer by the Company of its then-leased corporate offices at 5125 Lankershim Boulevard, North Hollywood, California, and failure to pay past due rent and penalties in the aggregate amount of $104,413, of which $103,069 was accrued by the Company at December 31, 2007. The Company vacated the premises on July 25, 2007.

On April 30, 2008 the Company and SGGC settled their pending litigation relating to the Company's prior offices. The Company agreed to pay SGGC $51,000 in full settlement of SGGC's claims. On May 28, 2008 the initial payment of $34,000 was made and on July 9, 2008 the final payment of $17,000 was made and the complaint was dismissed, with prejudice. The Company recorded $52,069 as other income and as a reduction of accounts payable that is included in the settlement of litigation and debt in the accompanying Statement of Operations for the year ending December 31, 2008.

Accounts Payable to related parties

As of December 31, 2008, the Company had accounts payable to related parties in the amount of $93,003, which was composed of $59,705 in unpaid Directors Fees, $33,298 in unreimbursed expenses incurred by Officers and Directors.

Marketing and promotional services agreement with related party

In July 2006, the Company entered into an agreement with SS Sales and Marketing Group ("SS Sales"), to provide exclusive marketing and promotional services in the western United States and western Canada (the "Territory") for the Company's products. SS Sales will also provide advice, assistance and information on marketing the Company's products in the automotive after-market, and will seek to recruit and establish a market with distributors, wholesalers and others. SS Sales will be paid a commission equal to 5% of the gross amount actually collected on contracts the Company entered into during the term of the agreement for existing or future customers introduced by SS Sales in the Territory. The agreement has a term of five years unless sooner terminated by either party on 30 days' notice. In the event of termination, SS Sales will be entitled to receive all commissions payable through the date of termination. SS Sales is owned by Nathan Shelton, who has served as one of the directors of the Company since February 12, 2007. There were no payments made to SS Sales for the years ending December 31, 2008 and 2007.

4. Property and Equipment

At December 31, 2008 and 2007, property and equipment consists of the following:

	December 31,	
	2008	2007
Office equipment	$ 31,966	$ 53,043
Delivery equipment	—	34,672
Furniture and fixtures	13,898	18,957
Machinery and equipment	49,986	54,161
Dies and molds	—	3,000
Testing equipment	147,312	147,312
Leasehold improvements	—	245,512
Subtotal	243,162	556,657
Less accumulated depreciation	(111,193)	(355,599)
Total current assets	$ 131,969	$ 201,058

Depreciation expense for the years ended December 31, 2008 and 2007, was $37,530 and $167,380, respectively. Depreciation expense for the period from inception February 18, 1998 through December 31, 2008 was $393,129.

5. Loans and other payable due to Morale/Matthews

Loans and other payable to Morale/Matthews consist of the following:

	Maturity dates	December 31, 2008	December 31, 2007
Note payable Morale Orchards, LLC, 2006 Note	December 5, 2006	$ —	$ 671,992
Note payable Morale Orchards, LLC, 2007 Note	January 10, 2007	—	601,250
Discount on Morale Orchards, LLC 2007 Note	—	—	(17,886)
Loan payable to Morale Orchards, LLC	Due on demand	—	20,334
Fees due to Matthews & Partners	—	—	472,762
Total		$ —	$ 1,748,452

Leodis Matthews, through his law firm, Matthews & Partners, ("Matthews") serves as outside legal counsel to the Company. Morale Orchards, LLC ("Morale") is owned by Jacqueline Alexander, the wife of Leodis Matthews. Mr. Matthews has no economic, voting, management or other interest, either directly or indirectly, in Morale and disclaims any beneficial ownership in the common stock and warrants of the Company held by Morale.

Morale had previously purchased two convertible promissory notes. Each note was for $612,500. One note was purchased December 5, 2006 (the "2006 Morale Note") and another was purchased January 10, 2007 (the "2007 Morale Note"). The notes were unsecured, due one year from the date issued, had an implied interest rate of 22.5%, and warrants were issued with the notes. The aggregate purchase price for the notes and warrants was $1,000,000.

The 2006 Morale Note was convertible at the rate of $0.85 per share into 720,588 shares of the Company's common stock, and the 2007 Morale Note was convertible at the rate of $0.70 per share into 875,000 shares of the Company's common stock. The warrant issued with the 2006 Note was exercisable at $0.85 per share, for 360,294 shares of the Company's common stock. The warrant issued with the 2007 Morale Note was exercisable at $.70 per share, for 437,500 shares of the Company's common stock.

As of January 31, 2008, both the 2006 and 2007 Morale Notes were in default. The note agreements provided if the notes are not paid when due, the principal balance shall be increased by 10% and the Company shall pay interest at 2.5% per month (30% per annum) until the note is paid. At January 31, 2008, the total amount due for the 2006 Morale Note and the 2007 Morale Note was $689,327 and $672,885 respectively.

In addition to the 2006 and 2007 Morale Notes, the Company borrowed $20,000 from Morale on October 30, 2007 (the "$20,000 Note"), at an interest rate of ten percent (10%) per annum. Principal and accrued interest under the Morale Note is due on demand, and no payments there under have been made by the Company. At January 31, 2008, the Company was also indebted to Matthews $472,762 for past legal fee.

Effective January 31, 2008, the Company, Morale, and Matthews agreed to a settlement of the Company's loans due Morale and fees due Matthews. Morale agreed to waive all accrued interest on the notes after January 31, 2008, and Morale and Matthews agreed to accept 7,421,896 shares of common stock of the Company as payment of the notes payable and fees.

On March 10, 2008, the Company issued 5,530,848 shares of the Company's common stock valued at $2,101,722 to Morale for the conversion of the 2006 and 2007 Morale Notes (totaling $1,362,212) and cancellation of $20,000 Note. Also on March 10, 2008, the Company issued 1,891,048 shares of the Company's common stock valued at $718,598 to Matthews in exchange for settlement of the legal fees due Matthews of $472,762.

The fair value of the shares of common stock issued was determined to be $0.38 per share, based on the closing price of the Company's common stock on January 31, 2008, for a total settlement of $2,820,320. As a result of the issuance of shares of common stock, the Company incurred additional non-cash costs of $927,903 that have been reflected as costs to settle outstanding debt in the accompanying December 31, 2008 statement of operations.

6. Convertible notes and warrants

Convertible debentures consist of the following:

	Maturity dates	December 31, 2008	December 31, 2007
2007 Spring Offering	—	$ —	$ 341,000
2007 Summer Offering	—	—	93,500
2007 Fall Offering	—	—	622,600
2007 Winter Offering	February 29, 2009	66,000	—
2008 Summer Offering	August 31, 2009	341,000	—
2008 Fall Offering	October 31, 2009	152,020	—
2008 Winter Offering	December 5, 2009	337,700	—
Sub-total		896,,720	1,057,100
Less, remaining debt discount		(593,595)	(334,920)
Total		303,125	722,180
Less: Convertible debentures, net, related parties		(12,466)	(227,136)
Convertible debentures, net, others		$ 290,659	$ 495,044

2007 Spring Offering

From June 13, 2007 through June 26, 2007, the Company conducted a private offering (the "2007 Spring Offering") of up to $550,000 aggregate face amount of its convertible notes (the "2007 Spring Notes") with a small number of accredited investors. Of this amount, $451,000 aggregate face amount of the 2007 Spring Notes were sold for an aggregate purchase price of $410,000 net proceeds. Therefore, while the stated interest rate on the 2007 Spring Notes is 0%, the implied interest rate on the 2007 Spring Notes is 10%. The 2007 Spring Notes mature on the first anniversary of their date of issuance. The 2007 Spring Notes are convertible, at the option of the noteholders, into shares of common stock of the Company (the "Conversion Shares") at an initial conversion price equal to the average of the closing bid price of the Company's common stock for the five trading days preceding the closing dates of the 2007 Spring Offering (the "Conversion Prices"). On the first closing, 1,002,941 Conversion Shares are issuable at Conversion Price of $0.34 per share. On the second closing, 207,548 conversion shares are issuable at a conversion price of $0.53 per share. The per share price of the Company's common stock on the Pink Sheets during this period ranged from a low bid price (intraday) of $0.35 to a high bid price (intraday) of $0.59.

As of December 31, 2008, investors have converted all $451,000 of the Convertible Notes into 1,210,489 shares of the Company's common stock (of which $344,546 of notes and accrued interest were converted into 951,641 shares of common stock during the year ended December 31, 2008). There was no outstanding balance at December 31, 2008 under these notes.

Each of the investors in the 2007 Spring Offering also received a warrant (the "2007 Spring Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 50% of the number of shares of common stock into which the 2007 Spring Notes are convertible (the "Warrant Shares"). Each Spring 2007 Warrant is exercisable on a cash basis only at an initial price of $0.50 per share, and is exercisable immediately upon issuance and for a period of two years from the date of issuance. A total of 605,242 Warrant Shares were issued.

The aggregate value of the 2007 Spring Offering Warrants issued in connection with the June 13, 2007 closing were valued at $59, 296 using the Black-Scholes option valuation model with the following assumptions; risk-free interest rate of 5.11%; dividend yield of 0%; volatility factors of the expected market price of common stock of 113.56%; and an expected life of two years (statutory term) and vest immediately upon issuance. The Company also determined that the notes contained a beneficial conversion feature of $119,472. The value of the Spring 2007 Offering Warrants of $59,296, the conversion option of $119,472, and the transaction fees of $31,000 are considered as debt discount and are being amortized over the life of the Note.

The aggregate value of the 2007 Spring Offering Warrants issued in connection with the June 26, 2007 closing were valued at $19,580 using the Black-Scholes option valuation model with the following assumptions; risk-free interest rate of 5.11%; dividend yield of 0%; volatility factors of the expected market price of common stock of 117.65%; and an expected life of two years (statutory term) and vest immediately upon issuance. The Company also determined that the notes contained a beneficial conversion feature of $21,655. The value of the 2007 Spring Offering Warrants of $19,580, the conversion option of $21,655 and the transaction fees of $112,500 are considered as debt discount and are being amortized over the life of the Note.

2007 Summer Offering

From August 8, 2007 through September 27, 2007, the Company conducted a private offering (the "2007 Summer Offering") of up to $330,000 aggregate face amount of its convertible notes (the "2007 Summer Notes") with a small number of accredited investors. Of this amount, $309,980 aggregate face amount of the 2007 Summer Notes were sold for an aggregate purchase price of $281,800 net proceeds. While the stated interest rate on the 2007 Summer Notes is 0%, the implied interest rate on the 2007 Summer Notes is 10%. The 2007 Summer Notes mature on the first anniversary of their date of issuance. The 2007 Summer Notes are convertible, at the option of the noteholder, into shares of common stock of the Company (the "Conversion Shares") at a conversion price equal to the average of the closing bid price of the Company's common stock for the five trading days preceding the closing date of the 2007 Summer Offering (the "Conversion Prices"). Up to 837,784 Conversion Shares are issuable at a Conversion Price of $0.37 per share.

As of December 31, 2008, all investors have converted $309,980 Convertible Notes into 837,784 shares of the Company's common stock (of which $93,500 of notes and accrued interest were converted into 252,702 shares of common stock during the year ended December 31, 2008). There was no outstanding balance at December 31, 2008 under these notes.

Each of the investors in the Summer 2007 Offering also received a warrant (the "2007 Summer Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 50% of the number of shares of common stock into which the 2007 Summer Notes are convertible (the "Warrant Shares"). Each 2007 Summer Warrant is exercisable on a cash basis only at a price of $0.50 per share, and is exercisable for a period of two years from the date of issuance. A total of 418,892 Warrant Shares were issued.

The aggregate value of the 2007 Summer Offering Warrants issued in connection with the September 28, 2007 closing were valued at $60,678 using the Black-Scholes option valuation model with the following assumptions; risk-free interest rate of 4.87%; dividend yield of 0%; volatility factors of the expected market price of common stock of 124.83%; and an expected life of two years (statutory term) and vest immediately upon issuance. The Company also determined that the notes contained a beneficial conversion feature of $69,055. The value of the 2007 Summer Offering Warrants of $60,678, the conversion option of $69,055 and the transaction fees of $28,180 are considered as debt discount and are being amortized over the life of the Note.

2007 Fall Offering

From November 14, 2007 through December 17, 2007, the Company conducted a private offering (the "2007 Fall Offering") of up to $1,100,000 aggregate face amount of its convertible notes (the "2007 Fall Notes") with a small number of accredited investors. Of this amount, $622,600 aggregate face amount of the 2007 Fall Notes were sold for an aggregate purchase price of $566,000 net proceeds. While the stated interest rate on the 2007 Fall Notes is 0%, the implied interest rate on the 2007 Fall Notes is 10%. The 2007 Fall Notes mature on the first anniversary of their date of issuance. The 2007 Fall Notes are convertible, at the option of the noteholder, into shares of common stock of the Company (the "Conversion Shares") at a conversion price equal to the average of the closing bid price of the Company's common stock for the five trading days preceding the closing date of the 2007 Fall Offering (the "Conversion Prices"). Up to 1,596,410 Conversion Shares are issuable at a Conversion Price of $0.39 per share.

During the year ended December 31, 2008, 1,596,410 shares of the Company's common stock were issued to noteholders in the 2007 Fall Offering who converted Convertible Notes in the amount of $622,600. There was no outstanding balance at December 31, 2008 under these notes.

Each of the investors in the 2007 Fall Offering also received a warrant (the "2007 Fall Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 50% of the number of shares of common stock into which the (2007 Fall Notes) are convertible (the "Warrant Shares"). Each 2007 Fall Warrant is exercisable on a cash basis only at a price of $0.50 per share, and is exercisable for a period of two years from the date of issuance. Up to 796,205 Warrant Shares are initially issuable on exercise of the 2007 Fall Warrants.

2007-2008 Winter Offering

From December 27, 2007 to February 29, 2008 the Company conducted an offering (the "2008 Winter Offering") of up to $1,000,000 aggregate face amount of its convertible notes (the " 2008 Winter Notes") with a small number of accredited investors. Of this amount, $521,400 aggregate face amount of the 2008 Winter Notes were sold for an aggregate purchase price of $474,000 net proceeds. Therefore, while the stated interest rate on the 2008 Winter Notes is 0%, the implied interest rate on the 2008 Winter Notes is 10%. The 2008 Winter Notes mature on the first anniversary of their date of issuance. The 2008 Winter Notes are convertible, at the option of the noteholder, into shares of common stock of the Company (the "Conversion Shares") at a conversion price equal to the average of the closing bid price of the Company's common stock for the five trading days preceding the closing date of the 2008 Winter Offering (the "Conversion Price"). Up to $1,042,800 Conversion Shares are issuable at a Conversion Price of $0.50 per share.

Each of the investors in the 2008 Winter Offering received, for no additional consideration, a warrant (the " 2008 Winter Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 50% of the number of shares of common stock into which the (2008 Winter Notes) are convertible (the "2008 Warrant Shares") Each 2008 Winter Warrant is exercisable on a cash basis only at a Price of $0.50 per share, and is exercisable for a period of two years from the date of issuance. Up to 521,400 2008 Warrant Shares are initially issuable on exercise of the 2008 Winter Warrants. As of December 31, 2008, investors have converted $455,400 of the Convertible Notes into 910,800 shares of the Company's common stock. The outstanding balance at December 31, 2008 is $66,000.

2008 Spring Offering

On May 27, 2008, the Company made an offering (the "2008 Spring Offering") with a certain investor of which, $66,000 face amount of the 2008 Spring Note was sold for $60,000 net proceeds. Therefore, while the stated interest rate on the 2008 Spring Note is 0%, the implied interest rate on the 2008 Spring Note is 10%. The 2008 Spring Note will mature on the first anniversary of the date of issuance. The 2008 Spring Note is convertible, at the option of the noteholder, into shares of common stock of the Company (the "Conversion Shares") at a conversion price equal to the average of the closing bid price of the Company's common stock for the five trading days preceding the closing date of the 2008 Spring Offering (the "Conversion Price"). The 132,000 Conversion Shares are issuable at a Conversion Price of $0.50 per share.

The investor in the 2008 Spring Offering received, for no additional consideration, a warrant (the " 2008 Spring Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 50% of the number of shares of common stock into which the (2008 Spring Notes) are convertible (the "2008 Spring Warrant Shares"). The 2008 Spring Warrant Shares is exercisable on a cash basis only at a Price of $0.50 per share, and is exercisable for a period of two years from the date of issuance. The 66,000 2008 Spring Warrant Shares are initially issuable upon exercise of the 2008 Spring Warrants. As of December 31, 2008, investors have converted $66,000 of the Convertible Notes into 132,000 shares of the Company's common stock. There was no outstanding balance at December 31, 2008.

2008 Summer Offering

From July 17, 2008 to August 31, 2008, the Company conducted an offering (the "2008 Summer Offering") of up to $600,000 aggregate face amount of its convertible notes "the"2008 Summer Offering) with a small number of accredited investors. Of this amount $484,000 aggregate face amount of the 2008 Summer Notes were sold for an aggregate purchase price of $440,000 net proceeds. Therefore, while the stated interest rate on the 2008 Summer Notes is 0%, the implied interest rate on the 2008 Summer Notes is 10%. The 2008 Summer Notes will mature on the first anniversary of the date of issuance. The 2008 Summer Notes are convertible, at the option of the noteholders, into shares of common stock of the Company (the "Conversion Shares") at a conversion price equal to the average of the closing bid price of the Company's common stock for the five trading days preceding the closing date of the 2008 Summer Offering (the "Conversion Price"). Up to 1,423,530 Conversion Shares are issuable at a Conversion Price of $0.34 per share.

Each of the investors in the 2008 Summer Offering received, for no additional consideration, a warrant (the " 2008 Summer Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 50% of the number of shares of common stock into which the (2008 Summer Notes) are convertible (the "2008 Summer Warrant Shares"). Each 2008 Summer Warrant is exercisable on a cash basis only at a price of $0.50 per share, and is exercisable for a period of two years from the date of issuance. Up to 711,764, 2008 Summer Warrant Shares are initially issuable upon exercise of the 2008 Summer Warrants. As of December 31, 2008, investors have converted $143,000 of the Convertible Notes into 420,589 shares of the Company's common stock. The outstanding balance at December 31, 2008 was $341,000.

2008 Fall Offering

From September 8, 2008 to October 31, 2008, the Company conducted an offering (the "2008 Fall Offering") of up to $500,000 aggregate face amount of its Convertible Notes. A total of $198,220 aggregate face amount of the 2008 Fall Notes were sold for an aggregate purchase price of $180,220 net proceeds. Therefore, while the stated interest on the 2008 Fall Notes is 0%, the implied interest rate on the 2008 Fall Notes is 10%. The 2008 fall notes will mature on the first anniversary of the date of issuance. The 2008 Fall Notes are convertible, at the option of the noteholders, into shares of common stock of the Company (the "Conversion Shares") at a conversion price equal to the average of the closing bid price of the Company's common stock for the five trading days preceding the closing date of the 2008 Fall Offering (the "Conversion Price"). Up to 1,321,466 Conversion Shares are issuable at a Conversion Price of $0.15 per share.

Each of the investors in the 2008 Fall Offering received, for no additional consideration, a warrant (the " 2008 Fall Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 50% of the number of shares of common stock into which the (2008 Fall Notes) are convertible (the "2008 Fall Warrant Shares"). Each 2008 Fall Warrant is exercisable on a cash basis only at a price of $0.50 per share, and is exercisable for a period of two years from the date of issuance. Up to 660,734 2008 Fall Warrant Shares are initially issuable upon exercise of the 2008 Fall Warrants. As of December 31, 2008, investors have converted $46,200 of the Convertible Notes into 308,000 shares of the Company's common stock. The outstanding balance at December 31, 2008 was $152,020.

2008 Winter Offering

From November 24, 2008 to December 5, 2008, the Company conducted an offering (the "2008 Winter Offering") of up to $500,000 aggregate face amount of its Convertible Notes. A total of $524,700 aggregate face amount of the 2008 Winter Notes were sold for an aggregate purchase price of $477,000 net proceeds. Therefore, while the stated interest on the 2008 Winter Notes is 0%, the implied interest rate on the 2008 Winter Notes is 10%. The 2008 Winter Notes will mature on the first anniversary of the date of issuance. The 2008 Winter Notes are convertible, at the option of the noteholders, into shares of common stock of the Company (the "Conversion Shares") at a conversion price equal to the average of the closing bid price of the Company's common stock for the five trading days preceding the closing date of the 2008 Winter Offering (the "Conversion Price"). Up to 3,086,470 Conversion Shares are issuable at a Conversion Price of $0.17 per share.

Each of the investors in the 2008 Winter Offering received, for no additional consideration, a warrant (the " 2008 Winter Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 50% of the number of shares of common stock into which the (2008 Winter Notes) are convertible (the "2008 Winter Warrant Shares"). Each 2008 Winter Warrant is exercisable on a cash basis only at a price of $0.30 per share, and is exercisable for a period of two years from the date of issuance. Up to 1,543,235 2008 Winter Warrant Shares are initially issuable upon exercise of the 2008 Winter Warrants. As of December 31, 2008, investors have converted $187,000 of the Convertible Notes into 1,099,999 shares of the Company's common stock. The outstanding balance at December 31, 2008 was $337,700.

2007 PIPE Offering. During the year ended December 31, 2007, the Company conducted an offering (the "2007 PIPE Offering"), through Spencer Clarke LLC, as exclusive placement agent, of up to $2,000,000 principal amount of its 10% convertible notes (the "2007 PIPE Notes"). Interest on the 2007 PIPE Notes, at a rate of 10% per annum, is payable quarterly. The Notes are due nine months from date of issuance. The 2007 PIPE Notes are convertible into shares of common stock at an initial conversion price of $0.70 per share (the "Conversion Shares"). There is no reset to the conversion price for any beneficial conversion feature.

The Company has the right to redeem any or all of the outstanding 2007 PIPE Notes in its sole discretion anytime after the termination of the 2007 PIPE Offering and prior to the maturity date of the 2007 PIPE Notes. The redemption price shall be the face amount of the redeemed 2007 PIPE Notes plus accrued and unpaid interest thereon. Subject to the following sentence, at any time prior to the maturity date of the 2007 PIPE Notes, for each additional $1,000,000 of gross proceeds raised from one or more offerings of the Company's equity or quasi-equity securities, the Company shall redeem 2007 PIPE Notes with a minimum face value of $500,000 together with accrued and unpaid interest, until the entire outstanding 2007 PIPE Note is redeemed. Certain financings that the Company may conduct outside of North America are exempt from this provision to redeem the 2007 PIPE Notes in whole or in part.

Investors in the 2007 PIPE Offering also received a warrant (the "2007 PIPE Warrant"), entitling the holder to purchase a number of shares of the Company's common stock equal to 150% of the number of shares of common stock into which the 2007 PIPE Notes are convertible (the "Warrant Shares"). The 2007 PIPE Warrant will be exercisable on a cash basis only and will have registration rights. The 2007 PIPE Warrant is exercisable at an initial price of $1.00 per share, and is exercisable immediately upon issuance and for a period of three years from the date of issuance.

Promptly, but no later than 90 days following the closing date of the 2007 PIPE Offering, the Company is required to file a Registration Statement with the SEC to register the Conversion Shares and the Warrant Shares. The Company shall use its best efforts to ensure that such Registration Statement is declared effective within 120 days after filing.

Pursuant to the terms of the PIPE Notes, if a Registration Statement is not filed on the 91st day following the closing date, (i) the interest rate on the PIPE Notes increased from 10% to 18% per annum until the event of default is cured and (ii) the holders of the PIPE Notes became entitled to receive additional warrants in an amount equal to 25% of the PIPE Warrants originally issued, for each 60-day period that the Company remains in default.

During the year ended December 31, 2007, the Company issued $400,000 of the PIPE Notes which could be converted into 571,429 shares of the Company's common stock and 2007 PIPE Warrants to purchase 857,144 shares of the Company's common stock. These warrants expire March 1, March 30 and April 2, 2010 and are exercisable at a price of $1.00 per share. The Company had related transaction fees of $48,000, resulting in net proceeds to the Company of $352,000. In addition to the transaction fees, warrants to purchase 57,143 shares of the Company's common stock were issued to Spencer Clarke LLC, the Company's exclusive placement agent for the 2007 PIPE Offering. These warrants expire March 1, March 30 and April 2, 2010 and are exercisable at a price of $0.70 per share.

The aggregate value of the 2007 PIPE Warrants issued in connection with this offering and the warrants issued to the placement agent were valued at $256,533 using the Black-Scholes option valuation model with the following assumptions: risk-free interest rate of 4.40% to 5.16%; dividend yield of 0%; volatility factors of the expected market price of common stock of 100.28% to 114.98%; and an expected life of two years (statutory term). The Company also determined that the notes contained a beneficial conversion feature of $62,857.

The Company was unable to meet its obligations to file the Registration Statement required under the terms of the 2007 PIPE Offering in a timely manner. In early July 2007, the Company began discussions with Spencer Clarke, acting on behalf of the holders of the PIPE Notes and PIPE Warrants, for an extension of time to file the Registration Statement. Notwithstanding such discussions, Spencer Clarke issued a Notice of Default dated August 1, 2007 (the "Notice") to the Company for its failure to file the Registration Statement in a timely manner.

On August 29, 2007, the Company entered into a Modification Agreement with the 2007 PIPE note holders. The Modification Agreement was entered into as a result of negotiations between the Company and Spencer Clarke, LLC ("Spencer Clarke"), the Company's exclusive placement agent for the 2007 PIPE Offering, after the Company failed to file with the Securities and Exchange Commission (the "SEC") in a timely manner a Registration Statement to register the shares of the Company's common stock into which the PIPE Notes are convertible and for which the PIPE Warrants may be exercised.

Pursuant to the Modification Agreement, the parties have agreed as follows:

- Promptly, but no later than November 30, 2007 (instead of on or before July 2, 2007), the Company shall file the Registration Statement with the SEC to register the Conversion Shares and the Warrant Shares.
- Effective August 1, 2007, the interest rate on the PIPE Notes shall be increased from 10% per annum to 18% per annum until such time as the Registration Statement is declared effective by the SEC.
- The price at which the PIPE Notes may be converted into Conversion Shares (the "Conversion Price") shall be reduced from $0.70 to $0.45 per share.
- Each Investor shall receive, for no additional consideration, additional warrants ("Additional Warrants") in an amount equal to an additional 50% of the PIPE Warrants originally issued pursuant to the terms of the 2007 PIPE Offering. These Additional Warrants total 428,575 and shall have the same registration rights as are described in the Private Placement Memorandum dated January 12, 2007 (the "Offering Memorandum") used in connection with the 2007 PIPE Offering applicable to the PIPE Warrants; shall be exercisable immediately upon issuance; shall remain exercisable for a period of five years from the date of the Modification Agreement, on a cash basis only, at an initial exercise price of $0.45 per share; and shall, in all other respects, have the same terms and conditions, and be in the same form, as the PIPE Warrants.
- If the Company does not file the Registration Statement with the SEC by November 30, 2007, each Investor shall receive, for no additional consideration, warrants ("Delay Warrants") in an amount equal to an additional 50% of the PIPE Warrants originally issued pursuant to the terms of the Offering Memorandum. The Delay Warrants shall have the same registration rights as are described in the Offering Memorandum applicable to the PIPE Warrants; shall be exercisable immediately upon issuance; shall remain exercisable for a period of five years from the date of this Agreement, on a cash basis only, at an initial exercise price of $0.45 per share; and shall, in all other respects, have the same terms and conditions, and be in the same form, as the PIPE Warrants.

The terms and conditions of the Offering Memorandum, the PIPE Notes and the PIPE Warrants, to the extent not expressly amended in the Modification Agreement, remain in full force and effect. The issuance of the Additional Warrants (“Delay Warrants”), if any, and the reduction of the Conversion Price of the PIPE Notes, has the potential to dilute the percentage ownership interest of the Company's existing shareholders.

The aggregate value of the 2007 PIPE Warrants issued in connection with this Modification Agreement were valued at $138,107 using the Black-Scholes option valuation model with the following assumptions: risk-free interest rate of 4.43%; dividend yield of 0%; volatility factors of the expected market price of common stock of 113.55%; and an expected life of two years (statutory term).

On November 30, 2007, the Company and the Investors entered into the Second Modification Agreement and pursuant to this agreement have agreed as follows:

- The Investors have agreed to forgive all accrued interest on their PIPE Notes, from the date of issuance thereof through December 14, 2007.
- On December 14, 2007, the Company agreed to pay all Investors 50% of the principal amount of their original PIPE Notes which equals a total cash repayment of $200,000. Additionally, in repayment of the other 50% of the principal amount of the original PIPE Notes, the Company, on December 14, 2007, agreed to issue to Investors a total of 1,060,000 shares of the Company's common stock (the "Conversion Shares").
- Concurrently with the cash payment and the issuance of the Conversion Shares as noted in paragraph 2 above, the Investors agreed to deliver to the Company the original of the PIPE Notes, which will be marked and deemed cancelled and of no further force or effect.
- In further consideration of the above terms and conditions, the Investors have agreed that the Company shall not be required to, and shall not, file a Registration Statement with the Securities and Exchange Commission or any state securities agency to register or qualify the PIPE Notes, the Conversion Shares, the PIPE Warrants, or any shares issuable pursuant to the PIPE Warrants (the Warrant Shares"). The Conversion Shares and Warrant Shares when issued will be deemed restricted securities and bear appropriate legends.
- The terms and conditions of the PIPE Warrants, to the extent not expressly amended in the Second Modification Agreement, shall remain in full force and effect in furtherance of the terms and conditions set forth in the Modification Agreement.

Payment of $200,000 was made by the Company in accordance with the Second Modification Agreement, the Original Notes were surrendered by the Investors and 1,060,000 shares of common stock were issued to the Investors on December 27, 2007. Included in interest expense is the excess of the cost to settle the obligation over the carrying value at the settlement date totaling $222,368.

The aggregate value of the 2007 PIPE warrants in connection with the Second Modification Agreement were valued at $116,913 using the Black-Scholes valuation model with the following assumptions: risk-free interest rate of 4.39%; dividend yield of 0%; volatility factors of the expected market price of common stock of 116.75%; and an expected life of five years (statutory term). The Company recorded and issued these warrants in January 2008.

7. Research and Development

The Company has research and development facilities in Morgan Hill, California. The Company has tested products incorporating our ZEFS, MK IV and ELEKTRA technologies for multiple makes and models diesel engines, motorbikes, boats, generators, lawnmowers and other small engines. The Company has purchased test vehicles, test engines and testing equipment. The Company incurred $652,363 and $600,816 for the years ended December 31, 2008 and 2007, respectively, on its research and development activities.

Temple University License Agreements

The Company has entered into a research and development agreement (R&D Agreement) with Temple University to conduct further research on the ELEKTRA technology. Under the R&D Agreement Temple University will conduct a 24-month research project towards expanding the scope of, and developing products utilizing, the technologies covered under the License Agreements, including design and manufacture of prototypes utilizing electric fields to improve diesel, gasoline and kerosene fuel injection in engines using such fuels and a device utilizing a magnetic field to reduce crude oil viscosity for crude oil (paraffin and mixed base) and edible oil flow in pipelines. If the research project yields results within the scope of the technologies licensed pursuant to the License Agreements, those results will be deemed included as rights licensed to the Company pursuant to the License Agreements. If the research project yields results outside of the scope of the technologies covered by the License Agreements, the Company has a six-month right of first negotiation to enter into a new worldwide, exclusive license agreement with Temple University for the intellectual property covered by those results.

The Company has entered into three License Agreements with Temple University covering Temple University's current patent applications concerning certain electric field effects on gasoline, kerosene and diesel fuel particle size distribution, and concerning electric field effects on crude oil and edible oil viscosity. Initially, the License Agreements are exclusive and the territory licensed to the Company is worldwide. Pursuant to the License Agreements, the Company will pay to Temple University (i) license fees in the aggregate amount of $300,000. A payment of $50,000 was due on November 1, 2006; a payment of $100,000 was due on March 2, 2007; a payment of $75, 000 was due on February 2, 2008 and the final payment is due on February 2, 2009. Annual maintenance fees of $25,000 for the first license were due on November 1, 2007 and November 1, 2008. Annual maintenance payments of $125,000 for two of the licenses were due January 1, 2008. In addition, each License Agreement separately provides that the Company will pay royalties to Temple University on net sales of products incorporating the technology licensed under that License Agreement in an amount equal to 7% of the first $20 million of net sales, 6% of the next $20 million of net sales and 5% of net sales in excess of $40 million. Sales under the three License Agreements are not aggregated for purposes of calculating the royalties payable to Temple University. In addition, the Company has agreed to bear all costs of obtaining and maintaining patents in any jurisdiction where the Company directs Temple University to pursue a patent for either of the licensed technologies. Should the Company not wish to pursue a patent in a particular jurisdiction, that jurisdiction would not be included in the territory licensed to the Company.

At December 31, 2008, the Company is in default in the amount of $300,000 in connection with its payment obligations under the License Agreements and maintenance payments. On November 10, 2008, the Company received written notice from Temple University of a material breach relating to required payments under the License Agreements. The notice provides the Company with 60 days' notice to cure the material breach. The Company's failure to cure could result in a termination of the License Agreements. If the termination occurs, the Company estimates this would have a material adverse impact on the Company's financial condition and operations. Under the License Agreements the Company is subject to a penalty of 1% per month of the amounts due and unpaid under the License Agreements. As of December 31. 2008, the Company estimates the penalty to be $40,250, and has accrued this in the accompanying financial statements.

The Company has also entered into a research and development agreement (R&D Agreement) with Temple University to conduct further research on the ELEKTRA technology. Under the R&D Agreement Temple University will conduct a 24-month research project towards expanding the scope of, and developing products utilizing, the technologies covered under the License Agreements, including design and manufacture of prototypes utilizing electric fields to improve diesel, gasoline and kerosene fuel injection in engines using such fuels and a device utilizing a magnetic field to reduce crude oil viscosity for crude oil (paraffin and mixed base) and edible oil flow in pipelines. If the research project yields results within the scope of the technologies licensed pursuant to the License Agreements, those results will be deemed included as rights licensed to the Company pursuant to the License Agreements. If the research project yields results outside of the scope of the technologies covered by the License Agreements, the Company has a six-month right of first negotiation to enter into a new worldwide, exclusive license agreement with Temple University for the intellectual property covered by those results. Pursuant to the R&D Agreement, the Company will make payments to Temple University in the aggregate amount of $500,000.

At December 31, 2008, the Company is in default in the amount of $376,250 under the R&D Agreement. On November 10, 2008, the Company received written notice of default from Temple University. The notice provides the Company with 60 days to cure the material breach. The Company's failure to cure the breach could result in the termination of the R&D Agreement. If the termination occurs, the Company estimates this would have a material adverse impact on the Company's financial condition and operations.

At November 30, 2008, the Company owed to Temple University a total of $716,500 for the License Agreements, Maintenance Fees, R & D Agreement and penalties. On January 9, 2009, the Company entered into a Letter Agreement with Temple University wherein Temple University granted to the Company an extension of time to cure the above-referenced breaches until March 31, 2009. The Letter Agreement provides for payments of $100,000 on each of January 31, 2009, February 28, 2009 and March 31, 2009. The Company made the January 31, 2009 payment but did not make the payment due on February 28, 2009. On March 26, 2009, the Company received a written extension for both the February 28, 2009 payment and the March 31, 2009 payment until April 30, 2009. All additional amounts past due as of November 10, 2008 were to be re-negotiated on or before March 31, 2009, however, this has now been extended to April 30, 2009. A penalty equal to 1% of the amount due and unpaid on the first day of each calendar month will be added to the outstanding amount due Temple University.

The Company has provided for all past due amounts in the financial statements at December 31, 2008.which is included in accounts payable-Temple University. During the twelve months ended December 31, 2008 and December 31, 2007, the Company recorded $480,250, and 186,250, respectively fees due to Temple University. Fees due Temple University as of December 31, 2008 and 2007 were $716,500 and $161,250, respectively.

Other

The Company is also working with Temple and several domestic and international corporations to develop the AOT (Applied Oil Technology) product line for oil refineries and pipelines. The AOT product line uses the same dynamically-controlled strong electrical field concepts to reduce viscosity as ELEKTRA but is designed for pipeline applications that use thicker, more viscous fuels than the ELEKTRA market. The AOT product is intended to improve the speed of highly viscous fluids such as crude oil traveling through pipelines.

8. Common Stock Transactions

Issuances of Common Stock - 2008

During the year ended December 31, 2008, the Company issued an aggregate of 2,398,850 of shares of its common stock for an aggregate value of $518,629. The shares were valued based upon the trading price of the common stock at the date of the agreement. The agreements entered into during the year included the following

- On November 17, 2008, the Company entered into a Consultant Agreement with Core Consulting Group to advise the Company regarding Public and Investor Relations concerning various Company business and public disclosures. Core shall be paid $2,500 a month for six (6) months and 1,000,000 non-refundable restricted shares of common stock. The Company valued the shares at $170,000 based upon the trading price of the common stock at the date of the agreement.

- On November 17, 2008, the Company entered into a Service Agreement with IRTH Communications, IRTH will perform certain IR/PR services, internet development, communications, and business consulting services to private and publicly held companies. Compensation for services will be $7,500 for the following 12 months. IRTH will receive 625,000 non-refundable restricted shares of common stock. The Company valued the shares at $106,250 based upon the trading price of the common stock at the date of the agreement.

- During 2008, the Company issued 238,850 shares of its common stock for services valued in the aggregate at $81,879. The Company valued the shares at prices ranging from $0.16 to $0.49 per share based upon the trading price of the common stock at the date of the agreements.

- During 2008, the Company issued 535,000 shares of its common stock to settle $160,500 of outstanding accounts payable.

During the year ended December 31, 2008, the Company issued 5,575,082 shares of common stock in exchange for conversion of $1,958,245 of Convertible Notes.

During the year ended December 31, 2008, the Company issued 7,421,896 shares of its common stock valued at $2,783,711 stock in settlement of certain loans and other amounts due Morale/ Matthews (See Note 5).

During the year ended December 31, 2008, the Company issued 1,064,650 shares of common stock in exchange upon the exercise of outstanding warrants and options, resulting in net proceeds to the Company of $532,325.

Issuance of common stock – 2007

In August 2007, the Company issued 2,597,524 shares in connection with the exercise of options that were originally granted to the late Edward L. Masry.

During the year ended December 31, 2007 the Company issued 1,880,421 shares of common stock under the equity line of credit. Gross proceeds received of $992,055 and net proceeds received of $912,683.

During the year ended December 31, 2007, the Company issued 1,910,711 shares of common stock in exchange for conversion of $526,480 of Convertible Notes.

9. Stock options and warrants

The Company currently issues stock options to employees, directors and consultants under the 2004 Stock Option Plan (the Plan). The Company could issue options under the Plan to acquire up to 5,000,000 shares of common stock. In February 2006, the board approved an amendment to the Plan (approved by the Shareholders in May 2006), increasing the authorized shares by 2,000,000 shares to 7,000,000 shares. At December 31, 2008, 2,648,775 were available to be granted under the Plan. Prior to 2004, the Company granted 3,250,000 options outside the Plan to officers of the Company of which 250,000 are still outstanding.

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. The weighted-average, remaining contractual life of employee options outstanding at December 31, 2008 was 8.18 years. Stock option activity for the years ended December 31, 2008 and 2007, which includes 3,250,000 options granted outside and prior to the adoption of the Plan, was as follows:

	Weighted Avg. Options	Weighted Avg. Exercise Price
Options, January 1, 2004	13,250,000	$ 0.11
Options granted	1,172,652	1.03
Options exercised	—	—
Options cancelled	—	—
Options, December 31, 2004	14,422,652	0.18
Options granted	2,085,909	0.92
Options exercised	—	—
Options cancelled	(10,000,000)	0.10
Options, December 31, 2005	6,508,561	0.53
Options granted	1,313,605	1.21
Options exercised	(2,860,000)	0.10
Options forfeited	(962,607)	0.84
Options cancelled	—	—
Options, December 31, 2006	3,999,559	0.99
Options granted	238,679	0.55
Options exercised	—	—
Options forfeited	(49,793)	1.96
Options cancelled	—	—
Options, December 31, 2007	4,188,445	$ 0.95
Options granted	2,700,000	0.28
Options exercised	—	—
Options forfeited	(2,287,220)	1.00
Options cancelled	—	—
Options, December 31, 2008	4,601,225	$ 0.53

The weighted average exercise prices, remaining contractual lives for options granted, exercisable, and expected to vest under the Plan as of December 31, 2008 were as follows:

	Outstanding Options			Exercisable Options	
Option Exercise Price Per Share	Shares	Life (Years)	Exercise Price	Shares	Weighted Average Exercise Price
$ 0.21 - $ 0.99	4,213,679	8.4	$ 0.45	3,963,679	$ 0.46
$ 1.00 - $ 1.99	327,546	5.8	$ 1.41	327,546	$ 1.41
$ 2.00 - $ 2.26	60,000	2.6	$ 2.26	60,000	$ 2.26
	4,601,225		$ 0.53	4,351,225	$ 0.54

As of December 31, 2008 the market price of the Company's stock was $0.40 per share. Future compensation expense on the options which were not exercisable at December 31, 2008 is $51,914.

Black-Scholes value of options

During the years ended December 31, 2008 and 2007, the Company valued options for pro-forma purposes at the grant date using the Black-Scholes pricing model with the following average assumptions:

	2008	2007
Expected life (years	5.05	5.06
Risk free interest rate	4.37%	4.42%
Volatility	124.05%	116.82%
Expected dividend yield	0.00%	0.00%

The weighted average fair value for options granted in 2008 and 2007 were $0.24 and $0.89, respectively.

During the year ended December 31, 2008, the Company granted 2,700,000 options exercisable at amounts ranging from $0.21 to $0.40, vested immediately or over one year with a one to ten year life. The options were valued at an aggregate amount of $$648,570 (or $0.24 per share on average) using the Black Scholes pricing model using a 5.0 to 5.5 year expected term, 123% to 131% volatility, no annual dividends, and a discount rate of 4.34% to 4.64%. During the year ended December 31, 2008, the Company recognized compensation expense of $645,745 relating to the vesting of these options. As of December 31, 2008, there was unamortized compensation of $51,914 that will be amortized as compensation cost in 2009.

Warrants

The following table summarizes certain information about the Company's stock purchase warrants (including the warrants discussed in Note 8).

	Warrants	Weighted Avg. Exercise Price
Warrants outstanding, January 1, 2004	14,252,414	0.48
Warrants granted	2,372,500	1.27
Warrants exercised	(960,500)	0.20
Warrants cancelled	—	—
Warrants outstanding, December31, 2004	15,664,414	0.62
Warrants granted	5,198,574	1.16
Warrants exercised	(50,500)	0.99
Warrants cancelled	(20,000)	1.50
Warrants outstanding, December31, 2005	20,792,488	0.75
Warrants granted	3,624,894	1.28
Warrants exercised	(2,328,452)	0.68
Warrants cancelled	(1,191,619)	1.46
Warrants outstanding, December 31, 2006	20,897,311	$ 0.81
Warrants granted	3,602,701	0.64
Warrants exercised	—	—
Warrants cancelled	(6,580,984)	1.06
Warrants outstanding, December 31, 2007	17,919,028	$ 0.67
Warrants granted	3,931,708	0.42
Warrants exercised	(1,064,650)	0.50
Warrants cancelled	(10,386,083)	0.56
Warrants outstanding, December 31, 2008	10,400,003	$ 0.70

At December 31, 2008 the price of the Company's common stock was $0.40 per share which is less than the exercise price of all of the warrants, and therefore there was no intrinsic value.

	Outstanding Warrants			Exercisable Warrants	
Warrant Exercise Price Per Share	Shares	Life (Years)	Exercise Price	Shares	Weighted Average Exercise Price
$ 0.30 - $ 0.99	7,776,559	2.0	$ 0.47	7,776,559	$ 0.47
$ 1.00 - $ 1.99	2,057,966	2.8	$ 1.00	2,057,966	$ 1.00
$ 2.00 - $ 2.70	565,478	0.7	$ 2.67	565,478	$ 2.67
	10,400,003		$ 0.70	10,400,003	$ 0.70

10. Commitments and contingencies

Legal matters

On December 19, 2001, the SEC filed civil charges in the United States Federal District Court, Southern District of New York, against the Company, the Company's former President and then sole director Jeffrey A. Muller, and others, alleging that the Company and the other defendants were engaged in a fraudulent scheme to promote the Company's 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 the Company which was then controlled by Mr. Muller. On March 22, 2002, the Company 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, the Company was not required to admit fault and did not pay any fines or restitution.

On July 2, 2002, after an investigation by the Company's newly constituted board of directors, the Company filed a cross-complaint in the SEC action against Mr. Muller and others seeking injunctive relief, disgorgement of monies and stock and financial restitution for a variety of acts and omissions in connection with sales of the Company's stock and other transactions occurring between 1998 and 2002. Among other things, the Company alleged that Mr. Muller and certain others sold Company stock without providing adequate consideration to the Company; sold insider shares without making proper disclosures and failed to make necessary filing required 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 the Company' stock; and entered into various undisclosed arrangement regarding the control, voting and disposition of their stock.

On July 30, 2002, the U.S. Federal District Court, Southern District of New York, granted the Company's application for a preliminary injunction against Mr. Muller and others, which prevented Mr. Muller and other cross-defendants from selling, transferring, or encumbering any assets and property previously acquired from the Company, from selling or transferring any of the Company's stock that they may have owned or controlled, or from taking any action to injure the Company or the Company's business and from having any direct contact with the Company's shareholders. The injunctive order also prevented Mr. Muller or his nominees from engaging in any effort to exercise control over the Company's corporation and from serving as an officer or director of the Company.

In the course of the litigation, the Company has obtained ownership control over all patent rights to the ZEFS device.

On January 4, 2007, the Court entered a final judgment against Jeffrey Muller which barred Mr. Muller from serving as an officer or director of a public company for a period of 20 years, ordered Mr. Muller to disgorge any shares of the Company's stock that he still owns and directed the Company to cancel any issued and outstanding shares of the Company's stock still owned by Mr. Muller. Mr. Muller was also ordered to disgorge unlawful profits in the amount of $7.5 million and to pay a civil penalty in the amount of $100,000. Acting in accordance with the ruling and decision of the Court, the Company has canceled (i) 8,047,403 shares of common stock that had been held by Mr. Muller and/or his affiliates, (ii) options to acquire an additional 10,000,000 shares of the Company's common stock held by Mr. Muller personally and (iii) $1,017,208 of debt which Mr. Muller claimed was owed to him by the Company. After an appeal filed by Mr. Muller was dismissed the Judgment against him is considered final.

On February 8, 2007, Federal Magistrate Judge Maas issued a post-judgment order, at the Company's request, which further concluded that all of the shares of the Company's stock held by Mr. Muller or any of his nominees directly or indirectly owned or controlled were to be recaptured by the Company and were subject to disgorgement and forfeiture. The ruling provided that all shares, options and any other obligations allegedly owed by the Company to Mr. Muller were to be disgorged in our favor and confirmed the earlier judgment holding Mr. Muller liable for $7.5 million in actual damages, imposing a $100,000 fine and barring Mr. Muller from any involvement with a publicly traded company for 20 years. With prejudgment interest, this ruling brings the actual damages against Muller to over $11 million. Additionally, the Court clarified that the order required the disgorgement of any shares of the Company's stock that Mr. Muller or any of his nominees directly or indirectly owned or controlled. In furtherance of this order, the Company has taken action to cancel over 3.6 million shares which had been issued to offshore companies. The Order also confirmed the appropriateness of actions previously taken by the Company to acquire the patent rights and to consolidate the manufacturing, marketing and distribution rights with its ownership of all rights to the existing patents. On February 11, 2009, Judge Maas confirmed that his previous decision was modified and Save the World Air's Motion for Summary Judgment was granted in favor of Save the World Air as set forth in his order of February 8, 2007. A proposed Final Judgment in favor of Save the World air is pending before the United States District Court, Southern District of New York

Patent Infringement Claims by Jeffrey A. Muller

In April 2005, Jeffrey A. Muller, the Company's former sole director and executive officer, filed a complaint against the Company in the Federal District Court for the Central District of California, seeking declaratory and injunctive relief and alleging unfair competition in connection with a claimed prior patent interest in the ZEFS device and stock option rights. In seeking declaratory relief, Mr. Muller is seeking to have the patent rights in the ZEFS device that were previously transferred to the Company by Mr. Muller's bankruptcy trustee declared null and void.

This lawsuit brought by Mr. Muller arose out of the same claims that were the subject of litigation in the Federal District Court for the Southern District of New York, in which the Court entered judgment against Mr. Muller. Those claims are pending further proceedings. While the Company believes that the Company has valid claims and defenses, there can be no assurance that an adverse result or outcome on the pending motions or a trial of this case would not have a material adverse effect on the Company's financial position or cash flow. Muller's claims for patent infringement against Save The World Air were dismissed and the case was closed on October 15, 2008, by order of George B. Daniels, United States District Judge, Southern District of New York.

Litigation Involving Scottish Glen Golf Company

We were involved in litigation with Scottish Glen Golf Company, Inc. (SGGC) doing business as KZ Golf, Inc., the Company's previous landlord on claims in the aggregate amount of $104,413. The Company did not dispute the fact that certain amounts of unpaid past rent are due but did dispute that it owes the aggregate of $104,413 demanded by SGGC; more than half of which are purported "late fees" which was assessed at the rate of $100 per day. It was the Company's position that the late fees are void and unenforceable and that the Company is entitled to a set-off for office space that reverted back to SGGC.

On April 30, 2008 the Company and SGGC settled their pending litigation relating to the Company's prior offices. The Company agreed to pay SGGC $51,000 in full settlement of SGGC's claims. On May 28, 2008 the initial payment of $34,000 was made and on July 9, 2008 the final payment of $17,000 was made and the Complaint was dismissed, with prejudice. The Company recorded $52,069 as other income and as a reduction of accounts payable.

Employment agreements

John Bautista

In July 2005, the Company entered into an employment agreement with John Bautista to serve as a Vice President of Operations for the Company. The agreement expired December 31, 2005, with an automatic one-year extension and provided for annual base salary of not less than $120,000 per year. Effective February 21, 2006, the individual was promoted to Executive Vice President, his annual base salary was increased from $120,000 per year to $150,000 per year and the term of his employment agreement was extended to December 31, 2007. Effective August 8, 2006, the individual was promoted to Chief Operating Officer and his annual base salary was increased from $150,000 per year to $200,000 per year. During the employment term, the individual is eligible to participate in certain incentive plans, stock option plans and similar arrangements in accordance with the Company's recommendations at award levels consistent and commensurate with the position and duties hereunder. Effective March 21, 2008, the employment relationship between the Company and John Bautista, Chief Operating Officer, was terminated.

Eugene E. Eichler

On November 9, 2006, Eugene Eichler, who served as the Company's Chief Executive Officer and Chief Financial Officer, resigned due to a medical disability. His resignation as Chief Executive Officer took effect on November 20, 2006 and his resignation as Chief Financial Officer took effect on January 8, 2007. Mr. Eichler did not stand for reelection as a director at the December 13, 2007 Shareholder Meeting.

Under the terms of the separation agreement as an officer of the Company, Mr. Eichler is entitled to be paid out the remainder of the cash portion of his employment agreement, at a rate of $300,000 per annum, through December 31, 2007, in accordance with the Company's normal pay policies. Options granted to him in February 2006 have been accelerated, fully vested on November 20, 2006 and the related compensation was expensed. Additionally, Mr. Eichler will have until November 20, 2007 to exercise such options. Mr. Eichler is also entitled to receive a stock option grant in 2007 equal to the lesser of (i) the number of stock options he was granted in 2006 or (ii) the highest number of options granted to any of the then Chief Executive Officer, President or Chief Financial Officer on an annualized basis, on terms no less favorable as granted to such person; provided, however, that such options to be granted to the former officer shall be fully vested upon grant and shall be exercisable for one year from the date of grant. The Company and the former officer have waived any claims they may have against each other and have agreed to mutual indemnification. The Company expensed $345,000 for the remaining term of Mr. Eichler's employment agreement and benefits for the year ended December 31, 2006.

As an interim matter, on July 18, 2007, the Board of Directors appointed incumbent director and former President and Chief Executive Officer of the Company Eugene E. Eichler as Interim President and Chief Executive Officer of the Company. Mr. Eichler served without cash compensation and resigned on July 25, 2007 at which time Charles Blum assumed the positions of President and Chief Executive Officer. On October 18, 2007, the Board appointed Mr. Eichler as Interim Chief Financial Officer to serve in this capacity at no salary until a replacement is appointed and extended the expiration date of Mr. Eichler's options to November 20, 2009. These options would have expired on November 20, 2007. On April 1, 2008, Mr. Eichler entered into a month to month arrangement at a salary of $10,000 per month.

Bruce H. McKinnon

On June 15, 2007, the Company and Bruce H. McKinnon agreed and entered into an agreement that Mr. McKinnon would resign as Chief Executive Officer of the Company effective on the first to occur of (i) the appointment of a new Chief Executive Officer by the Board of Directors and (ii) July 31, 2007. It was intended that Mr. McKinnon would continue to serve as President of the Company and would continue to receive the compensation provided for in accordance with the provisions of the employment agreement dated as of October 5, 2005 between the Company and Mr. McKinnon, through December 31, 2007, the end of the term of that agreement. Additionally, Mr. McKinnon will continue to serve as a director of the Company, until Mr. McKinnon has resigned, been removed by the stockholders or not been re-elected to the Board. The Company and Mr. McKinnon have waived any claims the Company and Mr. McKinnon may have against each other and have agreed to mutual indemnification.

On July 18, 2007, Bruce H. McKinnon was removed by the Board of Directors as President and Chief Executive Officer of the Company and its wholly-owned subsidiary, STWA Asia, effective immediately. Mr. McKinnon also was removed by the Board of Directors as a director of STWA Asia, effective immediately. Mr. McKinnon continued to serve as a director of the Company, until Mr. McKinnon resigned in November 2007. The Company expensed $111,381 for the remaining term of Mr. McKinnon's employment agreement and benefits for the year ended December 31, 2007.

Charles R. Blum

Effective July 18, 2007, the Company entered into an employment agreement with Mr. Charles R. Blum to serve as the Company's President and Chief Executive Officer. Pursuant to the Employment Agreement, Mr. Blum's employment is for a one-year term, subject to automatic one-year extensions and provides for annual base compensation of $200,000 per year, subject to periodic review and adjustment. In addition, Mr. Blum will receive an automobile allowance of $900 per month and four weeks of paid vacation annually. Also, Mr. Blum is entitled to participate in all employee benefit plans that the Company makes available to the Company's employees generally; provided that if Mr. Blum elects not to participate in the Company's group medical insurance plan, Mr. Blum will be reimbursed in an amount equal to the lesser of (i) the premium the Company would have paid to include Mr. Blum as a participant in that group health insurance plan and (ii) the sums paid by Mr. Blum in connection with maintaining Mr. Blum's private health insurance. The Company will also reimburse Mr. Blum the reasonable costs paid by Mr. Blum for maintaining DSL Internet access and other direct costs of maintaining an office at Mr. Blum's home, but only until such time as the Company shall provide Mr. Blum with an office at a location reasonably acceptable to Mr. Blum.

Leases

In September 2005, the Company entered into a lease agreement for a testing facility located in Morgan Hill, California. The term of the lease was from September 1, 2005 through August 31, 2007 and carried an option to renew for two additional years at the then prevailing market rate. The rent was $2,240 per month under this lease. The lease was amended in February 2006 for additional space. The rent under the amended lease was $4,160 per month. The Company renewed this lease on August 9, 2007 for an additional two-year term. The rent is $4,640 per month for the first six months of the new term of the lease and $5,480 per month for the remaining eighteen months of the new term of the lease which expires on August 31, 2009.

In May 2008, the Company entered into a lease agreement for its administrative offices in Los Angeles, California. The term of the lease was for $3,000 per month from June 1, 2008 through November 30, 2008. From that point on, the lease is due on a month to month basis with rent payment increasing to $3,750.

Total rent expense under this leases for the year ended December 31, 2008 and 2007, is $85,980 and $59,640, respectively. The following is a schedule by years of future minimum rental payments required under the non-cancellable operating leases as of December 31, 2008.

Years Ending December 31,	
2009	$ 43,840
Total	$ 43,840

11. Income taxes

Income tax provision consists of the following:

	For the years ended December 31,	
	2008	**2007**
Current:		
Federal	$ —	$ —
State	800	800
Total current	800	800
Deferred:		
Federal	—	—
State	—	—
Total deferred	—	—
Total income tax provision	$ 800	$ 800

As of December 31, 2008, the Company has recorded a $13,876,336 valuation allowance against a portion of its deferred tax assets, since at that time it was believed that such assets did not meet the more likely than not criteria to be recoverable through projected future profitable operations in the foreseeable future.

Failure by the Company to successfully maintain improved margins, grow revenues and/or maintain anticipated savings on future interest costs, and maintain profitable operating results in the near term, could adversely affect the Company's expected realization of some or all of its deferred tax assets and could require the Company to record a valuation allowance against some or all of such assets, which could adversely affect the Company's financial position and results of operations.

The total income tax provision (benefit) was 0% of pretax income (loss) for the years ended December 31, 2008 and 2007, respectively. A reconciliation of income taxes with the amounts computed at the statutory federal rate follows:

	December 31,	
	2008	**2007**
Computed tax provision (benefit) at federal statutory rate (34%)	$ (2,062,414)	$ (2,129,061)
State income taxes, net of federal benefit	(257,605)	(268,524)
Permanent items	558,142	561,162
Credits	—	—
Valuation allowance	1,762,677	1,837,223
Income tax provision	$ 800	$ 800

The deferred tax assets and deferred tax liabilities recorded on the balance sheet are as follows:

	December 31, 2008		December 31, 2007	
	Deferred tax assets	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Current:				
Accrued liabilities	$ 419,138	$ ---	$ 538,747	$ —
Other	272	---	272	—
	419,41		539,019	—
Noncurrent:				
Net operating loss carry forwards	12,326,918	---	10,122,130	—
Unexercised stock options and warrants	815,781	---	1,133,210	—
Credit carryovers	256,757	---	256,757	—
Depreciation	57,470	---	62,543	—
Valuation allowance	(13,876,336)	---	(12,113,659)	—
Total deferred taxes net of valuation allowance	$ —	$ —	$ —	$ —

As of December 31, 2008, the Company had net operating losses available for carry forward for federal tax purposes of approximately $31.2 million expiring beginning in 2018. These carryforward benefits may be subject to annual limitations due to the ownership change limitations imposed by the Internal Revenue Code and similar state provisions. The annual limitation, if imposed, may result in the expiration of net operating losses before utilization.

Effective January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No 109, "Accounting for Income Taxes ("FIN 48")." FIN 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. At the date of adoption, and as of December 31, 2008, the Company does not have a liability for unrecognized tax benefits.

The Company files income tax returns in the U.S. federal jurisdiction and the state of California. The Company is subject to U.S. federal or state income tax examinations by tax authorities for years after 2002. During the periods open to examination, the Company has net operating loss and tax credit carry forwards for U.S. federal and state tax purposes that have attributes from closed periods. Since these net operating losses and tax credit carry forwards may be utilized in future periods, they remain subject to examination. The Company's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of December 31, 2008, The Company has no accrued interest or penalties related to uncertain tax positions. The Company believes that it has not taken any uncertain tax positions that would impact its condensed consolidated financial statements as of December 31, 2008. Also as of the date of adoption, and as of December 31, 2008, the Company does not have a liability for unrecognized tax benefits.

12. Subsequent events

On January 9, 2009, the Company entered into an Agreement with (**Endeavor Group, LLC**). The Company has retained Endeavor Group, LLC as its non-exclusive financial advisor and investment banking advisor to provide general financial advisory and investment banking service to the Company. The Company shall pay $10,000 upon execution of the agreement and additional fees relating to capital investments to be received by the Company. The Company shall issue to Endeavor stock certificates representing an aggregate of 500,000 shares of common stock of which 250,000 shares shall be issued upon execution of this Agreement, with remaining 250,000 shares, issued as compensation for investment funds, advisors etc. when certain goals are met.

On January 28, 2009, the Company entered into an Agreement with a consultant to provide services prepare a five year business plan including detailed income, balance and cash flow statements; capital requirements; use of proceeds; competition analysis and an AOT market analysis. Consultant is to be paid $7,000 for the first month and $5,000 for the second and third months for a total of $17,500. Consultant will receive 30,000 restricted shares of common stock upon execution of the Agreement.

From January 13, 2009, through January 26, 2009, Save the World Air, Inc. (the "Company") conducted and concluded a private offering (the "Winter 2009 Offering") of up to $250,000 aggregate face amount of its convertible notes (the "Winter 2009 Notes") with 8 accredited investors. A total of $250,000 aggregate face amount of the Winter 2009 Notes were sold for an aggregate purchase price of $250,000. The Winter 2009 Notes bear interest at 10% per annum, payable at maturity. The Winter 2009 Notes mature three months from their date of issuance. The Winter 2009 Notes are convertible, at the option of the noteholder, into shares of common stock of the Company (the "Conversion Shares") at an initial conversion price equal to the average of the closing bid price of the Company's common stock for the five trading days preceding the closing dates of the Winter 2009 Offering (the "Conversion Price"). Up to 694,444 Conversion Shares are initially issuable at a Conversion Price of $0.36 per share.

Each of the investors in the Winter 2009 Offering received, for no additional consideration, a warrant (the "Winter 2009 Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 50% of the number of shares of common stock into which the Winter 2009 Notes are convertible (the "Warrant Shares"). Each Winter 2009 Warrant is exercisable on a cash basis only at an initial price of $0.50 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 347,722 Warrant Shares are initially issuable on exercise of the Winter 2009 Warrants.

The Company received $250,000 in net proceeds in the Winter 2009 Offering which will be used for general corporate purposes and working capital.

On January 30, 2009, Cecil Bond Kyte was appointed Chief Executive Officer of the Company, replacing Charles R. Blum. Mr. Blum continues to serve as President of the Company.

From February 4, 2009, through March 11, 2009, Save the World Air, Inc. (the "Company") conducted and concluded a private offering (the "Winter 2009 #2 Offering") of up to $250,000 aggregate face amount of its convertible notes (the "Winter 2009 #2 Notes") with 17 accredited investors. A total of $247,302 aggregate face amount of the Winter 2009 #2 Notes were sold for an aggregate purchase price of $224,820. While the stated interest rate on the Winter 2009#2 Notes is 0%, the actual interest rate on the Winter 2009 #2 Notes is 10% per annum. The Winter 2009 #2 Notes mature on the first anniversary of their date of issuance. The Winter 2009 #2 Notes are convertible, at the option of the noteholder, into shares of common stock of the Company (the "Conversion Shares") at an initial conversion price equal to the average of the closing bid price of the Company's common stock for the five trading days preceding the closing dates of the Winter 2009 #2 Offering (the "Conversion Price"). Up to 772,818 Conversion Shares are initially issuable at a Conversion Price of $0.32 per share.

Each of the investors in the Winter 2009 #2 Offering received, for no additional consideration, a warrant (the "Winter 2009 #2 Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 50% of the number of shares of common stock into which the Winter 2009 #2 Notes are convertible (the "Warrant Shares"). Each Winter 2009 #2 Warrant is exercisable on a cash basis only at an initial price of $0.50 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 386,409 Warrant Shares are initially issuable on exercise of the Winter 2009 #2Warrants.

The Company received $224,820 in net proceeds in the Winter 2009 #2 Offering which will be used for general corporate purposes and working capital.

Exhibit 10.77

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "**Agreement**") is entered into as of January 30, 2009, by and between Save the World Air, Inc, a Nevada corporation (the "Company"), whose address is 235 Tennant Avenue, Morgan Hill, California 95037, and Cecil Bond Kyte ("**Executive**"), an individual, whose address is 1267 Bel Air, Santa Barbara, California 93105, with reference to the following:

RECITALS

A. Executive has certain technical knowledge, skills and abilities pertaining to the business in which the Company engages.

B. The Company wishes to employ Executive as its Chief Executive Officer, and Executive wishes to accept employment with the Company, all on the terms and subject to the conditions set forth in this Agreement.

AGREEMENT

Accordingly, the parties agree as follows:

1. **EFFECTIVE DATE AND TERM**. Unless sooner terminated as provided in this Agreement, including as a result of the Company's early termination of this Agreement as provided in Section 4 below, the Company shall employ Executive for an initial term commencing on a date to be agreed between the parties but not later than January 30, 2009 (the "**Effective Date**") and continuing thereafter until the close of business on the day immediately preceding the first anniversary of the Effective Date. Thereafter, this Agreement shall be renewed for successive one year periods unless either party shall give written notice to the other, not later than October 31th of the then-current year of the Term that this Agreement shall not be renewed (the "Expiration Date"). This Agreement shall in all respects terminate on the Expiration Date, except for those obligations of either party that are expressly stated to continue after such time or by nature will continue after such time. The period beginning on the Effective Date and ending on the earlier of the Expiration Date or the date Executive's employment under this Agreement actually terminates is referred to as the "Term."

2. **POSITION AND DUTIES**.

2.1 **General Duties**. Executive shall serve as the Company's Chief Executive Officer, and in such capacity shall be one of the Company's senior executive officers. Executive's duties shall be consistent with such position. In carrying out his duties, Executive shall use Executive's best efforts, skills, judgment and abilities, and shall at all times promote the Company's interests and perform and discharge well and faithfully, those duties. Executive shall report directly to the Company's Board of Directors. In acting on the Company's behalf, Executive shall observe and be governed by all of the Company's rules and policies, In addition, Executive shall abide by all of the requirements of the Securities and Exchange Commission, and adhere to the policies and requests of the Company with respect thereto, as the same may exist from time to time, applicable to executive officers of public companies.

2.2 **Full-Time Employment**. At all times during the Term, Executive shall devote Executive's entire business time, attention and energies to the Company's business, and shall furnish services for the Company and for its subsidiaries, affiliates and divisions. During the Term, Executive shall not engage in any activity that would materially interfere with or adversely affect Executive's performance of Executive's duties under this Agreement or which could reasonably be expected to be competitive with or adverse to the business of the Company or any of its subsidiaries, affiliates or divisions.

2.3 **Place of Performance**. In connection with Executive's employment under this Agreement, Executive shall be based at the Company's offices where the same are from time to time located during the term of this Agreement, and which are, on the date hereof, in Morgan Hill, California.

3. **COMPENSATION**.

3.1 "**Compensation**". "**Compensation**" means the Base Salary (as defined below) and bonus, if any, pursuant to this Section 3.

3.2 **Base Salary**. For all services rendered pursuant to this Agreement to the Company and any of its subsidiaries and affiliates, commencing on the Effective Date Executive shall receive a base salary (as may be adjusted from time to time, the "**Base Salary**") of $200,000 per year. On or prior to each anniversary of the Effective Date, the Company's Board of Directors, or the appropriate committee thereof, shall review the performance of the Executive hereunder and shall consider whether or not to alter the Base Salary; provided that the Base Salary shall not be reduced unless such reduction is in proportion to, and on all of the other terms and conditions promulgated in connection with, a reduction in salaries paid to other senior executives of the Company generally.

3.3 **Bonus**. Executive shall be eligible to receive an annual cash bonus in an amount equal to 2% of the Company's net profit, if any, for its most recently completed fiscal year, computed in accordance with generally accepted accounting principles applied consistently with prior periods. The bonus shall be payable, if at all, on the anniversary date of employment of each year of the term; provided that no bonus shall be payable if the Executive is not, on such payment date, in the employ of the Company.

3.4 **Benefits**. Executive shall be eligible to receive employee benefits during the Term, at such times and on such terms and conditions as such benefits are made available to the senior employees of the Company generally. In addition, Executive shall receive paid vacation of four weeks per year. Executive shall be entitled to participate in the Company's stock option plan as determined by the Compensation Committee of the Board of Directors (the "Compensation Committee") in its sole, full and absolute discretion, such participation to be in addition to the stock option grant provided for pursuant to Section 3.7 below. The Company shall provide to the Executive an unaccountable monthly automobile allowance of $900.00, which amount shall be payable on the last day of each month during the Term. Notwithstanding the provisions of the first sentence of this Section 3.4, the Executive may elect not to participate in any group health insurance plan which may be offered to employees of the Company. If the Executive elects not to participate in such group health insurance plan, the Executive shall be paid on the last day of each month during the Term the lesser of (i) the premium the Company would have paid to include the Executive as a participant in the Company's group health insurance plan and (ii) the sums paid by the Executive in connection with maintaining private health insurance for the Executive.

3.5 **Expenses**. The Company shall reimburse Executive for all reasonable and ordinary expenses determined in the Company's sole discretion that Executive incurs or pays during the Term in performing Executive's services under this Agreement. Ordinary expenses reimbursable to the Executive pursuant to this Section 3.5 shall include the reasonable costs paid by the Executive for maintaining dsl Internet access and other direct costs of maintaining an office at the home of the Executive, but only until such time as the Company shall provide to the Executive an office at a location reasonably acceptable to the Executive. The Company shall, however, be required to make any such reimbursement only after Executive presents appropriate written expense statements, vouchers or such other supporting information in accordance with the Company's reimbursement policies, as the Company may adopt from time to time. The Company shall notify Executive of any dispute with respect to any such expenses within three months of any request for reimbursement or the expense shall be classified as non-recoverable. Reimbursements shall be in arrears unless other arrangements are made in advance.

3.6 **Payment of Compensation**. All Compensation and other amounts payable to Executive under this Agreement, whether for a period during or after the Term, shall be paid in such installments and on such schedule as the Company may from time to time implement for general payroll purposes, provided that the Base Salary shall be paid at least monthly. Any Base Salary required to be paid to Executive upon a termination of Executive's employment in excess of amounts accrued through the Date of Termination (as defined in Section 4.1.1 below) shall be paid in the same manner that Base Salary is paid during the Term, but not more than 30 days from the Date of Termination. Any payments made by the Company shall be designated by the Company as applied towards base compensation, bonus payment or other remuneration as the case may be. Any payments made prior to the effective date of this Agreement shall not be applied to any calculations called for in this Agreement.

3.7 **Stock Option Grant**. Subject to the final decision of the Compensation Committee, the Company will use its reasonable efforts to cause to be granted to Executive:

An option (the " Option") to purchase a number of shares (the "Supplemental Option Shares") of the Company's common stock equal to the result of (A) 100,000 divided by (B) the closing price per share of the Company's Common Stock for the five trading days preceding the first anniversary of the Effective Date. The Option shall be an incentive stock option, shall be exercisable at the closing price per share on the first anniversary of the Effective Date, shall be exercisable for ten years from the date of grant and shall vest on the second anniversary of the Effective Date.

Consistent with the foregoing, the precise terms and conditions of the agreements evidencing the Option and the ("Stock Option Agreement") to be entered into between the Company and the Executive shall be as determined by the Board of Directors and/or the Compensation Committee.

4. **TERMINATION AND COMPENSATION UPON TERMINATION**.

4.1 **Definitions**.

4.1.1 "**Date of Termination**" has the following meaning: (a) in the case of a termination of Executive's employment pursuant to this Agreement due to Executive's death or Disability (as defined below), the date Executive dies or the date on which it is determined that Executive has suffered a Disability, as applicable; and (b) in the case of any other termination of Executive's employment pursuant to this Agreement, the date specified for termination of Executive's employment in the Notice of Termination (as defined below), provided that the date specified shall be no earlier than the time the Notice of Termination is delivered.

4.1.2 "**Notice of Termination**" means a written document delivered by the party terminating this Agreement to the other party that specifies (i) the section of this Agreement pursuant to which termination is being made and (ii) (the Date of Termination.

4.2 **Effectiveness of Termination**. Termination of Executive's employment, for any reason, shall be effective upon the Date of Termination.

4.3 **Death**. Upon Executive's death, this Agreement shall automatically forever terminate.

4.4 **Disability**. The Company may, acting in its sole and absolute discretion, terminate Executive's employment under this Agreement because of Executive's Disability by delivering to Executive of a Notice of Termination, which termination shall be effective 30 days after delivery of such Notice of Termination. For purposes of this Agreement, "**Disability**" means Executive's physical or mental incapacity or illness rendering Executive unable to perform Executive's duties under this Agreement on a long-term basis (i) as evidenced by Executive's failure or inability to perform Executive's duties under this Agreement for a total of 90 days in any 360 day period, or (ii) as determined by an independent and licensed physician whom the Company selects, or (iii) as determined without recourse by the Company's disability insurance carrier, if any.

4.5 **Termination by Company Without Cause**. The Company may, acting in its sole and absolute discretion, at any time terminate Executive's employment under this Agreement, upon no notice without Cause (as defined below), or for any reason whatsoever or for no reason, by delivering to Executive a Notice of Termination.

4.6 **Termination for Cause**. The Company may at any time terminate Executive's employment for Cause by delivering to Executive a Notice of Termination. For purposes of this Agreement, "**Cause**" means that the Company, reasonably and in good faith, forms the belief that Executive has (i) committed any act or omission constituting a material breach of this Agreement; (ii) engaged in gross negligence or willful misconduct in connection with the Company's business; (iii) been convicted of, or plead guilty or *nolo contendre* in connection with, fraud or any crime that constitutes a felony or that involves moral turpitude or theft; or (iv) undertaken any act injurious to the Company's business, including insubordination or failure to follow a directive of any of Executive's superiors.

4.7 **Voluntary Termination**. Executive may terminate Executive's employment with the Company at any time, for any reason whatsoever, by giving the Company a Notice of Termination, which termination shall be effective on the sooner of (i) 30 days after delivery of such Notice of Termination or (ii) the Company's notice to the Executive that it has accepted the Notice of Termination delivered by the Executive.

4.8 **Involuntary Termination**. The Company may terminate this Agreement in conjunction with a Change of Control, merger, acquisition, bankruptcy or dissolution of the Company. The Company shall pay Executive the amounts provided for in Section 4.9 below upon any termination pursuant to this Section 4.8. For purposes of this Agreement, "Change of Control" means the occurrence of one or more of the following events:

(i) the consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization, if more than fifty percent (50%) of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not stockholders of the Company immediately prior to such merger, consolidation or other reorganization; or

(ii) the sale, transfer or other disposition of all or substantially all of the Company's assets.

4.9 **Payment Upon Termination**. If Executive's employment under this Agreement is terminated by the Company pursuant to Section 4.8, Executive shall be entitled to receive (i) all Compensation that has accrued through the Date of Termination, plus (ii) a severance payment equal to one year's Compensation, plus the Executive shall be entitled to continue to participate in the Company's employee benefit programs offered to other senior management employees of the Company for a period of 12 months following the Date of Termination; provided, however, that if at any time while the Company is required to pay severance to Executive pursuant to clause (ii) of this paragraph any event occurs that would cause the termination of Executive's employment (for example, Executive dies) or give rise to the right of the Company to terminate this Agreement for Cause or due to Executive's Disability were Executive still employed pursuant to this Agreement, then the Company's obligation to pay such severance shall thereupon immediately terminate. If Executive's employment under this Agreement is terminated for any other reason except for termination pursuant to Section 4.8, Executive (or in the case of Executive's death, Executive's estate or other legal representative) shall only be entitled to receive the Compensation accrued through the Date of Termination.

4.10 **Effect of Termination**. The amounts payable to Executive pursuant to Section 4.9 upon a termination of Executive's employment shall upon payment constitute full and complete satisfaction of the Company's obligations to Executive in connection with this Agreement and the Company's employment of Executive. Executive shall have no further rights or remedies with respect to or against the Company in connection with this Agreement or the Company's employment of Executive. Notwithstanding anything to the contrary in this Agreement, Executive's representations, warranties, covenants, duties and other obligations set forth under Sections 5, 6, 7, 10 and 11 of this Agreement shall survive and continue after any termination of this Agreement, regardless of the reason for the termination.

5. **WORK MADE FOR HIRE**

5.1 **Assignment.** Executive and/or designates of the Executive shall promptly and fully inform the Company of, and disclose to the Company, any and all ideas, processes, trademarks, trade names, service marks, service mark applications, copyrights, mask work rights, fictitious business names, technology, patents, know-how, trade secrets, computer programs, original works of authorship, formulae, concepts, themes, inventions, designs, creations, new works, derivative works and discoveries, and all applications, improvements, rights and claims related to any the foregoing, and all other intellectual property, proprietary rights and work product, whether or not patentable or copyrightable, registered or unregistered or domestic or foreign, and whether or not relating to a published work, that Executive develops, makes, creates, conceives or reduces to practice during the Term, whether alone or in collaboration with others (collectively, "Invention Ideas"). Executive hereby assigns to the Company exclusively in perpetuity throughout the world all right, title and interest (choate or inchoate) in (i) the Invention Ideas, (ii) all precursors, portions and work in progress with respect thereto and all inventions, works of authorship, mask works, technology, information, know-how, materials and tools relating thereto or to the development, support or maintenance thereof and (iii) all copyrights, patent rights, trade secret rights, trademark rights, mask works rights, *sui generis* database rights and all other intellectual and industrial property rights of any sort and all business, contract rights, causes of action, and goodwill in, incorporated or embodied in, used to develop, or related to any of the foregoing (collectively "Intellectual Property"). All copyrightable Invention Ideas are intended by Executive to be a "work-made-for-hire" by Executive for the Company and owned by the Company pursuant to Section 201 (b) of Title 17 of the United States Code. Executive shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the Company may reasonably request in order to obtain patent or copyright registration on all Invention Ideas and Intellectual Property, and shall execute and deliver all documents, instruments and agreements, including the formal execution of an assignment of copyright and/or patent application or issued patent, and do all things necessary or requested by the Company, in order to enable the Company to ultimately and finally obtain and enforce full and exclusive title to all Invention Ideas and Intellectual Property and all rights assigned pursuant to this Section 5. Executive hereby appoints the Company as Executive's irrevocable attorney-in-fact for the purpose of executing and delivering all such documents, instruments and agreements, and performing all such acts, with the same legal force and effect as if executed and delivered and taken by Executive.

5.2 **License.** If for any reason the foregoing assignment is determined to be unenforceable Executive grants to the Company a perpetual, irrevocable, worldwide, royalty-free, exclusive, sub-licensable right and license to exploit and exercise all such Invention Ideas and Intellectual Property.

5.3 **Presumptions.** Because of the difficulty of establishing when Executive first conceives of or develops Intellectual Property, proprietary rights or work product or whether such Intellectual Property, proprietary rights or work product results from access to the Company's confidential and proprietary information or equipment, facilities or data, Executive agrees that any Intellectual Property, proprietary rights and work product shall be presumed to be an Invention Idea if it is conceived, developed, used, sold, exploited or reduced to practice by Executive or with the aid of Executive within one year after the normal termination of Executive's employment with the Company. Executive can rebut that presumption if Executive proves that the intellectual property, proprietary rights and work product (i) was first conceived or developed after termination of Executive's employment with and by the Company; (ii) was conceived or developed entirely on Executive's own time without using the Company's equipment, supplies, facilities or confidential and proprietary information; and (iii) did not result from any work performed by Executive for or on behalf of the Company.

5.4 **Exclusions.** Executive acknowledges that there is no intellectual property, proprietary right or work product that Executive desires not to be deemed Invention Ideas or Intellectual Property and thus to exclude from the above provisions of this Agreement. To the best of Executive's knowledge, there is no other existing contract in conflict with this Agreement or any other contract to assign ideas, processes, trademarks, service marks, inventions, technology, computer programs, original works of authorship, designs, formulas, discoveries, patents or copyrights that is now in existence between Executive and any other person or entity.

5.5 **Labor Code.** This Section 5 shall not operate to require Executive to assign to the Company any of Executive's rights to inventions, intellectual properties or work products that would not be assignable under the provisions of California Labor Code Section 2870. Executive represents and warrants to the Company that this paragraph constitutes the Company's written notification to Executive of the provisions of Section 2870 of the California Labor Code, and Executive represents and warrants to the Company that Executive has reviewed Section 2870 of the California Labor Code.

6. **UNFAIR COMPETITION AND PROTECTION OF PROPRIETARY INFORMATION**.

6.1 **Proprietary Information.** Executive shall not at any time (including after Executive's employment with the Company terminates) divulge, furnish or make accessible to anyone any of the Company's Proprietary Information, or use in any way any of the Company's Proprietary Information other than as reasonably required to perform Executive's duties under this Agreement. Executive shall not undertake any other acts or omissions that would reduce the value to the Company of the Company's Proprietary Information. The restrictions on Executive's use of the Company's Proprietary Information shall not apply to knowledge or information that Executive can prove is part of the public domain through no fault of Executive. Executive agrees that such restrictions are fair and reasonable.

6.2 **Injunctive Relief.** Executive agrees that the Company's Proprietary Information constitutes a unique and valuable asset of the Company that the Company acquired at great time and expense, and which is secret and confidential and will only be available to or communicated to Executive in confidence in the course of Executive's provision of services to the Company. Executive also agrees that any disclosure or other use of the Company's Proprietary Information other than for the Company's sole benefit would be wrongful, would constitute unfair competition and will cause irreparable and incalculable harm to the Company and to its subsidiaries, affiliates and divisions. In addition to all other remedies the Company may have, it shall have the right to seek and obtain appropriate injunctive and other equitable relief, including emergency relief, to prevent any violations of this Section 6.

6.3 **Non-Solicitation.** Executive agrees that the Company's employees constitute a valuable asset of the Company. Executive agrees that Executive shall not, during the Term and for a period of two years thereafter, directly or indirectly, for Executive or on behalf of any other person or entity, solicit any person who was an employee of or consultant to the Company (at any time while Executive is performing any services for the Company, or at any time within twelve months prior to or after such solicitation) for a competing business or otherwise induce or attempt to induce any such persons to terminate their employment or relationship with the Company or otherwise to disrupt or interfere, or attempt to disrupt or interfere, with the Company's employment or relationships with such persons. Executive agrees that any such solicitation, inducement or interference would be wrongful and would constitute unfair competition, and will cause irreparable and incalculable harm to the Company. Further, Executive shall not engage in any other unfair competition with the Company. Executive agrees that such restrictions are fair and reasonable.

6.4 **Privacy.** Executive recognizes and agrees that Executive has no expectation of privacy with respect to Company's telecommunications, networking or information processing systems (including stored computer files, e-mail messages and voice messages), and that Executive's activity, and any files or messages, on or using any of those systems may be monitored at any time without notice.

6.5 **Definition.** As used in this Agreement, "Company's Proprietary Information" means any knowledge, trade secrets (including "trade secrets" as defined in Section 3426.1 of the California Civil Code), Invention Ideas, proprietary rights or proprietary information, intangible assets or property, and other intellectual property (whether or not copyrighted or copyrightable or patented or patentable), information and materials (including processes, trademarks, trade names, service marks, service mark applications, copyrights, mask work rights, technology, patents, patent applications and works of authorship), in whatever form, including electronic form, and all goodwill relating or appurtenant thereto, owned or licensed by the Company or any of its subsidiaries, affiliates or divisions, or directly or indirectly useful in any aspect of the business of the Company or its subsidiaries, affiliates or divisions, whether or not marked as confidential or proprietary and whether developed by Executive, by the Company or its subsidiaries, affiliates or divisions or by others. Without limiting the foregoing, the Company's Proprietary Information includes (a) the names, locations, practices and requirements of any of the Company's customers, prospective customers, vendors, suppliers and personnel and any other persons having a business relationship with the Company; (b) confidential or secret development or research work of the Company or its subsidiaries, affiliates or divisions, including information concerning any future or proposed services or products; (c) the Company's accounting, cost, revenue and other financial records and documents and the contents thereof; (d) the Company's documents, contracts, agreements, correspondence and other similar business records; (e) confidential or secret designs, software code, know how, processes, formulae, plans and devices; and (f) any other confidential or secret aspect of the business of the Company or its subsidiaries, affiliates or divisions.

7. **RESTRICTION OF EXECUTIVE'S ACTIVITIES**. During the Term, including any period during which the Company is making any payments to Executive pursuant to this Agreement, neither Executive nor any person or entity acting with or on Executive's behalf, nor any person or entity under the control of or affiliated with Executive, shall, directly or indirectly, in any way Compete with the Company. Executive agrees that, if Executive has any business to transact on Executive's own account that is similar to the business entrusted to Executive by the Company, Executive shall notify the Company and always give preference to the Company's business. Executive agrees that such restrictions are fair and reasonable. For purposes of this Agreement, "**Compete**" means doing any of the following: (i) selling products or services to any person or entity that was or is (at any time, including during the Term and the period when the provisions of this paragraph are in effect) a client or customer of the Company (or its subsidiaries, affiliates or divisions) or on a list of prospective clients or customers of the Company, or calling on, soliciting, taking away or accepting any such person or entity as a client or customer, or any attempt or offer to do any of the foregoing; (ii) entering into, or any attempt or offer to enter into, any business, enterprise or activity that is in any way similar to or otherwise competitive with the business that the Company (or its subsidiaries, affiliates or divisions) conducted at any time during the Term or any time the provisions of this paragraph are in effect, or (iii) directly or indirectly assisting any person or entity to take or attempt or offer to take any of the actions described in the foregoing clauses (i) or (ii).

8. **NOTICES**. Any notice, statement, request or consent made hereunder shall be in writing and shall be given as follows: (a) to Executive by Federal Express, or any other nationally recognized overnight carrier, addressed to Executive at his address stated as set forth in the preamble paragraph of this Agreement or at such other address as Executive may designate by notice to the Company as provided herein, and (b) to the Company by Federal Express or any other nationally recognized overnight carrier to the Company's s address stated as set forth in the preamble paragraph of this Agreement or to such other address as the Company may designate by notice to Executive as provided herein. Any such communication shall be deemed to have been given to Executive or the Company on the first business day following that mailing. In addition, any such communication may also be given by (i) personal delivery which shall be deemed to have been given upon delivery; (ii) facsimile which shall be deemed to have been given upon telephonic confirmation of successful transmission; or (iii) first class certified mail, return receipt requested, postage prepaid, addressed to the party to whom that notice is to be given and when notice is given in this manner it shall be deemed received on the third day after that notice was deposited with the United States Postal Service.

9. **ASSIGNMENT; SUCCESSORS**

9.1 **By Company**. This Agreement is fully assignable by the Company to any person or entity, including any successor entity; provided, however, that any such person or entity shall assume the Company's obligations under this Agreement in accordance with its terms.

9.2 **By Executive**. Executive may not assign this Agreement or any part of this Agreement without the Company's prior written consent, which consent may be given or withheld by the Company acting in its sole and absolute discretion.

10. **REMEDIES**.

10.1 **Uniform Trade Secrets Act**. If Executive breaches any provision of Section 6 of this Agreement, the Company shall have the right to invoke any and all remedies provided under the California Uniform Trade Secrets Act (California Civil Code §§3426, *et seq*.) or other statutes or common law remedies of similar effect.

10.2 **Non-Exclusive Remedies**. The remedies provided to the Company in this Section 10 are cumulative, and not exclusive, of any other remedies that may be available to the Company.

10.3 **Arbitration**. Any controversy, dispute or claim between the parties to this Agreement, including any claim arising out of, in connection with, or in relation to the formation, interpretation, performance or breach of this Agreement or Executive's employment with the Company, shall be settled exclusively by arbitration, before a single arbitrator, in accordance with this Section and the then most applicable rules of the American Arbitration Association, except as modified by this Section 10.3, but only if one (or both) of the parties requests such arbitration. The arbitrator shall be bound by the express provisions of this Agreement and by the laws of the jurisdiction chosen by the parties to be the law governing the interpretation of this Agreement. The arbitrator shall permit such discovery as required by applicable law and as sufficient to adequately arbitrate Executive's statutory claims (if any have been asserted), including access to essential documents and witnesses where required by applicable law. Judgment upon any award rendered by the arbitrator may be entered by any state or federal court having jurisdiction thereof. Notwithstanding the foregoing, to the extent permitted by applicable law either party may in an appropriate manner apply to a court pursuant to California Code of Civil Procedure Section 1281.8, or any comparable provision, for provisional relief, including a temporary restraining order or a preliminary or permanent injunction (such as specified in Section 10.1 of this Agreement), on the ground that the award to which the applicant may be entitled in arbitration may be rendered ineffectual without provisional relief. Nor shall anything in this Section 10 (to the extent permitted by applicable law) prevent any party from (i) joining any party as a defendant in any action brought by or against a third party; (ii) bringing an action in court to effect any attachment or garnishment; or (iii) bringing an action in court to compel arbitration as required by this Section 10.

If the parties are unable to agree upon an arbitrator, the parties shall select a single arbitrator from a list of nine arbitrators drawn by the parties at random from the "Independent" (or "Gold Card") list of retired judges. If the parties are unable to agree upon an arbitrator from the list so drawn, then the parties shall each strike names alternately from the list, with the first strike being determined by lot. After each party has used four strikes, the remaining name on the list shall be the arbitrator. If such person is unable to serve for any reason, the parties shall repeat this process until an arbitrator is selected.

This agreement to resolve any disputes by binding arbitration shall extend to claims against any parent, subsidiary or affiliate of each party, and, when acting within such capacity, any officer, director, shareholder, employee or agent of each party, or of any of the above, and shall apply as well to claims arising out of state and federal statutes and local ordinances as well as to claims arising under the common law. In the event of a dispute subject to this Section 10 the parties shall be entitled to reasonable discovery subject to the discretion of the arbitrator. The remedial authority of the arbitrator shall be the same as, but no greater than, would be the remedial power of a court having jurisdiction over the parties and their dispute. The arbitrator shall, upon an appropriate motion, dismiss any claim without an evidentiary hearing if the party bringing the motion establishes that he or she would be entitled to summary judgment if the matter had been pursued in court litigation.

To the extent permitted by law, the initial fees and costs of the arbitrator shall be borne by the Company, with the Company being responsible for the costs and fees of the arbitration and the prevailing party shall be entitled to reimbursement for legal fees and costs incurred by the other.

The arbitrator shall render an award and written opinion, and the award shall be final and binding upon the parties.

Any arbitration shall take place in the county of Los Angeles, California.

THE PARTIES UNDERSTAND THAT BY AGREEING TO ARBITRATE IN THE MANNER REQUIRED BY THIS SECTION 10, THEY ARE WAIVING THEIR RIGHTS TO HAVE ANY DISPUTE ARISING OUT OF THIS AGREEMENT OR EXECUTIVE'S EMPLOYMENT BY THE COMPANY TRIED BEFORE AND ADJUDICATED BY A JURY, INCLUDING DISPUTES RELATING TO ANY CLAIM EXECUTIVE MAY HAVE FOR UNLAWFUL TERMINATION OF HER EMPLOYMENT OR FOR A VIOLATION OF ANY FEDERAL, STATE OR OTHER LAW OR STATUTORILY PROTECTED RIGHTS, (SUCH AS, WITHOUT LIMITATION, AGE DISCRIMINATION IN EMPLOYMENT ACT, AS AMENDED, 29 U.S.C. §§ 621—634; OLDER WORKERS BENEFIT PROTECTION ACT, AS AMENDED, 29 U.S. §§ 621, 623; TITLE VII OF THE CIVIL RIGHTS ACT OF 1964, AS AMENDED, 42 U.S.C. §§ 2000E—2000E-17; THE FAIR LABOR STANDARDS ACT OF 1938 AS AMENDED; THE EQUAL PAY ACT OF 1963, AS AMENDED, 29 U.S.C. §§ 206(D); THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, 29 U.S.C. §§ 1001—1461; THE WORKER ADJUSTMENT AND RETRAINING NOTIFICATION ACT, AS AMENDED, 29 U.S.C. § 2101 *ET SEQ*.; THE NATIONAL LABOR RELATIONS ACT, AS AMENDED, 29 U.S.C. §§ 151-169; FAMILY AND MEDICAL LEAVE ACT OF 1993, AS AMENDED, 29 U.S.C. § 825 *ET SEQ*. AMERICANS WITH DISABILITY ACT OF 1990, AS AMENDED, 42 U.S.C. §§ 12101 ET. SEQ.; INFLICTION OF EMOTIONAL DISTRESS, DEFAMATION, PERSONAL INJURY AND BREACH OF CONTRACT, WHICH INCLUDE DISCRIMINATION ON THE BASIS OF AGE, RACE, GENDER, DISABILITY, ETHNIC ORIGIN OR SEXUAL ORIENTATION). NEVERTHELESS, BOTH PARTIES AGREE TO WAIVE ALL SUCH RIGHTS THEY MAY HAVE TO A JURY TRIAL AND TO SUBMIT ALL SUCH DISPUTES TO BINDING ARBITRATION IN ACCORDANCE WITH THE TERMS OF THIS SECTION 10.

Company /s/_____ **Executive** /s/_____
(initials) **(initials)**

11. **NO CONFLICT**. Executive represents and warrants that neither his execution of this Agreement nor his performance under this Agreement will (i) violate, conflict with or result in a breach of any provision of, or constitute a default (or an event that, with notice or lapse of time, or both, would constitute a default) under, any contract or other obligation to which Executive is a party or by which he is bound; or (ii) violate any judgment or other order applicable to Executive. Executive shall indemnify, defend and hold harmless the Company from and against any and all claims, liabilities, lawsuits, judgments, losses, costs, fees and expenses (including reasonable attorneys' fees, costs and expenses) that the Company or any of its agents, affiliates, employees, shareholders, officers or directors may suffer or incur as a result of Executive's breach or alleged or threatened breach of any of the representations and warranties set forth in this paragraph.

12. **GENERAL**.

12.1 **Captions**. The section headings contained in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

12.2 **Entire Agreement**. This Agreement sets forth the entire agreement and understanding of the parties with regard to the subject matter hereof and supersedes all prior agreements, arrangements and understandings, written or oral, between the parties.

12.3 **Amendments; Waivers**. This Agreement may be amended, modified, superseded, canceled, renewed or extended, and the terms or covenants of this Agreement may be waived, only by a written instrument executed by both of the parties hereto, or in the case of a waiver, by the party waiving compliance. The failure of either party at any time or times to require performance of any provision of this Agreement shall in no manner affect such party's right at a later time to enforce such performance. No waiver by either party of the breach of any term or covenant contained in this Agreement, whether by conduct or otherwise, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such breach, or a waiver of the breach of any other term or covenant contained in this Agreement.

12.4 **No Other Representations**. No representation, promise or inducement has been made by either party that is not embodied in this Agreement, and neither party shall be bound by or be liable for any alleged representation, promise or inducement not so set forth.

12.5 **Severability**. If any of the provisions of this Agreement (including Section 10) are determined to be unlawful or otherwise unenforceable, in whole or in part, such determination shall not affect the validity of the remainder of this Agreement, and this Agreement shall be reformed to the extent necessary to carry out its provisions to the greatest extent possible and, with respect to reformation of any provision of Section 10, to ensure that the resolution of all conflicts between the parties (including those arising out of statutory claims) shall be resolved by neutral, binding arbitration. If a court should find that any provision set forth in Section 10 is not absolutely binding, the parties intend that any arbitration decision and award with respect to this Agreement be fully admissible in evidence in any subsequent action, given great weight by any finder of fact, and treated as determinative to the maximum extent permitted by law.

12.6 **Counterparts**. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement, to produce or account for more than one such counterpart.

12.7 **Withholding**. Notwithstanding anything in this Agreement to the contrary, all payments that the Company is required to make under this Agreement to Executive or Executive's estate or beneficiaries shall be subject to the withholding of such amounts relating to taxes as the Company may reasonably determine it should withhold pursuant to any applicable law or regulation.

12.8 **Tax Consequences**. The Company shall have no obligation to any person entitled to the benefits of this Agreement with respect to any tax obligation any such person incurs as a result of or attributable to this Agreement, including any supplemental agreements, stock option plans or employee benefit plans, or arising from any payments made or to be made under this Agreement or thereunder.

12.9 **Consent to Jurisdiction**. The parties to this Agreement agree that all actions or proceedings arising directly or indirectly from this Agreement shall be arbitrated or litigated before arbitrators or in courts having a situs within Loa Angeles, California; hereby consent to the jurisdiction of any local, state or federal court in which such an action or proceeding is commenced that is located in Los Angeles County, California; agree not to disturb such choice of forum (including waiving any argument that venue in any such forum is not convenient); agree that any litigation initiated by any party hereto in connection with this Agreement may be venued in either the state or federal courts located in Orange County, California; agree that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law; and waive the personal service of any and all process upon them and consent that all such service of process may be made by certified or registered mail, return receipt requested, addressed to the respective parties at the address set forth above.

12.10 **Gender References**. References in this Agreement to any gender shall include the masculine, feminine and neuter genders.

[remainder of page intentionally left blank]

12.11 **Construction**. In all instances when appearing in this Agreement, the terms "including," "include" and "includes" shall be deemed to be followed by "without limitation."

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

SAVE THE WORLD AIR, INC.

By: /S/ EUGENE E. EICHLER
Title: Interim Chief Financial Officer

EXECUTIVE:

/S/ CECIL BOND KYTE
Cecil Bond Kyte

Exhibit 31.1

CERTIFICATION OF THE 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, Cecil Bond Kyte, Chief Executive Officer, certify that:

1. I have reviewed this 10-K /A of Save the World Air, Inc. (the "Company");

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 Company's as of, and for, the periods presented ire this report;

4. The Company'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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company's 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 Company's, 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company'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 Company'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 Company's internal control over financial reporting.

Date: November 12, 2009

/s/ CECIL BOND KYTE
Cecil Bond Kyte
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF THE 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 E. Eichler, Interim Chief Financial Officer, certify that:

1. I have reviewed this 10-K /A of Save the World Air, Inc. (the "Company");

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 Company's as of, and for, the periods presented ire this report;

4. The Company'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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company's 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 Company's, 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the Company'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;

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

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company'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 Company'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 Company's internal control over financial reporting.

Date: November 12, 2009

/s/ EUGENE E. EICHLER
Eugene E. Eichler
Interim Chief Financial Officer

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. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, we, the undersigned Chief Executive Officer and Interim Chief Financial Officer of Save the World Air, Inc. (the "Company"), hereby certify, based on our knowledge, that the Annual Report on Form 10-K /A of the Company for the year ended December 31, 2008 (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.

Dated: November 12, 2009

By: /s/ CECIL BOND KYTE
Cecil Bond Kyte
Chief Executive Officer

Dated: November 12, 2009

By: /s/ EUGENE E. EICHLER
Eugene E. Eichler

Interim Chief Financial Officer