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

Form 10-K

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

For the fiscal year ended December 31, 2011
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.)*

735 State Street, Suite 500
Santa Barbara, California 93101
(Address, including zip code, of principal executive offices)

(805)-845-3581
(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 whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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. x

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, 2011 was $40,939,386.

The number of shares of the Registrant's Common Stock outstanding as of March 15, 2012 was 123,304,914

DOCUMENTS INCORPORATED BY REFERENCE

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

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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" or "us") designs, licenses and develops products to improve energy efficiency of large-scale energy production and improve diesel engine performance reducing emissions and improving fuel economy. 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 two product lines; Applied Oil Technology ("AOT") and ELEKTRA™.

Applied Oil Technology is transitioning from the research and development stage to full-scale commercial prototypes, and is in testing with the U.S. Department of Energy. ELEKTRA is in the research and development stage.

We have two licenses (the "Licenses") from Temple University for their patent-pending uniform electric field technology, which provide the intellectual property foundations upon which the AOT and ELEKTRA products are based. The AOT technology consists of passing crude oil through an array of dynamically-controlled electrical fields to reduce the viscosity of the oil, making it easier to pump through oil pipelines. The ELEKTRA technology consists of passing fuel through a dynamically-controlled electrical field to assist in the atomization of fuel via fuel injectors. ELEKTRA introduces a uniform electrical field into the fuel flow to reduce the viscosity of diesel fuel, enabling smaller droplets to be released into the combustion chamber of a diesel engine.

The Company holds the following patents:

> US Patent #6901917, effective May 21, 2001 and updated on May 2, 2006 for "DEVICE FOR SAVING FUEL AND REDUCING EMISSIONS" covered in the United States, Australia, Canada, China, Russia, India, Indonesia, Japan and Mexico for the legacy technology.
>
> US Patent #11/519168, effective May 13, 2005 for "METHOD AND APPARATUS FOR TREATMENT OF A FLUID" covered in the United States, China, Russia, Egypt, United Kingdom, Indonesia and Mexico. This Patent has been transferred to Temple University.

We are also working with Temple University and numerous third-party entities to assist in the development of the commercial version of the AOT 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 efficiency, and potentially the speed of highly viscous fluids such as crude oil traveling through pipelines.

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, 2009, 2010 or 2011. Our expenses to date have been funded primarily through the sale of stock and issuance of convertible debt, as well as proceeds from the exercise of stock purchase warrants and options. We raised capital in 2011 and will need to raise substantial additional capital in 2012, 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 of Financial Condition and Results of Operations," 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 (legacy) technologies. Our mailing address is 735 State Street, Suite 500, Santa Barbara, California 93101. Our telephone number is (805) 845-3581. 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, 2011 the Company signed a non-binding Letter of Intent with Beijing Heng He Xing Ye Technology Development Co., Ltd ("TDC") to distribute STWA's Applied Oil Technology™ (AOT™) into the Chinese market. TDC is a supplier of technology and oil pumping equipment to the Chinese oil industry.

In October, 2011 the U.S. Department of Energy published the test results for energy-efficiency improvement generated by the Company's prototype AOT units. The results were an energy-efficiency gain between 13.14% and 13.55%. The results were published by the U.S. Department of Energy and generated industry awareness of the new technology (www.energy.gov).

In August, 2011 the Company renegotiated a new licensing agreement for the licensing of its intellectual property with Temple University. The new licensing agreement provides for a convergent, non-divisional relationship with Temple University based largely on the grant of exclusive rights and co-ownership of future Intellectual Property (IP) through co-development.

In July, 2011 the Company finished construction of the testing facility and began the testing protocols of the Company's prototype Applied Oil Technology (AOT™) units.

In March 2011, the Company satisfied the last of the outstanding licensing agreement payments to Temple University, correcting its default status.

In January, 2011 the Company began design and construction of a custom-built crude oil testing facility together with the U.S. Department of Energy, at their Rocky Mountain Oilfield Testing Center, located on the Naval Petroleum Reserve #3 near Casper, Wyoming.

Our Business Strategy

Our business strategy is to provide the energy production and transportation industries with cost effective products to reduce their ongoing operation costs, and potentially reduce their initial capital expenditure costs. In addition, our strategy is to provide the commercial transportation industry, military and other diesel-powered machinery operators with products to reduce their ongoing operation costs associated with fuel consumption, and potentially reduce their fuel consumption emissions.

We believe there is a large worldwide demand for products which can increase the efficiency of existing infrastructure associated with the production and transportation of hydrocarbon derived fuels. We also believe that there is a large worldwide demand for products, which can increase the efficiency of existing infrastructure and assets associated with the maritime, military, construction, over the road and rail transportation, power generation and all other large diesel-powered systems and vehicles.

Our intent is to collaborate with established educational institutions such as Temple University, and industry partners to commercialize our technology, and leverage their facilities, expertise, sales channels, and infrastructure. This will allow us to maximize the effectiveness of bringing our products to market while eliminating capital requirements and risk. This model will allow us to accelerate all of our timelines, and retain a very competitive, and efficient corporate entity structure.

Our Products and Technologies

Applied Oil Technology (AOT)

New Technology to Reduce Oil Transportation Costs via Viscosity Reduction

There is a direct correlation between the time and expense of extracting and transporting crude oil with its viscosity. STWA's Applied Oil Technology (AOT™) aims to provide a turnkey solution to change the way that oil explorers, drillers and wholesalers manage oil, thereby improving their efficiency and profitability.

AOT™ reduces the viscosity of crude oil, enabling it to travel through pipelines with reduced fluid drag exerted on the inside of the pipeline. This translates into a direct reduction in the energy required per ton, per mile to move the product from point A to point B.

The U.S. Department of Energy published a report stating that they observed the operation of AOT™ under controlled conditions, which directly reduced the energy required to move the oil by 13.55%.

The Company believes that this 13.55% reduction in cost per mile is a very compelling figure for the domestic and international oil pipeline industry.

For example, a recent case study analysis determined that if the 13.55% reduction in energy consumption per ton/mile were to be implemented and realized by the Trans-Alaska Pipeline, it would result in ongoing energy cost savings of $9.377 million USD per year, for every pump station along the pipeline.

According to our research, there is forecasted to be substantial increases in oil and gas demand over the upcoming years. Rapid, accelerating growth in Asia, notably, India and China are increasing the needs for new pipeline construction in order to handle increased demand. The Company believes that new technological advancements such as the Company's AOT™ will be needed to address the increases in demand.

An additional market driver for energy-efficiency technology such as STWA's AOT, in 2011 was China's government pledge in its 12th Five-Year Program to cut energy consumption per unit of Gross Domestic Product by 16% by 2015. The Company believes that AOT™ may prove to be an important cornerstone for the Chinese Oil industry in this regard.

Our research indicates that the global market for new oil and gas pipelines, upgrades, extensions and maintenance was worth $62.6 billion in 2009. Growth in this sector is expected to be substantial from 2010 up to 2020 as global energy demands increase, with Asia representing the majority of this growth.

Our AOT technology directly addresses this market, as it is designed to enable more efficient transportation costs per ton/mile, and it holds potential for faster throughput rates of crude oil, which would increase daily delivery capacities, while reducing operational direct expenses associated with crude oil transmission pipelines.

AOT's market drivers are:

- Increased Global Demand for Oil.
- Emerging nations such as India and China are accelerating their demand for oil as their manufacturing sectors build new facilities to address expanding economies.
- New drilling discoveries and techniques such Enhanced Oil Recovery, and horizontal drilling.
- Emerging technological advancements enabling crude oil discoveries and supplies to be made in harsher climates and from more unconventional sources such as shale and oil sands. Management believes that cold, remote oil fields stand to benefit greatly from efficient viscosity reduction technology, making them more competitive.
- Oil and gas price organic demand and price increases.
- As demand outpaces readily available supplies, new pipelines and pipeline technologies will be required to prevent supply shortages. Greater price increases accelerate demand for additional pipelines and/or technology to improve delivery throughput capacities.
- Accelerating destabilization in oil-rich regions such as the Middle-East, forcing developed nations to seek alternate supplies and supply routes to satisfy existing and future demand.

Applications for AOT include:

Crude oil pipeline pumping stations for transmission trunk lines.
Crude oil pipeline booster stations for transmission trunk lines.
Crude oil production gathering lines.
Crude oil refinery operational lines.

AOT™ relieves the amount of fluid-drag exerted between the fluid and the inner wall of the pipeline. When installed directly after a crude oil pipeline pumping station, it immediately improves the ability of the crude oil to flow through the pipeline on its way to the next pipeline pumping station. According to our research, the distance between pipeline pumping stations varies, but is within approximately 30-100 miles.

Crude oil pipeline pumping stations are extremely expensive to build, and extremely expensive to operate. The Company believes that the implementation of the AOT™ product into service on the discharge side of existing, and/or newly built pipeline pumping stations would result in immediate operational cost savings for the pipeline operators.

The Company believes that the AOT™ can be implemented wherever crude oil is being pumped through pipelines of any size or length. The Company believes that the efficiency gains realized by the customer improve with pipeline length and with heavier grades of oil being moved.

The Company believes that the AOT™ is potentially a high-margin, high-demand product.

AOT Competition:

There are three main other methods by which to reduce the viscosity of crude oil and/or to improve flow. The commonly used practices are to heat the oil, by using either electrical or gas-powered heaters, add a chemical diluent, commonly using naphtha, natural gasoline, or chemical viscosity reduction agents, or by the use of chemical turbulence-suppression agents, known as drag reducing agents. The purpose of each of the three methods is to improve the ability for crude oil to flow through the pipeline.

AOT has competitive advantages versus these existing methods of reducing viscosity. In some cases it can replace existing methods, and in most cases it is a complimentary technology that reduces the overall cost of viscosity reduction.

History of AOT Development:

In 2004, STWA contacted Temple University with a research grant to expand on the Company's legacy technology (ZEFS, MK IV, Mag ChargR and the ECO ChargR), with Dr. Rongjia Tao, Chairman, Temple University Physics Department, as principal investigator for the development and commercialization of improving oil flow using electric fields. We then assigned the original patent application for this technology "Method and Apparatus for a Treatment of a Fluid" to Temple University. In March 2008, Dr. Tao published *Final Report Reducing the Viscosity of Crude Oil by Pulsed Electric and Magnetic Field* disclosing a series of tests where crude oil viscosity was reduced by as much as 50%. In 2009, we captured a series of tests on video and also demonstrated the technology to Colfax Corporation. In August, 2010, chief scientist Dr. Tao had confirmed the technology's effects using a neutron-scattering beam at the National Institute of Standards and Technology (NIST). In November 2010, we announced that we had engaged Colfax Corporation to build a prototype to be tested at the US Department of Energy RMOTC in Casper, Wyoming. In January, 2011, we announced we were contracting with the Pipeline Research Council International for the testing of the Applied Oil Technology at the US Department of Energy.

ELEKTRA

New Emissions Reduction and Fuel Efficiency Technology

STWA's patented and patent pending ELEKTRA™, co-developed with Temple University, improves diesel engine performance reducing emissions and improving fuel economy, by assisting in fuel atomization just prior to combustion. 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.

Using electromagnetism, Dr. Rongjia Tao, Chair, Department of Physics, Temple University expanded on STWA's legacy technology with an innovative in-line device that introduces short, precise electric pulse bursts within the fluid flow, forcing the particulate matter to align in the field direction. When this happens, the particulate matters' natural tendency to combine into clusters is enhanced. This enables the total surface area per unit of dissolved particulate matter to decrease. This, in turn, provides more volume within the fluid for the suspended particles to move, thereby reducing particle rubbing and friction, which reduces the fuel's viscosity.

We believe that the applications for products incorporating the ELEKTRA technology will include diesel, maritime diesel, aviation and military diesel, applications**.** 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.

Research and Development

The Company entered into a research and development agreement (R&D Agreement) in 2007 with Temple University to conduct further research on the AOT/ELEKTRA technology. Under the R&D Agreement Temple University agreed to conduct a 24-month research project towards expanding the scope of, and developing products utilizing, the technologies covered under the License Agreements (described below), 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 Licenses, those results will be deemed included as rights licensed to the Company pursuant to the Licenses.

On August 9, 2011, Save The World Air, Inc. (the "Company") and Temple University ("Temple") entered into two (2) Exclusive License Agreements (collectively, the "License Agreements") relating to Temple's patent applications, patents and technical information pertaining to technology associated with an electric and/or magnetic field assisted fuel injector system (the "First Temple License"), and to technology to reduce crude oil viscosity (the "Second Temple License"). The License Agreements are exclusive and the territory licensed to the Company is worldwide and replace previously issued License Agreements.

Pursuant to the two License Agreements, the Company agreed to pay Temple the following: (i) non-refundable license maintenance fee of $300,000; (ii) annual maintenance fees of $187,500; (iii) royalty fee ranging from 4% up to 7% from revenues generated from the License Agreements; and (iv) 25% of all revenues generated from sub-licensees to secure or maintain the sub-license or option thereon. Temple also agreed to cancel $37,500 of the amount due if the Company agrees to fund at least $250,000 in research or development of Temple's patent rights licensed to the Company. The term of the licenses commences in August 2011 through the expiration of the patents contemplated thereunder, or unless sooner terminated under terms of the licensing agreements.

As of December 31, 2011, the Company recorded the entire $300,000 non-refundable license maintenance fee as part of its research and development costs, of which, $200,000 was paid in November 2011 and $100,000 was subsequently paid in February 2012. Further, the Company also accrued $78,125 of the annual maintenance fees of $187,500 which will become due in August 2012.

As of December 31, 2011, there were no revenues generated from these two License Agreements nor has the Company has made a determination to provide the $250,000 funding in research or development to Temple's patent rights licensed to the Company.

In 2010, the Company began pursuit of scaling-up the Applied Oil Technology from laboratory-scale to a fully functional field-scale prototype. The purpose of this prototype is to validate and test functionality on a commercial scale. The Company worked with numerous third-party vendors to accomplish the design, engineering and manufacture of the prototype beginning in the third quarter of 2010, and ending in the first quarter of 2011. The prototype was delivered via freight to the U.S. Department of Energy RMOTC test facility on May 13th, 2011.

In 2010, the Company entered into a research and development (R&D) agreement with the U.S. Department of Energy to test the prototype at their Rocky Mountain Oilfield Testing Center, near Casper Wyoming. The Company worked with numerous third-party vendors to retrofit a 4.5 mile subterranean oil pipeline flow loop originally built by Texaco and DeepSTAR, to test the new prototype under controlled-conditions. The test facility construction was completed in June, 2011.

Numerous tests were conducted on the prototype at the aforementioned test facility, resulting in positive test results. The U.S. Department of Energy RMOTC witnessed, and published a test report, confirming AOT generated 13.14% and 13.55% efficiency improvements on the pipeline during the test.

In 2007, The Company entered into a research and development agreement (R&D Agreement) with Temple University to conduct further research on the ELEKTRA / AOT technology. Under the R&D Agreement Temple University agreed to 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

The Company is currently working with the U.S. Department of Energy to test its technology at the Department of Energy's Rocky Mountain Oilfield Testing Center (RMOTC), near Casper, Wyoming. This third-party testing is to establish independently verified data related to the Company's technology as applied to commercial use in a controlled facility, using a commercial-scale prototype of the Applied Oil Technology (AOT).

On August 2 and 3, 2010, a group led by Dr. Rongjia Tao from Temple University conducted experiments, using the laboratory-scale Applied Oil Technology apparatus at the National Institute of Standards and Technology (NIST) Center for Neutron Research (CNR). NIST, an agency of the U.S. Department of Commerce, founded in 1901 in Gaithersburg, Maryland. It is the nation's first federal physical science research laboratory.

Dr. Tao's team used the NG7 SANS (Small Angle Neutron Scattering) beam to investigate at a nano-scale level, the effects produced by STWA's Applied Oil Technology. The NG7 line was built as a joint effort between Exxon Corporation and the U.S. Government for fluid research, and uses the relatively new technique of neutron reflectometry to investigate the near-surface structure of many materials at the molecular level. The tests captured data and pictures with and without the field, confirming scientific evidence of its effect at a molecular level. The report can be found at the following link: http://www.stwa.com/STWA/whitepapers/STWA_Crude_Oil_Electrorheology_Neutron_Scattering_Test_at_NIST.pdf

Testing of the technology as applied to crude oil extraction and transmission has been conducted at Temple University in their Physics Department, in addition to the U.S. Department of Energy (US DOE), at their Rocky Mountain Oilfield Testing Center (RMOTC), located on the Naval Petroleum Reserve #3 Teapot Dome Oilfield, north of Casper, Wyoming.

Sales and Marketing

Applied Oil Technology

Product or Work Pipeline Industry's Mission:

The pipeline industry is in the business of oil production and transportation. Pipeline construction is highly expensive. The Company's AOT technology potentially reduces the pipe diameters and pump sizes needed for new pipeline construction dramatically saving on capital expenditure.

The Company believes that the practical implementation of the Applied Oil Technology will result in enormous financial savings to be realized by pipeline owners and operators.

Management believes that AOT will provide the same potential savings in constructing new pipelines, at much less cost to operate and much less environmental impact than DRA. Additionally, for existing pipelines, this technology increases their daily revenue potential by moving more oil in a given time and pipe diameter and potentially postpones new construction.

Management believes that AOT will be an attractive option for producers and pipeline operators in its ability to reduce the operation costs associated with crude oil transport. The oil industry is a very large, yet tightly-knit, focused community. Management believes that the Company's affiliation with Pipeline Research Council International (PRCI) will be beneficial in its ability to rapidly disseminate information pertaining to AOT's effectiveness in improving pipeline efficiency.

PRCI is a community of the world's leading pipeline companies, and the vendors, service providers, equipment manufacturers, and other organizations supporting the pipeline industry. Since 1952, PRCI has been recognized around the world as a unique forum within the energy pipeline industry delivering great value to its members and the industry, both quantitative and qualitative, through the development and deployment of research solutions to the operational, maintenance, and regulatory challenges that face it.

The majority of the world's largest oil and gas pipelines are fully-integrated companies, which are involved in all stages of petrochemical production from extraction to delivery. The companies explore for and produce, own the pipelines for transport, and refine the petrochemicals for wholesale and retail sale. Management believes that the Company's AOT technology is of interest at every level of the extraction, production, transport and delivery to these 'super major' companies.

Management believes that the industry is actively seeking new and innovative cost-savings and throughput capacity improvement technology such as the Company's Applied Oil Technology (AOT). Management believes that targeted messaging to pipeline operators via trade journals and industry trade shows will create strong worldwide demand for the Company's Applied Oil Technology.

Growing Markets:

China, a net importer of oil, and the world's most populated country, is the second highest consumer of oil behind the US whose energy needs are forecast to be increasing 150% by 2020. Its oil consumption rate is growing at seven times that of the US, and China is investing heavily in new oil pipelines and infrastructure to accommodate this ramp-up. It is forecasted that 70% of Chinas imported oil will be coming from the Mid-East and Central Asia by 2015. Management believes that The Company's AOT technology holds the potential to provide advantages for the Chinese pipeline industry to assist in this growth.

India, a net importer of oil, is the second most populated country and is directly competing with China in securing oil supplies and infrastructure to fuel its own rapid growth. India currently imports 70% of its oil, and is forecast to increase this number to 85% by 2020. India is investing heavily in pipelines and infrastructure to accommodate this ramp-up. Management believes that the Company's AOT technology holds the potential to provide advantages for the Indian pipeline industry to assist in this growth.

Asia boasts the global region with the largest growth forecasts and is expected to grow from $20.9Bn in 2010 to $32.1Bn in 2020. Asia is a very promising region in that its growth is largely being fueled by state-owned companies under direction from their respective governments. The total market forecast for this region is expected to be worth up to $306.5Bn from 2010 to 2020. Management believes that there is the potential for strong interest in the Company's AOT technology in these regions. According to the United States Energy Information Administration, "China consumed an estimated 9.2 million barrels per day (bbl/d) of oil in 2010, up nearly 900 thousand bbl/d, or over 10 percent from year-earlier levels. China's net oil imports reached about 4.8 million bbl/d in 2010 and it became the second-largest net oil importer in the world behind the United States in 2009. EIA forecasts that China's oil consumption will continue to grow during 2011 and 2012, and the anticipated growth of 1.1 million bbl/d between 2010 and 2012 would represent almost 40 percent of projected world oil demand growth during the 2-year period (– Source: www.eia.gov/countries/cab.cfm?fips=CH).

The US is currently the largest consumer of oil, yet its market forecast is not as strong over the 2010-2020 timeline as other regions, due to its markets being more closely linked to the financial markets, which suffered greatly in the 2008 economic downturn. The MidEast, Asian, and European markets were more insulated to this exposure due to their industries being largely government backed. North America does have a large number of new pipelines planned, yet their development has been halted until they become economically viable, pending economic recovery. The North American market however is forecasted to see large growth rates as the economic recovery takes hold. The North American market is forecasted to rise from $6.4Bn in 2010 to $16.9Bn in 2020 with the majority of growth from 2010-2015 of 23% CAGR and a decline in the 2015-2020 of -1.5% CAGR. The total market forecast for this region is expected to be worth $162.3Bn from 2010-2020. Management believes that there is the potential for strong interest in the Company's AOT technology in this region.

AOT Market Summary:

Our research indicates that the global use of fossil fuels will continue to be very strong into the foreseeable future. Petrochemicals are forecasted to continue to be the mainstay of the global energy supply, until alternative and emerging energy sources are discovered and developed. Management believes that the Company's AOT technology will become a rapidly implemented and increasingly attractive option for producers and operators as they expand their operations to accommodate the rapidly rising demand for global crude oil supplies. New pipelines are being constructed, new fields are being discovered, and new infrastructure is being built to handle the increasing demand around the globe. Management believes that these new pipelines and infrastructure can benefit from the advantages the Company's AOT technology can provide.

Market Drivers:

Management believes that there are a number of macroeconomic key leading indicators that point to an increase in demand for products that improve the flow characteristics and improve the efficiency per ton/mile of crude oil transport. Our research indicates that there are two major key leading indicators that point to increased demand for products designed to improve pipeline flow assurance such as STWA's AOT.

On the demand side of the equation, accelerated demand growth, notably in China and India are the major contributors to world oil demand, driving this demand for crude oil at an unprecedented rate. According to the US Energy Information Administration, China's demand for crude oil is growing from 2010-2012 by 1.1 million barrels per day, per year. Our research also indicates that China imports roughly half of its oil, most of which comes into the country via tanker vessels, which commonly transition the Straits of Hormuz and the Straits of Malacca, en route to their destination ports serving Hong Kong, Shanghai, and Beijing. Our research indicates that the Chinese Government is seeking ways to diversify these oil delivery routes in efforts to make their import delivery systems more secure. Our research indicates that China is seeking ways to diversify their energy supply delivery system, and is investing heavily in cross-national pipeline networks to bring oil into the country from Russia, Kazakhstan, Myanmar, and potentially India. The Chinese pipeline market is dominated by three major companies, all of which are directly linked to the Chinese central government. Our research indicates that the Chinese pipeline network system is already running at full capacity, yet its demand growth continues to accelerate. Management believes that products designed to improve the flow of oil, such as STWA's AOT will be in great demand in the Chinese market alone, to increase the maximum flow rates of their pipelines throughout the country to satisfy the rapid crude oil demand growth.

Our research indicates that on the supply-side of the equation, new enhanced oil recovery "EOR" and production techniques and technology are improving the production capacity of oil wells beyond their previously attainable levels. Regions such as the US and Canadian Bakken formation on the Montana / North Dakota / Saskatchewan border have realized rapid growth through the use of directional drilling and hydraulic fracturing, to enable each well to produce far more efficiently than every before. Our research indicates that these recovery and production techniques are combining to make oil easier and faster to produce than ever before. According to our research and information from industry contacts, the additional recovery and production rates for the Bakken region have already exceeded the physical carrying capacity of the pipelines servicing the region. Our research indicates that the demand for additional pipeline capacity is growing rapidly for that region in particular, as producers seek ways to transport their new increased production volume capacities to market. Management believes that products designed to improve the flow of oil, such as STWA's AOT will be in great demand in the Bakken market alone, to increase the maximum flow rates of their pipelines servicing these regions.

Management believes that having the US DOE (US Department of Energy) test results verifying that AOT improves flow rates and reduces energy consumption will be the milestone that will allow the Company to begin closing sales of the product line. Management believes that the AOT product line, integrated into the customers existing infrastructure may be able to yield higher throughput capacity and/or reduce energy requirements and transport costs per ton, per mile due to the pressure loss improvements generated by lowering the viscosity of the crude oil transported.

Upon completion of our tests and the results being published, management will seek contracts within the oil production and transportation industries and the selection of a manufacturing company as follows:

Selecting a Manufacturing Partner

We intend to outsource the manufacturing of the AOT technology. In consideration of qualified partners, here are examples of such criteria:

- Existing proven, large-scale manufacturing and distribution for oil producers and transport hardware
- Existing relationships with oil producers and pipeline operator decision-makers
- Forward-looking proactive corporate vision looking to boldly expand their market share

STWA has contracted with a sub-manufacturing partner for developing its current AOT prototype.

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. Management believes that there is a viable market opportunity for the Elektra product within the commercial shipping industry, military and other off-highway commercial applications.

Subject to proper capitalization, we intend to embark upon additional research and development to scale up the Elektra product from laboratory research into preliminary prototypes, followed by commercial prototype units to prove our commercial sales viability.

Our research indicates that there are a number of factors that will drive the need for products designed to improve efficiency and reduce emissions from diesel engines such as STWA's Elektra product. Our research indicates that the California Air Resources Board (CARB) has established regulations that are driving the need for new emissions reduction technologies. CARB has established the following regulations on ship emissions:

"Requires use of cleaner fuels within 24 nautical mile zone of the California coastline

July 1, 2009

– use marine gas oil (averages 0.3% sulfur), or
– use marine diesel oil with a 0.5% sulfur limit

January 1, 2012

– use marine gas oil with a 0.1% sulfur limit, or
– use marine diesel oil with a 0.1% sulfur limit

Applies to main and auxiliary engines, and auxiliary boiler3"

ARB will grant exemptions to vessels that apply for a temporary experimental or research exemption.

"Temporary Experimental or Research Exemption

Provided for research projects that will advance the state of knowledge of exhaust control technology or characterization of emissions

– Allows for the use of noncompliant fuel
– Applicant must provide progress reports and all test data and other project results
– Exemption possible for up to 3 years, with an extension possible
– Application process takes about 30 days"

Cargo ships primarily use a high-sulfur content, undistilled fuel known as Bunker-C or residual oil because it is inexpensive. Low sulfur ship fuels such as Marine Diesel Oil (MDO) can cost up to six times as much as Bunker-C. Additionally, ships have to shut down and clean out their fuel systems when switching from Bunker-C to MDO. This can add an extra day to every inbound ocean voyage, greatly increasing the operating cost for ship fleets. A technology that could deliver emissions reduction with Bunker-C and avoid shipping companies having to switch to MDO could avoid dramatic cost increases in shipping.

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. The State of California has also announced its intent to seek greenhouse gas ("GHG") legislation and the United States Congress is also considering GHG legislation.

Foreign governments have recognized 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.

Upon completion of our tests and the results being published, management will seek contracts within the maritime and military applications 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 manufacturer and distributor of Original Equipment Manufacturer for transportation
- Existing relationships with fleet managers of large diesel truck operators
- Forward-looking proactive corporate vision looking to boldly expand their market share

Competition

AOT

The oil transportation industry is highly competitive. We are aware of only three currently available competitive technologies in widespread use for reducing the viscosity of oil throughout the world. Many of our competitors have greater financial, research, marketing and staff resources than we do. For instance, oil pipeline operators use heat, diluents such as naphtha and/or natural gasoline, and/or chemical viscosity reduction additives, or chemical drag-reducing agents to improve flow in pipelines. Our research indicates that these methods are either very energy-intensive, or costly to implement on a day to day basis. Management believes that The Company's AOT technology presents advantages over traditional methods, yet the industry's willingness to experiment with said new technology may pose some challenges in acceptance.

We are not aware of any other technology using uniform electrical field crude oil viscosity reduction technology which has been proven to significantly improve pipeline operation efficiency. 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 incorporating the Applied Oil Technology which could provide the benefits of improved efficiency and increased flow rates. Additionally, we believe that those aforementioned 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. Major domestic and international manufacturers and distributors of pipeline flow-improvement chemical solutions include Pemex, Petrotrin, Pluspetrol, Repsol, Glencore, Conoco-Philips, and Baker-Hughes. According to our research, heater skid manufacturers are generally local to the oilfield and pipeline regions, and are comprised of a large number of relatively small businesses in a fragmented industry. Major heater skid manufacturers are Parker, KW International, Thermotech Systems, LTD.

ELEKTRA

The maritime shipping 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, engine and component manufacturers have already developed catalytic converters for engine exhaust systems 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 incorporating the ELEKTRA technology which could provide the benefits of emission reductions, fuel efficiency and engine performance enhancement. There are competing products which provide one or more of the beneficial attributes of our ELEKTRA technology, 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.

We are not aware of any other technology using 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. High pressure 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 uniform electrical field fuel treatments or products based on such technology which has been proven to significantly improve engine 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, Flowmaster, 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.

Intellectual Property

ELEKTRA and APPLIED OIL TECHNOLOGY (AOT)

In addition to the License Agreements we have with Temple University (see Research and Development above), 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

Cullen & Co Reference: 040540

Applicant: Temple University of the Commonwealth System of Higher Education

Summary of Invention
Treating oils with magnetic fields to improve viscosity.

Claim 1 (PCT Application)

An apparatus for the magnetic treatment of a fluid which produces at least one magnetic field for a period of time, T_c at or above a critical magnetic field strength, H_c, the period T_c and the field strength H_c determined relative to one another and dependant upon the properties of the fluid. (All clear ISR)

Priority Date

The priority date is 14 May 2004 from Australian patent application 2004902563. (The GCC application was refiled and therefore the priority date for that application will be set at the actual filing date of the refiled application).

Country	Number	Filing date	Status
GCC *	GCC/P/2005/5066	22-August-2005	Application Allowed/Accepted – registration fees paid
Brazil	0510871-3	13-May-2005	Examination requested 29 April 2008 - awaiting report
Canada	2566739	13-May-2005	Examination requested - awaiting report
China (Method)	200580023369.3	13-May-2005	GRANTED
China (Apparatus)	20111022393.2	13 May 2005	Application filed – awaiting examination
Eurasia **	200602114	13-May-2005	GRANTED – Russia Only
Egypt	PCT 1087/2006	13-May-2005	GRANTED
United Kingdom	624025.3	13-May-2005	GRANTED
Indonesia	WO0200603429	13-May-2005	GRANTED
Libya	3560/2008	28-January-2008	Application filed - awaiting examination
Mexico	PA/a/2006/013206	13-May-2005	GRANTED
Norway	20065632	13-May-2005	Application filed – awaiting examination
United States	11/519168	13-May-2005	Under examination – response filed 20 December 2011

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

Legacy Technology

MAG ChargR™/ECO ChargR™, (legacy technology)

Our MAG ChargR™ and ECO ChargR™ products were designed to 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 were primarily designed to reduce harmful emissions and MAG ChargR products are primarily designed to enhance performance and fuel economy. Our ECO ChargR product was intended to reduce exhaust emissions in vehicle and small utility motors. We intended that the ECO ChargR would be marketed primarily to original equipment manufacturers ("OEMs") as well as to pilot and government-mandated emissions programs. Our MAG ChargR product was intended to increase power and improve mileage. MAG ChargR was intended to apply 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 planned on commencing sales of ECO ChargR to customers in the United States in the motorcycle industry in second quarter of 2010. We also planned on commencing initial sales of our MAG ChargR in the United States in the automobile and motorcycle industry in the second quarter of 2010. 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 legacy technology for road-going applications. 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.

The legacy technologies were instrumental in generating the impetus for the research grant to Temple University to investigate magnetic and electric field effects on motor fuels. The legacy technologies have since been retired by management.

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, 2011, we had nine full-time employees. As of such date, we also utilized the services of nineteen 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 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 subsequently have not generated any revenues and we have incurred net losses every year since our inception in 1998. For the fiscal years ended December 31, 2011 and 2010, we had net losses of $10,856,547 and $9,494,906, 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. We have significantly reduced 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 AOT 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 30, 2012, our independent auditors stated that our consolidated financial statements for the year ended December 31, 2011 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 and accumulated deficit losses from operations since inception. We had an accumulated deficit of $69,289,467 as of December 31, 2011. 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 $617,797 in cash at December 31, 2011 and negative cash flow from operations of $4,723,952 for the year ended December 31, 2011.

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, 2011 and thereafter, our expenses ran, and are expected to continue to run, at a "burn rate" of approximately $280,000 per month, which amount could increase during 2012. 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 2010 and 2011. 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.

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

As of December 31, 2011, we have $1,720,460 remaining principal amount of convertible subordinated notes, of which $1,516,504 will be due in December 2012.

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 AOT and ELEKTRA technologies. 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 AOT technologies remains largely unproven and we may not be able to attract customers.

Despite the fact that we have entered into various discussions and received letters of intent, to the best of our knowledge, no consumer or pipeline manufacturer has used the products incorporating the AOT technologies to reduce crude oil viscosity 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 AOT 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 maritime engine manufacturer has used the products incorporating the ELEKTRA technology to reduce maritime vessel 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. Engine component 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 engine component manufacturers and consumers as an approach to reduce maritime vessel 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.

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 2012 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 ATO 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 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 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 Gregg Bigger our 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.

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 price of $0.60 on January 3, 2011 to a closing price of $0.20 on August 8, 2011, and a closing price of $0.64 on March 15, 2012. Additionally, the 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 are located at 735 State Street, Suite 500, Santa Barbara, California 93101 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 Morgan Hill facility 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.

Leases

In March 2009, the Company entered into a sublease agreement for its executive offices in Santa Barbara, California. The term of the lease was for $3,520 per month from April 1, 2010 through December 31, 2010 and $3,630 per month from January 1, 2010 to December 31, 2010. In November 2010, the Company amended the lease agreement. Pursuant to the amendment, the term of the lease was for $5,830 per month from January 1, 2011 to December 31, 2013.

Total rent expense under this lease and other operating leases in effect during the years ended December 31, 2011 and 2010, was $138,840 and $112,320, respectively. The following is a schedule by years of future minimum rental payments required under the non-cancellable operating leases as of December 31, 2011.

Years Ending December 31,		
2011	$	69,960
2012		69,960
2013		69,960
Total	$	209,880

Item 3. ***Legal Proceedings***

There is no other litigation of any significance with the exception of the matters that have arisen under, and are being handled in, the normal course of business.

Litigation Involving Former Executive Officer

As previously reported, on April 7, 2010, Bruce McKinnon, the former CEO of the Company, and the Company entered into an Agreement Re: Collection on Judgment ("Judgment") (the "Settlement Agreement"), wherein McKinnon, among other things, agreed to cease further collection efforts on the Judgment, and the Company, among other things, agreed to satisfy the Judgment for, and McKinnon agreed to accept as full and final satisfaction of the Judgment, subject to certain payment waivers, a total amount of $360,000, plus interest of ten percent (10%) per annum from March 15, 2010, on the unpaid balance until paid, payable as follows: $30,000 on April 7, 2010; $85,000 on or before April 15, 2010; and, $15,000 per month commencing on June 1, 2010, until paid. As of December 31, 2011, all payments were made on time and the balance has been paid in full.

Item 4. ***Mine Safety Disclosures.***

None.

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, 2010, 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.

	2011		2010	
	High	Low	High	Low
First Quarter	$ 0.64	$ 0.25	$ 0.82	$ 0.47
Second Quarter	$ 0.44	$ 0.30	$ 0.74	$ 0.32
Third Quarter	$ 0.37	$ 0.18	$ 0.45	$ 0.20
Fourth Quarter	$ 0.43	$ 0.20	$ 0.54	$ 0.28

According to the records of our transfer agent, we had 1,131 stockholders of record of our common stock at March 15, 2012. 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 Current Fiscal Year

2011 Winter Offering. From December 13, 2010 through February 28, 2011, we conducted a private offering (the "2011 Winter Offering") and issued Convertible Notes in the aggregate face amount of $2,588,422. These Notes were sold for an aggregate purchase price of $2,353,111 net proceeds. The Notes are convertible into 10,353,688 shares of our common stock and in addition, investors received warrants entitling the holders to purchase up to 10,353,688 shares of our common stock. (See "Details of Recent Financing Transactions.")

2011 Spring Offering. From March 14, 2011 through May 31, 2011, we conducted a private offering (the "2011 Spring Offering") and issued Convertible Notes in the aggregate face amount of $1,469,550. These Notes were sold for an aggregate purchase price of $1,335,955 net proceeds. The Notes are convertible into 5,878,200 shares of our common stock and in addition, investors received warrants entitling the holders to purchase up to 5,878,200 shares of our common stock. (See "Details of Recent Financing Transactions.")

2011 Summer Offering. From June 24, 2011 through July 31, 2011, we conducted a private offering (the "2011 Summer Offering") and issued Convertible Notes in the aggregate face amount of $487,783. These Notes were sold for an aggregate purchase price of $443,439 net proceeds. The Notes are convertible into 1,951,132 shares of our common stock and in addition, investors received warrants entitling the holders to purchase up to 1,951,132 shares of our common stock. (See "Details of Recent Financing Transactions.")

2011 Fall Offering. From August 30, 2011 through October 15, 2011, we conducted a private offering (the "2011 Fall Offering") and issued Convertible Notes in the aggregate face amount of $170,720. These Notes were sold for an aggregate purchase price of $155,200 net proceeds. The Notes are convertible into 682,880 shares of our common stock and in addition, investors received warrants entitling the holders to purchase up to 682,880 shares of our common stock. (See "Details of Recent Financing Transactions.")

2011 Fall Offering #2. From October 24, 2011 through December 13, 2011, we conducted a private offering (the "2011 Fall Offering #2") and issued Convertible Notes in the aggregate face amount of $1,516,504. These Notes were sold for an aggregate purchase price of $1,378,640 net proceeds. The Notes are convertible into 6,066,016 shares of our common stock and in addition, investors received warrants entitling the holders to purchase up to 6,066,016 shares of our common stock. (See "Details of Recent Financing Transactions.")

The sales of the securities described above were made in reliance on the exemptions from registration set forth in Section 4(2) of the Securities Act of 1933, as amended (the "Act"), or Regulations D or S promulgated thereunder.

Other Issuances

During the year ended December 31, 2011, we issued an aggregate of 22,710,276 shares of our common stock as follows:

- During 2011, we issued 2,800,000 shares of our common stock for services valued in the aggregate at $862,000. We valued the shares at market prices at the date of the agreements ranging from $0.25 to $0.60 per share.
- During 2011 we issued 19,861,478 shares of our common stock in exchange for conversion of $4,965,370 of Convertible Notes. We valued the shares at $0.25 pursuant to the term of the convertible note.
- During 2011, we issued 77,778 shares of our common stock for exercised options valued at $0.27 per share.
- During 2011, we issued 81,020 shares of our common stock for cashless exercise of warrants.

Item 6. ***Selected 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, 2011, 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 2012.

Our expenses to date have been funded primarily through the sale of shares of common stock and convertible debt, as well as proceeds from the exercise of stock purchase warrants. We raised capital in 2011 and will need to raise substantial additional capital in 2012, 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

There were no revenues and cost of sales for the fiscal year ended December 31, 2011 and 2010.

Operating expenses were $6,886,681 for the fiscal year ended December 31, 2011, compared to $4,293,631 for the fiscal year ended December 31, 2010, an increase of $2,593,050. This increase is attributable to increases in non-cash expenses of $1,773,975 and cash expenses of $819,075. Specifically, the increase in non-cash expenses is attributable to increases in valuation warrants and options given employees as compensation of $2,010,528, offset by a decrease in valuation of stocks and warrants given to consultants of $237,249. The increase in cash expenses is attributable to increases in consulting and professional fees of $373,722, salaries and benefits of 222,736, office and other expenses of $126,125, travel expenses of $53,626 and corporate expenses of $42,866.

Research and development expenses were $1,130,283 for the fiscal year ended December 31, 2011, compared to $427,982 for the fiscal year ended December 31, 2010, an increase of $702,301. This increase is primarily attributable to increases in product testing, research and supplies of $610,166 and contract fees of $118,635, offset by a decrease in travel expenses of $26,500.

Other expenses were $2,838,783 for the fiscal year ended December 31, 2011, compared to $4,772,493 for the fiscal year ended December 31, 2010, a decrease of $1,933,710. This decrease is attributable to decreases in the fair value of derivative liabilities of $1,607,031, cost of private placement of $1,129,212 which was not incurred in 2011, cost to induce conversion of certain notes of $168,340 which was not incurred in 2011, and increase in other income of $78,822, offset by an increase in interest and financing expense of $1,049,695.

We had a net loss of $10,856,547 or $0.10 loss per share for the fiscal year ended December 31, 2011 compared to a net loss of $9,494,906, or $0.12 loss per share for the fiscal year ended December 31, 2010.

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, 2011, we had cash of $617,797 and an accumulated deficit of $69,289,467. Our negative operating cash flow in 2011 was funded primarily through the sale convertible notes.

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, we had a net loss of $10,856,547 and a negative cash flow from operations of $4,723,952 for the year ended December 31, 2011, and had a working capital deficiency (excluding our derivative liability) of $1,548,080 and a stockholders' deficiency of $3,105,282 at December 31, 2011. These factors raise substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to raise additional funds and implement our business plan. The consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

During 2011, we raised an aggregate of $5,360,070 in net proceeds from the issuance of Convertible Notes, as follows:

- Net proceeds of $2,251,832 from the issuance of convertible notes and warrants in a 2011 Winter Offering. The face amount of the notes is $2,588,422.
- Net proceeds of $1,141,600 from the issuance of convertible notes and warrants in a 2011 Spring Offering. The face amount of the notes is $1,469,550.
- Net proceeds of $437,998 from the issuance of convertible notes and warrants in a 2011 Summer Offering. The face amount of the notes is $487,783.
- Net proceeds of $150,000 from the issuance of convertible notes and warrants in a 2011 Fall Offering. The face amount of the notes is $170,720.
- Net proceeds of $1,378,640 from the issuance of convertible notes and warrants in a 2010 Fall Offering #2. The face amount of the notes is $1,516,504.

Details of Recent Financing Transactions

2011 Winter Offering

From December 13, 2010 through February 28, 2011, we conducted a private offering (the "Winter 2011 Offering") of up to $3,000,000 aggregate face amount of its convertible notes (the "Winter 2011 Notes"). A total of $2,588,422 aggregate face amount of the Winter 2011 Notes were sold for an aggregate purchase price of $2,353,111. While there was no stated interest rate on the Winter 2011 Notes, the implied effective interest rate on the Winter 2011 Notes is 10% per annum. The Winter 2011 Notes mature on the first anniversary of their date of issuance. The Winter 2011 Notes are convertible, at the option of the note holder, into 10,353,688 shares of our common stock (the "Conversion Shares") at an initial conversion price of $0.25 per share (the "Conversion Price").

Each of the investors in the Winter 2011 Offering received, for no additional consideration, a warrant (the "Winter 2011 Warrants"), entitling the holder to purchase a number of shares of our common stock equal to 100% of the number of shares of common stock into which the Winter 2011 Notes are convertible (the "Warrant Shares"). Each Winter 2011 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 10,353,688 Warrant Shares are initially issuable to date on exercise of the Winter 2011 Warrants.

We received $2,251,032 in net proceeds in the 2011 Winter Offering which was used for general corporate purposes and working capital. The aggregate value of the 2011 Offering Warrants issued were valued at $1,368,888 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of 0.69; dividend yield of 0%; volatility factors of the expected market price of common stock of 120%; and an expected life of two years (statutory term) and vest immediately upon issuance. We also determined that the notes contained a beneficial conversion feature valued at $984,223. The aggregate value of the 2011 Winter Offering Warrants, the beneficial conversion feature and the implied discount and transaction fees of $235,311 are considered as debt discount and are being amortized over the life of the notes. The amortization recorded during the period amounted to $2,573,756.

As of December 31, 2011, investors have converted $2,500,422 of the Convertible Notes into 10,001,688 shares of our common stock. The outstanding balance at December 31, 2011 was $88,000.

2011 Spring Offering

From March 14, 2011 through May 31, 2011, we conducted a private offering (the "Spring 2011 Offering") of up to $1,000,000 aggregate face amount of its convertible notes (the "Spring 2011 Notes"). A total of $1,469,550 aggregate face amount of the Spring 2011 Notes were sold for an aggregate purchase price of $1,335,955. While there was no stated interest rate on the Spring 2011 Notes, the implied effective interest rate on the Spring 2011 Notes is 10% per annum. The Spring 2011 Notes mature on the first anniversary of their date of issuance. The Spring 2011 Notes are convertible, at the option of the note holder, into 5,878,200 shares of our common stock (the "Conversion Shares") at an initial conversion price of $0.25 per share (the "Conversion Price").

Each of the investors in the Spring 2011 Offering received, for no additional consideration, a warrant (the "Spring 2011 Warrants"), entitling the holder to purchase a number of shares of our common stock equal to 100% of the number of shares of common stock into which the Spring 2011 Notes are convertible (the "Warrant Shares"). Each Spring 2011 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 5,878,200 Warrant Shares are initially issuable to date on exercise of the Spring 2011 Warrants.

We received $1,141,599 in net proceeds in the 2011 Spring Offering which was used for general corporate purposes and working capital. The aggregate value of the 2011 Spring Offering Warrants issued were valued at $726,787 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of 0.45; dividend yield of 0%; volatility factors of the expected market price of common stock of 119%; and an expected life of two years (statutory term) and vest immediately upon issuance. We also determined that the notes contained a beneficial conversion feature valued at $609,168. The aggregate value of the 2011 Spring Offering Warrants, the beneficial conversion feature and the implied discount and transaction fees of $133,595 are considered as debt discount and are being amortized over the life of the notes or amortized in full upon conversion. The amortization recorded during the period amounted to $1,469,550.

As of December 31, 2011, investors have converted $1,469,550 of the Convertible Notes into 5,878,200 shares of our common stock. There was no outstanding balance at December 31, 2011.

2011 Summer Offering

From June 24, 2011 through July 31, 2011, we conducted a private offering (the "Summer 2011 Offering") of up to $1,000,000 aggregate face amount of its convertible notes (the "Summer 2011 Notes"). A total of $487,783 aggregate face amount of the Summer 2011 Notes were sold for an aggregate purchase price of $443,439. While there was no stated interest rate on the Summer 2011 Notes, the implied effective interest rate on the Summer 2011 Notes is 10% per annum. The Summer 2011 Notes mature on the first anniversary of their date of issuance. The Summer 2011 Notes are convertible, at the option of the note holder, into 1,951,132 shares of our common stock (the "Conversion Shares") at an initial conversion price of $0.25 per share (the "Conversion Price").

Each of the investors in the Summer 2011 Offering received, for no additional consideration, a warrant (the "Summer 2011 Warrants"), entitling the holder to purchase a number of shares of our common stock equal to 100% of the number of shares of common stock into which the Summer 2011 Notes are convertible (the "Warrant Shares"). Each Summer 2011 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 1,951,132 Warrant Shares are initially issuable to date on exercise of the Summer 2011 Warrants.

We received $437,999 in net proceeds in the 2011 Summer Offering which was used for general corporate purposes and working capital. The aggregate value of the 2011 Summer Offering Warrants issued were valued at $172,856 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of 0.36; dividend yield of 0%; volatility factors of the expected market price of common stock of 116%; and an expected life of two years (statutory term) and vest immediately upon issuance. We also determined that the notes contained a beneficial conversion feature valued at $270,583. The aggregate value of the 2011 Summer Offering Warrants, the beneficial conversion feature and the implied discount and transaction fees of $44,344 are considered as debt discount and were amortized in full upon conversion of the notes. The amortization recorded during the period amounted to $487,783.

As of December 31, 2011, investors have converted $487,783 of the Convertible Notes into 1,951,132 shares of our common stock. There was no outstanding balance as of December 31, 2011.

2011 Fall Offering

From August 30, 2011 through October 15, 2011, we conducted a private offering (the "Fall 2011 Offering") of up to $1,000,000 aggregate face amount of its convertible notes (the "Fall 2011 Notes"). A total of $170,720 aggregate face amount of the Fall 2011 Notes were sold for an aggregate purchase price of $155,200. While there was no stated interest rate on the Fall 2011 Notes, the implied effective interest rate on the Fall 2011 Notes is 10% per annum. The Fall 2011 Notes mature on the first anniversary of their date of issuance. The Fall 2011 Notes are convertible, at the option of the note holder, into 682,880 shares of our common stock (the "Conversion Shares") at an initial conversion price of $0.25 per share (the "Conversion Price").

Each of the investors in the Fall 2011 Offering received, for no additional consideration, a warrant (the "Fall 2011 Warrants"), entitling the holder to purchase a number of shares of our common stock equal to 100% of the number of shares of common stock into which the Fall 2011 Notes are convertible (the "Warrant Shares"). Each Fall 2011 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 682,880 Warrant Shares are initially issuable to date on exercise of the Fall 2011 Warrants.

We received $150,000 in net proceeds in the 2011 Summer Offering which was used for general corporate purposes and working capital. The aggregate value of the 2011 Fall Offering Warrants issued were valued at $50,958 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of 0.28; dividend yield of 0%; volatility factors of the expected market price of common stock of 112%; and an expected life of two years (statutory term) and vest immediately upon issuance. We also determined that the notes contained a beneficial conversion feature valued at $104,242. The aggregate value of the 2011 Fall Offering Warrants, the beneficial conversion feature and the implied discount and transaction fees of $15,520 are considered as debt discount and are being amortized over the life of the note or amortized in full upon conversion of the notes. The amortization recorded during the period amounted to $87,992.

As of December 31, 2011, investors have converted $66,220 of the Convertible Notes into 264,880 shares of our common stock. The outstanding balance at December 31, 2011 was $104,500.

2011 Fall#2 Offering

From October 24, 2011 through December 13, 2011 we conducted a private offering (the "Fall#2 2011 Offering") of up to $2,200,000 aggregate face amount of its convertible notes (the "Fall#2 2011 Notes"). A total of $1,516,504 aggregate face amount of the Fall#2 2011 Notes have been sold for an aggregate purchase price of $1,378,640. While there is no stated interest rate on the Fall#2 2011 Notes, the implied effective interest rate on the Fall#2 2011 Notes is 10% per annum. The Fall#2 2011 Notes mature on the first anniversary of their date of issuance. The Fall#2 2011 Notes are convertible, at the option of the note holder, into 6,066,016 shares of our common stock (the "Conversion Shares") at an initial conversion price of $0.25 per share (the "Conversion Price").

Each of the investors in the Fall#2 2011 Offering will receive, for no additional consideration, a warrant (the "Fall#2 2011 Warrants"), entitling the holder to purchase a number of shares of our common stock equal to 100% of the number of shares of common stock into which the Fall#2 2011 Notes are convertible (the "Warrant Shares"). Each Fall#2 2011 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 6,066,016 Warrant Shares are initially issuable to date on exercise of the Fall#2 2011 Warrants.

We received $1,378,640 in net proceeds in the 2011 Fall#2 Offering which was used for general corporate purposes and working capital. The aggregate value of the 2011 Fall#2 Offering Warrants issued were valued at $650,823 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of 0.24; dividend yield of 0%; volatility factors of the expected market price of common stock of 112%; and an expected life of two years (statutory term) and vest immediately upon issuance. We also determined that the notes contained a beneficial conversion feature valued at $727,817. The aggregate value of the 2011 Fall#2 Offering Warrants, the beneficial conversion feature and the implied discount and transaction fees of $137,864 are considered as debt discount and are being amortized over the life of the note or amortized in full upon conversion of the notes. The amortization recorded during the period amounted to $63,188.

As of December 31, 2011, there was no note conversion to common stock. The outstanding balance at December 31, 2011 was $1,516,504.

Summary

At December we had cash on hand in the amount of $657,805 and since December 31, 2011, we have raised an additional $1,338,440 through the sale of Convertible Notes. At December 31, 2011 the we had outstanding Convertible Notes amounting to $1,720,504 of which $1,051,440 have been converted into 4,205,760 shares of common stock. We expect the balance of these notes and the notes issued after December 31, 2011will be converted into shares of common stock. It is possible that we may need additional funds 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 AOT and 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 2012 and beyond.

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.

Contractual Obligations

The following table discloses our contractual commitments for future periods. Long-term commitments are comprised of 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	
2012	$	69,960	$	643,300	(2)
2013		69,960		498,300	(3)
2014		—		498,300	(3)
2015		—		498,300	(3)
2016		—		213,400	(4)
Total	$	139,920	$	2,351,600	

(1) Consists of rent for our Santa Barbara Facility expiring on December 31, 2013. (For description of this property, see Part 1, Item 2, and “Property”).

(2) Consists of an aggregate of $310,800 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, 2016, $287,500 in licensing maintenance fees to Temple University and $45,000 in consulting fees to Irth Communications.

(3) Consists of an aggregate of $310,800 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, 2016 and $187,500 in licensing maintenance fees to Temple University.

(4) Consists of an aggregate of $25,900 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, 2016 and $187,500 in licensing maintenance fees 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 Products and Technologies.”

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. Actual results could differ from those estimates.

Stock-Based Compensation

The Company periodically issues stock options and warrants to employees and non-employees in non-capital raising transactions for services and for financing costs. The Company accounts for stock option and warrant grants issued and vesting to employees based on the authoritative guidance provided by the Financial Accounting Standards Board whereas the value of the award is measured on the date of grant and recognized over the vesting period. The Company accounts for stock option and warrant grants issued and vesting to non-employees in accordance with the authoritative guidance of the Financial Accounting Standards Board whereas the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Non-employee stock-based compensation charges generally are amortized over the vesting period on a straight-line basis. In certain circumstances where there are no future performance requirements by the non-employee, option grants are immediately vested and the total stock-based compensation charge is recorded in the period of the measurement date.

The fair value of the Company's common stock option grant is estimated using the Black-Scholes option pricing model, which uses certain assumptions related to risk-free interest rates, expected volatility, expected life of the common stock options, and future dividends. Compensation expense is recorded based upon the value derived from the Black-Scholes option pricing model, and based on actual experience. The assumptions used in the Black-Scholes option pricing model could materially affect compensation expense recorded in future periods.

Accounting for Warrants and Derivatives

The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statements of operations. For stock-based derivative financial instruments, the Company uses probability weighted average series Black-Scholes Merton option pricing models to value the derivative instruments at inception and on subsequent valuation dates.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-4, which amends the Fair Value Measurements Topic of the Accounting Standards Codification (ASC) to help achieve common fair value measurement and disclosure requirements in U.S. GAAP and IFRS. ASU No. 2011-4 does not require additional fair value measurements and is not intended to establish valuation standards or affect valuation practices outside of financial reporting. The ASU is effective for interim and annual periods beginning after December 15, 2011. The Company will adopt the ASU as required. The ASU will affect the Company’s fair value disclosures, but will not affect the Company’s results of operations, financial condition or liquidity.

In June 2011, the FASB issued ASU No. 2011-5, which amends the Comprehensive Income Topic of the ASC. The ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders’ equity, and instead requires consecutive presentation of the statement of net income and other comprehensive income either in a continuous statement of comprehensive income or in two separate but consecutive statements. ASU No. 2011-5 is effective for interim and annual periods beginning after December 15, 2011. The Company will adopt the ASU as required. It will have no affect on the Company’s results of operations, financial condition or liquidity.

In September 2011, the FASB issued ASU 2011-08, “Testing Goodwill for Impairment”, an update to existing guidance on the assessment of goodwill impairment. This update simplifies the assessment of goodwill for impairment by allowing companies to consider qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before performing the two step impairment review process. It also amends the examples of events or circumstances that would be considered in a goodwill impairment evaluation. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company is currently evaluating the affects adoption of ASU 2011-08 may have on its goodwill impairment testing.

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.

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, 2011 and 2010 are presented in a separate section of this report following Item 15 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. ***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, 2011, due to a material weakness 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 Interim 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 weakness 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 the material weakness 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, 2011 fairly present, in all material respects, our financial condition, results of operations, changes in stockholders' deficiency 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, Interim Chief Financial Officer and Controller conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2011 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 weakness and have implemented remediation of material weakness in internal control over financial reporting.

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 purchasing and requisitions, 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, 2011, we did not maintain effective internal control over financial reporting based on the criteria established in *Internal Control – Integrated Framework, issued by COSO*.

We are conducting an evaluation to design and implement adequate systems of accounting and financial statement disclosure controls. We expect to complete a review during 2012 to comply with the requirements of the SEC. 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 rules of the SEC that permit us to provide only Management's report in this annual report.

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

AOT Testing

In March 2012,we entered into a Cooperation Framework Agreement with TDC. This agreement relates to possible distribution of STWA's Applied Oil Technology in China.

In March 2002, we entered into a non-binding Letter of Intent with LG Partners in connection with its proposed development of a 900 mile non-domestic pipeline. It is LG Partners desire to install STWA's Applied Oil Technology on their pipeline.

In October, 2011 the U.S. Department of Energy published the test results for energy-efficiency improvement generated by our prototype AOT units. The results were an energy-efficiency gain between 13.14% and 13.55%. The results were published by the U.S. Department of Energy (US DOE) and generated industry awareness of the new technology.

In August, 2011 we renegotiated a new licensing agreement with Temple University for the licensing of its intellectual property. The new licensing agreement provides for a convergent, non-divisional relationship with Temple University based largely on the grant of exclusive rights and co-ownership of future Intellectual Property (IP) through co-development.

In July, 2011 we finished construction of the testing facility and began the testing protocols of the Company's prototype Applied Oil Technology (AOT™) units.

In March, 2011 we satisfied in full all overdue fees to Temple University pursuant to licensing agreements obtained in prior years.

In January, 2011 we began design and construction of a custom-built crude oil testing facility together with the U.S. Department of Energy, at their Rocky Mountain Oilfield Testing Center, located on the Naval Petroleum Reserve #3 near Casper, Wyoming.

In 2010, we worked with third-party entities to assist in the product development of commercial prototypes of the AOT technology. The initial prototype has been constructed and is being used for testing by the U.S. Department of Energy.

In 2010, we were approved for testing by the US Department of Energy for testing our AOT at the US DOE Rocky Mountain Oilfield Testing Center, at the US Naval Petroleum Reserve #3 near Casper, Wyoming.

In 2010, we contracted with Pipeline Research Council International (PRCI) for testing of our AOT technology.

In 2010, Dr. Rongjia Tao of Temple University confirmed the AOT technology's effects at nano-scale level using a neutron-scattering beam at the US National Institute of Standards and Technology (NIST).

In 2010, we satisfied our research and development agreement obligations with Temple University.

2011 Fall#3 Offering

From December 19, 2011 through January 15, 2012, the Company conducted a private offering (the "Fall#3 2011 Offering") of up to $3,000,000 aggregate face amount of its convertible notes (the "Fall#3 2011 Notes"). A total of $1,020,734 aggregate face amount of the Fall#3 2011 Notes were sold for an aggregate purchase price of $927,940. While the stated interest rate on the Fall#3 2011 Notes is 0%, the actual interest rate on the Fall#3 2011 Notes is 10% per annum. The Fall#3 2011 Notes mature on the first anniversary of their date of issuance. The Fall#3 2011 Notes are convertible, at the option of the noteholder, into 4,082,936 shares of common stock of the Company (the "Conversion Shares") at an initial conversion price of $0.25 per share (the "Conversion Price").

Each of the investors in the Fall#3 2011 Offering received, for no additional consideration, a warrant (the "Fall#3 2011 Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 100% of the number of shares of common stock into which the Fall#3 2011 Notes are convertible (the "Warrant Shares"). Each Fall#3 2011 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 4,082,936 Warrant Shares are initially issuable to date on exercise of the Fall#3 2011 Warrants.

2012 Winter Offering

From January 24, 2012 through February 3, 2012, the Company conducted a private offering (the "Winter 2012 Offering") of up to $2,200,000 aggregate face amount of its convertible notes (the "Winter 2012 Notes"). A total of $451,550 aggregate face amount of the Winter 2012 Notes were sold for an aggregate purchase price of $410,500. While the stated interest rate on the Winter 2012 Notes is 0%, the actual interest rate on the Winter 2012 Notes is 10% per annum. The Winter 2012 Notes mature on the first anniversary of their date of issuance. The Winter 2012 Notes are convertible, at the option of the noteholder, into 1,806,200 shares of common stock of the Company (the "Conversion Shares") at an initial conversion price of $0.25 per share (the "Conversion Price").

Each of the investors in the Winter 2012 Offering received, for no additional consideration, a warrant (the "Winter 2012 Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 100% of the number of shares of common stock into which the Winter 2012 Notes are convertible (the "Warrant Shares"). Each Winter 2012 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 1,806,200 Warrant Shares are initially issuable to date on exercise of the Winter 2012 Warrants.

Employment Agreement Chief Financial Officer

On February 1, 2012, the Company entered into an employment agreement with Greggory M. Bigger to serve as the Company's Chief Financial Officer. A copy of the agreement if attached to this report as Exhibit 10.101.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

Composition of Board of Directors

Our bylaws provide that the Board shall consist of between one and eight directors, as determined by the Board from time to time. The Board consisted of three (3) members elected by the holders of the common stock at the Company's Meeting of Shareholders on May 13, 2011. Our directors are elected by our stockholders at each annual meeting of stockholders and will serve until their successors are elected and qualified, or until their earlier resignation or removal. Officers are appointed by our Board of Directors and their terms of office are, except to the extent governed by an employment contract, at the discretion of our Board of Directors. There are no family relationships among any of our current directors or our executive officers.

Directors

The following constitutes the Board of Directors as of December 31, 2011:

Name	Age	Position	Director Since
Cecil B. Kyte (1) (3)	40	Chief Executive Officer, Chairman, Director	2006
Charles R. Blum (2)	74	President, Director	2007
Nathan Shelton (1) (2) (3)	63	Director	2007

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Nominating and Corporate Governance Committee

Biographical Information Regarding Directors

Cecil Bond Kyte has served as a director since February 21, 2006. In December 2007, Mr. Kyte was elected by the Board of Directors to serve as Chairman of the Board. On January 30, 2010, he was appointed to serve as Chief Executive Officer, replacing Charles R. Blum. For the past twenty years Mr. Kyte has been a pilot in various capacities and flight academy instructor. From February 2000 to November 2002, Mr. Kyte was employed by United States regional carrier, Chautauqua Airways, including service as an airline Captain. After retiring in December 2002, Mr. Kyte has been an investor in a number of businesses, including oil and gas and financial business consulting services. He is a co-founder of SwissGuard International, GmbH, a financial consulting firm based in Zurich, Switzerland. A recent auto-racing achievement, Mr. Kyte won the 2006 SCCA ITA Regional Championship and also "Rookie of the Year" award. Mr., Kyte received a B.S. Degree in Accounting from Long Beach State University.

Charles R. Blum was appointed on July 25, 2007 to the Board of directors and engaged as the President and Chief Executive Officer of the Company. In January 2010, Mr. Blum resigned as Chief Executive Officer and continues to serve as President. Mr. Blum spent 22 years as the President/CEO of the Specialty Equipment Market Association (SEMA). SEMA is a trade group representing 6500 business members who are actively engaged in the manufacture and distribution of automotive parts and accessories. SEMA produces the world's largest automotive aftermarket Trade Show which is held annually in Las Vegas, Nevada. Mr. Blum led the association as its members grew from a handful of small entrepreneurial companies into an industry membership that sells over 31 billion dollars of product at the retail level annually. Mr. Blum has a proven record of accomplishment as a senior executive and brings a broad knowledge of the automotive aftermarket to the Company. Mr. Blum attended Rutgers University.

Nathan Shelton has served as our director since February 12, 2007. Mr. Shelton has a long and distinguished career with a number of diverse successful companies primarily related to the automotive industry, holding prominent positions. In 1987 he joined K&N Engineering as President and part owner and built the company into an industry leader. In 2002 he sold his interest in K&N Engineering and founded S&S Marketing, which is engaged in the automotive aftermarket parts rep business, which he currently operates. Mr. Shelton is the recipient of numerous industry related prestigious awards and in 1992, Specialty Equipment Market Association (SEMA) invited him to join its board of directors, which includes serving in capacity as its Chairman from 2002 to 2004. In 2007 he was elected to the SEMA "Hall of Fame". Mr. Shelton served honorably in the United States Seabees from 1968 to 1972. He attended Chaffey Junior College.

Executive Officers

The following table sets forth certain information regarding our executive officers as of December 31, 2010:

Name	Age	Position
Cecil Bond Kyte	40	Chief Executive Officer
Charles R. Blum	74	President
Eugene E. Eichler	85	Interim Chief Financial Officer

For the biographies of Cecil Bond Kyte and Charles R. Blum, please see above under "Biographical Information Regarding Directors."

Eugene E. Eichler, CPA, has served as our Interim Chief Financial Officer since October 2007. On December 31, 2011, Mr. Eichler resigned as Interim Chief Financial Officer due to health and disability conditions.. He served as our Chief Executive Officer from October 2005 until November 2006, at which time he separated from the company due to medical disability. He served as our Chief Financial Officer since May 2002 until November 2006 and has been a director since May 2002. Mr. Eichler served as our President from March 2004 to October 2005 and as our Chief Operating Officer from October 2001 to March 2004. Mr. Eichler was the Chief Financial Officer and Firm Administrator of the law firm Masry & Vititoe from 1982 to October 2001. From 1974 to 1982, Mr. Eichler provided financial consulting services to Foundation for HMO's, Acne Care Medical Clinics and Earth Foods, Inc. From 1960 to 1974, Mr. Eichler headed financial consulting services for Milburn Industries and Brown, Eichler & Company. From 1953 to 1960, he held the position of Chief Budgets and Forecasts at North American Aviation. From 1951 to 1953, Mr. Eichler held various audit positions at the Atomic Energy Commission. Mr. Eichler received a B.A. from University of Montana. Mr. Eichler resigned his position as interim Chief Financial Officer, effective December 31, 2011. Effective February 1, 2012, Greggory M. Bigger was retained by the Company to serve as its Chief Financial Officer.

Code of Business Conduct

CORPORATE GOVERNANCE

We maintain a corporate governance page on our corporate website at *www.stwa.com*, which includes information regarding the Company's corporate governance practices. Our codes of business conduct and ethics, Board committee charters and certain other corporate governance documents and policies and code of business conduct will be posted on our website. In addition, we will provide a copy of any of these documents without charge to any stockholder upon written request made to Corporate Secretary, Save the World Air, Inc., 735 State Street, Suite 500, Santa Barbara, California 93101. The information on our website is not, and shall not be deemed to be, a part of this proxy statement or incorporated by reference into this or any other filing we make with the Securities and Exchange Commission (the "SEC").

Board of *Directors*

Director Independence

Our Board of Directors as of December 31, 2011 consisted of three (3) members. As of that date, the Board has affirmatively determined that Mr. Shelton is an independent director. Mr. Kyte, our Chief Executive Officer and Mr. Blum, our President, are not considered independent.

Meetings of the Board

The Board held four (4) meetings during 2011, and held one (1) meeting in 2012. Each of the directors attended 75% or more of the aggregate number of meetings of the Board and Committees on which the director served in 2011 and 2012.

Each of our directors is encouraged to attend the Company's 2012 Annual Meeting, which has not yet been scheduled, and to be available to answer any questions posed by stockholders to such director. Because our Board holds one of its regular meetings in conjunction with our Annual Meeting of stockholders, we anticipate that all of the members of the Board will be present for the 2012 Annual Meeting.

Communications with the Board

The following procedures have been established by the Board in order to facilitate communications between our stockholders and the Board:

- Stockholders may send correspondence, which should indicate that the sender is a stockholder, to the Board or to any individual director, by mail to Corporate Secretary, Save the World Air, Inc. 735 State Street, Suite 500, Santa Barbara, California, 93101 or by e-mail to questions @stwa.com.

- Our Secretary will be responsible for the first review and logging of this correspondence and will forward the communication to the director or directors to whom it is addressed unless it is a type of correspondence which the Board has identified as correspondence which may be retained in our files and not sent to directors. The Board has authorized the Secretary to retain and not send to directors communications that: (a) are advertising or promotional in nature (offering goods or services), (b) solely relate to complaints by customers with respect to ordinary course of business customer service and satisfaction issues or (c) clearly are unrelated to our business, industry, management or Board or committee matters. These types of communications will be logged and filed but not circulated to directors. Except as set forth in the preceding sentence, the Secretary will not screen communications sent to directors.

- The log of stockholder correspondence will be available to members of the Board for inspection. At least once each year, the Secretary will provide to the Board a summary of the communications received from stockholders, including the communications not sent to directors in accordance with the procedures set forth above.

Our stockholders may also communicate directly with the non-management directors, individually or as a group, by mail c/o Corporate Secretary, Save the World Air, Inc., 735 State Street, Suite 500, Santa Barbara, California 93101 or by e-mail to info@stwa.com.

The Audit Committee has established procedures, as outlined in the Company's policy for **"**Procedures for Accounting and Auditing Matters**",** for the receipt, retention and treatment of complaints regarding questionable accounting, internal controls, and financial improprieties or auditing matters. Any of the Company's employees may confidentially communicate concerns about any of these matters by calling our toll-free number, (877) 872-7892. Upon receipt of a complaint or concern, a determination will be made whether it pertains to accounting, internal controls or auditing matters and if it does, it will be handled in accordance with the procedures established by the Audit Committee.

Committees of the Board

The Board has a standing Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee. Each of these committees operates under a written charter. Copies of these charters, and other corporate governance documents, are available on our website, www.stwa.com In addition, we will provide a copy of any of these documents without charge to any stockholder upon written request made to Corporate Secretary, Save the World Air Inc., 735 State Street, Suite 500, Santa Barbara, California 93101.

The composition, functions and general responsibilities of each committee are summarized below.

Audit Committee

The Audit Committee currently consists of Messrs. Kyte (chairperson) and Shelton. The Board has determined that Mr. Shelton is an audit committee financial expert, and is independent under rules of the SEC. Mr. Kyte, our Chief Executive Officer is not considered independent. The Audit Committee held a total of four (4) meetings during 2011 and a total of one (1) meeting to date during 2012.

The Audit Committee operates under a written charter. The Audit Committee's duties include responsibility for reviewing our accounting practices and audit procedures. In addition, the Audit Committee has responsibility for reviewing complaints about, and investigating allegations of, financial impropriety or misconduct. The Audit Committee works closely with management and our independent auditors. The Audit Committee also meets with our independent auditors on a quarterly basis, following completion of their quarterly reviews and annual audit, to review the results of their work. The Audit Committee also meets with our independent auditors to approve the annual scope of the audit services to be performed.

As part of its responsibility, the Audit Committee is responsible for engaging our independent auditor, as well as pre-approving audit and non-audit services performed by our independent auditor in order to assure that the provision of such services does not impair the independent auditor's independence.

Please see "Audit Committee Report" below, which provides further details of many of the duties and responsibilities of the Audit Committee.

AUDIT COMMITTEE REPORT

The Audit Committee is currently composed of two (2) directors, Messrs. Kyte (Chairperson), and Shelton. The Board has determined that Mr. Shelton is an audit committee financial expert, and is independent within the rules of the SEC. The duties and responsibilities of a member of the Audit Committee are in addition to his duties as a member of the Board.

The Audit Committee operates under a written charter, which is available on the Company's website. The Board and the Audit Committee believe that the Audit Committee charter complies with the current standards set forth in SEC regulations. There may be further action by the SEC during the current year on several matters that affect all audit committees. The Board and the Audit Committee continue to follow closely further developments by the SEC in the area of the functions of audit committees, particularly as it relates to internal controls for non-accelerated filers, and will make additional changes to the Audit Committee charter and the policies of the Audit Committee as required or advisable as a result of these new rules and regulations. The Audit Committee met four (4) times during 2011 and one (1) time to date during 2012.

The Audit Committee's primary duties and responsibilities are to:

- engage the Company's independent auditor;
- monitor the independent auditor's independence, qualifications and performance;
- pre-approve all audit and non-audit services;
- provide an open avenue of communication among the independent auditor, financial and senior management of the Company and the Board; and
- monitor the Company's compliance with legal and regulatory requirements.

Management is responsible for the Company's internal controls and the financial reporting process. The Company's independent auditor is responsible for performing an independent audit of the Company's financial statements in accordance with the standards of the Public Company Accounting Oversight Board and issuing a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes.

The Company is planning to form an internal management group, reporting to the Chief Executive Officer and the Audit Committee that is charged with guiding the Company in meeting the various requirements of Section 404 of the Sarbanes-Oxley Act of 2002. The Audit Committee has begun to implement procedures to ensure that during the course of each fiscal year it devotes the attention that it deems necessary or appropriate to each of the matters assigned to it under its charter.

In overseeing the preparation of the Company's financial statements, the Audit Committee held meetings with the Company's independent auditors, both in the presence of management and privately, to discuss the overall scope and plans for their audit, review and discuss all financial statements prior to their issuance, and discuss significant accounting issues. Management advised the Audit Committee that all financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and the Audit Committee discussed the statements with both management and the Company's independent auditors. In accordance with Section 204 of the Sarbanes-Oxley Act and the Statement on Auditing Standards ("SAS") No. 61 (Communication With Audit Committees) as amended by SAS No. 90 (Audit Committee Communications), the Audit Committee has discussed with the Company's independent auditors all matters required under the Sarbanes-Oxley Act and the foregoing standards.

With respect to the Company's independent auditors, the Audit Committee, among other things, discussed with Weinberg & Co., P.A., matters relating to its independence, including the written disclosures made to the Audit Committee as required by the Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). The Audit Committee also reviewed and approved the audit and non-audit fees of that firm.

On the basis of these reviews and discussions, the Audit Committee (i) appointed Weinberg & Co., P.A. as the independent registered public accounting firm for the 2011 fiscal year and (ii) recommended to the Board that the Board approve the inclusion of the Company's audited financial statements in the 10-K for filing with the SEC.

Respectfully submitted:

Cecil Bond Kyte *(Chairman)*
Nathan Shelton

COMPENSATION COMMITTEE REPORT

The Compensation Committee has furnished this report on executive compensation for the 2011 fiscal year.

The Compensation Committee administers the Company's executive compensation program. The Compensation Committee has the authority to review and determine the salaries and bonuses of the executive officers of the Company, including the Chief Executive Officer and the other executive officers named in the Summary Compensation Table (the "Named Executive Officers") appearing elsewhere in this proxy statement, and to establish the general compensation policies for such individuals. The Compensation Committee also has the sole and exclusive authority to make discretionary option grants to all of the Company's employees under the Company's 2004 Stock Option Plan (the "2004 Plan").

The Compensation Committee currently consists of Messrs. Blum (chairperson) and Shelton. The Board believes that Mr. Shelton meets the independence requirement. None of our executive officers served on the compensation committee of another entity or on any other committee of the board of directors of another entity performing similar functions during 2011. The Compensation Committee held one (1) meeting during 2011 and has not met during 2012.

The Compensation Committee operates under a written charter. The charter reflects these various responsibilities, and the Committee is charged with periodically reviewing the charter. In addition, the Committee has the authority to engage the services of outside advisors, experts and others, including independent compensation consultants who do not advise the Company, to assist the Committee.

The Compensation Committee believes that the compensation programs for the Company's executive officers should reflect the Company's performance and the value created for the Company's stockholders. In addition, the compensation programs should support the short-term and long-term strategic goals and values of the Company, reward individual contribution to the Company's success and align the interests of the Company's officers with the interests of its stockholders. The committee believes that the Company's success depends upon its ability to attract and retain qualified executives through the competitive compensation packages it offers to such individuals.

The principal factors that were taken into account in establishing each executive officer's compensation package for the 2011 fiscal year are described below. However, the Compensation Committee may in its discretion apply entirely different factors, such as different measures of financial performance, for future fiscal years. Moreover, all of the Company's Named Executive Officers have entered into employment agreements with the Company and many components of each such person's compensation are set by such agreements.

Equity-Based Compensation. The Committee believes in linking long-term incentives to an increase in stock value. Accordingly, it awards stock options under the 2004 Plan with an exercise price equal to the fair market value of the underlying stock on the date of grant that vest and become exercisable over time. The Committee believes that these options encourage employees to continue to use their best efforts and to remain in the Company's employ. Options granted to executive officers under the 2004 Plan generally vest and become exercisable in annual 25% increments over a four-year period after grant.

The Committee relies substantially on management of the Company to make specific recommendations regarding which individuals should receive option grants and the amounts of such grants.

The Company grants stock options to executive officers with a cumulative option price of up to $100,000 as incentive stock options and the remainder as non-qualified stock options, both with an exercise price equal to the fair market value of the Company's common stock on the date of grant. Accordingly, those stock options will have value only if the market price of the Company's common stock increases after that date. In determining the size of stock option grants to executive officers, the Committee bases its decisions on such considerations as similar awards to individuals holding comparable positions in our comparative groups, company performance and individual performance, as well as the allocation of overall share usage attributed to executive officers.

Compliance with Code Section 162(m). Section 162(m) of the Code disallows a tax deduction to publicly-held companies for compensation paid to certain of their executive officers, to the extent that compensation exceeds $1 million per covered officer in any fiscal year. The limitation applies only to compensation which is not considered to be performance based. Non-performance based compensation paid to the Company's executive officers for the 2011 fiscal year did not exceed the $1 million limit per officer, and the Compensation Committee does not anticipate that the non-performance based compensation to be paid to the Company's executive officers for the 2011 fiscal year will exceed that limit. Because it is unlikely that the cash compensation payable to any of the Company's executive officers in the foreseeable future will approach the $1 million limit, the Compensation Committee has decided at this time not to take any action to limit or restructure the elements of cash compensation payable to the Company's executive officers. The Compensation Committee will reconsider this decision should the individual cash non-performance based compensation of any executive officer ever approach the $1 million level.

The Board did not modify any action or recommendation made by the Compensation Committee with respect to executive compensation for the 2011 fiscal year. It is the opinion of the Compensation Committee that the executive compensation policies and plans provide the necessary total remuneration program to properly align the Company's performance and the interests of the Company's stockholders through the use of competitive and equitable executive compensation in a balanced and reasonable manner, for both the short and long term.

Respectfully submitted by:

Charles Blum, Chairman

Nominating and Corporate Governance Committee Report

The Nominating and Corporate Governance Committee currently consists of Messrs. Shelton (chairperson) and Kyte. The Board believes that Mr. Shelton meets the independence requirements under rules of the SEC. The Nominating and Corporate Governance Committee did not meet during 2011 and has not yet met during 2012.

The Nominating and Corporate Governance Committee operates under a written charter. The Nominating and Corporate Governance Committee has the primary responsibility for overseeing the Company's corporate governance compliance practices, as well as supervising the affairs of the Company as they relate to the nomination of directors. The principal ongoing functions of the Nominating and Corporate Governance Committee include developing criteria for selecting new directors, establishing and monitoring procedures for the receipt and consideration of director nominations by stockholders and others, considering and examining director candidates, developing and recommending corporate governance principles for the Company and monitoring the Company's compliance with these principles and establishing and monitoring procedures for the receipt of stockholder communications directed to the Board.

The Nominating and Corporate Governance Committee is also responsible for conducting an annual evaluation of the Board to determine whether the Board and its committees are functioning effectively. In performing this evaluation, the Nominating and Corporate Governance Committee receives comments from all directors and reports annually to the Board with the results of this evaluation.

Director Nominations

The Nominating and Corporate Governance Committee seeks out appropriate candidates to serve as directors of the Company, and the Nominating and Corporate Governance Committee interviews and examines director candidates and makes recommendations to the Board regarding candidate selection. In considering candidates to serve as director, the Nominating and Corporate Governance Committee evaluates various minimum individual qualifications, including strength of character, maturity of judgment, relevant technical skills or financial acumen, diversity of viewpoint and industry knowledge, as well as the extent to which the candidate would fill a present need on the Board.

The Nominating and Corporate Governance Committee will consider, without commitment, stockholder nominations for director. Nominations for director submitted to this committee by stockholders are evaluated according to the Company's overall needs and the nominee's knowledge, experience and background. A nominating stockholder must give appropriate notice to the Company of the nomination not less than 90 days prior to the first anniversary of the preceding year's annual meeting. In the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from the anniversary date of the preceding year's annual meeting, the notice by the stockholder must be delivered not later than the close of business on the later of the 60th day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such annual meeting is first made.

The stockholders' notice shall set forth, as to:

- each person whom the stockholder proposes to nominate for election as a director:
- the name, age, business address and residence address of such person,
- the principal occupation or employment of the person,
- the class and number of shares of the Company which are beneficially owned by such person, if any, and
- any other information relating to such person which is required to be disclosed in solicitations for proxies for election of directors pursuant to Regulation 14A under the Exchange Act and the rules hereunder; and the stockholder giving the notice
- the name and record address of the stockholder and the class and number of shares of the Company which are beneficially owned by the stockholder,
- a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which nomination(s) are to be made by such stockholder,
- a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice,
- any other information relating to such person which is required to be disclosed in solicitations for proxies for election of directors pursuant to Regulation 14A under the Exchange Act and the rules thereunder.

The notice must be accompanied by a written consent of the proposed nominee to be named as a director.

We have adopted codes of business conduct and ethics for our directors, officers and employees which we believe meet requirements of a code of ethics. 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.

Respectfully submitted by:

Nathan Shelton, Chairman

Item 11. ***Executive Compensation***

EXECUTIVE COMPENSATION

The following table sets forth certain information regarding the compensation earned during the last three fiscal years by the Named Executive Officers:

Summary Compensation Table

			Long-Term Compensation Awards			
Name and Principal Position	Fiscal Year	Annual Compensation Salary ($)	Restricted Stock Awards ($)	Securities Underlying Options (#)	Full Value of Options ($)	All Other Compensation ($)
Cecil Bond Kyte (1)(4)	2011	$ 208,333	$ 0	17,600,000	$ 6,834,231	$ 0
Chief Executive Officer	2010	$ 200,000	$ 0	0		$ 0
	2009	$ 183,333				
Charles R. Blum (2) (4)	2011	$ 100,000	$ 0	1,000,000	$ 245,970	$ 0
President	2010	$ 100,000	$ 0	0		$ 0
	2009	$ 105,682	$ 0	333,333	$ 87,998	$ 0
Eugene E. Eichler (3) (4)	2011	$ 120,000	$ 0	2,000,000	$ 615,340	$ 0
Interim Chief Financial Officer	2010	$ 120,000	$ 0	0		$ 0
	2009	$ 90,000	$ 0	0		$ 0

(1) Mr. Kyte was appointed Chief Executive Officer in January 2009. In 2010, Mr. Kyte earned and was paid $200,000. On December 1, 2011, Mr. Kyte's salary was increased to $300,000 per year. In addition, Mr. Kyte received $33,333 in accrued back pay and on December 8, 2011 he received a bonus of $54,505. In connection with the Amendment to Mr. Kyte's Employment Agreement dated March 1, 2011, Mr. Kyte received options for 17,600,000 shares of common stock, and, options for 181,118 shares of common stock previously granted, were cancelled. On December the Board approved Amendment Number 2 to Mr. Kyte's Employment and increased his salary to $300,000 per year.

(2) Mr. Blum was appointed President and Chief Executive Officer in July 2007. In January 20, 2009 Mr. Blum resigned the position of Chief Executive Officer and continues to serve as President. He does not have an "Employment Agreement" at this time. In 2010, Mr. Blum earned $100,000 all of which was unpaid and accrued. In 2011, Mr. Blum earned $100,000, of which $33,333 was paid and $66,667 was accrued.

(3) On October 18, 2007, Mr. Eichler was appointed Interim Chief Financial Officer. He does not have an "Employment Agreement" at this time. In 2010, Mr. Eichler was paid $80,000 and $40,000 was accrued and unpaid at December 31, 2010. In 2011, Mr. Eichler received his full salary of $120,000 and $45,000 of accrued back pay. At December 31, 2011 Mr. Eichler had a balance of $145,000 accrued back pay.

(4) The number and value of vested restricted stock based upon the closing market price of the common stock at December 31, 2012 ($0.537 were as follows: Mr. Kyte 2,770,412 vested shares valued at $1,025,244, and Mr. Eichler, 1,071,429 vested shares valued at $396,429.

The portions of the salaries identified above that have been deferred will be paid subject to the Company's future financial and cash position.

OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth information concerning the stock option grants made to each of the Named Executive Officers during the 2011 fiscal year. No stock appreciation rights were granted to any of the Named Executive Officers during the 2011 fiscal year.

	Individual Grants			
Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal 2011	Exercise or Base Price Per Share	Expiration Date
Cecil Bond Kyte	17,600,000	85.4%	$ 0.25	01/30/2021
Charles R. Blum	1,000,000	4.9%	$ 0.30	10/01/2021
Eugene E. Eichler	2,000,000	9.7%	$ 0.30	12/31/2021

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND YEAR-END OPTION VALUES

No options were exercised by any of the Named Executive Officers during the 2011 fiscal year. The following table sets forth the number of shares of our common stock subject to exercisable and unexercisable stock options which the Named Executive Officers held at the end of the 2011 fiscal year.

			Number of Securities Underlying Unexercised Options at Fiscal Year-End (#)		Value of Unexercised In-the-Money Options ($)(1)	
Name	Shares Acquired on Exercise (#)	Value Realized ($)	Exercisable	Unexercisable	Exercisable	Unexercisable
Cecil Bond Kyte	—	$ —	4,650,000	17,600,000	$ 532,000	$ 2,112,000
Charles R. Blum	—	$ —	1,922,012	0	$ 108,333	$ 0
Eugene E. Eichler	—	$ —	2,121,127	0	$ 70,000	$ 0

(1) Market value of our common stock at fiscal year-end minus the exercise price. The closing price of our common stock on December 31, 2011 the last trading day of the year was $0.37 per share.

EQUITY COMPENSATION PLAN INFORMATION FOR 2011

The following table sets forth information regarding outstanding options and shares reserved for future issuance under our equity compensation plans as of December 31, 2011:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders	4,267,892	$ 0.52	2,732,108
Equity compensation plans not approved by security holders	19,800,000	$ 0.26	N/A
Total	24,067,892	$ 0.30	N/A

Employment Agreements

Agreement with Cecil Bond Kyte. On January 30, 2009, (the "Effective Date"), the Company entered into an employment agreement with Cecil Bond Kyte, pursuant to which he serves as our Chief Executive Officer. The initial term of the agreement became effective on January 30, 2009 and expires on January 30, 2010 and renews automatically for addition one-year periods unless either party has given notice of non-extension prior to October 30, 2010. The agreement provides for a base compensation of $200,000 per year. Mr. Kyte is eligible to participate in the Company's incentive and benefit plans, including eligibility to receive grants of stock options under the 2004 plan.

Mr. Kyte 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 each year of the term; provided that no bonus shall be paid if the Executive is not, on such payment date, in the employ of the Company.

Mr. Kyte shall also receive an option (the "Option") to purchase a number of shares (the "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 on 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.

Amendment To Kyte Employment Agreement

On March 1, 2011, the Board of Directors of. the Company approved an amendment (the "Amendment") to the Kyte employment agreement. The Company and Kyte have agreed to an amendment of the Employment Agreement, providing for non-cash performance compensation in the form of nonqualified stock options. Kyte has agreed to continue to serve in the role of CEO of the Company through at least January 29, 2016.

The Board determined to grant Kyte nonqualified stock options to acquire shares of common stock of the Company under the following terms and conditions:

Stock Option Grant ("Grant") of 17,600,000 Shares at an Exercise Price of $0.25 per share exercisable for 10 years, which will expire on January 30, 2021. (See Note 9 of the Company's Financial Statement.)

Twenty percent (20%) of the Option shall vest on the first anniversary of the Effective Date (i.e. January 30, 2011); twenty percent (20%) on the second anniversary of the Effective Date; twenty percent (20%) on the third anniversary of the Effective Date; twenty percent (20%) on the fourth anniversary of the Effective Date; and, twenty percent (20%) on the fifth anniversary of the Effective Date;

Amendment #2 to Kyte Employment Agreement

The Second Amendment to Kyte's Employment Agreement was made and entered into by and between the Company and Kyte effective as of December 1, 2011. Compensation for Kyte was increased to a base salary of $300,000.

Agreement with Greggory M. Bigger. On February 1, 2012, the Company entered into an employment agreement with Greggory M. Bigger, pursuant to which he agreed to serve as the Company's Chief Financial Officer. The initial term of the agreement commenced February 1, 2012, and continues for one (1) year. Thereafter, the agreement is renewable for successive one (1) year periods, unless either party gives written notice of non-renewal, no later than sixty (60) days prior to the renewal date. The agreement provides for the payment of a one-time acceptance bonus of $10,000. Base salary under the agreement is $10,000 per month, plus an automobile allowance of $900 per month and other benefits generally available to senior employees of the Company. The agreement also provides Mr. Bigger with a stock option grant ("Grant") under the following terms and conditions:

A. Effective Date of Grant: February 1, 2012;
B. Vesting Commence Date: February 1, 2012;
C. Exercise Price per Share: $0.25;
D. Total Number of Shares Subject to the Option: 4,000,000;
E. Type of Option: Non-Qualified. Neither the Option nor the underlying Shares shall be registered with the Securities and Exchange Commission and the Option and Shares shall constitute "restricted" securities.
F. Exercise Term: Ten (10) years from the Effective Date of Grant;
G. Vesting Schedule: Subject to Executive's continued employment with the Company, the Option may be exercised within the Exercise Term, in whole or in part, in accordance with the following vesting schedule:

    i. 500,000 Options shall vest on Effective Date of Grant;
    ii. 500,000 Options shall vest on February 1, 2013;
    iii. 1,000,000 Options shall vest on February 1, 2014;
    iv. 1,000,000 Options shall vest on February 1, 2015; and,
    v. 1,000,000 Options shall vest on February 1, 2016.

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

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of our common stock as of December 31, 2011.

- each person, or group of affiliated persons, known by us to be the beneficial owner of more than 5% of the outstanding shares of our common stock;

- each of our directors;

- our Chief Executive Officer and each of our two other most highly-compensated executive officers serving as such as of December 31, 2011 whose total annual salary and bonus exceeded $100,000, for services rendered in all capacities to the Company (such individuals are hereafter referred to as the "Named Executive Officers"); and* all of our directors and executive officers serving as a group.

Name and Address of Beneficial Owner (1)	Number of Shares of Common Stock Beneficially Owned (2)	Percentage of Shares Beneficially Owned (2)
Named Executive Officers and Director		
Cecil Bond Kyte, Chief Executive Officer, Director (3)	7,890,412	6.62%
Charles R. Blum , President(4)	1,922,012	1.67%
Eugene E. Eichler, Chief Financial Officer (5)	4,877,346	4.10%
Shelton, Nathan – Director (6)	496,937	.43%

All directors and executive officers as a group	15,238,717	12.16%

(1) Unless otherwise indicated, the address of each listed person is c/o Save the World Air, Inc., 735 State Street, Suite 500, Santa Barbara, California 93101.

(2) Percentage of beneficial ownership is based upon 114,163,470 shares of our common stock outstanding as of December 31, 2011. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock subject to options and warrants currently exercisable or convertible, or exercisable or convertible within 60 days, are deemed outstanding for determining the number of shares beneficially owned and for computing the percentage ownership of the person holding such options, but are not deemed outstanding for computing the percentage ownership of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

(3) Includes options to purchase 4,620,000 shares of our common stock exercisable currently and warrants to purchase 500,000 shares of our common stock.

(4) Includes options to purchase 1,922,012 shares of our common stock exercisable currently.

(5) Includes options to purchase 2,121,127 shares of our common stock exercisable currently. and warrants to purchase 1,684,800 shares of our common stock.

(6) Includes options to purchase 304,585 shares of our common stock exercisable currently.

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

Accounts Payable to related parties

As of December 31, 2011, the Company had accounts payable to related parties in the amount of $63,003, which was composed of $36,125 in unpaid Directors Fees and $26,878 in unreimbursed expenses incurred by officers and Directors.

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

The Audit Committee has selected Weinberg & Company, P.A. to audit our financial statements for the fiscal year ended December 31, 2011.

Weinberg & Company, P.A. was first appointed in fiscal year 2003, and has audited our financial statements for fiscal years 2002 through 2011.

Audit and Other Fees

The following table summarizes the fees charged by Weinberg & Company, P.A. for certain services rendered to the Company during 2011 and 2010.

	Amount	
Type of Fee	**Fiscal Year 2011**	**Fiscal Year 2010**
Audit(1)	$ 83,162	$ 87,883
Audit Related(2)	—	—
Taxes (3)	7,693	20,920
All Other (4)	—	—
Total	$ 90,855	$ 108,803

(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, Financial Statement Schedules***

(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 2010 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
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
10.79(44)	Form of 10% Convertible Note issued in 2009 Spring Offering
	Form of Stock Purchase Warrant issued in 2009 Spring Offering
10.80(45)	Form of 7% Convertible Note issued in 2009 Summer Offering
	Form of Stock Purchase Warrant issued in 2009 Summer Offering
10.81(46)	Passing of Steven Bolio, Company Director
10.82(47)	Form of 7% Convertible Note issued in 2009 Wellfleet Offering
	Form of Stock Purchase Warrant issued in 2009 Wellfleet Offering
10.83(48)	Form of 7% Convertible Note issued in 2009 Fall Offering
	Form of Stock Purchase Warrant issued in 2009 Fall Offering
10.84(49)	Letter to Shareholders
10.85(50)	Form of 10% Convertible Note issued in 2010 Winter Offering
	Form of Stock Purchase Warrant issued in 2010 Winter Offering
10.86(51)	Settlement of Bruce H. McKinnon Arbitration Award
10.87(52)	Form of 10% Convertible Note Issued in 2010 Spring Offering
	Form of Stock Purchase Warrant issued in to2010 Spring Offering
10.88(53)	Form of 10% Convertible Note Issued in 2010 Summer Offering
	Form of Stock Purchase Warrant issued in 2010 Summer Offering
10.89(54)	Form of 10% Convertible Note issued in 2010 Fall Offering
	Form of Stock Purchase Warrant issued in 2010 Fall Offering
10.90(55)	Form of 10% Convertible Note issued in 2010 Fall Offering #2
	Form of Stock Purchase Warrant issued in 2010 Fall Offering #2
10.91(56)	Resignation of Director John A. Price
10.92(57)	Form of 10% Convertible Note issued in 2011 Winter Offering
	Form of Stock Purchase Warrant issued in 2011 Winter Offering
10.93(58)	Amendment to Employment Contract with Cecil Kyte
	Announcement of date of 2011 Annual Shareholder Meeting
10.94(59)	License Agreement between the Registrant and Temple University dated August 9, 2011
10.96(60)	Form of 10% Convertible Note Issued in 2011 Spring Offering
	Form of Stock Purchase Warrant issued in 2011 Spring Offering

10.97(61)	Form of 10% Convertible Note Issued in 2011 Summer Offering Form of Stock Purchase Warrant Issued in 2011 Summer Offering
10.94(62)	Form of 10% Convertible Note Issued in 2011 Fall Offering Form of Stock Purchase Warrant Issued in 2011 Fall Offering
10.95(63)	Final Report of the Rocky Mountain Oilfield Testing Center of Viscosity Reduction Device (AOT)
10.96(64)	Form of 10% Convertible Note Issued in 2011 Fall#2 Offering Form of Stock Purchase Warrant Issued in 2011 Fall#2 Offering
10.97(65)	Letter of Intent between Registrant and Heng He Xing Ye Technology Development Co., Ltd. dated October 19,2011
10.98(66)	Announcement of resignation of Eugene E. Eichler, Interim Chief Financial Officer for health reasons.
10.99(67)	Form of 10% Convertible Note Issued in 2011 Fall#3 Offering Form of Stock Purchase Warrant Issued in 2011 Fall#3 Offering
10.100(68)	Form of 10% Convertible Note Issued in 2012 Winter Offering Form of Stock Purchase Warrant Issued in 2012 Winter Offering
10.101*	Employment Agreement with Gregg Bigger, Chief Financial Officer
10.102(69)	Letter of Intent between Registrant and LG Partners LLC (“LGP”)
10.103(70)	Cooperation Framework Agreement between Registrant and Heng He Xing Technology Development Co., Ltd (TDC) dated March 9, 2012
10.104*	U.S. Department of Energy Agreement dated February 6, 2012
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).
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

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*	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, 2010
(34) Incorporated by reference from Registrant's form 8K filed on March 11, 2010
(35) Incorporated by reference from Registrant's form 8K filed on March 27, 2010
(36) Incorporated by reference from Registrant's form 8K filed on September 3, 2010
(37) Incorporated by reference from Registrant's form 8K filed on November 6, 2010
(38) Incorporated by reference from Registrant's form 8K filed on December 11, 2010
(39) Incorporated by reference from Registrant's form 8K filed on January 13, 2010
(40) Incorporated by reference from Registrant's form 8K filed on January 27, 2010
(41) Incorporated by reference from Registrant's form 8K filed on January 26, 2010
(42) Incorporated by reference from Registrant's form 10K for the twelve months ended December 31, 2010
(43) Incorporated by reference from Registrant's form 8K filed on March 12, 2010
(45) Incorporated by reference from Registrant's form 8K filed on September 30, 2010
(46) Incorporated by reference from Registrant's form 8K filed on November 24, 2010
(47) Incorporated by reference from Registrant's form 8K filed on December 7, 2010
(48) Incorporated by reference from Registrant's form 8K filed on February 3, 2010
(49) Incorporated by reference from Registrant's form 8K filed on March 22, 2010
(50) Incorporated by reference from Registrant's form 8K filed on April 8, 2010
(51) Incorporated by reference from Registrant's form 8K filed on April 13, 2010
(52) Incorporated by reference from Registrant's form 8K filed on May 7, 2010
(53) Incorporated by reference from Registrant's form 8K filed on August 11, 2010
(54) Incorporated by reference from Registrant's form 8K filed on November 11, 2010
(55) Incorporated by reference from Registrant's form 8K filed on December 6, 2010
(56) Incorporated by reference from Registrant's form 8K filed on February 25, 2011
(57) Incorporated by reference form Registrant's form 8K filed on March 7, 2011
(58) Incorporated by reference from Registrant's form 8K filed on March 9, 2011
(59) Incorporated by reference from Registrant's form 8K filed on August 11, 2011
(60) Incorporated by reference from Registrant's form 8K filed on June 9, 2011
(61) Incorporated by reference from Registrant's form 8K filed on August 10, 2011
(62) Incorporated by reference from Registrant's form 8K filed on October 21, 2011
(63) Incorporated by reference from Registrant's form 8K filed on October 25, 2011
(64) Incorporated by reference from Registrant's form 8K filed on December 14, 2011
(65) Incorporated by reference from Registrant's form 8K filed on December 27, 2011
(66) Incorporated by reference from Registrant's form 8K filed on January 4, 2012
(67) Incorporated by reference from Registrant's form 8K filed on January 23, 2012
(68) Incorporated by reference from Registrant's form 8K filed on February 8, 2012
(69) Incorporated by reference from Registrant's form 8K filed on March 16, 2012
(70) Incorporated by reference from Registrant's form 8K filed on March 20, 2012

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 authorize.

Save The World Air, Inc.

Date: March 30, 2012 By: /s/ CECIL BOND KYTE
Cecil Bond Kyte
Chief Executive Officer

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 Greggory Bigger, and each of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and re-substitution, 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-K, 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	March 30, 2012
/s/ CHARLES R. BLUM Charles R. Blum	President and Director	March 30, 2012
/s/ GREGGORY BIGGER Greggory Bigger	Chief Financial Officer	March 30, 2012
/s/ NATHAN SHELTON Nathan Shelton	Director	March 30, 2012

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

SAVE THE WORLD AIR, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE ENTERPRISE)
DECEMBER 31, 2011 AND 2010

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, 2011 and 2010, 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) through December 31, 2011. 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, 2011 and 2010, and the results of their operations and their cash flows for the years then ended and for the period from February 18, 1998 (inception) through December 31, 2011, 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 30, 2012

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

CONSOLIDATED BALANCE SHEETS

	December 31, 2011	December 31, 2010
ASSETS		
Current assets		
Cash	$ 617,797	$ 101,645
Other current assets	77,907	29,425
Total current assets	695,704	131,070
Property and Equipment, net	75,609	78,083
Other assets	10,330	8,020
Total assets	$ 781,643	$ 217,173
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities		
Accounts payable- related parties	$ 63,003	$ 241,176
Accounts payable – license agreements	178,125	721,785
Accounts payable- other	478,402	450,411
Accrued expenses	1,060,162	959,827
Accrued professional fees	294,552	431,704
Loan payable- related party and shareholders	—	86,947
Convertible debentures, net-of-discount	169,542	76,947
Fair value of derivative liabilities	1,643,139	3,664,675
Total liabilities	3,886,925	6,633,472
Commitments and contingencies		
Stockholders' deficiency		
Common stock, $.001 par value: 200,000,000 shares authorized, 114,273,470 and 91,453,194 shares issued and outstanding at December 31, 2011 and 2010, respectively	114,274	91,453
Additional paid-in capital	66,069,911	51,925,168
Deficit accumulated during the development stage	(69,289,467)	(58,432,920)
Total stockholders' deficiency	(3,105,282)	(6,416,299)
Total liabilities and stockholder's deficiency	$ 781,643	$ 217,173

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31, 2011	Years Ended December 31, 2010	Inception (February 18, 1998) to December 31, 2011
Net sales	$ —	$ —	$ 69,000
Cost of goods sold	—	—	24,120
Gross profit	—	—	44,880
Operating expenses	6,886,681	4,293,631	44,144,635
Research and development expenses	1,130,283	427,982	7,444,997
Non-cash patent settlement cost	—	—	1,610,066
Loss before other income (expense)	(8,016,964)	(4,721,613)	(53,154,818)
Other income (expense)			
Other income (loss)	48,000	145,112	191,972
Interest income	—	—	16,342
Interest and financing expense	(5,084,253)	(4,034,558)	(16,676,617)
Change in fair value of derivative liabilities	2,021,536	414,505	2,128,201
Costs of private placement	—	(1,129,212)	(1,640,715)
Costs to induce conversion of notes	—	(168,340)	(469,043)
Loss on disposition of equipment	—	—	(14,426)
Settlement of Debt Due Morale/ Matthews	—	—	(927,903)
Settlement of litigation and debt	175,934	—	1,265,022
Loss before provision for income taxes	(10,855,747)	(9,494,106)	(69,281,985)
Provision for income taxes	800	800	7,482
Net loss	$ (10,856,547)	$ (9,494,906)	$ (69,289,467)
Net loss per common share, basic and diluted	$ (0.10)	$ (0.12)	
Weighted average common shares outstanding, basic and diluted	104,103,109	81,910,267	

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
FROM FEBRUARY 18, 1998 (INCEPTION) TO DECEMBER 31, 2011

	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)

(continued)

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

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY (continued)
FROM FEBRUARY 18, 1998 (INCEPTION) TO DECEMBER 31, 2011

	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, December 31, 1999		15,297,125	$ 15,297	$ —	$ 580,452	$ —	$ (1,096,571)	$ (500,822)
Issuance of common stock for services	$0.38 - $5.31	305,810	306	—	588,704	—	—	589,010
Stock issued for employee compensation on February 8, 2000	$1.03- $5.31	42,000	42	—	137,378	—	—	137,420
Stock issued for directors fees	$3.38- $4.44	56,000	56	—	195,584	—	—	195,640
Common stock 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)
Issuance of common stock for services	$0.25- $1.65	1,339,912	1,340	—	1,031,231	—	—	1,032,571
Stock issued for directors fees	$0.60- $0.95	1,100,000	1,100		1,008,900			1,010,000
Intrinsic value of options issued to employees					2,600,000	(2,600,000)		—
Fair value of options issued to non-employees					142,318			142,318
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)

(continued)

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

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY (continued)
FROM FEBRUARY 18, 1998 (INCEPTION) TO DECEMBER 31, 2011

	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, December 31, 2001		18,085,847	$ 18,086	$ —	$ 6,220,322	$ (2,408,333)	$ (5,102,346)	$ (1,272,271)
Stock issued for directors fees	0.40	2,150,000	2,150	—	857,850	—	—	860,000
Common stock sold (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		—	—	—	—	—	(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	0.15-0.25	2,305,000	2,305	(433,750)	431,445	—	—	—
Sale of common stock	$ 0.25	9,504,000	9,504		2,366,439	—	—	2,375,943
Issuance of common stock for services	$ 0.55	83,414	83	—	45,794	—	—	45,877
Common stock issued for convertible debt	$ 0.25	2,000,000	2,000		498,000	—	—	500,000
Finders' fees related to stock issuances		—	—	43,875	(312,582)	—	—	(268,707)
Common stock sold (25,000 shares)	0.25	—	—	6,250	—	—	—	6,250
Amortization of deferred compensation		—	—	—	—	863,727	—	863,727
Net loss							(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)

(continued)

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

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY (continued)
FROM FEBRUARY 18, 1998 (INCEPTION) TO DECEMBER 31, 2011

	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, 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	$ .25	25,000	25	(6,250)	6,225			—
Sale of common stock	$ 1.00	1,272,500	1,273	119,000	1,271,227	—	—	1,391,500
Stock issued for services	$.15-$1.70	1,268,560	1,268		1,388,663			1,389,931
Stock issued for directors fees	$ 1.50	50,000	50	—	74,950	—	—	75,000
Common stock issued for convertible debt	$ 1.53	60,000	60		91,740	—	—	91,800
Common stock issued upon exercise of warrants and options	$ .20 -$.40	960,500	960	—	193,240	—	—	194,200
Common stock issued for patent settlement	$ 1.24	20,000	20		24,780			24,800
Fair value of warrants issued					1,614,138			1,614,138
Fair value of options issued to employees		—	—	—	248,891	(248,891)	—	—
Fair value of options issued to non-employees		—	—	—	55,381	(55,381)	—	—
Amortization of deferred compensation		—	—	—	—	936,537	—	936,537
Finders' fees related to stock issuances					(88,384)			
Net loss		—	—	—	—	—	(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)

(continued)

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

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY (continued)
FROM FEBRUARY 18, 1998 (INCEPTION) TO DECEMBER 31, 2011

	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, 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	119,000	119	(119,000)	118,881	—	—	—
Sale of common stock	$1.00	1,530,500	1,530		1,528,970	—	—	1,530,500
Common stock issued upon exercise of warrants	$.40 - $1.00	500	1	—	199	—	—	200
Common stock to be issued for settlement of payables				612,521				612,521
Fair value of options issued for settlement costs					31,500			31,500
Fair value of warrants issued					18,462			18,462
Fair value of warrants issued and intrinsic value of beneficial conversion associated with convertible notes					1,453,181			1,453,181
Fair value of options issued to employees		—	—	—	243,750	(243,750)	—	—
Amortization of deferred compensation		—	—	—	—	177,631	—	177,631
Finders' fees related to stock issuances					(109,840)			(109,840)
Common stock cancelled		(8,047,403)	(8,047)		8,047			—
Net loss		—	—	—	—	—	(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)

(continued)

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

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY (continued)
FROM FEBRUARY 18, 1998 (INCEPTION) TO DECEMBER 31, 2011

	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, December 31, 2005		31,387,418	$ 31,387	$ 612,521	$18,336,178	$ (142,187)	$ (20,246,074)	$ (1,408,175)
Common stock issued paid for previously		846,549	847	(612,521)	611,674	—	—	—
Sale of common stock	$1.00 - $1.89	1,360,537	1,360	60,000	2,401,048	—	—	2,462,408
Common stock issued upon exercise of warrants	$.50 - $1.50	2,583,533	2,584	—	1,794,944	—	—	1,797,528
Common stock to be issued for convertible debt	$.70	3,416,186	3,417		2,356,449			2,359,866
Common stock to be issue for out of line of credit	$.55 - $1.22	487,483	487		379,610			380,097
Fair value of options issued to employees		—	—	—	2,253,263		—	2,253,263
Fair value of options issued for settlement costs					31,500			31,500
Fair value of warrants issued for services					463,627			463,627
Fair value of warrants issued and intrinsic value of beneficial conversion associated with convertible notes					1,259.696			1,259,696
Write off of deferred compensation		—	—	—	(142,187)	142,187	—	—
Finders' fees related to stock issuances					(284,579)			(284,579)
Fees paid on equity line of credit					(30,402)			(30,402)
Net loss		—	—	—	—	—	(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)

(continued)

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

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY (continued)
FROM FEBRUARY 18, 1998 (INCEPTION) TO DECEMBER 31, 2011

	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
Balance, December 31, 2006		40,081,757	$ 40,082	$ 60,000	$ 29,430,821	$ (30,427,597)	$ (896,694)
Common stock issued previously paid for		2,597,524	2,598	(60,000)	57,402	—	—
Common stock to be issued for convertible debt	$ .17 - $.53	1,910,711	1,911		524,569		526,480
Common stock issued for put of line of credit	$ .27 - $.73	1,880,421	1,880		990,175		992,055
Common stock granted for services				4,000			4,000
Fair value of options issued to employees		—	—	—	67,592	—	67,592
Fair value of warrants issued for services					35,340		35,340
Fair value of warrants issued and intrinsic value of beneficial conversion associated with convertible notes					1,253,548		1,253,548
Fees paid on equity line of credit					(79,364)		(79,364)
Net loss		—	—	—	—	(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)
Common stock issued for convertible debt	$ .17 - $.53	5,575,082	5,574	16,500	1,936,171	—	1,958,245
Common stock issued for Morale/ Matthews settlement	$ .38	7,421,896	7,422	—	2,776,289	—	2,783,711
Common stock issued for services	$ .17 - $.49	2,398,850	2,399	—	516,230	—	518,629
Common stock issued upon exercise of warrants	$ .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 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	$ .17	10,000	10	(4,000)	3,990	—	—
Net loss for the 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)

(continued)

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

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY (continued)
FROM FEBRUARY 18, 1998 (INCEPTION) TO DECEMBER 31, 2011

	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
Balance, December 31, 2008			62,940,891	62,941	16,500	40,129,758	(42,743,064)	(2,533,865)
Common stock and warrants issued to induce conversion of notes	$	.15-.50	459,732	460		300,243	—	300,703
Common stock issued for previously converted notes	$	.17	97,059	97	(16,500)	16,403	—	—
Common stock issued for services	$	.33-.51	1,482,000	1,482	—	595,438	—	596,920
Common stock issued for settlement of accounts payable	$	.20-.38	495,615	496	—	128,986	—	129,482
Fair value of warrants issued to shareholder for loan		—	—	—	—	1,248	—	1,248
Fair value of options issued as compensation		—	—	—	—	89,802	—	89,802
Common stock issued upon exercise of options	$	.27	83,333	83	—	22,417	—	22,500
Fair value of warrants and beneficial conversion feature of issued convertible notes		—	—	—	—	540,324	—	540,324
Net loss for the year ended December 31, 2009		—	—	—		—	(6,194,950)	(6,194,950)
Balance, December 31, 2009			71,289,396	71,289	—	43,255,773	(48,938,014)	(5,610,952)
Common stock issued for convertible debt	$	.15-$.50	15,851,272	15,851	—	4,401,566	—	4,417,417
Common stock issued to induce conversion of convertible debt	$	.53	224,751	225	—	118,893	—	119,118
Fair value of warrants issued to induce conversion of convertible debt		—	—	—	—	49,222	—	49,222
Common stock issued for services	$	.43-$.48	3,710,099	3,710	—	1,381,427	—	1,385,137
Common stock issued as compensation	$	.52-$.55	170,000	170	—	91,530	—	91,700
Common stock issued for settlement of accounts payable	$	.34	12,121	12	—	4,109	—	4,121
Fair value of options issued as compensation		—	—	—	—	138,733	—	138,733
Common stock issued upon exercise of options	$	.27	195,555	196	—	52,604	—	52,800
Fair value of warrants issued for services		—	—	—	—	126,000	—	126,000
Fair value of warrants and beneficial conversion feature of issued convertible notes		—	—	—	—	2,305,311	—	2,305,311

Net loss for the year ended December 31, 2010	—	—	—		—	(9,494,906)	(9,494,906)
Balance, December 31, 2010		91,453,194	91,453	—	51,925,168	(58,432,920)	(6,416,299)

(continued)

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

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY (continued)
FROM FEBRUARY 18, 1998 (INCEPTION) TO DECEMBER 31, 2011

	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
Balance, December 31, 2010		91,453,194	$ 91,453	$ —	$ 51,925,168	$ (58,432,920)	$ (6,416,299)
Common stock issued and to be issued for convertible debt	$ .25	19,861,478	19,862	—	4,945,508	—	4,965,370
Common stock issued upon exercise of warrants	$ .47	81,020	81	—	(81)	—	—
Common stock issued for services	$ .25-$.60	2,800,000	2,800	—	859,200	—	862,000
Fair value of options and warrants issued as compensation	—	—	—	—	2,240,961	—	2,240,961
Common stock issued upon exercise of options	$ .27	77,778	78	—	20,922	—	21,000
Fair value of warrants issued to consultants	—	—	—	—	411,888	—	411,888
Fair value of warrants and beneficial conversion feature of issued convertible notes	—	—	—	—	5,666,345	—	5,666,345
Net loss for the year ended December 31, 2011	—	—	—	—	—	(10,856,547)	(10,856,547)
Balance, December 31, 2011		114,273,470	$ 114,274	$ —	$ 66,069,911	$ (69,289,467)	$ (3,105,282)

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2011	Years Ended December 31, 2010	Inception (February 18, 1998) to December 31, 2011
Cash flows from operating activities			
Net Loss	$ (10,856,547)	$ (9,494,906)	$ (69,289,467)
Adjustments to reconcile net loss to net cash used in operating activities:			
Write off of intangible assets	—	—	505,000
Settlement of litigation and debt	(175,934)	(145,112)	(1,338,254)
Settlement of Debt Due Morale/Matthews	—	—	927,903
Stock based compensation expense	2,240,961	230,433	6,176,117
Issuance of common stock for services	862,000	1,385,137	8,034,788
Issuance of options for legal settlement	—	—	31,500
Issuance of warrants for legal settlement	—	—	4,957
Issuance of warrants for financing fees	—	—	153,501
Issuance of warrants for consulting fees	411,888	126,000	537,888
Increase in convertible notes related to default	2,795	37,138	299,274
Interest on related party loans	—	—	22,305
Patent acquisition cost	—	—	1,610,066
Amortization of issuance costs and original issue debt discounts including beneficial conversion feature-part of interest expense	5,069,446	3,971,577	16,134,077
Fair value of common stock and warrants issued to induce conversion of notes	—	168,340	469,043
Costs of private placement convertible notes	—	1,129,212	1,640,715
Change in fair value of derivative liability	(2,021,536)	(414,505)	(2,128,201)
Amortization of deferred compensation	—	—	3,060,744
Loss on disposition of assets	—	—	14,426
Depreciation and amortization of leasehold improvements	34,717	34,022	494,899
Bad debt	—	—	1,300
Changes in operating assets and liabilities:			
Accounts receivable	—	—	(1,380)
Prepaid expenses and others	(48,481)	(12,972)	(77,826)
Other assets	(2,310)	3,000	(10,330)
Accounts payable and accrued expenses	415,519	71,899	5,027,850
Accounts payable – license agreements	(478,297)	(284,599)	(473,012)
Accounts payable – related parties	(178,173)	52,356	(30,000)
Net cash used in operating activities	(4,723,952)	(3,142,980)	(28,202,117)
Cash flows from investing activities			
Purchase of equipment	(32,243)	(11,235)	(598,862)
Proceeds from sale of equipment	—	—	17,478
Net cash used in investing activities	(32,243)	(11,235)	(581,384)
Cash flows from financing activities			
Net proceeds under equity line of credit	—	—	1,262,386
(Decrease) increase in loans from related parties and shareholders	(86,947)	(10,786)	536,979
Advances from founding executive officer	—	—	517,208
Net proceeds from issuance of convertible notes and warrants	5,360,070	3,217,735	16,565,048
Repayment of convertible notes	(14,276)	—	(296,397)
Proceeds from exercise of warrants	13,500	15,300	10,816,074
Net cash provided by financing activities	5,272,347	3,222,249	29,401,298
Net increase in cash	516,152	68,034	617,797
Cash, beginning of period	101,645	33,611	—
Cash, end of period	$ 617,797	$ 101,645	$ 617,797

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

	Years Ended December 31, 2011	Years Ended December 31, 2010	Inception (February 18, 1998) to December 31, 2011
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	$ 12,014	$ 21,294	$ 171,380
Income taxes	$ 800	$ 800	$ 7,482
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	—	4,121	247,584
Cancellation of stock	—	—	8,047
Conversion of accounts payable and accrued expenses to common stock	—	—	612,521
Conversion of accounts payable and accrued expenses to convertible debentures	306,275	331,200	637,475
Conversion of related party debt to convertible debentures	—	27,500	72,500
Conversion of convertible debentures to common stock	4,965,370	4,417,417	15,751,351
Issuance of shares for settlement of loans and other payable to Morale/Matthews	—	—	2,783,711
Write off of deferred compensation	—	—	142,187
Fair value of derivative liability recorded as note discount	—	1,243,625	2,130,625
Proceeds of exercise of options applied to accounts payable	7,500	37,500	67,500
Fair value of warrants and beneficial conversion feature associated with issued convertible notes	5,666,345	2,305,311	13,912,733

See notes to consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
AND FOR THE PERIOD INCEPTION (FEBRUARY 18, 1998) TO DECEMBER 31, 2011**

1. Description of business

Description of business

Save The World Air, Inc. ("STWA", "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 the marketing and manufacturing rights of the ZEFS technologies. Our executive offices are at 735 State Street, Suite 500, Santa Barbara, California 93101. The telephone number is (805) 845-3561. Our research and development facility is at 235 Tennant Avenue, Morgan Hill, California 95037. The telephone number is (408) 778-0101. The Company's common stock is quoted under the symbol "ZERO" on the Over-the-Counter Bulletin Board. More information including the Company's fact sheet, logos and media articles are available at our corporate website, www.stwa.com.

The Company develops and commercializes energy efficiency technologies that assist in meeting the increasing global energy demands, improving the economics of oil extraction and transport, and reducing greenhouse gas emissions. The Company's intellectual property portfolio includes 24 domestic and international patents and patents pending, which have been developed in conjunction with and exclusively licensed from Temple University. The Company's technology has two commercial applications; Applied Oil Technology (AOT) and ELEKTRA™ and legacy technologies of ZEFS and MK IV. The AOT and ELEKTRA are technologies, which use electric fields to alter some physical properties of petrochemical fluids to reduce viscosity of the fluids.

Our AOT technology is designed to allow pipeline operators to temporarily reduce the viscosity of the crude oil within their pipeline(s) to reduce the fluid-drag (also known as friction-loss) between the fluid and the pipeline. By reducing the friction loss, pipeline operators' pump systems require less energy to maintain a constant flow rate, thereby directly reducing daily operation costs. AOT has been proven in U.S. Department of Energy tests to increase the energy efficiency of oil pipeline pump stations by over 13%. We intend to market our AOT products primarily to pipeline operators as well as to pilot and government mandated delivery programs.

Our ELEKTRA products are intended to increase fuel efficiency and reduce emissions. ELEKTRA Will be marketed primarily to specialty consumer accessories market for many types of diesel-fueled vehicles, including but not limited to trucks, trains, maritime, military and aviation.

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. 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 operation costs of petrochemical pipeline transport and fuel efficiency of diesel engines and has not yet generated meaningful revenues. The Company is currently in the mid-late stages of developing its AOT™ and ELEKTRA™ technologies for commercial applications. Expenses have been funded though the sale of company stock, convertible notes and the exercise of warrants for cash. The Company has taken actions to secure the intellectual property rights to the AOT™ and ELEKTRA™ technologies and is the worldwide exclusive licensee for patent pending technologies associated with the development of AOT™ and ELEKTRA™.

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 $10,856,547 and a negative cash flow from operations of $4,723,952 for the year ended December 31, 2011, and had a working capital deficiency (excluding derivative liabilities) of $1,548,082 and a stockholders' deficiency of $3,105,282 at December 31, 2011. 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.

At December 31, 2011 we have cash on hand totaling $617,797 and subsequent to December 31, 2011, the Company raised an additional $1,215,440 through the issuance of its convertible notes. (see "Note 12"). In order to fund our operations and the repayment of our outstanding notes, we may have to raise additional funds. At December 31, 2011, these notes included, the Fall 2009 Notes due in January 2012, the Winter 2011 Notes due in February 2012, the Fall 2011 Notes in October 2012 and the Fall 2011#2 Notes due in December 2012 These Notes total $1,720,460 and we expect substantially all of these Notes will be converted into stock. 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 AOT and ELEKTRA technologies, 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, costs to settle a certain law suit, and costs required to protect our intellectual property. In addition, 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 2012 and beyond.

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.

Revenue Recognition Policy

The Company 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 co-develops with, and licenses from, its intellectual property as a joint-agreement with Temple University of Philadelphia, PA. The Company's business model is to contract with suppliers and manufacturers of oilfield equipment to sell into the oilfield pipeline market. The Company negotiates an initial contract with the customer fixing the terms of the sale and then receive a letter of credit or full payment in advance of shipment. Upon shipment, the Company will recognize the revenue associated with the sale of the products to the customer.

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.

Impairment of long-lived assets

Our long-lived assets, such as property and equipment, are reviewed for impairment at least annually, or when events and circumstances indicate that depreciable or amortizable long lived assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. When specific assets are determined to be unrecoverable, the cost basis of the asset is reduced to reflect the current value.

We use various assumptions in determining the current fair value of these assets, including future expected cash flows and discount rates, as well as other fair value measures. Our impairment loss calculations require us to apply judgment in estimating future cash flows, including forecasting useful lives of the assets and selecting the discount rate that reflects the risk inherent in future cash flows.

If actual results are not consistent with our assumptions and judgments used in estimating future cash flows and asset fair values, we may be exposed to future impairment losses that could be material to our results. Based upon management's annual review, no impairments were recorded for the years ended December 31, 2011 and December 31, 2010.

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, 2011 and 2010, the dilutive impact of outstanding stock options of 24,067,892 and 4,837,488; outstanding warrants of 49,106,280, and 22,979,068 and notes convertible into 6,836,016 and 1,839,763 shares respectively, 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

The Company periodically issues stock options and warrants to employees and non-employees in non-capital raising transactions for services and for financing costs. The Company accounts for stock option and warrant grants issued and vesting to employees based on the authoritative guidance provided by the Financial Accounting Standards Board whereas the value of the award is measured on the date of grant and recognized over the vesting period. The Company accounts for stock option and warrant grants issued and vesting to non-employees in accordance with the authoritative guidance of the Financial Accounting Standards Board whereas the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Non-employee stock-based compensation charges generally are amortized over the vesting period on a straight-line basis. In certain circumstances where there are no future performance requirements by the non-employee, option grants are immediately vested and the total stock-based compensation charge is recorded in the period of the measurement date.

The fair value of the Company's common stock option grant is estimated using the Black-Scholes option pricing model, which uses certain assumptions related to risk-free interest rates, expected volatility, expected life of the common stock options, and future dividends. Compensation expense is recorded based upon the value derived from the Black-Scholes option pricing model, and based on actual experience. The assumptions used in the Black-Scholes option pricing model could materially affect compensation expense recorded in future periods.

Accounting for Warrants and Derivatives

The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statements of operations. For stock-based derivative financial instruments, the Company uses probability weighted average series Black-Scholes Merton option pricing models to value the derivative instruments at inception and on subsequent valuation dates.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

Business and credit concentrations

The Company's cash balances in financial institutions at times may exceed federally insured limits. As of December 31, 2011 and 2010, before adjustments for outstanding checks and deposits in transit, the Company had $597,581 and $111,223, respectively, on deposit with two banks. The deposits are federally insured up to $250,000 on each bank.

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, fair value measurements are determined by the Company's adoption of authoritative guidance issued by the FASB, with the exception of the application of the statement to non-recurring, non-financial assets and liabilities as permitted. The adoption of the authoritative guidance did not have a material impact on the Company's fair value measurements. Fair value is defined in the authoritative guidance as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy was established, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs, other than the quoted prices in active markets, are observable either directly or indirectly.

Level 3—Unobservable inputs based on the Company's assumptions.

The Company is required to use of observable market data if such data is available without undue cost and effort.

The following table presents certain investments and liabilities of the Company's financial assets measured and recorded at fair value on the Company's consolidated balance sheets on a recurring basis and their level within the fair value hierarchy as of December 31, 2011 and 2010.

	Level 1	Level 2	Level 3	Total
Fair value of Derivative Liability-2011	$-	$ -	$ 1,643,139	$ 1,643,139
Fair value of Derivative Liability-2010	$	$	$ 3,664,675	$ 3,664,675

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs". ASU No. 2011-4 does not require additional fair value measurements and is not intended to establish valuation standards or affect valuation practices outside of financial reporting. The ASU is effective for interim and annual periods beginning after December 15, 2011. The Company will adopt the ASU as required. The ASU will affect the Company's fair value disclosures, but will not affect the Company's results of operations, financial condition or liquidity.

In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income". The ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity, and instead requires consecutive presentation of the statement of net income and other comprehensive income either in a continuous statement of comprehensive income or in two separate but consecutive statements. ASU No. 2011-5 is effective for interim and annual periods beginning after December 15, 2011. The Company will adopt the ASU as required. It will have no effect on the Company's results of operations, financial condition or liquidity.

In September 2011, the FASB issued ASU 2011-08, "Testing Goodwill for Impairment", an update to existing guidance on the assessment of goodwill impairment. This update simplifies the assessment of goodwill for impairment by allowing companies to consider qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before performing the two step impairment review process. It also amends the examples of events or circumstances that would be considered in a goodwill impairment evaluation. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company is currently evaluating the affects adoption of ASU 2011-08 may have on its goodwill impairment testing.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the Securities Exchange Commission (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, 2011 and 2010, the balance of these loans including interest was $0 and $86,947, respectively.

Accounts Payable to related parties

As of December 31, 2011, the Company had accounts payable to related parties in the amount of $63,003, which was composed of $36,125 in unpaid Directors Fees and $26,878 in unreimbursed expenses incurred by Officers and Directors. As of December 31, 2010, the amount payable to related parties was $241,176.

4. Property and Equipment

At December 31, 2011 and 2010, property and equipment consists of the following:

	December 31, 2011	December 31, 2010
Office equipment	$ 75,685	$ 45,133
Furniture and fixtures	15,589	13,898
Machinery and equipment	49,986	49,986
Testing equipment	147,312	147,312
Subtotal	288,572	256,329
Less accumulated depreciation	(212,963)	(178,246)
Total	$ 75,609	$ 78,083

Depreciation expense for the years ended December 31, 2011 and 2010 was $34,717 and $34,022, respectively. Depreciation expense for the period from inception February 18, 1998 through December 31, 2011 was $494,899.

5. Convertible notes and warrants

Convertible debentures consist of the following:

	Maturity dates	December 31, 2011	December 31, 2010
2008 Winter Offering	December 5, 2009	—	6,697
2009 Spring Offering	April 30, 2010	—	6,455
2009 Wellfleet Offering	September 28, 2012	—	27,011
2009 Fall Offering	January 15, 2012	11,456	37,409
2010 Fall Offering #2	November 30, 2011	—	386,760
2011 Winter Offering	February 28, 2012	88,000	—
2011 Spring Offering	May 31, 2012	—	—
2011 Summer Offering	July 31, 2012	—	—
2011 Fall Offering #1	October 15, 2012	104,500	—
2011 Fall Offering #2	December 15, 2012	1,516,504	—
Sub-total		1,720,460	464,332
Less, debt discount		(1,550,918)	(387,385)
Convertible debentures, net		$ 169,542	$ 76,947

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.

The aggregate value of the Winter 2008 Offering Warrants issued in connection with the December 5, 2008 closing were valued at $168,925 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of 3.42%; dividend yield of 0%; volatility factors of the expected market price of common stock of 153.56%; 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 $308,075. The value of the Winter 2008 Offering Warrants, the beneficial conversion feature, and the transaction fees of $47,700 are considered as debt discount and were amortized over the life of the Note.

As of December 31, 2011, investors have converted $524,700 of the Convertible Notes into 3,086,470 shares of the Company's common stock. As of December 31, 2011, there was no outstanding balance.

2009 Spring Offering

From March 17, 2009 to April 30, 2009, the Company conducted and concluded a private offering (the “Spring 2009 Offering”) of up to $300,000 aggregate face amount of its convertible notes (the “Spring 2009 Notes”) with 11 accredited investors. A total of $181,500 aggregate face amount of the Spring 2009 Notes were sold for an aggregate purchase price of $165,000. The Spring 2009 Notes mature on the first anniversary of their date of issuance, are convertible, at the option of the noteholder, into up to 672,222 shares of common stock of the Company at a conversion price of $0.27 per share.

Each of the investors in the Spring 2009 Offering received, for no additional consideration, a warrant (the “Spring 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 Spring 2009 Notes are convertible (the “Warrant Shares”). Each Spring 2009 Warrant is exercisable on a cash basis only at an initial price of $0.50 per share, and is exercisable for a period of two years. Up to 336,111 Warrant Shares are initially issuable on exercise of the Spring 2009 Warrants.

The Company received $165,000 in net proceeds in the Spring 2009 Offering which was used for general corporate purposes and working capital. The aggregate value of the Spring 2009 Offering Warrants issued in connection with the April 30, 2009 closing were valued at $39,994 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of 0.94%; dividend yield of 0%; volatility factors of the expected market price of common stock of 156.39%; 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 $96,827. The value of the Spring 2009 Offering Warrants, the beneficial conversion feature, and the transaction fees of $16,500 are considered as debt discount and were amortized over the life of the Note.

As of December 31, 2011, investors have converted $181,500 of the Convertible Notes plus penalty and interest of $7,538 into 679,768 shares of the Company’s common stock. As of December 31, 2011, there was no balance outstanding

2009 Wellfleet Offering

On November 20, 2009, the Company completed a private financing of $75,000 principal amount of 7% Convertible Promissory Notes (the “Notes”) and 300,000 Common Stock Purchase Warrants exercisable at $.30 per share (the “Warrants”), pursuant to a Securities Purchase Agreement (the “Purchase Agreement”) with 3 accredited investors (the “Note Offering”), through Sandgrain Securities, Inc., as placement agent.

The Notes are initially convertible into the Company’s common stock at a price of $.25 per share and accrue interest at 7% per year with a default rate of 10%, payable quarterly in cash. Interest payments are payable in stock at the sole discretion of the Note holders, or, in the event that shares issuable thereon are registered under the Securities Act of 1933, as amended (the “Act”), or otherwise freely tradable pursuant to Rule 144, at the discretion of the Company as well. The Notes and any unpaid interest are due and fully payable on September 28, 2012. The conversion price of the Notes is adjustable for corporate events such as merger, reclassification or stock splits.

Pursuant to the terms of the Purchase Agreement, and among other terms, in the event the Company conducts any subsequent financings (each, a “Follow On Offering”) of any kind other than an offering of securities substantially similar to the Notes and Warrants or certain other exempted issuances enumerated in the Notes, the Notes may, at the discretion of each holder thereof, be exchanged in whole or in part to the extent of outstanding principal and/or interest in such Note, into the securities offered in the Follow On Offering, by applying and exchanging the outstanding principal and interest of such Notes towards the purchase price of the securities offered in such Follow On Offering, at the same price and terms of the Follow On Offering.

The Company paid a placement agent fee of (i) $6,000 in cash, (ii) 24,000 shares of Common Stock constituting 8% of the number of Conversion Shares initially issuable upon exercise of the Notes, and (iii) 24,000 warrants, substantially similar to the Warrants sold to investors (the “Placement Agent Warrants”), in connection with the Note Offering, in addition to legal fees.

Each of the warrant agreements included an anti-dilution provision that allowed for the automatic reset of the exercise price upon any future sale of common stock or warrants at or below the current exercise price. The Company considered the current Financial Accounting Standards Board guidance of “Determining Whether an Instrument Indexed to an Entity’s Own Stock” which indicates that any adjustment to the fixed amount (either conversion price or number of shares) of the instrument regardless of the probability or whether or not within the issuers’ control, means the instrument is not indexed to the issuers own stock. Accordingly, the Company determined that as the strike price of these warrants contain exercise prices that may fluctuate based on the occurrence of future offerings or events, and as such is not a fixed amount.. As a result, the Company determined that these warrants are not considered indexed to the Company’s own stock and characterized the fair value of these warrants as derivative liabilities upon issuance.

The Company determined that the fair value of the warrant liability at issuance on November 20, 2009 to be $75,000 based upon a weighted average Black-Sholes-Merton calculation. The Company recorded the full value of the derivative as a liability at issuance with an offset to valuation discount. The fair value of the warrant liability as of December 31, 2010 was $129,000 (see Note 7).

As of December 31, 2011 investors have converted $75,000 of the Convertible Notes plus $1,750 of accrued interest into 307,000 shares of the Company's common stock. At December 31, 2011 there was no outstanding balance.

2009 Fall Offering

From October 2, 2009 to January 15, 2010, the Company conducted and completed a private offering (the "Fall 2009 Offering") consisting of an aggregate of $1,588,125 of 7% Convertible Promissory Notes (the "Notes") with interest compounded quarterly at the annual rate of 7% payable at maturity, and warrants to purchase an aggregate of 6,352,500 shares of our common stock (the "Fall 2009 Warrants"). The Company received $1,284,425 net proceeds, of which $344,500 was received as of December 31, 2009. The Fall 2009 Notes mature on the second anniversary of the closing of this offering and will be convertible, at the option of the noteholder, into up to 6,352,500 shares of our common stock at a conversion price of $0.25 per share. The Fall 2009 Warrants are for a term of three years at an exercise price of $0.30 per share.

Each of the warrant agreements included an anti-dilution provision that allowed for the automatic reset of the exercise price upon any future sale of common stock or warrants at or below the current exercise price. The Company considered the current Financial Accounting Standards Board guidance of "Determining Whether an Instrument Indexed to an Entity's Own Stock" which indicates that any adjustment to the fixed amount (either conversion price or number of shares) of the instrument regardless of the probability or whether or not within the issuers' control, means the instrument is not indexed to the issuers own stock. Accordingly, the Company determined that as the strike price of these warrants contain exercise prices that may fluctuate based on the occurrence of future offerings or events, and as such is not a fixed amount. As a result, the Company determined that these warrants are not considered indexed to the Company's own stock and characterized the fair value of these warrants as derivative liabilities upon issuance.

The Company determined that the fair value of the warrant liability at issuances to be $3,027,815 based upon a weighted average Black-Scholes-Merton calculation (See Note 8), of which, $654,978 was recorded on December 31, 2009 and $2,372,837 was recorded on January 15, 2010. The Company recorded the full value of the derivative of $2,372,837 as a liability at issuance with an offset to valuation discount. As the fair value of the liability of $2,372,837 exceeded the note value of $1,243,625, the excess of the liability over the note amount of $1,129,212 was considered to be cost of the private placement and was recorded during the period. The fair value of the warrant liability as of December 31, 2011 was $1,251,773 (see Note 7).

As of December 31, 2011, investors have converted $1,578,125 of the Convertible Notes plus interest of $11,502 into 6,358,507 shares of the Company's common stock. The outstanding balance at December 31, 2011 was $11,456 which includes $1,456 in accrued interest.

2010 Winter Offering

From February 15, 2010 to March 31, 2010, the Company conducted a private offering (the "Winter 2010 Offering") consisting of an aggregate of $885,863 face amount of its Convertible Promissory Notes (the "Winter 2010 Notes") have been sold for an aggregate purchase price of $805,330. While the stated interest rate on the Winter 2010 Notes is 0%, the implied interest rate on the Winter 2010 Notes is 10% per annum. The Winter 2010 Notes mature on the first anniversary of their date of issuance. The Winter 2010 Notes are convertible, at the option of the noteholder, into 2,214,657 shares of common stock of the Company (the "Conversion Shares") at an initial conversion price of $0.40 per share (the "Conversion Price").

Each of the investors in the Winter 2010 Offering received, for no additional consideration, a warrant (the "Winter 2010 Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 100% of the number of shares of common stock into which the Winter 2010 Notes are convertible (the "Warrant Shares"). Each Winter 2010 Warrant is exercisable on a cash basis only at an initial price of $0.40 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 2,214,657 Warrant Shares are initially issuable to date on exercise of the Winter 2010 Warrants.

The Company received $805,330 in net proceeds in the Winter 2010 Offering which was used for general corporate purposes and working capital. The aggregate value of the Winter 2010 Offering Warrants issued were valued at $476,268 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of 1.02; dividend yield of 0%; volatility factors of the expected market price of common stock of 135%; 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 $329,062. As of December 31, 2011, the aggregate value of the Winter 2010 Offering Warrants, the beneficial conversion feature and the transaction fees of $80,533 are considered as debt discount and were fully amortized in conjunction with the conversion of the notes.

As of December 31, 2011, investors have converted $885,863 of the Convertible Notes into 2,214,657 shares of the Company's common stock. There was no outstanding balance at December 31, 2011.

2010 Spring Offering

From April 15, 2010 to April 30, 2010, the Company conducted a private offering (the "Spring 2010 Offering") consisting of an aggregate of $143,000 face amount of its Convertible Promissory Notes (the "Spring 2010 Notes") have been sold for an aggregate purchase price of $130,000. While the stated interest rate on the Spring 2010 Notes is 0%, the actual interest rate on the Spring 2010 Notes is 10% per annum. The Spring 2010 Notes mature on the first anniversary of their date of issuance. The Spring 2010 Notes are convertible, at the option of the noteholder, into 357,500 shares of common stock of the Company (the "Conversion Shares") at an initial conversion price of $0.40 per share (the "Conversion Price").

Each of the investors in the Spring 2010 Offering received, for no additional consideration, a warrant (the "Spring 2010 Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 100% of the number of shares of common stock into which the Spring 2010 Notes are convertible (the "Warrant Shares"). Each Spring 2010 Warrant is exercisable on a cash basis only at an initial price of $0.40 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 357,500 Warrant Shares are initially issuable to date on exercise of the Spring 2010 Warrants.

The Company received $130,000 in net proceeds in the Spring 2010 Offering which was used for general corporate purposes and working capital. The aggregate value of the Spring 2010 Offering Warrants issued were valued at $62,730 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of .41; dividend yield of 0%; volatility factors of the expected market price of common stock of 110%; 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 $67,270. As of December 31, 2011, the aggregate value of the Spring 2010 Offering Warrants, the beneficial conversion feature and the transaction fees of $13,000 are considered as debt discount and were fully amortized in conjunction with the conversion of the notes.

As of December 31, 2011, investors have converted $143,000 of the Convertible Notes into 357,000 shares of the Company's common stock. There was no outstanding balance at December 31, 2011.

2010 Summer Offering

From June 14, 2010 to July 31, 2010, the Company conducted and concluded a private offering (the "Summer 2010 Offering") consisting of up to $500,000 aggregate face amount of its convertible notes (the " Summer 2010 Notes). A total of $392,150 Summer 2010 Notes were sold to twenty six accredited investors for an aggregate purchase price of $356,500. While the stated interest rate on the Summer 2010 Notes is 0%, the actual interest rate on the Summer 2010 Notes is 10% per annum. The Summer 2010 Notes mature on the first anniversary of the closing of this offering and will be convertible, at the option of the noteholder, into up to 1,568,600 shares of our common stock at a conversion price of $0.25 per share (the "Conversion Price").

Each of the investors in the Summer 2010 Offering will receive, for no additional consideration, a warrant (the "Summer 2010 Warrants"), entitling the holder to purchase a number of shares of our common stock equal to 100% of the number of shares of common stock into which the Summer 2010 Notes are convertible (the "Warrant Shares"). Each Summer 2010 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable for a period of twenty four months. Up to 1,568,600 Warrant Shares are initially issuable on exercise of the Summer 2010 Warrants.

The Company received $356,500 in net proceeds in the Summer 2010 Offering which was used for general corporate purposes and working capital. The aggregate value of the Summer 2010 Offering Warrants issued were valued at $209,512 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of .55; dividend yield of 0%; volatility factors of the expected market price of common stock of 132%; 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 $146,988. As of December 31, 2011, the aggregate value of the Summer 2010 Offering Warrants, the beneficial conversion feature and the transaction fees of $35,650 are considered as debt discount and were fully amortized in conjunction with the conversion of the notes.

As of December 31, 2011, investors have converted $392,150 of the Convertible Notes into 1,568,600 shares of the Company's common stock. There was no outstanding balance at December 31, 2011.

2010 Fall Offering

From August 10, 2010 to September 30, 2010, the Company conducted and concluded a private offering (the "Fall 2010 Offering") consisting of up to $600,000 aggregate face amount of its convertible notes (the "Fall 2010 Notes). A total of $174,482 Fall 2010 Notes were sold to ten accredited investors for an aggregate purchase price of $158,620. While the stated interest rate on the Fall 2010 Notes is 0%, the actual interest rate on the Fall 2010 Notes is 10% per annum. The Fall 2010 Notes mature on the first anniversary of the closing of this offering and will be convertible, at the option of the noteholder into 697,928 shares of the Company's common stock at a conversion price of $0.25 per share (the "Conversion Price").

Each of the investors in the Fall 2010 Offering will receive, for no additional consideration, a warrant (the "Fall 2010 Warrants"), entitling the holder to purchase a number of shares of our common stock equal to 100% of the number of shares of common stock into which the Fall 2010 Notes are convertible (the "Warrant Shares"). Each Fall 2010 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable for a period of twenty four months. Up to 697,928 Warrant Shares are initially issuable on exercise of the Fall 2010 Warrants.

The Company received $158,620 in net proceeds in the Fall 2010 Offering which was used for general corporate purposes and working capital. The aggregate value of the Fall 2010 Offering Warrants issued were valued at $88,113 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of .42; dividend yield of 0%; volatility factors of the expected market price of common stock of 135%; 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 $70,507. As of December 31, 2011, the aggregate value of the Fall 2010 Offering Warrants, the beneficial conversion feature and the transaction fees of $15,862 are considered as debt discount and were fully amortized in conjunction with the conversion of the notes.

As of December 31, 2011, investors have converted $174,482 of the Convertible Notes into 697,928 shares of the Company's common stock. At December 31, 2011 there was no outstanding balance.

2010 Fall Offering #2

From October 4, 2010 to November 30, 2010, the Company conducted and concluded a private offering (the "Fall 2010 Offering #2") consisting of up to $3,000,000 aggregate face amount of its convertible notes (the " Fall 2010 Notes). A total of $940,347 Fall 2010 #2 Notes were sold to ten accredited investors for an aggregate purchase price of $854,861. While the stated interest rate on the Fall 2010 #2 Notes is 0%, the actual interest rate on the Fall 2010 #2 Notes is 10% per annum. The Fall 2010 #2 Notes mature on the first anniversary of the closing of this offering and will be convertible, at the option of the noteholder into 3,761,386 shares of the Company's common stock at a conversion price of $0.25 per share (the "Conversion Price").

Each of the investors in the Fall 2010 #2 Offering will receive, for no additional consideration, a warrant (the "Fall 2010 #2 Warrants"), entitling the holder to purchase a number of shares of our common stock equal to 100% of the number of shares of common stock into which the Fall 2010 #2 Notes are convertible (the "Warrant Shares"). Each Fall 2010 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable for a period of twenty four months. Up to 3,761,386 Warrant Shares are initially issuable on exercise of the Fall 2010 #2 Warrants.

The Company received $854,861 in net proceeds in the Fall 2010 #2 Offering which was used for general corporate purposes and working capital. The aggregate value of the Fall 2010 #2 Offering Warrants issued were valued at $436,986 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of .27; dividend yield of 0%; volatility factors of the expected market price of common stock of 121%; 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 $417,875. As of December 31, 2011, the aggregate value of the Fall 2010 #2 Offering Warrants, the beneficial conversion feature and the transaction fees of $85,486 are considered as debt discount and will be amortized over the life of the notes.

As of December 31, 2011, investors have converted $940,347 of the Convertible Notes into 3,761,386 shares of the Company's common stock. There was no outstanding balance at December 31, 2011.

2011 Winter Offering

From December 13, 2010 through February 28, 2011, the Company conducted a private offering (the "Winter 2011 Offering") of up to $3,000,000 aggregate face amount of its convertible notes (the "Winter 2011 Notes"). A total of $2,588,422 aggregate face amount of the Winter 2011 Notes were sold for an aggregate purchase price of $2,353,111. While there was no stated interest rate on the Winter 2011 Notes, the implied effective interest rate on the Winter 2011 Notes is 10% per annum. The Winter 2011 Notes mature on the first anniversary of their date of issuance. The Winter 2011 Notes are convertible, at the option of the note holder, into 10,353,688 shares of common stock of the Company (the "Conversion Shares") at an initial conversion price of $0.25 per share (the "Conversion Price").

Each of the investors in the Winter 2011 Offering received, for no additional consideration, a warrant (the "Winter 2011 Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 100% of the number of shares of common stock into which the Winter 2011 Notes are convertible (the "Warrant Shares"). Each Winter 2011 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 10,353,688 Warrant Shares are initially issuable to date on exercise of the Winter 2011 Warrants.

The Company received $2,353,111 in net proceeds in the 2011 Winter Offering which was used for general corporate purposes and working capital. The aggregate value of the 2011 Offering Warrants issued were valued at $1,368,888 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of .25; dividend yield of 0%; volatility factors of the expected market price of common stock of 130%; 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 valued at $984,223. The aggregate value of the 2011 Winter Offering Warrants, the beneficial conversion feature and the implied discount and transaction fees of $235,311 are considered as debt discount and are being amortized over the life of the notes. The amortization recorded during the period amounted to $2,497,076.

As of December 31, 2011, investors have converted $2,500,422 of the Convertible Notes into 10,001,688 shares of the Company's common stock. The outstanding balance at December 31, 2011 was $88,000.

2011 Spring Offering

From March 14, 2011 through May 31, 2011, the Company conducted a private offering (the "Spring 2011 Offering") of up to $1,000,000 aggregate face amount of its convertible notes (the "Spring 2011 Notes"). A total of $1,469,550 aggregate face amount of the Spring 2011 Notes were sold for an aggregate purchase price of $1,335,955. While there was no stated interest rate on the Spring 2011 Notes, the implied effective interest rate on the Spring 2011 Notes is 10% per annum. The Spring 2011 Notes mature on the first anniversary of their date of issuance. The Spring 2011 Notes are convertible, at the option of the note holder, into 5,878,200 shares of common stock of the Company (the "Conversion Shares") at an initial conversion price of $0.25 per share (the "Conversion Price").

Each of the investors in the Spring 2011 Offering received, for no additional consideration, a warrant (the "Spring 2011 Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 100% of the number of shares of common stock into which the Spring 2011 Notes are convertible (the "Warrant Shares"). Each Spring 2011 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 5,878,200 Warrant Shares are initially issuable to date on exercise of the Spring 2011 Warrants.

The Company received $1,335,955 in net proceeds in the 2011 Spring Offering which was used for general corporate purposes and working capital. The aggregate value of the 2011 Spring Offering Warrants issued were valued at $726,787 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of .45; dividend yield of 0%; volatility factors of the expected market price of common stock of 119%; 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 valued at $609,168. The aggregate value of the 2011 Spring Offering Warrants, the beneficial conversion feature and the implied discount and transaction fees of $133,595 are considered as debt discount and are being amortized over the life of the notes. The amortization recorded during the period amounted to $1,425,861.

As of December 31, 2011, investors have converted $1,469,550 of the Convertible Notes into 5,878,200 shares of the Company's common stock. There was no outstanding balance at December 31, 2011.

2011 Summer Offering

From June 24, 2011 through July 31, 2011, the Company conducted a private offering (the "Summer 2011 Offering") of up to $1,000,000 aggregate face amount of its convertible notes (the "Summer 2011 Notes"). A total of $487,783 aggregate face amount of the Summer 2011 Notes were sold for an aggregate purchase price of $443,439. While there was no stated interest rate on the Summer 2011 Notes, the implied effective interest rate on the Summer 2011 Notes is 10% per annum. The Summer 2011 Notes mature on the first anniversary of their date of issuance. The Summer 2011 Notes are convertible, at the option of the note holder, into 1,951,132 shares of common stock of the Company (the "Conversion Shares") at an initial conversion price of $0.25 per share (the "Conversion Price").

Each of the investors in the Summer 2011 Offering received, for no additional consideration, a warrant (the "Summer 2011 Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 100% of the number of shares of common stock into which the Summer 2011 Notes are convertible (the "Warrant Shares"). Each Summer 2011 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 1,951,132 Warrant Shares are initially issuable to date on exercise of the Summer 2011 Warrants.

The Company received $443,439 in net proceeds in the 2011 Summer Offering which was used for general corporate purposes and working capital. The aggregate value of the 2011 Summer Offering Warrants issued were valued at $172,856 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of .20; dividend yield of 0%; volatility factors of the expected market price of common stock of 115%; 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 valued at $270,583. The aggregate value of the 2011 Summer Offering Warrants, the beneficial conversion feature and the implied discount and transaction fees of $44,344 are considered as debt discount and were amortized in full upon conversion of the notes. The amortization recorded during the period amounted to $487,783.

As of December 31, 2011, investors have converted $487,783 of the Convertible Notes into 1,951,132 shares of the Company's common stock. There was no outstanding balance as of December 31, 2011.

2011 Fall Offering

From August 30, 2011 through October 15, 2011, the Company conducted a private offering (the "Fall 2011 Offering") of up to $1,000,000 aggregate face amount of its convertible notes (the "Fall 2011 Notes"). A total of $170,720 aggregate face amount of the Fall 2011 Notes were sold for an aggregate purchase price of $155,200. While there was no stated interest rate on the Fall 2011 Notes, the implied effective interest rate on the Fall 2011 Notes is 10% per annum. The Fall 2011 Notes mature on the first anniversary of their date of issuance. The Fall 2011 Notes are convertible, at the option of the note holder, into 682,880 shares of common stock of the Company (the "Conversion Shares") at an initial conversion price of $0.25 per share (the "Conversion Price").

Each of the investors in the Fall 2011 Offering received, for no additional consideration, a warrant (the "Fall 2011 Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 100% of the number of shares of common stock into which the Fall 2011 Notes are convertible (the "Warrant Shares"). Each Fall 2011 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 682,880 Warrant Shares are initially issuable to date on exercise of the Fall 2011 Warrants.

The Company received $155,000 in net proceeds in the 2011 Fall Offering which was used for general corporate purposes and working capital. The aggregate value of the 2011 Falll Offering Warrants issued were valued at $50,958 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of .28; dividend yield of 0%; volatility factors of the expected market price of common stock of 112%; 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 valued at $104,242. The aggregate value of the 2011 Fall Offering Warrants, the beneficial conversion feature and the implied discount and transaction fees of $15,520 are considered as debt discount and were amortized in full upon conversion of the notes. The amortization recorded during the period amounted to $87,992.

As of December 31, 2011, investors have converted $66,220 of the Convertible Notes into 264,880 shares of the Company's common stock. The outstanding balance at December 31, 2011 was $104,500.

2011 Fall#2 Offering

From October 24, 2011 through December 13, 2011, the Company conducted a private offering (the "Fall#2 2011 Offering") of up to $2,200,000 aggregate face amount of its convertible notes (the "Fall#2 2011 Notes"). A total of $1,516,504 aggregate face amount of the Fall#2 2011 Notes have been sold for an aggregate purchase price of $1,378,640. While there is no stated interest rate on the Fall#2 2011 Notes, the implied effective interest rate on the Fall#2 2011 Notes is 10% per annum. The Fall#2 2011 Notes mature on the first anniversary of their date of issuance. The Fall #2 2011 Notes are convertible, at the option of the note holder, into 6,066,016 shares of common stock of the Company (the "Conversion Shares") at an initial conversion price of $0.25 per share (the "Conversion Price").

Each of the investors in the Fall#2 2011 Offering will receive, for no additional consideration, a warrant (the "Fall#2 2011 Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 100% of the number of shares of common stock into which the Fall#2 2011 Notes are convertible (the "Warrant Shares"). Each Fall#2 2011 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 6,066,016 Warrant Shares are initially issuable to date on exercise of the Fall#2 2011 Warrants.

The Company received $1,378,640 in net proceeds in the 2011 Fall#2 Offering which was used for general corporate purposes and working capital. The aggregate value of the 2011 Fall#2 Offering Warrants issued were valued at $650,823 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of .24; dividend yield of 0%; volatility factors of the expected market price of common stock of 112%; 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 valued at $727,817. The aggregate value of the 2011 Fall#2 Offering Warrants, the beneficial conversion feature and the implied discount and transaction fees of $137,864 are considered as debt discount and were amortized in full upon conversion of the notes. The amortization recorded during the period amounted to $63,188.

As of December 31, 2011, there was no note conversion to common stock. The outstanding balance at December 31, 2011 was $1,516,504.

6. Research and Development

The Company has a research and development testing facility in Midwest, Wyoming, located at the U.S. Department of Energy Rocky Mountain Oilfield Testing Center, Naval Petroleum Reserve #3. The Company constructs the AOT technology prototypes with the help of various third party entities, located in Casper, Wyoming. The Company has purchased test equipment, pipeline pumping equipment, crude oil tank batteries, viscometers, SCADA systems, computer equipment and other related equipment for the purposes of evaluating and testing its AOT prototypes.

The Company has research and development facilities in Morgan Hill, California. The Company has tested ELEKTRA technologies and legacy products incorporating our ZEFS, MK IV 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 expenses of $1,130,283 and $427,982 for the years ended December 30, 2011 and 2010, respectively, on its research and development activities, and $7,444,997 from February 18, 1998 (inception) to December 31, 2011.

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. Pursuant to the R & D Agreement, the Company will make payments to Temple University in the aggregate amount of $500,000. At December 31, 2011 the Company has completed payment in full of $500,000 under the R & D Agreement.

On August 9, 2011, Save The World Air, Inc. (the "Company") and Temple University ("Temple") entered into two (2) Exclusive License Agreements (collectively, the "License Agreements") relating to Temple's patent applications, patents and technical information pertaining to technology associated with an electric and/or magnetic field assisted fuel injector system (the "First Temple License"), and to technology to reduce crude oil viscosity (the "Second Temple License"). The License Agreements are exclusive and the territory licensed to the Company is worldwide and replace previously issued License Agreements.

Pursuant to the two licensing agreements, the Company agreed to pay Temple the following: (i) non-refundable license maintenance fee of $300,000; (ii) annual maintenance fees of $187,500; (iii) royalty fee ranging from 4% up to 7% from revenues generated from the licensing agreements; and (iv) 25% of all revenues generated from sub-licensees to secure or maintain the sub-license or option thereon. Temple also agreed to cancel $37,500 of the amount due if the Company agrees to fund at least $250,000 in research or development of Temple's patent rights licensed to the Company. The term of the licenses commences in August 2011 through the expiration of the patents contemplated thereunder, or unless sooner terminated under terms of the licensing agreements.

As of December 31, 2011, the Company recorded the entire $300,000 non-refundable license maintenance fee as part of its research and development costs, of which, $200,000 was paid in November 2011 and $100,000 was subsequently paid in February 2012. Further, the Company also accrued $78,125 of the annual maintenance fees of $187,500 which will become due in August 2012.

As of December 31, 2011, there were no revenues generated from these two licenses nor the Company has made a determination to provide the $250,000 funding in research or development to Temple's patent rights licensed to the Company.

7. Derivative liability

In June 2010, the FASB issued authoritative guidance on determining whether an instrument (or embedded feature) is indexed to an entity's own stock. Under the authoritative guidance, effective January 1, 2010, instruments which do not have fixed settlement provisions are deemed to be derivative instruments. The strike price of the warrants issued by the Company, in connection with certain convertible note offerings made during 2009 and 2010, in the aggregate of 8,522,500 warrants, exercisable at $.30 per share, contain exercise prices that may fluctuate based on the occurrence of future offerings or events. As a result, theses warrants are not considered indexed to the Company's own stock. The Company characterized the fair value of these warrants as derivative liabilities upon issuance. The FASB's guidance requires the fair value of these liabilities be re-measured at the end of every reporting period with the change in value reported in the statement of operations.

The derivative liabilities were valued using a probability weighted average series of Black-Scholes-Merton models as a valuation technique with the following assumptions:

		Fair Value of Warrants		
	No. of Warrants	**December 31, 2010**	**2011 Issuance**	**December 31, 2011**
Risk-free interest rate		0.61%	–	0.12%
Expected volatility		120%	–	92%
Expected life (in years)		1.75 – 2.00	–	.75 – 1.00
Expected dividend yield		0%	–	0%
Fair Value:				
2009 Summer Warrants	1,870,000	$ 804,100	–	$ 332,998
2009 Wellfleet Warrants	100,000	129,000	–	17,807
2009 Fall Warrants	6,352,500	2,731,575	$ –	1,292,334
Total Fair Value	8,322,500	$ 3,664,675	$ –	$ 1,643,139

The risk-free interest rate is based on the yield available on U.S. Treasury securities. The Company estimates volatility based on the historical volatility of its common stock. The expected life warrants are based on the expiration date of the related warrants. The expected dividend yield was based on the fact that the Company has not paid dividends to common shareholders in the past and does not expect to pay dividends to common shareholders in the future.

As of December 31, 2011, The Company re-measured the derivative liabilities and determined the fair value to be $1,585,932. For the year ended December 31, 2011, the Company recorded an income on the change in the fair value of derivatives of $2,078,743.

8. Common Stock Transactions

Issuances of Common Stock-2011

During the year ended December 31, 2011 the Company issued an aggregate of 22,820,276 shares of its common stock as follows:

- During 2011, the Company issued 2,800,000 shares of its common stock for services valued in the aggregate at $862,000. The Company valued the shares at the trading price at the date of the agreements ranging from $0.25 to $0.60 per share.

- During 2011 the Company issued 19,861,478 shares of its common stock in exchange for conversion of $4,965,370 of Convertible Notes. The Company valued the shares at $0.25 pursuant to the terms of the convertible note agreement.

- During 2011, the Company issued 77,778 shares of its common stock for exercised options valued at $0.27 per share or $21,000.

- During 2011, the Company issued 81,020 shares of its common stock for cashless exercise of warrants.

Issuances of Common Stock-2010

During the year ended December 31, 2010 the Company issued an aggregate of 20,163,798 shares of its common stock as follows:

- During 2010, the Company issued 3,710,099 shares of its common stock for services valued in the aggregate at $1,385,137. The Company valued the shares at prices ranging from $0.43 to $0.48 per share.

- During 2010, the Company issued 170,000 shares of its common stock to its employees as compensation valued in the aggregate $91,700. The Company valued the shares at prices ranging from $0.52 to $0.55 per share.

- During 2010, the Company issued 12,121 shares of its common stock to settle $4,121 of outstanding accounts payable. The Company valued the shares at $0.34 per share.

- During 2010, the Company issued 16,076,023 shares of its common stock (including 224,751 shares issued to induce conversion of certain notes valued at $119,118) in exchange for conversion of $4,417,417 of Convertible Notes. The Company valued the shares at prices ranging from $0.15 to $0.50.

- During 2010, the Company issued 195,555 shares of its common stock for exercised options valued at $.027.

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, 2011, 2,732,108 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.

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, 2011 was 8.5 years. Stock option activity for the years ended December 31, 2011 and 2010, 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
Options granted	333,333	0.30
Options exercised	(83,333)	0.27
Options forfeited	—	—
Options cancelled	—	—
Options, December 31, 2009	4,851,225	$ 0.52
Options granted	181,818	0.55
Options exercised	(195,555)	0.27
Options forfeited	—	—
Options cancelled	—	—
Options, December 31, 2010	4,837,488	$ 0.52
Options granted	19,800,000	0.26
Options exercised	(77,778)	0.27
Options forfeited	(310,000)	0.76
Options cancelled	(181,818)	0.55
Options, December 31, 2011	24,067,892	$ 0.30

The weighted average exercise prices, remaining contractual lives for options granted, exercisable, and expected to vest under the Plan as of December 31, 2011 were as follows:

	Outstanding Options				Exercisable Options		
Option Exercise Price Per Share	Shares	Life (Years)	Weighted Average Exercise Price		Shares	Weighted Average Exercise Price	
$ 0.21 - $ 0.99	23,740,346	8.6	$	0.29	6,140,346	$	0.40
$ 1.00 - $ 1.99	327,546	3.4	$	1.25	327,546	$	1.25
	24,067,892		$	0.30	6,467,892	$	0.45

As of December 31, 2011 the market price of the Company's stock was $0.37 per share. Future compensation expense on the options which were not exercisable at December 31, 2011 is $5,581,289. At December 31, 2011 the aggregate intrinsic value of the options outstanding was $2,501,667.

During the year ended December 31, 2011, the Company granted 17,600,000 options to Cecil Bond Kyte, its chairman and chief executive officer. The options have an exercise price of $0.25 per share, vest over a five year period, and expire ten years from date of grant. Twenty percent of the options shall vest on each of the first five anniversary dates. In the event of a change of control of the Company, all unvested options shall vest on the date of the change of control. During the year ended December 31, 2011, the Company amortized $1,252,942 of compensation cost based on the vesting of the options. Future unamortized compensation expense on the outstanding options at December 31, 2011 is $5,581,289.

During the year ended December 31, 2011, the Company granted 2,200,000 options to certain of its director and officers. The options have an exercise price of $0.30 per share, vest immediately and expire ten years from date of grant. The options were valued at $541,134 or $0.25 per share using Black-Scholes-Merton valuation model and were expensed at the time of grant. The options have an exercise price of $0.30 per share, vesting immediately and expire in ten years from date of grant.

During the year ended December 31, 2011, the Company recognized amortization expense of $8,058 based upon its vesting of option granted to an employee in prior years.

Black-Scholes value of options

During the years ended December 31, 2011 and 2010, the Company valued options for pro-forma purposes at the grant date using the Black-Scholes-Merton valuation model with the following average assumptions:

	2011	**2010**
Expected life (years)	6.00	5.50
Risk free interest rate	1.95%	3.63%
Volatility	141.97%	129.95%
Expected dividend yield	0.00%	0.00%

The weighted average fair value for options granted in 2011 and 2010 were $0.37 and $0.53, respectively.

Warrants

The following table summarizes certain information about the Company's stock purchase warrants (including the warrants discussed in Note 9).

	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, December 31, 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, December 31, 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
Warrants granted	5,247,276	0.36
Warrants exercised	—	—
Warrants cancelled	(2,300,515)	0.95
Warrants outstanding, December 31, 2009	13,346,764	$ 0.52
Warrants granted	14,058,032	0.32
Warrants exercised	—	—
Warrants cancelled	(4,425,728)	0.53
Warrants outstanding, December 31, 2010	22,979,068	$ 0.52
Warrants granted	29,781,916	0.30
Warrants exercised	(224,000)	0.47
Warrants cancelled	(3,430,704)	0.56
Warrants outstanding, December 31, 2011	49,106,280	$ 0.32

In August 2011, the Company granted a warrant to an employee to purchase 2,000,000 shares of its common stock pursuant to an employment agreement. The warrant is exercisable at $0.30/share, vests over five years and will expire in ten years from grant date. Total fair value of the warrant was determined to be $486,202 at the date of grant using a Black-Scholes Merton valuation model with the following assumptions: risk-free interest rate of 2.05%; dividend yield of 0%; volatility of 126%; and an expected life of seven years. During the year ended December 31, 2011, the Company recognized amortization expense of $69,457 based upon vesting of the warrants.

In December 2011, the Company granted a warrant to an employee to purchase 1,000,000 shares of its common stock pursuant to a separation agreement. The warrant is exercisable at $0.30/share, vest immediately and will expire in ten years from grant date. Total fair value of the warrant was determined to be $369,370 at the date of grant using a Black-Scholes Merton valuation model with the following assumptions: risk-free interest rate of 1.89%; dividend yield of 0%; volatility of 196%; and an expected life of ten years. During the year ended December 31, 2011, the Company recognized the full value of the warrant.

During the year ended December 31, 2011, the Company granted warrants to consultants to purchase 1,850,000 shares of its common stock. The warrants have an average exercise price of $0.31/share, vests over a period up to three years and will expire in one to ten years from grant date. Total fair value of the warrant amounted to $463,898 using the Black-Scholes Merton valuation model with the following average assumptions: risk-free interest rate of 0.71%; dividend yield of 0%; volatility of 136%; and an expected life of four years. During the year ended December 31, 2011, the Company recognized amortization expense of $411,888 based upon vesting of the warrants.

During the year ended December 31, 2011, the Company granted issued 24,931,916 warrants to acquire share of its common stock in connection of its issuance of convertible notes. The warrant is exercisable at $0.25/share, fully vested, and will expire in two years for date of grant. See Note 5.

At December 31, 2011 the price of the Company's common stock was $0.37 per share and the aggregate intrinsic value of the warrants outstanding was $3,512,888.

	Outstanding Warrants			Exercisable Warrants	
Warrant Exercise Price Per Share	Shares	Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$ 0.30 - $ 0.99	48,106,280	1.9	$ 0.30	46,106,280	$ 0.30
$ 1.00 - $ 1.99	1,000,000	1.5	$ 1.00	1,000,000	$ 1.00
	49,106,280		$ 0.32	47,106,280	$ 0.32

Included in the table above are 8,322,500 warrants at an exercise price of $0.25 per share. Based upon these warrant agreements, the exercise price may be reduced if the Company sells equity to any person or entity at a price per share or conversion price or exercise price per share which shall be less than the Warrant exercise price in respect of the Warrant Shares then in effect. The reset of the warrant exercise price gives rise to the characterization of these instruments as derivative liabilities. (See note 7).

10. Commitments and contingencies

There is no other litigation of any significance with the exception of the matters that have arisen under, and are being handled in, the normal course of business.

Litigation Involving Former Executive Officer

As previously reported, on April 7, 2010, Bruce McKinnon, the former CEO of the Company, and the Company entered into an Agreement Re: Collection on Judgment ("Judgment") (the "Settlement Agreement"), wherein McKinnon, among other things, agreed to cease further collection efforts on the Judgment, and the Company, among other things, agreed to satisfy the Judgment for, and McKinnon agreed to accept as full and final satisfaction of the Judgment, subject to certain payment waivers described below, a total amount of $360,000, plus interest of ten percent (10%) per annum from March 15, 2010, on the unpaid balance until paid, payable as follows: $30,000 on April 7, 2010; $85,000 on or before April 15, 2010; and, $15,000 per month commencing on June 1, 2010, until paid. As of December 31, 2011, all payments were made on time and the balance has been paid in full.

Employment agreement

Agreement with Cecil Bond Kyte. On January 30, 2009, the Company entered into an employment agreement with Cecil Bond Kyte, pursuant to which he serves as our Chief Executive Officer. The initial term of the agreement became effective on January 30, 2009 and expires on January 30, 2010 and renews automatically for addition one-year periods unless either party has given notice of non-extension prior to October 30, 2010. The agreement provides for a base compensation of $200,000 per year. Mr. Kyte is eligible to participate in the Company's incentive and benefit plans, including eligibility to receive grants of stock options under the 2004 plan.

Mr. Kyte 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 each year of the term; provided that no bonus shall be paid if the Executive is not, on such payment date, in the employ of the Company.

Mr. Kyte shall also receive an option (the “Option”) to purchase a number of shares (the “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 on 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.

Amendment To Kyte Employment Agreement

On March 1, 2011, the Board of Directors (the "Board") of Save The World Air, Inc. (the "Company") approved an amendment (the "Amendment") to the employment agreement between the Company and the Company and Kyte have agreed to an amendment of the Employment Agreement, providing for non-cash performance compensation in the form of nonqualified stock options.

Kyte has agreed to continue to serve in the role of CEO of the Company through at least January 29, 2016 and in furtherance and consideration of the foregoing, the Board determined to amend the Employment Agreement and grant Kyte nonqualified stock options to acquire shares of common stock of the Company under the following terms and conditions:

Stock Option Grant of 17,600,000 Shares at an Exercise Price of $0.25 per share exercisable for 10 years and will expire on January 30, 2021. (see Note 9)

Twenty percent (20%) of the Option shall vest on the first anniversary of the Effective Date; twenty percent (20%) on the second anniversary of the Effective Date; twenty percent (20%) on the third anniversary of the Effective Date; twenty percent (20%) on the fourth anniversary of the Effective Date; and, twenty percent (20%) on the fifth anniversary of the Effective Date;

Amendment #2 to Kyte Employment Agreement

This Second Amendment to Employment Agreement is made and entered into by and between Save The World Air, Inc. and Cecil Bond Kyte effective as of December 1, 2011 with reference to the following:

It is the desire of the Company and Executive to amend the Employment Agreement, pursuant to the terms and conditions of this 2nd Amendment. Compensation of the Employment Agreement is hereby amended, as follows: Executive shall receive a base salary of $300,000 per year. The Employment Agreement would remain in full force and effect through at least January 29, 2016, unless the Company determines to terminate the employment agreement.

Leases

In March 2009, the Company entered into a sublease agreement for its executive offices in Santa Barbara, California. The term of the lease was for $3,520 per month from April 1, 2010 through December 31, 2010 and $3,630 per month from January 1, 2010 to December 31, 2010. In November 2010, the Company amended the lease agreement. Pursuant to the amendment, the term of the lease was for $5,830 per month from January 1, 2011 to December 31, 2013.

Total rent expense under this lease and other operating leases in effect during the years ended December 31, 2011 and 2010, was $138,840 and $112,320, respectively. The following is a schedule by years of future minimum rental payments required under the non-cancellable operating leases as of December 31, 2011.

Years Ending December 31,		
2011	$	69,960
2012		69,960
2013		69,960
Total	$	209,880

11. Income taxes

The Company did not record an income tax provision for 2011 and 2010, other than $800 for the minimum state tax provision. A reconciliation of income taxes with the amounts computed at the statutory federal rate follows:

	December 31, 2011	December 31, 2010
Computed tax provision (benefit) at federal statutory rate (34%)	$ (1,175,000)	$ (1,918,000)
State income taxes, net of federal benefit	(305,000)	(170,000)
Permanent items	0	0
Valuation allowance	1,480,800	2,088,800
Income tax provision	$ 800	$ 800

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

	December 31, 2011	December 31, 2010
Net operating loss carry forwards	13,700,000	12,200,000
Valuation allowance	(13,700,000)	(12,200,000)
Total deferred taxes net of valuation allowance	$ —	$ —

As of December 31, 2011, the Company had net operating losses available for carry forward for federal tax purposes of approximately $34 million expiring beginning in 2019. These carry forward 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.

As of December 31, 2011, the Company has recorded a $13,900,000 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.

Effective January 1, 2007, the Company adopted FASB guidance that 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 this guidance, 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. The FASB also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. As of December 31, 2011 and 2010, 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, 2011, 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 consolidated financial statements as of December 31, 2011 or 2010.

12. Subsequent events

2011 Fall#3 Offering

From December 19, 2011 through January 15, 2012, the Company conducted a private offering (the “Fall#3 2011 Offering”) of up to $3,000,000 aggregate face amount of its convertible notes (the “Fall#3 2011 Notes”). A total of $1,020,734 aggregate face amount of the Fall#3 2011 Notes were sold for an aggregate purchase price of $927,940. While the stated interest rate on the Fall#3 2011 Notes is 0%, the actual interest rate on the Fall#3 2011 Notes is 10% per annum. The Fall#3 2011 Notes mature on the first anniversary of their date of issuance. The Fall#3 2011 Notes are convertible, at the option of the noteholder, into 4,082,936 shares of common stock of the Company (the “Conversion Shares”) at an initial conversion price of $0.25 per share (the “Conversion Price”).

Each of the investors in the Fall#3 2011 Offering received, for no additional consideration, a warrant (the “Fall#3 2011 Warrants”), entitling the holder to purchase a number of shares of the Company’s common stock equal to 100% of the number of shares of common stock into which the Fall#3 2011 Notes are convertible (the “Warrant Shares”). Each Fall#3 2011 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 4,082,936 Warrant Shares are initially issuable to date on exercise of the Fall#3 2011 Warrants.

2012 Winter Offering

From January 24, 2012 through February 3, 2012, the Company conducted a private offering (the “Winter 2012 Offering”) of up to $2,000,000 aggregate face amount of its convertible notes (the “Winter 2012 Notes”). A total of $451,550 aggregate face amount of the Winter 2012 Notes were sold for an aggregate purchase price of $410,500. While the stated interest rate on the Winter 2012 Notes is 0%, the actual interest rate on the Winter 2012 Notes is 10% per annum. The Winter 2012 Notes mature on the first anniversary of their date of issuance. The Winter 2012 Notes are convertible, at the option of the noteholder, into 1,806,200 shares of common stock of the Company (the “Conversion Shares”) at an initial conversion price of $0.25 per share (the “Conversion Price”).

Each of the investors in the Winter 2012 Offering received, for no additional consideration, a warrant (the “Winter 2012 Warrants”), entitling the holder to purchase a number of shares of the Company’s common stock equal to 100% of the number of shares of common stock into which the Winter 2012 Notes are convertible (the “Warrant Shares”). Each Winter 2012 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 1,806,200 Warrant Shares are initially issuable to date on exercise of the Winter 2012 Warrants.

Increase in Outstanding Shares

During the period from January 1, 2012 through March 15, 2012, the Company issued 6,436,764 shares of its common stock. This was comprised of the following:

The Company issued 5,936,764 shares of its common stock upon conversion of $1,484,191 of debt to its existing convertible note holders.

The Company issued 500,000 shares of its common stock per consulting agreement with Integra Consulting Group, LLC, valued at $150,000. The shares were valued at the trading price at the date of the agreement.

Employment Agreement Chief Financial Officer

On February 1, 2012, the Company entered into a five year employment agreement with Greggory M. Bigger as the Company’s Chief Financial Officer. Pursuant to the agreement, Mr. Bigger will receive an annual salary of $120,000 and options to purchase 4,000,000 shares of common stock at $0.25 per share. The options valued at $1,207,193 using the Black-Scholes Option Pricing model vest over five years and will expire on February 1, 2022.

Exhibit 10.101

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "**Agreement**") is entered into as of February 1, 2012, by and between Save the World Air, Inc, a Nevada corporation (the "Company"), whose address is 735 State Street, Suite 500, Santa Barbara, California 93101, and Greggory M. Bigger ("**Executive**"), an individual, whose address is 942 Crestwood Drive, Santa Barbara, California 93105, with reference to the following:

The Company wishes to employ Executive as its Chief Financial 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 February 1, 2012 (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 December 1st 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 Financial 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 Chief Executive Officer. 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 **<u>Place of Performance</u>**. 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 Santa Barbara, California.

3. **<u>COMPENSATION.</u>**

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

3.2 **<u>Base Salary</u>**. 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 $120,000 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 **<u>Bonus</u>**. Executive shall be eligible to receive an annual cash bonus, if any, in an amount as shall be determined in the discretion of the Company's Board of Directors. 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. Additionally, in connection with Executive's agreement to serve as the Company's Chief Financial Officer, Executive shall be paid, no later than the Effective Date, a one-time acceptance bonus of $10,000, receipt of which Executive hereby acknowledges.

3.4 **<u>Benefits</u>**. 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 (4) weeks per year. Executive shall be entitled to participate in the Company's stock option plan as determined by the Board of Directors 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 **<u>Expenses</u>**. 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. 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 Salary, 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**. As further compensation hereunder, the Company hereby grants (the "Grant") Executive an option (the "Option(s)") to purchase shares (the "Shares") of common stock of the Company under the following terms and conditions:

A. Effective Date of Grant: February 1, 2012;
B. Vesting Commence Date: February 1, 2012;
C. Exercise Price per Share: $0.25;
D. Total Number of Shares Subject to the Option: 4,000,000;
E. Type of Option: Non-Qualified. Neither the Option nor the underlying Shares shall be registered with the Securities and Exchange Commission and the Option and Shares shall constitute "restricted" securities.
F. Exercise Term: Ten (10) years from the Effective Date of Grant;
G. Vesting Schedule: Subject to Executive's continued employment with the Company, the Option may be exercised within the Exercise Term, in whole or in part, in accordance with the following vesting schedule:

i. 500,000 Options shall vest on Effective Date of Grant;
ii. 500,000 Options shall vest on February 1, 2013;
iii. 1,000,000 Options shall vest on February 1, 2014;
iv. 1,000,000 Options shall vest on February 1, 2015; and,
v. 1,000,000 Options shall vest on February 1, 2016.

Consistent with the foregoing, a Stock Option Grant Agreement, evidencing the Option shall be entered into between the Company and the Executive.

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 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 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 or Executive for any reason or no reason, Executive (or in the case of Executive's death, Executive's estate or other legal representative) shall be entitled only to receive all Compensation that has accrued through the Date of Termination, and all unvested Options shall be canceled and be of no further force or effect.

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 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 a 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.

The fees and costs of the arbitrator shall be borne equally by the Company and Executive, 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 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 all of which, when taken together, shall be deemed to constitute one and the same agreement. This agreement may be executed and sent via facsimile or e-mail, each of which shall be deemed an original.

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 Los Angeles County, California; and 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.

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

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/ Cecil Bond Kyte
Cecil Bond Kyte
Title: Chief Executive Officer

EXECUTIVE

/s/ Greggory M. Bigger
Greggory M. Bigger

Exhibit 10.104

U.S. DEPARTMENT OF ENERGY
Reimbursable (Funds-in) Agreement No.

1. Sponsor's Name and Address Save The World Air, Inc. 735 State Street, Suite 500 Santa Barbara, CA 93101	2. Reimbursable (Funds-In) Agreement No. (x) New Award (o) Modification No.
3. Agreement Title/Description: Viscosity Reduction Testing & Demonstration	
4. Agreement Term: 1st of January 2012 through 31st of December 2016. 6. NPR/RMOTC, DOE Program Officer Doug Tunison 307-233-4836 7. Issuing Agency **U. S. Department of Energy** **Naval Petroleum and Oil Shale Reserves-CUW (NPR-3)** **907 North Poplar, Suite 150** **Casper, WY 82601**	5. Financial Costs shall be determined on a Release by Release basis. Sponsor shall be responsible for 100% of Release costs, and submit checks payable to the Department of Energy to: **U.S. Department of Energy** **Naval Petroleum and Oil Shale Reserves-CUW (NPR-3)** **907 North Poplar, Suite 150** **Casper, WY 82601**
8. Agreement Terms and Conditions This agreement consists of this form plus the following: *a.Appendix A - General Terms & Conditions* *b.Appendix B - Patents/Technical Data Clauses (short form)* *c.Appendix C - Operations Specifications*	9. Sponsor Type o State Government o Non-domestic Entity o Local Government x Commercial Firm o Educational Institution o Other
10. Sponsor Acceptance *Cecil Kyte* *Chairman and CEO*	11. Authorizing Official *Clarke D. Turner* *Director, Naval Petroleum and Oil Shale Reserves-CUW*
Signature /s/ Cecil Kyte Date January 25, 2012	Signature /s/ Clarke D. Turner Date February 6, 2012
No. 877-872-7892 FAX No. 805-845-4377	Phone No. 307-233-4800 FAX No. 307-233-4852

APPENDIX A
General Terms and Conditions

1. TERM. Performance of work under this Agreement may be terminated at any time by either party, without liability except as provided hereinafter, upon giving written notice to the other party. DOE shall terminate this Agreement only when DOE determines that such termination is in the best interest of the Government provided, that DOE shall have the right to terminate if the Sponsor shall have failed to advance the funds required by Paragraph 3 below within 90 days of DOE's execution of this Agreement. In the event of termination the Sponsor shall be responsible for DOE's costs through the effective date of termination, but in no event shall the Sponsor's cost responsibility exceed the total cost to the Sponsor as described in Paragraph 2 below.

2. COSTING POLICY. DOE's costs shall be determined in accordance with DOE's policy for costing work it performs for others as set forth in 1-CPR Part 1009.

The total cost to the Sponsor for DOE's performance of work under each Release to this Agreement shall not, without the Sponsor's prior consent, exceed the estimated cost set forth in block 5 of each Release; provided however, DOE shall have no obligation to continue or complete performance of the work if the actual cost of such performance will exceed said estimated cost; and provided further, that said estimated cost shall not operate as a cost limitation of the obligations and liabilities assumed by the Sponsor under other provisions of this Agreement. DOE will provide notice as soon as reasonably practicable if the actual cost to complete performance will exceed the estimated cost so as to allow the Sponsor to elect to provide additional funding without an interruption in the performance of the work.

3. FUNDING AND PAYMENT. The Sponsor shall provide sufficient funds in advance to reimburse DOE for costs incurred by DOE in causing its management to perform the work described in each Release to this Agreement, and DOE shall have no obligation to perform in the absence of adequate advance funds.

DOE will submit an invoice to the Sponsor for advance funding in the amount of the estimated cost of the work unless incremental funding is permitted. If the estimated period of performance exceeds 90 days and the estimated cost exceeds $25,000, the Sponsor may, with DOE's approval, advance funds incrementally. In such a case, DOE will initially invoice the Sponsor in an amount sufficient to permit the work to proceed for 90 days and thereafter invoice the Sponsor monthly so as to maintain a 90 day period that is funded in advance.

Payment shall be made directly to DOE, and the Sponsor shall identify DOE's Funds-In Agreement No. on the wire transfer or check and mail all checks for advance payment to the address identified in block 5 of this Agreement. Upon termination or completion, any excess funds shall be refunded by DOE to the Sponsor.

4. PROPERTY. Unless the parties hereto otherwise agree all equipment and test apparatus procured with funds provided by the Sponsor shall be disposed of as directed by the Sponsor.

5. PUBLICATION MATTERS. No publicity release (including news releases and advertising) relating to this Agreement and the work hereunder shall be issued by either party without prior **coordination with the other party**. Any technical paper, article, publication or announcement of advances generated in connection with work done under this Agreement during the period of performance of the Agreement or in the future, **shall give credit to the Sponsor as a Sponsor of the work and shall contain DOE's standard publication disclaimer statement (copy furnished upon request).**

6. GENERAL DISCLAIMER. Neither the Government, DOE, the research center, nor persons acting on their behalf makes any warranty, express or implied, (i) with respect to the accuracy completeness or usefulness of any information or data to be furnished hereunder, (ii) that the use of any such information or data may not infringe privately owned rights, (iii) that services information or data to be furnished hereunder will not result in injury or damage when used for any purpose, and (iv) that services information or data to be furnished hereunder will accomplish intended results or are safe for any purpose. Neither the Government, DOE, the research center, nor persons acting on their behalf will be responsible to the Sponsor for any injury to or death of person or for damage to or destruction of property of the Sponsor resulting from the performance of services or furnishing of materials hereunder.

7. INDEMNITY. The Sponsor agrees to indemnify and hold harmless the Government, DOE, the research center, and persons acting on their behalf from (1) all liability, including costs and expenses incurred, resulting from the Sponsor's use or disclosure of any information in whatever form, furnished hereunder; and (2) all liability to any person including the Sponsor for injury to or death of persons or other living things or damage to or destruction of property arising out of performance by the Government, the DOE, the research center, or persons acting on their behalf, and not directly resulting from the fault or negligence of the Government, the DOE, the research center, or persons acting on their behalf, or arising out of the use of the services performed, materials supplied, or information given hereunder by any person including the Sponsor. The foregoing provisions shall have no application to public liability for nuclear incident as defined and provided for in the Atomic Energy Act of 1954, as amended.

8. NONINTERFERENCE. The use of a DOE facility and/or its management in support of this Agreement can only be authorized on a noninterference basis, i.e., the work performed under this Agreement shall not interfere with work related to the prime mission of the facility. Although DOE commitment to this effort is equal to DOE missions programs, DOE programs may, for reasons related to national security or exigency, preempt effort in support of this Agreement. Accordingly, neither the Government, DOE, the research center, nor persons acting on their behalf will be responsible, irrespective of causes, for failure to perform services or furnish information or data hereunder at any particular time or in any specific manner.

9. REPORTING REQUIREMENTS. Reports on the work shall be submitted to the Sponsor as described within each Release.

10. PATENTS and CONFIDENTIAL INFORMATION. Terms and conditions regarding patents and confidential information are set forth in Appendix B, attached hereto and incorporated herein. Reference therein to "research center" means the **NAVAL PETROLEUM AND OIL SHALE RESERVES-CUW (NPR-3) ROCKY MOUNTAIN OILFIELD TESTING CENTER (RMOTC)**, where the work under this Agreement is to be performed.

11. COORDINATION. Except as otherwise directed by DOE all technical liaison with respect to the work funded by the Sponsor will be directly between the Sponsor and the research center. All other matters shall be coordinated with DOE. The personnel that have been designated as coordination representatives by the parties are as follows:

RMOTC Technical Contact:

Jeanette Buelt*
U. S. Department of Energy
907 North Poplar, Suite 150
Casper, WY 82601
Phone: 307-233-4954
Fax: 307-233-4852
E-mail: Jeanette.Buelt@rmotc.doe.gov

RMOTC Administrative Contact:

Doug Tunison
U. S. Department of Energy
907 North Poplar, Suite 150
Casper, WY 82601
Phone: 307-233-4836
Fax: 307-233-4852
E-mail: doug.tunison@rmotc.doe.gov

***An employee of Navarro Research and Engineering, a support service contractor to the Department of Energy.**

Sponsor's Technical Contact

Bjorn Simundson
Save The World Air, Inc.
735 State Street, Suite 500
Santa Barbara, CA 93101
Phone: 805-845-3581
Fax: 805-845-4377
Mobile: 805-705-4472
E-mail: simundson@stwa.com

Sponsor's Administrative Contact

Cecil Kyte
Save The World Air, Inc.
735 State Street, Suite 500
Santa Barbara, CA 93101
Phone: 877-872-7892

Fax: 805-845-4377
E-mail: kyte@stwa.com

12. FAR 52-203-1 OFFICIALS NOT TO BENEFIT (APR 1984).

(a) The Sponsor warrants that no person or agency has been employed or retained to solicit or obtain this agreement or understanding for a contingent fee, except a bona fide employee or agency. For breach or violation of this warranty, the Government shall have the right to annul this agreement without liability or, in its discretion, to deduct from the contract price or consideration or otherwise recover the full amount of the contingent fee.

(b) "Bona fide agency", as used in this clause, means an established commercial or selling agency, maintained by a sponsor for the purpose of securing business, that neither exerts nor purposes to exert improper influence to solicit or obtain Government contracts nor holds itself out as being able to obtain any Government contract or contracts through improper influence.

"Bona fide employee", as used in this clause means a person employed by a Sponsor and subject to the Sponsor's supervision and control as to time, place, and manner of performance, who neither exerts nor proposes to exert improper influence to solicit or obtain Government contracts nor holds out as being able to obtain any Government contract or contracts through improper influences.
"Contingent fee", as used in this clause, means any commission, percentage, brokerage, or other fee that is contingent upon the success that a person or concern has in securing a Government contract.

"Improper influence", as used in this clause means any influence that induces or tends to induce a Government employee or officer to give consideration or to act regarding a Government contract on any basis other than the merits of the matter.

13. ALTERATIONS AND ADDITIONS. Alterations and additions, if any, as agreed to by the parties prior to execution of this Agreement are attached hereto and incorporated herein.

APPENDIX B
PATENTS AND TECHNICAL DATA CLAUSES
(SHORT FORM)

Clause I - Patent and Copyright Indemnity - Limited

The Sponsor shall indemnify the Government and its officers, agents, and employees against liability, including costs, for infringement of any United States patent or copyright arising out of any acts required or directed by the Sponsor to be performed under the Agreement to the extent such acts are not normally performed at the facility. Further, the foregoing indemnity shall not apply unless the Sponsor shall have been informed in a reasonable time by the Government of the suit or action alleging such infringement and such indemnity shall not apply to a claimed infringement which is settled without the consent of the Sponsor unless required by a court of competent jurisdiction.

Clause II - Confidential Information

It is understood that Government employees are subject to the statutory provisions against disclosure of confidential information set forth in the Trade Secrets Act, 18 USC 1905.

APPENDIX C
Operations Specifications

1. **Scope of Work**

Work shall be performed in accordance with individual project specifications, utilizing the existing flow assurance infrastructure at RMOTC's NPR-3 field site. This includes but is not limited to the East, South, and West loops, connected to create a continuous pipeline; storage tanks and pumping facilities; pigging equipment; earth moving equipment and other heavy machinery; and maintenance facilities.

2. **Environmental, Safety and Health**

Participant shall comply with applicable Federal, State, and county environmental, safety and health laws, rules and regulations.

The Participant shall not dispose of any waste within the Naval Petroleum Reserve No. 3 (NPR-3) property. Unless otherwise designated by the CRADA, all trash, refuse, debris, empty containers, and other waste shall be removed offsite and disposed in a manner approved by Federal, State, and County environmental requirements.

The Participant shall use work practices which prevent spills and minimize discharges and emissions to the environment.

The Participant shall be responsible for all cleanup and remediation, at his cost, of all material spills which occur as a result of his work practices or defective equipment. The determination of when remediation has been satisfactorily completed shall be made by the DOE Contracting Officer, with input from the DOE Technical Assurance Director.

Participant shall request approval to bring chemicals and hazardous materials on site to Naval Petroleum Reserve No. 3 (NPR-3), using the RMOTC Chemical Approval Form from the RMOTC Chemical & Hazardous Material Management Plan.

Participant shall comply with all requirements for transportation / shipping of hazardous materials, as per 49 CFR Part 172.

While working at RMOTC, Participant shall exercise due diligence to 1) ensure Waste Minimization and Pollution Prevention, using industry best practices, 2) optimize Energy Efficiency and minimize Greenhouse Gases, and 3) conserve RMOTC's Water Resources.

Every individual at RMOTC has Stop Work Authority to immediately stop work of any persons engaging in activity that place the safety or health of people or the environment in imminent danger.

Participant shall immediately notify DOE / RMOTC of any spills / releases or other environmental issues.

3. **Hazardous Material Identification and Material Safety Data**

(a) "Hazardous material" is a substance or material that the Secretary of Transportation has determined is capable of posing an unreasonable risk to health, safety, and property when transported in commerce and has designated as hazardous under section 5103 of Federal hazardous materials transportation law (49 U.S.C. 5103).

(b) The offeror must list any hazardous material, as defined in paragraph (a) of this clause, to be delivered under each Release to this Agreement. The hazardous material shall be properly identified and include any applicable identification number, such as National Stock Number or Special Item Number, within the Joint Work Statement of each Release to this Agreement. This information shall also be included on the Material Safety Data Sheet submitted under each Release to this Agreement.

(c) This list must be updated during performance of the Agreement whenever the Contractor determines that any other material to be delivered under this contract is hazardous.

(d) The successful offeror agrees to submit, for each item as required prior to award, a Material Safety Data Sheet, meeting the requirements of 29 CFR 1910.1200(g), for all hazardous material identified in paragraph (b) of this clause. Failure to submit the Material Safety Data Sheet prior to award may result in the successful offeror being considered non responsible and ineligible for award.

(e) If, after award, there is a change in the composition of the item(s), the Contractor shall promptly notify the Contracting Officer and resubmit the data.

(f) Neither the requirements of this clause nor any act or failure to act by the Government shall relieve the Contractor of any responsibility or liability for the safety of Government, Contractor, or subcontractor personnel or property.

(g) Nothing contained in this clause shall relieve the Contractor from complying with applicable Federal, State, and local laws, codes, ordinances, and regulations (including the obtaining of licenses and permits) in connection with hazardous material.

(h) The Government's rights in data furnished under this contract with respect to hazardous material are as follows:

(1) To use, duplicate and disclose any data to which this clause is applicable. The purposes of this right are to

(i) Apprise personnel of the hazards to which they may be exposed in using, handling, packaging, transporting, or disposing of hazardous materials;
(ii) Obtain medical treatment for those affected by the material; and
(iii) Have others use, duplicate, and disclose the data for the Government for these purposes.

(2) To use, duplicate, and disclose data furnished under this clause, in accordance with paragraph (h)(1) of this clause, in precedence over any other clause of this contract providing for rights in data.

(3) The Government is not precluded from using similar or identical data acquired from other sources.

(i) Except as provided in paragraph (i)(2), the Contractor shall prepare and submit a sufficient number of Material Safety Data Sheets (MSDS's), meeting the requirements of , for all hazardous materials identified in paragraph (b) of this clause.

(1) For items shipped to consignees, the Contractor shall include a copy of the MSDS's with the packing list or other suitable shipping document which accompanies each shipment. Alternatively, the Contractor is permitted to transmit MSDS's to consignees in advance of receipt of shipments by consignees, if authorized in writing by the Contracting Officer.

(2) For items shipped to consignees identified by mailing address as agency depots, distribution centers or customer supply centers, the Contractor shall provide one copy of the MSDS's in or on each shipping container. If affixed to the outside of each container, the MSDS's must be placed in a weather resistant envelope.

4. <u>Safety and Accident Prevention</u>

In performing work under this AGREEMENT the partner shall:

A. Conform to the specific safety requirements established by this AGREEMENT;
B. Comply with the safety rules of the Government installation that concern related activities not directly addressed in this AGREEMENT;
C. Take all reasonable steps and precautions to prevent accidents and preserve the life and health of Partner personnel, government personnel and government contractor personnel performing or in any way coming in contact with the performance of this AGREEMENT;
D. Take such additional immediate precautions as the government may reasonably require for safety and accident prevention purposes;
E. Attend the pre-work safety orientation and all required safety meetings, and
F. All AGREEMENT Partner personnel shall sign in and out of the field daily.

5. <u>Accident Report Procedures</u>

In the event of an accident involving personnel or property, the Partner shall immediately report the incident to the RMOTC contact and follow up in writing, as required.

6. <u>Shut-down of Work for Safety/Health/Environmental Reasons</u>

All RMOTC field personnel, both DOE and DOE Contractor, are required to attend a weekly safety meeting from 6:30 a.m. – 7:30 a.m. each Wednesday morning. RMOTC personnel will suspend their participation in the project at this time to attend the weekly meetings.

All DOE and DOE Contractor personnel have the authority to shutdown work for safety, health and/or environmental reasons.

7. <u>Safety Statistics Reporting</u>

The Partner shall provide the following statistics to the to the RMOTC contact on a monthly basis during the time the Partner is on NPR-3:

A. Total man-hours worked
B. Total miles driven on NPR-3
C. All accidents
D. Number of vehicles used
E. Days lost time due to an accident
F. Property damage
G. First aid cases
H. Number of lost time accidents
I. Vehicle accidents

8. Foreign Visitor Approvals

RMOTC must comply with DOE O 142.3, Unclassified Foreign Visits and Assignments Program.

For the purposes of RMOTC, a foreign visitor is a person who was born outside the jurisdiction of the United States, is a citizen of a foreign government, and has not been naturalized under U.S. law.

Sufficient documentation of immigrant or nonimmigrant status, identity, and citizenship is required for all foreign visitors to RMOTC. To that end, RMOTC requires any one of the following documents - Passport, Visa, or Green Card.

To reduce the possibility of delays, please submit a Passport, Visa, or Green Card for each foreign visitor a minimum of 30 days prior to their arrival at RMOTC.

Other NPR-3 RMOTC Site Restrictions Affecting Foreign Visitors.

- Visitors must receive safety orientation.
- Visitors must have valid identification (government issued) to show upon request and before receiving orientation card.
- Visitors must sign-in/sign-out.
- Visitors must be accompanied by a DOE employee or representative at all times unless otherwise noted in their site specific security plan.
- Visitors may not at any time visit or work alone at NPR-3 unless otherwise noted in their site specific security plan.
- Visitors may not have access to DOE computers or network during site visit unless pre-authorized by DOE management.

9. Required Insurance

The Participant shall procure and maintain during the entire period of the AGREEMENT the following minimum insurance. Prior to commencement of work under this AGREEMENT the Participant shall furnish to the Contracting Officer a certificate or written statement of the required insurance. The policies evidencing required insurance shall contain an endorsement to the effect that cancellation or any material change in the policies adversely affecting the interests of the Government in such insurance shall not be effective for such period as may be prescribed by the laws of the State in which this AGREEMENT is to be performed and in no event less than thirty (30) days after written notice thereof to the Contracting Officer.

TYPE	AMOUNT
Workers Compensation & Occupational Disease	Statutory
Employer's Liability Insurance	$100,000
Comprehensive General Liability	Bodily Injury $500,000 per occurrence
Automotive Liability	$200,000 per person $500,000 per occurrence for bodily injury $20,000 per occurrence for property damage

10. <u>Downtime</u>

Projects may experience downtime. Costs for downtime caused by project related activities will be shared by RMOTC and the participant. For downtime due to RMOTC equipment, costs will be part of RMOTC's costs. If downtime or other costs are incurred for work directed by the participant that is outside the AGREEMENT, then the participant shall be responsible for all associated costs.

EXHIBIT 31.1

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

I, Cecil Bond Kyte, certify that:

1. I have reviewed this 10-K Report of Save the World Air, Inc.;

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

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

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

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its condensed 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 registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

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

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

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

Date: March 30, 2012

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

EXHIBIT 31.2

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

I, George Bigger, certify that:

1. I have reviewed this 10-K Report of Save the World Air, Inc.;

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

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

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

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its condensed 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 registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

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

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

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

Date: March 30, 2012

/s/ GEORGE BIGGER
George Bigger
Chief Financial Officer

EXHIBIT 32

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

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, we, the undersigned Acting Chief Executive Officer and the 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 of the Company for the year ended December 31, 2011 (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.

Date: March 30, 2012	/s/ CECIL BOND KYTE Cecil Bond Kyte Chief Executive Officer
Date: March 30, 2012	/s/ GEORGE BIGGER George Bigger

Chief Financial Officer