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

FORM 8-K

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

Date of Report (Date of earliest event reported): February 2, 2007

SAVE THE WORLD AIR, INC.

(Exact name of registrant as specified in charter)

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

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

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

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

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

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

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

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

On February 2, 2007 the Company and Temple University (“Temple”) entered into two License Agreements, one covering Temple’s current patent application concerning certain electric field effects on fuel particle size distribution and the other covering Temple’s current patent application concerning electric field effects on crude oil viscosity, and any and all United States and foreign patents issuing in respect of the technologies described in such applications (collectively, the “License Agreements”). Initially, the License Agreements are exclusive and the territory licensed to the Company is worldwide. Pursuant to the License Agreements, the Company will pay to Temple (i) license fees in the aggregate amount of \$250,000.00, payable in three installments of \$100,000.00 on March 2, 2007, and \$75,000.00 on each of February 2, 2008 and February 2, 2009, respectively and (ii) annual maintenance fees of \$125,000 annually commencing January 1, 2008. In addition, each License Agreement separately provides that the Company will pay royalties to Temple on net sales of products incorporating the technology licensed under that License Agreement in an amount equal to 7% of the first \$20 million of net sales, 6% of the next \$20 million of net sales and 5% of net sales in excess of \$40 million. Sales under the two License Agreements are not aggregated for purposes of calculating the royalties payable to Temple. In addition, the Company has agreed to bear all costs of obtaining and maintaining patents in any jurisdiction where the Company directs Temple to pursue a patent for either of the licensed technologies. Should the Company not wish to pursue a patent in a particular jurisdiction, that jurisdiction would not be included in the territory licensed to the Company.

Also on February 2, 2007 the Company and Temple entered into an R&D Agreement pursuant to which the Company and Temple will conduct a 24-month research project towards expanding the scope of, and developing products utilizing, the technologies covered under the License Agreements (the “R&D Agreement”). Pursuant to the R&D Agreement, the Company will make payments to Temple in the aggregate amount of \$500,000.00, payable in 8 non-refundable installments commencing with \$123,750 on or prior to March 2, 2007 and \$53,750 every three months thereafter until paid in full. 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 for the intellectual property covered by those results.

Item 8.01 Other Information

We are a green technology company that leverages a suite of 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 a cleaner combustion. Cleaner combustion has been shown to improve performance, enhance fuel economy and/or reduce harmful emissions in laboratory testing.

Our ECO ChargR and MAG ChargR products use fixed magnetic fields through the application of our patented and patent-pending ZEFS and MK IV technologies. We differentiate ECO ChargR and MAG ChargR products based on their differing magnetic fluxes and their applications. ECO ChargR products are more focused toward reduction in emissions and MAG ChargR products are more focused toward performance and fuel economy.

The ECO ChargR product line is intended specifically for the reduction of exhaust emissions in vehicle and small utility motors. These products will be marketed primarily to original equipment manufacturers (“OEMs”) as well as to pilot and government-mandated emissions programs. ECO ChargR products incorporate our MK IV technology, but may incorporate ZEFS technologies.

The MAG ChargR product line exploits the power and mileage improving attributes of our ZEFS technologies, and these products may also incorporate our MK IV technology. MAG ChargR will be marketed primarily to the consumer aftermarket for many vehicles, including but not limited to cars, trucks, motorcycles, scooters, all terrain vehicles (ATVs), snowmobiles, personal watercraft and small utility motors.

We have obtained the license for our uniform electric field technology, tentatively called ELEKTRA, from Temple University. Together with Temple, we have developed prototype products using this technology and are continuing testing, research and development. This patent pending technology licensed from Temple consists of passing the fuel through a specific strong electrical field. Testing conducted in an outside facility indicates that this causes a significant change in some of the physical characteristics of the fuel resulting in better atomization of the fuel and improved combustion.

Our first revenues have come from sales in Asia for our ECO ChargR and MAG ChargR products in the motorcycle industry. We anticipate commencing sales of our MAG ChargR products to customers in the USA in first quarter of 2007. We believe that the main markets for products incorporating our original ZEFS, MK IV and CAT-MATE technologies will be OEMs and the after-market for equipment and vehicles driven by internal combustion engines.

We believe that the applications for products incorporating the licensed electric field technology will include gas, diesel and bio-fuel injected motor vehicles, as well as applications in aviation, marine, oil pipeline and refining industries. We are currently developing motor vehicle applications and plan to seek joint venture partners to commercialize this product in the other applications.

Item 9.01 Financial Statements and Exhibits

- 10.1 License Agreement with Temple University
- 10.2 License Agreement with Temple University
- 10.3 R&D Agreement with Temple University

SIGNATURES

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

Date: February 8, 2007

SAVE THE WORLD AIR, INC.

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

LICENSE AGREEMENT

This Agreement is made by and between Temple University — Of The Commonwealth System of Higher Education (hereinafter referred to as “TEMPLE”), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, having a principal place of business at Broad Street and Montgomery Avenue, Philadelphia, Pennsylvania and Save the World Air, Inc. (hereinafter referred to as “COMPANY”), a corporation organized and existing under the laws of the State of Nevada, having a principal place of business at 5125 Lankershim Boulevard, North Hollywood, California 91601.

WHEREAS, TEMPLE is the owner of the entire right and interest in the United States patent applications and patents listed in Exhibit A, attached hereto and incorporated herein by reference, and technical information pertaining to the effect of electrical fields on fuel droplet size; and

WHEREAS, COMPANY desires to obtain an exclusive worldwide license under patent applications and patents for the aforementioned intellectual property;

NOW, THEREFORE, in consideration of the premises and of the covenants and obligations hereinafter set forth, and intending to be legally bound, the parties hereby agree as follows:

ARTICLE 1. DEFINITIONS

The following definitions shall apply throughout this Agreement:

1.1. “AFFILIATE” shall mean each and every business entity controlling, controlled by or under common control with COMPANY for the purposes of manufacture, use or sale of LICENSED PRODUCT. For purposes of this definition “control” shall mean ownership, directly or indirectly, of at least fifty percent (50%) of the voting stock.

1.2. “CONFIDENTIAL INFORMATION” shall mean any information disclosed or tangible property supplied by one party to the other pursuant to this Agreement provided that information disclosed in writing shall be deemed CONFIDENTIAL INFORMATION only if marked “Confidential” and information disclosed orally shall be deemed CONFIDENTIAL INFORMATION only if reduced to writing and a copy marked “Confidential” is provided to the receiving party within thirty (30) days of the date of oral disclosure. However, CONFIDENTIAL INFORMATION shall not include information that: (i) was known to the receiving party prior to the date of disclosure by the disclosing party or is developed independently of information received from the disclosing party by those who have not had access to this information; or (ii) is lawfully received in good faith at any time by the receiving party from others lawfully in possession of the same and having the right to disclose the same; or (iii) is, as of the date of receipt, in the public domain or subsequently enters the public domain other than by reason of acts or omissions of the receiving party; or (iv) is required to be disclosed by law, rule of court or regulation; or (v) is independently developed by the receiving party, as evidenced by written records.

- 1.3. "EFFECTIVE DATE" shall mean the date this Agreement is signed by the last to sign of the parties.
- 1.4. "INVENTOR" shall mean, singly or collectively, Dr. Rongjia Tao and others of TEMPLE.
- 1.5. "LICENSED PRODUCT" shall mean any product the use, SALE, offer for SALE, manufacture, or importation of which, if unlicensed, would infringe one or more VALID CLAIMS of: (i) a patent application within PATENT RIGHTS if such patent application were issued as a patent or (ii) a patent within PATENT RIGHTS. A product which is a LICENSED PRODUCT by virtue of its use, offer for SALE, manufacture, or importation under at least one VALID CLAIM within PATENT RIGHTS shall remain a LICENSED PRODUCT for all purposes of this Agreement including but not limited to calculation of NET SALES, notwithstanding such product's subsequent exportation to another country where its further disposition is not covered by any VALID CLAIM within PATENT RIGHTS.
- 1.6. "LICENSEE" shall mean COMPANY and its AFFILIATES.
- 1.7. "NET SALES" shall mean the gross receipts from the SALE, in any country, of LICENSED PRODUCT by LICENSEE or by its SUBLICENSEES less deductions for: (i) transportation and insurance charges; (ii) sales and excise taxes, and any other governmental charges or duties paid; (iii) normal and customary trade, quantity and cash discounts allowed; (iii) sales commissions; and (iv) allowances on account of rejection or return by customers. However, except where the SUBLICENSEE is the end-user of LICENSED PRODUCT, any SALE to a SUBLICENSEE shall be excluded from the computation of NET SALES, but any subsequent SALE by the SUBLICENSEE shall be included in the computation of NET SALES.
- 1.8. "PATENT RIGHTS" shall mean the patent applications and patents listed in Exhibit A and any foreign counterparts thereof, or any continuations, continuations-in-part, divisions, re-issues, additions, renewals or extensions thereof, and any patents issuing therefrom.
- 1.9. "SALE" shall mean any transaction for which consideration is received for the sale, lease, license, transfer or other disposition of LICENSED PRODUCT by LICENSEE or by its SUBLICENSEES.
- 1.10. "SUBLICENSEE" shall mean a third party which is granted a sublicense under any of the rights granted by TEMPLE to LICENSEE under this Agreement, including but not limited to any sublicensee of LICENSEE, any sublicensee of a sublicensee of LICENSEE, and so on.
- 1.11. "TECHNICAL INFORMATION" shall mean any CONFIDENTIAL INFORMATION of a technical nature relating to LICENSED PRODUCT, which is in the possession of TEMPLE as of the EFFECTIVE DATE, and which is necessary or useful to LICENSEE in furtherance of the development, manufacture or marketing of LICENSED PRODUCT.

1.12. "VALID CLAIM" shall mean a claim of a patent application or patent, which claim has not expired and has not been held unenforceable, unpatentable or invalid by unappealable decision of a court or other governmental agency of competent jurisdiction.

ARTICLE 2. CONFIDENTIALITY

2.1. The receiving party shall hold all CONFIDENTIAL INFORMATION in strict confidence for a period of five (5) years from the disclosure date; not use said CONFIDENTIAL INFORMATION except as provided in this Agreement; and not disclose, directly or indirectly, said CONFIDENTIAL INFORMATION to others except with the prior written consent of the disclosing party. The receiving party shall use at least the same degree of care to maintain CONFIDENTIAL INFORMATION secret as the receiving party uses in maintaining secret its own confidential information, but always at least a reasonable degree of care. The receiving party shall restrict disclosure of CONFIDENTIAL INFORMATION solely to those of its employees and consultants having a need to know such CONFIDENTIAL INFORMATION in order to accomplish the purposes of this Agreement. The receiving party shall also advise its employees and consultants, before they have access to CONFIDENTIAL INFORMATION, of the obligations of the receiving party under this Agreement, and require such employees and consultants to maintain those obligations.

2.2. Notwithstanding any of the provisions of Paragraph 2.1, LICENSEE shall be entitled, without TEMPLE'S prior written approval, to disclose any CONFIDENTIAL INFORMATION of TEMPLE: (i) to the EPA or any other environmental authority in the world, but only to the extent required by law or regulation to obtain approval to test or market LICENSED PRODUCT and (ii) to agents, consultants or independent contractors of LICENSEE for the sole purpose of assisting LICENSEE in accomplishing the purposes of this Agreement provided that, prior to any such disclosure, the recipient shall be bound by written confidentiality obligations that are at least as strict as those of LICENSEE under this Agreement.

2.3. The receiving party shall, upon written request by the disclosing party, promptly return all written materials or samples of tangible property received hereunder, with the exception that one copy of said written materials may be retained by the receiving party solely for archival purposes. In the alternative, the receiving party shall destroy all materials and confirm such destruction in writing.

2.4. Notwithstanding any other provision of this Agreement, it is recognized by LICENSEE that TEMPLE, through the INVENTOR, shall have the right to publish or present publicly the results of any research concerning LICENSED PRODUCT. However, TEMPLE and the INVENTOR agree to notify LICENSEE in writing of any such proposed publication or presentation thirty (30) days before submission. Should LICENSEE, within thirty (30) days of such notification, advise TEMPLE and the INVENTOR in writing that it wishes to file one or more patent applications pertaining to information contained in the proposed publication or presentation, TEMPLE shall delay submission until after LICENSEE has made such filing. LICENSEE may also request deletion of sensitive information from the proposed publication, and TEMPLE agrees to give good faith consideration to such a request.

ARTICLE 3. GRANT OF LICENSE RIGHTS

3.1. TEMPLE hereby grants to LICENSEE, until the date on which this Agreement is terminated, a world-wide exclusive license under PATENT RIGHTS and TECHNICAL INFORMATION, with the right to grant sublicenses, to make, have made, use, sell, offer for SALE and import LICENSED PRODUCT.

3.2. Notwithstanding the preceding license grant, TEMPLE shall retain rights to make, have made, use and import LICENSED PRODUCT royalty-free for non-commercial educational and research purposes only, and shall be free to grant these rights to other non-profit educational and research institutions.

3.3. The parties acknowledge that inventions in PATENT RIGHTS may have resulted from United States Government funding, and agree that their rights and obligations under this Agreement shall be subject to TEMPLE'S obligations to the United States Government, if any, which arise out of the receipt by TEMPLE of research funding from the United States Government, in which case LICENSEE agrees that LICENSED PRODUCT sold in the United States under this Agreement shall be manufactured substantially in the United States.

3.4. LICENSEE shall at all times own all LICENSED PRODUCT as tangible property.

ARTICLE 4. PAYMENTS

4.1. In consideration of the license granted to LICENSEE under the terms of this Agreement, LICENSEE shall pay to TEMPLE a quarterly basis commencing on the first day of each March, June, September and December during the term of this Agreement a royalty on account of NET SALES in the prior calendar quarter. Royalties shall be payable at the following rates: (i) on the first \$20,000,000 of NET SALES during a calendar year of the term of this Agreement, seven percent (7%) of NET SALES; (ii) on NET SALES during a calendar year of the term of this Agreement in excess of \$20,000,000 and less than or equal to \$40,000,000, six percent (6%) of NET SALES; (iii), on NET SALES during a calendar year of the term of this Agreement in excess of \$40,000,000, five percent (5%) of NET SALES.

4.2. In further consideration of the license granted to LICENSEE under the terms of this Agreement, LICENSEE shall pay to TEMPLE a non-refundable license fee of one hundred fifty thousand dollars (\$150,000) within thirty (30) days of the EFFECTIVE DATE. In the event that within thirty (30) days of the EFFECTIVE DATE the parties enter into a written agreement to further develop LICENSED PRODUCT at TEMPLE under the direction of the INVENTOR, which agreement (the "R&D Agreement") pays TEMPLE five hundred thousand dollars (\$500,000) for two years, LICENSEE shall be entitled to pay the license fee in three (3) installments, as follows: (i) forty percent (40%) within thirty (30) days of the EFFECTIVE DATE and (ii) thirty percent (30%) on or before each of the first and second anniversaries of the EFFECTIVE DATE. However, if either this Agreement or the R&D Agreement is terminated

before the second anniversary of the EFFECTIVE DATE, the entire unpaid balance of the license fee is due immediately prior to termination.

4.3 In further consideration of the license granted to LICENSEE under the terms of this Agreement, LICENSEE shall pay to TEMPLE, on the first day of January, 2008 and annually thereafter, a non-refundable license maintenance fee of seventy five thousand dollars (\$75,000) regardless of or irrespective of actual NET SALES. The license maintenance fee payment due in any calendar year pursuant to this Paragraph 4.3 shall be offset and reduced by payments actually made to TEMPLE in the prior calendar year pursuant to Paragraph 4.1 and Paragraph 4.4.

4.4 In further consideration of the license granted to LICENSEE under the terms of this Agreement, LICENSEE shall pay to TEMPLE twenty-five percent (25%) of all consideration, whether in the form of cash or equity, which LICENSEE receives from its SUBLICENSEES to secure or maintain the sublicense or option thereto, including but not limited to option or sublicense fees, option or sublicense maintenance fees, milestone payments and minimum royalties. However, the following types of consideration are excluded from the calculation under this Paragraph 4.4: (i) research and development funding and (ii) royalties on account of NET SALES by SUBLICENSEE.

4.5 Royalty payments for sales in each country shall commence with the first unit of each LICENSED PRODUCT sold by LICENSEE or by its sublicenses in such country and will end coincident with the expiration date of the last-to-expire issued patent within PATENT RIGHTS in such country covering such LICENSED PRODUCT.

ARTICLE 5. DUE DILIGENCE AND REPORTING

5.1. LICENSEE shall use reasonable efforts to advance the development of LICENSED PRODUCT and to effect its commercialization as soon as practicable, consistent with prevailing sound business practices relating to the commercialization of similar products; thereafter, during the term of this Agreement, LICENSEE shall endeavor to keep LICENSED PRODUCT reasonably available to the public.

5.2. On or before March 31 of each year during the term of this Agreement, LICENSEE shall provide to TEMPLE a written report detailing LICENSEE'S efforts during the previous year and plans for the current year, relating to the development, regulatory approval, manufacturing and marketing of LICENSED PRODUCT.

ARTICLE 6. STATEMENTS AND REMITTANCES

6.1. LICENSEE shall keep and maintain complete books and records containing an accurate accounting in sufficient detail of all data required to enable verification of earned royalties and other payments due hereunder.

6.2. Within sixty (60) days after the end of each calendar quarter, LICENSEE shall remit to TEMPLE a statement of NET SALES by LICENSEE and by its SUBLICENSEES on account for

such quarter, which statement shall be accompanied by the payment due to TEMPLE pursuant to Paragraph 4.1 on account of NET SALES. Payments due to TEMPLE pursuant to Paragraph 4.4 on account of consideration received by LICENSEE from SUBLICENSEES during any calendar quarter shall be paid by LICENSEE to TEMPLE within sixty (60) days of the end of such calendar quarter.

6.3. The financial statements of LICENSEE and of its SUBLICENSEES shall be audited annually by an independent certified public accountant. TEMPLE shall have the right to employ, at its own expense, a certified public accountant of its own selection to whom LICENSEE shall make no unreasonable objection, to examine the books and records of LICENSEE and its SUBLICENSEES relating to the SALE of LICENSED PRODUCT for the purpose of verifying the amount of royalty payments due. Such examination of books and records of LICENSEE and its SUBLICENSEES shall take place during regular business hours during the term of this Agreement and for two (2) years after its termination, provided however, that such an examination shall not take place more than once a year and shall not cover records for more than the preceding three (3) years, and provided that such accountant shall report to TEMPLE only as to the accuracy of the royalty statements and payments. If such accountant shall find an underpayment to TEMPLE, presentation of a written statement substantiating the underpayment shall be provided to LICENSEE. If LICENSEE is not in agreement with the findings of the accountant selected by TEMPLE, then LICENSEE shall so notify TEMPLE in writing within thirty (30) days of receipt by LICENSEE of said findings, in which case the parties shall jointly appoint, within a further period of thirty (30) days, an independent certified public accountant to validate, at LICENSEE'S expense, TEMPLE's accountant's findings, and the decision of said independent accountant shall be final. If said independent accountant verifies that an underpayment has occurred, the amount due and interest (accruing at the prevailing Prime Rate from the date payment was due through the date of actual payment to TEMPLE) shall be paid to TEMPLE within thirty (30) days. Should such underpayment represent more than five percent (5%) of the royalties due TEMPLE, LICENSEE shall reimburse TEMPLE for the cost of the examination by TEMPLE's accountant that disclosed such underpayment.

6.4. All payments due to TEMPLE under this Agreement shall be made in United States dollars and shall be sent by LICENSEE to TEMPLE to the attention of "Business Manager" at the address shown in Paragraph 14.6. If LICENSEE receives NET SALES in currency other than United States dollars, royalty payments due to TEMPLE on account of NET SALES shall be converted into United States dollars at the conversion rate for the foreign currency as published in the eastern edition of The Wall Street Journal as of the last business day of the applicable calendar quarter. However, TEMPLE shall have the right, upon giving written notice to LICENSEE, to receive royalty payments on account of NET SALES within a particular country in the local currency if permitted by law.

6.5. If LICENSEE fails to make any payment due to TEMPLE within the time prescribed by the terms of this Agreement, a penalty equal to one percent (1%) of the amount due and unpaid on the first day of each calendar month shall be added to the amount due. However, the provisions of this Paragraph 6.5 shall not apply to any underpayment of royalties which is uncovered by audit of the books of LICENSEE or of its SUBLICENSEES pursuant to Paragraph 6.3.

ARTICLE 7. REPRESENTATIONS AND WARRANTIES

7.1. TEMPLE represents that it has the right to enter into this Agreement and to make the herein grant of license under PATENT RIGHTS and TECHNICAL INFORMATION. TEMPLE further represents that it is the sole and exclusive owner of PATENT RIGHTS and TECHNICAL INFORMATION, all of which are free and clear of any liens, charges and encumbrances. To the best of TEMPLE'S knowledge, no third party has expressed to TEMPLE, in writing, that any patent or patent application included in the PATENT RIGHTS is invalid or unenforceable.

7.2. TEMPLE makes no warranty that exercise by LICENSEE or its SUBLICENSEES of the rights granted herein will not infringe any patents owned by a third party, or that any patent application within PATENT RIGHTS will issue as a patent.

7.3. LICENSEE warrants that, prior to the execution of this Agreement, it has not negotiated or in any manner discussed, whether formally or informally, with any third party any agreement or other arrangement, including but not limited to research or consulting agreements, which provides for consideration to be paid in any form, including but not limited to amounts of money or shares of stock, to any INVENTOR, any INVENTOR'S spouse or other relative, or any entity in which any of them has a financial interest.

ARTICLE 8. PATENT PROSECUTION AND LITIGATION

8.1. In consultation with LICENSEE but in TEMPLE'S sole discretion, TEMPLE shall diligently prosecute all patent applications and maintain all patents within PATENT RIGHTS, to the extent permitted by law, in all countries designated in writing by LICENSEE during the term of this Agreement. Except as provided in Paragraph 8.3, LICENSEE shall be responsible for all out-of-pocket costs and expenses incurred by TEMPLE, both prior to and during the term of this Agreement, in the preparation, filing and prosecution of all patent applications, and in the maintenance of all patents within PATENT RIGHTS. Such costs and expenses shall not be creditable against any other payments due to TEMPLE under this Agreement.

8.2. LICENSEE shall make all payments due to TEMPLE pursuant to Paragraph 8.1 within thirty (30) days of receipt of a detailed invoice therefor. TEMPLE, in its sole discretion, may elect to have its patent counsel submit such invoices directly to LICENSEE, in which case LICENSEE shall pay TEMPLE'S patent counsel directly.

8.3. LICENSEE may give TEMPLE thirty (30) days' prior written notice that it will stop paying the costs and expenses with respect to any patent application or patent in any country, in which case TEMPLE, at its option, may assume the obligation of supporting such patent application or patent in such country, and LICENSEE'S rights and obligations thereto under this Agreement shall terminate at the end of such notice period in such country. Termination of LICENSEE'S rights and obligations with respect to any patent application or patent in any country pursuant to this Paragraph 8.3 shall in no way affect the rights and obligations of LICENSEE to the same

patent application or patent in any other country or to any other patent application or patent in any country.

8.4. TEMPLE may file patent applications in countries other than those designated by LICENSEE provided, however, that TEMPLE shall notify LICENSEE in writing of any such filing within thirty (30) days of the filing date. If within thirty (30) days of its receipt of such notification LICENSEE fails to inform TEMPLE in writing that it wishes to support such applications in such countries, TEMPLE shall bear all the costs associated with such additional patent application filings, and such applications in such countries and any patents granting therefrom shall not be included within PATENT RIGHTS. TEMPLE shall then be free to license such patents and patent applications in such countries to others.

8.5. LICENSEE, at its option, may defend any claim, made by others, of infringement of PATENT RIGHTS resulting from the manufacture, use, sale or other disposition of LICENSED PRODUCT, whether such claim shall be made against TEMPLE or LICENSEE, and in defending such claim, LICENSEE shall bear all costs and expenses, including reasonable attorneys' fees, incurred in connection with any such claim. Any such costs and expenses shall be credited against fifty percent (50%) of royalty payments due to TEMPLE on account of NET SALES of said LICENSED PRODUCT, pursuant to Paragraph 4.1, in each year during the term of this Agreement until fully offset. Each party to this Agreement agrees that it shall notify the other party in writing in the event any claim of infringement is made against that party. LICENSEE shall have full control over the conduct of the defense of any such claim and TEMPLE shall provide LICENSEE with all reasonable assistance and cooperation, at no cost to TEMPLE, that LICENSEE may request in any such defense.

8.6. In the event either party becomes aware of any actual or threatened infringement of PATENT RIGHTS in any country, that party shall promptly notify the other party in writing. LICENSEE shall have the first right to bring an infringement suit against the infringer and to use TEMPLE's name if legally required in connection therewith. LICENSEE shall not settle or compromise any such suit in a manner that imposes any obligations or restrictions on TEMPLE or grants any rights under PATENT RIGHTS or TECHNICAL INFORMATION, without TEMPLE's written consent, which consent shall not be unreasonably withheld. If LICENSEE does not proceed with a particular infringement suit or attempt to sublicense the infringer within ninety (90) days of notification, TEMPLE, after notifying LICENSEE in writing, shall be entitled to proceed with such suit through counsel of its choice. The party conducting any suit pursuant to this Paragraph 8.5 shall have full control over its conduct and shall be responsible for all expenses associated therewith. Each party shall always have the right to be represented by counsel of its choice and at its own expense in any suit instituted by the other party for infringement. In any event, the parties shall provide each other, at the expense of the party bringing suit, with all reasonable assistance and cooperation requested in any such suit. At the request and expense of the party bringing suit, the other party shall permit access to all relevant personnel, records, papers, information, samples, specimens, and the like during regular business hours. The parties may also jointly participate in any infringement suit if both parties agree to do so in writing in advance, and set forth the basis for sharing of expenses.

8.7. The amount of any recovery resulting from an infringement suit or settlement thereof pursuant to Paragraph 8.5 shall first satisfy the costs and expenses, including reasonable attorneys' fees, incurred in connection with such suit by the party bringing suit ("COSTS AND EXPENSES"). If LICENSEE is the party bringing suit, any recovery in excess of COSTS AND EXPENSES shall be paid to LICENSEE and shall be deemed to be NET SALES subject to royalties due to TEMPLE pursuant to Paragraph 4.1. If TEMPLE is the party bringing suit, any recovery in excess of COSTS AND EXPENSES shall be paid to TEMPLE. If the parties have agreed to participate jointly in an infringement suit, any recovery in excess of the parties' COSTS AND EXPENSES shall be allocated to the parties in the same proportion as the sharing of COSTS AND EXPENSES, and LICENSEE'S allocation shall be deemed to be NET SALES subject to royalties due to TEMPLE pursuant to Paragraph 4.1.

ARTICLE 9. INDEMNIFICATION

9.1. LICENSEE agrees to indemnify, hold harmless, and defend TEMPLE, its trustees, officers, employees and agents against any and all claims, excluding claims stemming from TEMPLE'S use of LICENSED PRODUCT as outlined in Paragraph 3.2, including legal fees and costs arising out of the exercise of any rights granted under this Agreement, without limiting the generality of the foregoing, against any damages, losses or liabilities whatsoever including but not limited to death or injury to person or damage to property arising, directly or indirectly, from LICENSEE'S exercise of the rights granted hereunder, including but not limited to commercial sale and clinical use of LICENSED PRODUCT by LICENSEE, its SUBLICENSEES or any customers of any of them in any manner whatsoever. TEMPLE shall give LICENSEE written notice of any claim(s) related to LICENSED PRODUCT within thirty (30) days, and TEMPLE shall reasonably cooperate with LICENSEE and its insurance carrier in the defense of any such claim(s). TEMPLE agrees to indemnify and hold harmless and defend LICENSEE, its directors, officers, employees and agents against any and all claims stemming from the breach of any of the representations, warranties or undertaking of TEMPLE under this Agreement, including legal fees and costs arising out of any such breach, without limiting the generality of the foregoing, against any damages, losses or liabilities whatsoever including but not limited to death or injury to person or damage to property arising, directly or indirectly, from any such breach of TEMPLE'S representations, warranties or undertakings.

9.2. LICENSEE shall maintain, during the period that any LICENSED PRODUCT is made, used, sold or otherwise made available to others pursuant to this Agreement, Comprehensive Liability Insurance, including Product Liability Insurance, with a reputable and financially secure insurance carrier(s) to cover the activities of LICENSEE and its SUBLICENSEES, if any, contemplated by this Agreement for minimum limits of two million dollars (\$2,000,000.00) per occurrence. Such insurance shall name TEMPLE, its trustees, officers, employees, and agents as additional insureds. LICENSEE shall furnish a Certificate of Insurance, upon request, evidencing coverage of two million dollars (\$2,000,000.00) with thirty (30) days of written notice of cancellation or material change to TEMPLE. LICENSEE'S insurance shall be written to cover claims incurred, discovered, manifested, or made during the term, or after the expiration, of this Agreement. LICENSEE shall at all times comply, through insurance or self-insurance, with

all statutory workers' compensation and employers' liability requirements covering any and all employees with respect to activities performed under this Agreement.

ARTICLE 10. SUBLICENSES

10.1. LICENSEE shall have the right to enter into sublicense agreements, provided that all applicable material terms of this Agreement are incorporated into such sublicense agreements to provide for the protection of TEMPLE and its trustees, officers, employees and agents, and provided further that LICENSEE remains primarily liable for its obligations under this Agreement. A copy of any sublicense agreement shall be provided to TEMPLE prior to execution for TEMPLE's review and approval, which approval shall not be unreasonably denied.

ARTICLE 11. ASSIGNMENT

11.1. This Agreement and any and all of the rights and obligations of each party hereunder may be assigned, delegated, sold, transferred or otherwise disposed of, by operation of law or otherwise, only with the prior written consent of the other party, which consent shall not be unreasonably withheld; provided, however, that either party may assign this Agreement without consent of the other party to a third party that acquires all or substantially all of such party's assets or in connection with an assignment by COMPANY to an AFFILIATE.

ARTICLE 12. TERM AND TERMINATION

12.1. The term of this Agreement shall commence on the EFFECTIVE DATE and shall end, unless sooner terminated as provided below, upon the expiration of the last-to-expire issued patent within PATENT RIGHTS.

12.2. LICENSEE may, in LICENSEE's sole discretion and for any reason whatsoever, terminate this Agreement in its entirety or only with respect to any patent application or patent in any country by giving TEMPLE ninety (90) days' prior written notification thereof. In addition, LICENSEE may terminate this Agreement by giving TEMPLE sixty (60) days' prior written notice upon material breach by TEMPLE of any material provision of this Agreement, unless such breach is cured within the period of such notice.

12.3. TEMPLE may terminate this Agreement by giving LICENSEE sixty (60) days' prior written notice upon material breach of any material provision of this Agreement by LICENSEE, unless such breach is cured within the period of such notice.

12.4 In the event that, in any calendar year, TEMPLE has given LICENSEE at least two (2) written notices pursuant to Paragraph 12.3 each such notice pertaining to a separate instance of material breach by LICENSEE of the same material provision in Articles 4, 6 or 8 of this Agreement, then TEMPLE may, in its sole discretion, give LICENSEE written notice of termination of this Agreement upon any subsequent instance of material breach by LICENSEE of said material provision in said calendar year, and the termination shall take effect sixty (60) days from the date of notice, without regard to whether a cure was effected.

12.5. This Agreement shall immediately terminate if either party is adjudicated bankrupt, files a voluntary petition in bankruptcy, makes or executes an assignment for the benefit of creditors, is liquidated or dissolved, or a receiver, trustee, liquidator, sequestrator or other judicial representative is appointed for either party or its property. In such event, that party shall execute any documents that are necessary to reassign or transfer the interest granted hereunder.

12.6. Upon termination of this Agreement, TEMPLE shall have the right to retain any amounts already paid by LICENSEE under this Agreement, and LICENSEE shall pay to TEMPLE all amounts accrued which are then due or which become due based on the SALE of LICENSED PRODUCT, manufactured or produced prior to the effective date of termination.

12.7. The provisions of Article 2 (entitled CONFIDENTIALITY), Article 9 (entitled INDEMNIFICATION) and Article 13 (entitled PATENT MARKING), and Paragraphs 4.2 and 14.2 shall survive the termination of this Agreement.

ARTICLE 13. PATENT MARKING

13.1. LICENSEE agrees to mark or have marked all LICENSED PRODUCT sold by LICENSEE or by its SUBLICENSEES under this Agreement in accordance with the statutes of the United States and countries and territories relating to the marketing of patented articles in which any LICENSED PRODUCT covered by a granted patent is marketed.

ARTICLE 14. MISCELLANEOUS

14.1. Each party and its employees and agents shall not use the other party's name, any adaptation thereof, any logotype, trademark, service mark or slogan or the name mark or logotype in any way without the prior written consent of the other party.

14.2. This Agreement shall be construed and the respective rights of the parties hereto determined according to the substantive laws of the Commonwealth of Pennsylvania, notwithstanding the provisions governing conflict of laws under such Pennsylvania law to the contrary.

14.3. If any provision of this Agreement is held to be invalid or unenforceable under the laws of any jurisdiction of the parties, all other provisions shall, nevertheless continue in full force and effect.

14.4. This Agreement constitutes the entire agreement among the parties pertaining to PATENT RIGHTS and TECHNICAL INFORMATION and supersedes all previous arrangements, except for confidentiality agreements, whether written or oral. Any amendment or modification to this Agreement shall be made in writing signed by both parties. Failure of either party to enforce a right under this Agreement shall not act as a waiver of that right and shall not preclude such party from later asserting that right relative to the particular situation involved.

14.5. Any breach whatsoever of any provision of ARTICLE 4 (entitled PAYMENTS) and ARTICLE 6 (entitled STATEMENTS AND REMITTANCES) shall be deemed a material breach of a material provision of this Agreement.

14.6. Time is of the essence under this Agreement.

14.7. Notices and payments to the parties shall be addressed as follows:

To TEMPLE: Office of Technology Transfer
Temple University (083-45)
1601 N. Broad Street, Room 406
Philadelphia, PA 19122-6099

To LICENSEE: Bruce McKinnon, Chief Executive Officer
Save the World Air, Inc.
5125 Lankershim Boulevard Los Angeles,
California 91601

With copies to:
Lance Jon Kimmel
SEC Law Firm
11693 San Vicente Boulevard, Suite 357
Los Angeles, CA 90049

Either party may change its address for notice by giving notice to the other in the manner herein provided. Any notice required or provided for by the terms of this Agreement shall be in writing and sent by registered or certified mail, return receipt requested, postage prepaid and properly addressed in accordance with the paragraph above. The effective date of notice shall be the actual date of receipt.

All notices, requests, reports, and other communications provided in this Agreement shall be in writing and shall be deemed to have been made or given: (a) when delivered, if delivered by hand; (b) when confirmation of transmission received, if sent by facsimile, or the like; (c) on the day following deposit with an overnight courier; or (d) on the date three business days following deposit with the United States mail, certified or registered.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives as of the date first above written.

Temple University — Of The Commonwealth System of Higher Education:

By Susan J. Karakantas
Susan J. Karakantas
Interim Treasurer

DATE 01-23-2007

ATTESTATION:

By J. Carruth
Name: JANET CARRUTH
Title: ASSISTANT SECRETARY

DATE 01-23-2007

Save the World Air, Inc.:

By /s/ Bruce McKinnon
Bruce McKinnon
Chief Executive Officer

DATE 02-02-2007

EXHIBIT A

US Provisional Application filed October 31, 2006 entitled "Electric-Field Assisted Fuel Injection System"

Page 14 of 14 pages

LICENSE AGREEMENT

This Agreement is made by and between Temple University — Of The Commonwealth System of Higher Education (hereinafter referred to as “TEMPLE”), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, having a principal place of business at Broad Street and Montgomery Avenue, Philadelphia, Pennsylvania and Save the World Air, Inc. (hereinafter referred to as “COMPANY”), a corporation organized and existing under the laws of the State of Nevada, having a principal place of business at 5125 Lankershim Boulevard, North Hollywood, California 91601.

WHEREAS, TEMPLE is the owner of the entire right and interest in the United States patent applications and patents listed in Exhibit A, attached hereto and incorporated herein by reference, and technical information pertaining to the effect of electrical fields on crude oil viscosity; and

WHEREAS, COMPANY desires to obtain an exclusive worldwide license under patent applications and patents for the aforementioned intellectual property;

NOW, THEREFORE, in consideration of the premises and of the covenants and obligations hereinafter set forth, and intending to be legally bound, the parties hereby agree as follows:

ARTICLE 1. DEFINITIONS

The following definitions shall apply throughout this Agreement:

1.1. “AFFILIATE” shall mean each and every business entity controlling, controlled by or under common control with COMPANY for the purposes of manufacture, use or sale of LICENSED PRODUCT. For purposes of this definition “control” shall mean ownership, directly or indirectly, of at least fifty percent (50%) of the voting stock.

1.2. “CONFIDENTIAL INFORMATION” shall mean any information disclosed or tangible property supplied by one party to the other pursuant to this Agreement provided that information disclosed in writing shall be deemed CONFIDENTIAL INFORMATION only if marked “Confidential” and information disclosed orally shall be deemed CONFIDENTIAL INFORMATION only if reduced to writing and a copy marked “Confidential” is provided to the receiving party within thirty (30) days of the date of oral disclosure. However, CONFIDENTIAL INFORMATION shall not include information that: (i) was known to the receiving party prior to the date of disclosure by the disclosing party or is developed independently of information received from the disclosing party by those who have not had access to this information; or (ii) is lawfully received in good faith at any time by the receiving party from others lawfully in possession of the same and having the right to disclose the same; or (iii) is, as of the date of receipt, in the public domain or subsequently enters the public domain other than by reason of acts or omissions of the receiving party; or (iv) is required to be disclosed by law, rule of court or regulation; or (v) is independently developed by the receiving party, as evidenced by written records.

- 1.3. "EFFECTIVE DATE" shall mean the date this Agreement is signed by the last to sign of the parties.
- 1.4. "INVENTOR" shall mean, singly or collectively, Dr. Rongjia Tao and others of TEMPLE.
- 1.5. "LICENSED PRODUCT" shall mean any product the use, SALE, offer for SALE, manufacture, or importation of which, if unlicensed, would infringe one or more VALID CLAIMS of: (i) a patent application within PATENT RIGHTS if such patent application were issued as a patent or (ii) a patent within PATENT RIGHTS. A product which is a LICENSED PRODUCT by virtue of its use, offer for SALE, manufacture, or importation under at least one VALID CLAIM within PATENT RIGHTS shall remain a LICENSED PRODUCT for all purposes of this Agreement including but not limited to calculation of NET SALES, notwithstanding such product's subsequent exportation to another country where its further disposition is not covered by any VALID CLAIM within PATENT RIGHTS.
- 1.6. "LICENSEE" shall mean COMPANY and its AFFILIATES.
- 1.7. "NET SALES" shall mean the gross receipts from the SALE, in any country, of LICENSED PRODUCT by LICENSEE or by its SUBLICENSEES less deductions for: (i) transportation and insurance charges; (ii) sales and excise taxes, and any other governmental charges or duties paid; (iii) normal and customary trade, quantity and cash discounts allowed; (iii) sales commissions; and (iv) allowances on account of rejection or return by customers. However, except where the SUBLICENSEE is the end-user of LICENSED PRODUCT, any SALE to a SUBLICENSEE shall be excluded from the computation of NET SALES, but any subsequent SALE by the SUBLICENSEE shall be included in the computation of NET SALES.
- 1.8. "PATENT RIGHTS" shall mean the patent applications and patents listed in Exhibit A and any foreign counterparts thereof, or any continuations, continuations-in-part, divisions, re-issues, additions, renewals or extensions thereof, and any patents issuing therefrom.
- 1.9. "SALE" shall mean any transaction for which consideration is received for the sale, lease, license, transfer or other disposition of LICENSED PRODUCT by LICENSEE or by its SUBLICENSEES.
- 1.10. "SUBLICENSEE" shall mean a third party which is granted a sublicense under any of the rights granted by TEMPLE to LICENSEE under this Agreement, including but not limited to any sublicensee of LICENSEE, any sublicensee of a sublicensee of LICENSEE, and so on.
- 1.11. "TECHNICAL INFORMATION" shall mean any CONFIDENTIAL INFORMATION of a technical nature relating to LICENSED PRODUCT, which is in the possession of TEMPLE as of the EFFECTIVE DATE, and which is necessary or useful to LICENSEE in furtherance of the development, manufacture or marketing of LICENSED PRODUCT.

1.12. "VALID CLAIM" shall mean a claim of a patent application or patent, which claim has not expired and has not been held unenforceable, unpatentable or invalid by unappealable decision of a court or other governmental agency of competent jurisdiction.

ARTICLE 2. CONFIDENTIALITY

2.1. The receiving party shall hold all CONFIDENTIAL INFORMATION in strict confidence for a period of five (5) years from the disclosure date; not use said CONFIDENTIAL INFORMATION except as provided in this Agreement; and not disclose, directly or indirectly, said CONFIDENTIAL INFORMATION to others except with the prior written consent of the disclosing party. The receiving party shall use at least the same degree of care to maintain CONFIDENTIAL INFORMATION secret as the receiving party uses in maintaining secret its own confidential information, but always at least a reasonable degree of care. The receiving party shall restrict disclosure of CONFIDENTIAL INFORMATION solely to those of its employees and consultants having a need to know such CONFIDENTIAL INFORMATION in order to accomplish the purposes of this Agreement. The receiving party shall also advise its employees and consultants, before they have access to CONFIDENTIAL INFORMATION, of the obligations of the receiving party under this Agreement, and require such employees and consultants to maintain those obligations.

2.2. Notwithstanding any of the provisions of Paragraph 2.1, LICENSEE shall be entitled, without TEMPLE'S prior written approval, to disclose any CONFIDENTIAL INFORMATION of TEMPLE: (i) to the EPA or any other environmental authority in the world, but only to the extent required by law or regulation to obtain approval to test or market LICENSED PRODUCT and (ii) to agents, consultants or independent contractors of LICENSEE for the sole purpose of assisting LICENSEE in accomplishing the purposes of this Agreement provided that, prior to any such disclosure, the recipient shall be bound by written confidentiality obligations that are at least as strict as those of LICENSEE under this Agreement.

2.3. The receiving party shall, upon written request by the disclosing party, promptly return all written materials or samples of tangible property received hereunder, with the exception that one copy of said written materials may be retained by the receiving party solely for archival purposes. In the alternative, the receiving party shall destroy all materials and confirm such destruction in writing.

2.4. Notwithstanding any other provision of this Agreement, it is recognized by LICENSEE that TEMPLE, through the INVENTOR, shall have the right to publish or present publicly the results of any research concerning LICENSED PRODUCT. However, TEMPLE and the INVENTOR agree to notify LICENSEE in writing of any such proposed publication or presentation thirty (30) days before submission. Should LICENSEE, within thirty (30) days of such notification, advise TEMPLE and the INVENTOR in writing that it wishes to file one or more patent applications pertaining to information contained in the proposed publication or presentation, TEMPLE shall delay submission until after LICENSEE has made such filing. LICENSEE may also request deletion of sensitive information from the proposed publication, and TEMPLE agrees to give good faith consideration to such a request.

ARTICLE 3. GRANT OF LICENSE RIGHTS

3.1. TEMPLE hereby grants to LICENSEE, until the date on which this Agreement is terminated, a world-wide exclusive license under PATENT RIGHTS and TECHNICAL INFORMATION, with the right to grant sublicenses, to make, have made, use, sell, offer for SALE and import LICENSED PRODUCT.

3.2. Notwithstanding the preceding license grant, TEMPLE shall retain rights to make, have made, use and import LICENSED PRODUCT royalty-free for non-commercial educational and research purposes only, and shall be free to grant these rights to other non-profit educational and research institutions.

3.3. The parties acknowledge that inventions in PATENT RIGHTS may have resulted from United States Government funding, and agree that their rights and obligations under this Agreement shall be subject to TEMPLE'S obligations to the United States Government, if any, which arise out of the receipt by TEMPLE of research funding from the United States Government, in which case LICENSEE agrees that LICENSED PRODUCT sold in the United States under this Agreement shall be manufactured substantially in the United States.

3.4. LICENSEE shall at all times own all LICENSED PRODUCT as tangible property.

ARTICLE 4. PAYMENTS

4.1. In consideration of the license granted to LICENSEE under the terms of this Agreement, LICENSEE shall pay to TEMPLE a quarterly basis commencing on the first day of each March, June, September and December during the term of this Agreement a royalty on account of NET SALES in the prior calendar quarter. Royalties shall be payable at the following rates: (i) on the first \$20,000,000 of NET SALES during a calendar year of the term of this Agreement, seven percent (7%) of NET SALES; (ii) on NET SALES during a calendar year of the term of this Agreement in excess of \$20,000,000 and less than or equal to \$40,000,000, six percent (6%) of NET SALES; (iii), on NET SALES during a calendar year of the term of this Agreement in excess of \$40,000,000, five percent (5%) of NET SALES.

4.2. In further consideration of the license granted to LICENSEE under the terms of this Agreement, LICENSEE shall pay to TEMPLE a non-refundable license fee of one hundred thousand dollars (\$100,000) within thirty (30) days of the EFFECTIVE DATE. In the event that within thirty (30) days of the EFFECTIVE DATE the parties enter into a written agreement to further develop LICENSED PRODUCT at TEMPLE under the direction of the INVENTOR, which agreement (the "R&D Agreement") pays TEMPLE five hundred thousand dollars (\$500,000) for two years, LICENSEE shall be entitled to pay the license fee in three (3) installments, as follows: (i) forty percent (40%) within thirty (30) days of the EFFECTIVE DATE and (ii) thirty percent (30%) on or before each of the first and second anniversaries of the EFFECTIVE DATE. However, if either this Agreement or the R&D Agreement is terminated

before the second anniversary of the EFFECTIVE DATE, the entire unpaid balance of the license fee is due immediately prior to termination.

4.3 In further consideration of the license granted to LICENSEE under the terms of this Agreement, LICENSEE shall pay to TEMPLE, on the first day of January, 2008 and annually thereafter, a non-refundable license maintenance fee of seventy five thousand dollars (\$50,000) regardless of or irrespective of actual NET SALES. The license maintenance fee payment due in any calendar year pursuant to this Paragraph 4.3 shall be offset and reduced by payments actually made to TEMPLE in the prior calendar year pursuant to Paragraph 4.1 and Paragraph 4.4.

4.4 In further consideration of the license granted to LICENSEE under the terms of this Agreement, LICENSEE shall pay to TEMPLE twenty-five percent (25%) of all consideration, whether in the form of cash or equity, which LICENSEE receives from its SUBLICENSEES to secure or maintain the sublicense or option thereto, including but not limited to option or sublicense fees, option or sublicense maintenance fees, milestone payments and minimum royalties. However, the following types of consideration are excluded from the calculation under this Paragraph 4.4: (i) research and development funding and (ii) royalties on account of NET SALES by SUBLICENSEE.

4.5 Royalty payments for sales in each country shall commence with the first unit of each LICENSED PRODUCT sold by LICENSEE or by its sublicenses in such country and will end coincident with the expiration date of the last-to-expire issued patent within PATENT RIGHTS in such country covering such LICENSED PRODUCT.

ARTICLE 5. DUE DILIGENCE AND REPORTING

5.1. LICENSEE shall use reasonable efforts to advance the development of LICENSED PRODUCT and to effect its commercialization as soon as practicable, consistent with prevailing sound business practices relating to the commercialization of similar products; thereafter, during the term of this Agreement, LICENSEE shall endeavor to keep LICENSED PRODUCT reasonably available to the public.

5.2. On or before March 31 of each year during the term of this Agreement, LICENSEE shall provide to TEMPLE a written report detailing LICENSEE'S efforts during the previous year and plans for the current year, relating to the development, regulatory approval, manufacturing and marketing of LICENSED PRODUCT.

ARTICLE 6. STATEMENTS AND REMITTANCES

6.1. LICENSEE shall keep and maintain complete books and records containing an accurate accounting in sufficient detail of all data required to enable verification of earned royalties and other payments due hereunder.

6.2. Within sixty (60) days after the end of each calendar quarter, LICENSEE shall remit to TEMPLE a statement of NET SALES by LICENSEE and by its SUBLICENSEES on account for

such quarter, which statement shall be accompanied by the payment due to TEMPLE pursuant to Paragraph 4.1 on account of NET SALES. Payments due to TEMPLE pursuant to Paragraph 4.4 on account of consideration received by LICENSEE from SUBLICENSEES during any calendar quarter shall be paid by LICENSEE to TEMPLE within sixty (60) days of the end of such calendar quarter.

6.3. The financial statements of LICENSEE and of its SUBLICENSEES shall be audited annually by an independent certified public accountant. TEMPLE shall have the right to employ, at its own expense, a certified public accountant of its own selection to whom LICENSEE shall make no unreasonable objection, to examine the books and records of LICENSEE and its SUBLICENSEES relating to the SALE of LICENSED PRODUCT for the purpose of verifying the amount of royalty payments due. Such examination of books and records of LICENSEE and its SUBLICENSEES shall take place during regular business hours during the term of this Agreement and for two (2) years after its termination, provided however, that such an examination shall not take place more than once a year and shall not cover records for more than the preceding three (3) years, and provided that such accountant shall report to TEMPLE only as to the accuracy of the royalty statements and payments. If such accountant shall find an underpayment to TEMPLE, presentation of a written statement substantiating the underpayment shall be provided to LICENSEE. If LICENSEE is not in agreement with the findings of the accountant selected by TEMPLE, then LICENSEE shall so notify TEMPLE in writing within thirty (30) days of receipt by LICENSEE of said findings, in which case the parties shall jointly appoint, within a further period of thirty (30) days, an independent certified public accountant to validate, at LICENSEE'S expense, TEMPLE's accountant's findings, and the decision of said independent accountant shall be final. If said independent accountant verifies that an underpayment has occurred, the amount due and interest (accruing at the prevailing Prime Rate from the date payment was due through the date of actual payment to TEMPLE) shall be paid to TEMPLE within thirty (30) days. Should such underpayment represent more than five percent (5%) of the royalties due TEMPLE, LICENSEE shall reimburse TEMPLE for the cost of the examination by TEMPLE's accountant that disclosed such underpayment.

6.4. All payments due to TEMPLE under this Agreement shall be made in United States dollars and shall be sent by LICENSEE to TEMPLE to the attention of "Business Manager" at the address shown in Paragraph 14.6. If LICENSEE receives NET SALES in currency other than United States dollars, royalty payments due to TEMPLE on account of NET SALES shall be converted into United States dollars at the conversion rate for the foreign currency as published in the eastern edition of The Wall Street Journal as of the last business day of the applicable calendar quarter. However, TEMPLE shall have the right, upon giving written notice to LICENSEE, to receive royalty payments on account of NET SALES within a particular country in the local currency if permitted by law.

6.5. If LICENSEE fails to make any payment due to TEMPLE within the time prescribed by the terms of this Agreement, a penalty equal to one percent (1%) of the amount due and unpaid on the first day of each calendar month shall be added to the amount due. However, the provisions of this Paragraph 6.5 shall not apply to any underpayment of royalties which is uncovered by audit of the books of LICENSEE or of its SUBLICENSEES pursuant to Paragraph 6.3.

ARTICLE 7. REPRESENTATIONS AND WARRANTIES

7.1. TEMPLE represents that it has the right to enter into this Agreement and to make the herein grant of license under PATENT RIGHTS and TECHNICAL INFORMATION. TEMPLE further represents that it is the sole and exclusive owner of PATENT RIGHTS and TECHNICAL INFORMATION, all of which are free and clear of any liens, charges and encumbrances. To the best of TEMPLE's knowledge, no third party has expressed to TEMPLE, in writing, that any patent or patent application included in the PATENT RIGHTS is invalid or unenforceable.

7.2. TEMPLE makes no warranty that exercise by LICENSEE or its SUBLICENSEES of the rights granted herein will not infringe any patents owned by a third party, or that any patent application within PATENT RIGHTS will issue as a patent.

7.3. LICENSEE warrants that, prior to the execution of this Agreement, it has not negotiated or in any manner discussed, whether formally or informally, with any third party any agreement or other arrangement, including but not limited to research or consulting agreements, which provides for consideration to be paid in any form, including but not limited to amounts of money or shares of stock, to any INVENTOR, any INVENTOR'S spouse or other relative, or any entity in which any of them has a financial interest.

ARTICLE 8. PATENT PROSECUTION AND LITIGATION

8.1. In consultation with LICENSEE but in TEMPLE's sole discretion, TEMPLE shall diligently prosecute all patent applications and maintain all patents within PATENT RIGHTS, to the extent permitted by law, in all countries designated in writing by LICENSEE during the term of this Agreement. Except as provided in Paragraph 8.3, LICENSEE shall be responsible for all out-of-pocket costs and expenses incurred by TEMPLE, both prior to and during the term of this Agreement, in the preparation, filing and prosecution of all patent applications, and in the maintenance of all patents within PATENT RIGHTS. Such costs and expenses shall not be creditable against any other payments due to TEMPLE under this Agreement.

8.2. LICENSEE shall make all payments due to TEMPLE pursuant to Paragraph 8.1 within thirty (30) days of receipt of a detailed invoice therefor. TEMPLE, in its sole discretion, may elect to have its patent counsel submit such invoices directly to LICENSEE, in which case LICENSEE shall pay TEMPLE's patent counsel directly.

8.3. LICENSEE may give TEMPLE thirty (30) days' prior written notice that it will stop paying the costs and expenses with respect to any patent application or patent in any country, in which case TEMPLE, at its option, may assume the obligation of supporting such patent application or patent in such country, and LICENSEE'S rights and obligations thereto under this Agreement shall terminate at the end of such notice period in such country. Termination of LICENSEE'S rights and obligations with respect to any patent application or patent in any country pursuant to this Paragraph 8.3 shall in no way affect the rights and obligations of LICENSEE to the same

patent application or patent in any other country or to any other patent application or patent in any country.

8.4. TEMPLE may file patent applications in countries other than those designated by LICENSEE provided, however, that TEMPLE shall notify LICENSEE in writing of any such filing within thirty (30) days of the filing date. If within thirty (30) days of its receipt of such notification LICENSEE fails to inform TEMPLE in writing that it wishes to support such applications in such countries, TEMPLE shall bear all the costs associated with such additional patent application filings, and such applications in such countries and any patents granting therefrom shall not be included within PATENT RIGHTS. TEMPLE shall then be free to license such patents and patent applications in such countries to others.

8.5. LICENSEE, at its option, may defend any claim, made by others, of infringement of PATENT RIGHTS resulting from the manufacture, use, sale or other disposition of LICENSED PRODUCT, whether such claim shall be made against TEMPLE or LICENSEE, and in defending such claim, LICENSEE shall bear all costs and expenses, including reasonable attorneys' fees, incurred in connection with any such claim. Any such costs and expenses shall be credited against fifty percent (50%) of royalty payments due to TEMPLE on account of NET SALES of said LICENSED PRODUCT, pursuant to Paragraph 4.1, in each year during the term of this Agreement until fully offset. Each party to this Agreement agrees that it shall notify the other party in writing in the event any claim of infringement is made against that party. LICENSEE shall have full control over the conduct of the defense of any such claim and TEMPLE shall provide LICENSEE with all reasonable assistance and cooperation, at no cost to TEMPLE, that LICENSEE may request in any such defense.

8.6. In the event either party becomes aware of any actual or threatened infringement of PATENT RIGHTS in any country, that party shall promptly notify the other party in writing. LICENSEE shall have the first right to bring an infringement suit against the infringer and to use TEMPLE's name if legally required in connection therewith. LICENSEE shall not settle or compromise any such suit in a manner that imposes any obligations or restrictions on TEMPLE or grants any rights under PATENT RIGHTS or TECHNICAL INFORMATION, without TEMPLE's written consent, which consent shall not be unreasonably withheld. If LICENSEE does not proceed with a particular infringement suit or attempt to sublicense the infringer within ninety (90) days of notification, TEMPLE, after notifying LICENSEE in writing, shall be entitled to proceed with such suit through counsel of its choice. The party conducting any suit pursuant to this Paragraph 8.5 shall have full control over its conduct and shall be responsible for all expenses associated therewith. Each party shall always have the right to be represented by counsel of its choice and at its own expense in any suit instituted by the other party for infringement. In any event, the parties shall provide each other, at the expense of the party bringing suit, with all reasonable assistance and cooperation requested in any such suit. At the request and expense of the party bringing suit, the other party shall permit access to all relevant personnel, records, papers, information, samples, specimens, and the like during regular business hours. The parties may also jointly participate in any infringement suit if both parties agree to do so in writing in advance, and set forth the basis for sharing of expenses.

8.7. The amount of any recovery resulting from an infringement suit or settlement thereof pursuant to Paragraph 8.5 shall first satisfy the costs and expenses, including reasonable attorneys' fees, incurred in connection with such suit by the party bringing suit ("COSTS AND EXPENSES"). If LICENSEE is the party bringing suit, any recovery in excess of COSTS AND EXPENSES shall be paid to LICENSEE and shall be deemed to be NET SALES subject to royalties due to TEMPLE pursuant to Paragraph 4.1. If TEMPLE is the party bringing suit, any recovery in excess of COSTS AND EXPENSES shall be paid to TEMPLE. If the parties have agreed to participate jointly in an infringement suit, any recovery in excess of the parties' COSTS AND EXPENSES shall be allocated to the parties in the same proportion as the sharing of COSTS AND EXPENSES, and LICENSEE'S allocation shall be deemed to be NET SALES subject to royalties due to TEMPLE pursuant to Paragraph 4.1.

ARTICLE 9. INDEMNIFICATION

9.1. LICENSEE agrees to indemnify, hold harmless, and defend TEMPLE, its trustees, officers, employees and agents against any and all claims, excluding claims stemming from TEMPLE's use of LICENSED PRODUCT as outlined in Paragraph 3.2, including legal fees and costs arising out of the exercise of any rights granted under this Agreement, without limiting the generality of the foregoing, against any damages, losses or liabilities whatsoever including but not limited to death or injury to person or damage to property arising, directly or indirectly, from LICENSEE'S exercise of the rights granted hereunder, including but not limited to commercial sale and clinical use of LICENSED PRODUCT by LICENSEE, its SUBLICENSEES or any customers of any of them in any manner whatsoever. TEMPLE shall give LICENSEE written notice of any claim(s) related to LICENSED PRODUCT within thirty (30) days, and TEMPLE shall reasonably cooperate with LICENSEE and its insurance carrier in the defense of any such claim(s). TEMPLE agrees to indemnify and hold harmless and defend LICENSEE, its directors, officers, employees and agents against any and all claims stemming from the breach of any of the representations, warranties or undertakings of TEMPLE under this Agreement, including legal fees and costs arising out of any such breach, without limiting the generality of the foregoing, against any damages, losses or liabilities whatsoever including but not limited to death or injury to person or damage to property arising, directly or indirectly, from any such breach of TEMPLE's representations, warranties or undertakings.

9.2. LICENSEE shall maintain, during the period that any LICENSED PRODUCT is made, used, sold or otherwise made available to others pursuant to this Agreement, Comprehensive Liability Insurance, including Product Liability Insurance, with a reputable and financially secure insurance carrier(s) to cover the activities of LICENSEE and its SUBLICENSEES, if any, contemplated by this Agreement for minimum limits of two million dollars (\$2,000,000.00) per occurrence. Such insurance shall name TEMPLE, its trustees, officers, employees, and agents as additional insureds. LICENSEE shall furnish a Certificate of Insurance, upon request, evidencing coverage of two million dollars (\$2,000,000.00) with thirty (30) days of written notice of cancellation or material change to TEMPLE. LICENSEE'S insurance shall be written to cover claims incurred, discovered, manifested, or made during the term, or after the expiration, of this Agreement. LICENSEE shall at all times comply, through insurance or self-insurance, with

all statutory workers' compensation and employers' liability requirements covering any and all employees with respect to activities performed under this Agreement.

ARTICLE 10. SUBLICENSES

10.1. LICENSEE shall have the right to enter into sublicense agreements, provided that all applicable material terms of this Agreement are incorporated into such sublicense agreements to provide for the protection of TEMPLE and its trustees, officers, employees and agents, and provided further that LICENSEE remains primarily liable for its obligations under this Agreement. A copy of any sublicense agreement shall be provided to TEMPLE prior to execution for TEMPLE's review and approval, which approval shall not be unreasonably denied.

ARTICLE 11. ASSIGNMENT

11.1. This Agreement and any and all of the rights and obligations of each party hereunder may be assigned, delegated, sold, transferred or otherwise disposed of, by operation of law or otherwise, only with the prior written consent of the other party, which consent shall not be unreasonably withheld; provided, however, that either party may assign this Agreement without consent of the other party to a third party that acquires all or substantially all of such party's assets or in connection with an assignment by COMPANY to an AFFILIATE.

ARTICLE 12. TERM AND TERMINATION

12.1. The term of this Agreement shall commence on the EFFECTIVE DATE and shall end, unless sooner terminated as provided below, upon the expiration of the last-to-expire issued patent within PATENT RIGHTS.

12.2. LICENSEE may, in LICENSEE's sole discretion and for any reason whatsoever, terminate this Agreement in its entirety or only with respect to any patent application or patent in any country by giving TEMPLE ninety (90) days' prior written notification thereof. In addition, LICENSEE may terminate this Agreement by giving TEMPLE sixty (60) days' prior written notice upon material breach by TEMPLE of any material provision of this Agreement, unless such breach is cured within the period of such notice.

12.3. TEMPLE may terminate this Agreement by giving LICENSEE sixty (60) days' prior written notice upon material breach of any material provision of this Agreement by LICENSEE, unless such breach is cured within the period of such notice.

12.4 In the event that, in any calendar year, TEMPLE has given LICENSEE at least two (2) written notices pursuant to Paragraph 12.3 each such notice pertaining to a separate instance of material breach by LICENSEE of the same material provision in Articles 4,6 or 8 of this Agreement, then TEMPLE may, in its sole discretion, give LICENSEE written notice of termination of this Agreement upon any subsequent instance of material breach by LICENSEE of said material provision in said calendar year, and the termination shall take effect sixty (60) days from the date of notice, without regard to whether a cure was effected..

12.5. This Agreement shall immediately terminate if either party is adjudicated bankrupt, files a voluntary petition in bankruptcy, makes or executes an assignment for the benefit of creditors, is liquidated or dissolved, or a receiver, trustee, liquidator, sequestrator or other judicial representative is appointed for either party or its property. In such event, that party shall execute any documents that are necessary to reassign or transfer the interest granted hereunder.

12.6. Upon termination of this Agreement, TEMPLE shall have the right to retain any amounts already paid by LICENSEE under this Agreement, and LICENSEE shall pay to TEMPLE all amounts accrued which are then due or which become due based on the SALE of LICENSED PRODUCT, manufactured or produced prior to the effective date of termination.

12.7. The provisions of Article 2 (entitled CONFIDENTIALITY), Article 9 (entitled INDEMNIFICATION) and Article 13 (entitled PATENT MARKING), and Paragraphs 4.2 and 14.2 shall survive the termination of this Agreement.

ARTICLE 13. PATENT MARKING

13.1. LICENSEE agrees to mark or have marked all LICENSED PRODUCT sold by LICENSEE or by its SUBLICENSEES under this Agreement in accordance with the statutes of the United States and countries and territories relating to the marketing of patented articles in which any LICENSED PRODUCT covered by a granted patent is marketed.

ARTICLE 14. MISCELLANEOUS

14.1. Each party and its employees and agents shall not use the other party's name, any adaptation thereof, any logotype, trademark, service mark or slogan or the name mark or logotype in any way without the prior written consent of the other party.

14.2. This Agreement shall be construed and the respective rights of the parties hereto determined according to the substantive laws of the Commonwealth of Pennsylvania, notwithstanding the provisions governing conflict of laws under such Pennsylvania law to the contrary.

14.3. If any provision of this Agreement is held to be invalid or unenforceable under the laws of any jurisdiction of the parties, all other provisions shall, nevertheless continue in full force and effect.

14.4. This Agreement constitutes the entire agreement among the parties pertaining to PATENT RIGHTS and TECHNICAL INFORMATION and supersedes all previous arrangements, except for confidentiality agreements, whether written or oral. Any amendment or modification to this Agreement shall be made in writing signed by both parties. Failure of either party to enforce a right under this Agreement shall not act as a waiver of that right and shall not preclude such party from later asserting that right relative to the particular situation involved.

14.5. Any breach whatsoever of any provision of ARTICLE 4 (entitled PAYMENTS) and ARTICLE 6 (entitled STATEMENTS AND REMITTANCES) shall be deemed a material breach of a material provision of this Agreement.

14.6. Time is of the essence under this Agreement.

14.7. Notices and payments to the parties shall be addressed as follows:

To TEMPLE: Office of Technology Transfer
Temple University (083-45)
1601 N. Broad Street, Room 406
Philadelphia, PA 19122-6099

To LICENSEE: Bruce McKinnon, Chief Executive Officer
Save the World Air, Inc.
5125 Lankershim Boulevard
Los Angeles, California 91601

With copies to:
Lance Jon Kimmel
SEC Law Firm
11693 San Vicente Boulevard, Suite 357
Los Angeles, CA 90049

Either party may change its address for notice by giving notice to the other in the manner herein provided. Any notice required or provided for by the terms of this Agreement shall be in writing and sent by registered or certified mail, return receipt requested, postage prepaid and properly addressed in accordance with the paragraph above. The effective date of notice shall be the actual date of receipt.

All notices, requests, reports, and other communications provided in this Agreement shall be in writing and shall be deemed to have been made or given: (a) when delivered, if delivered by hand; (b) when confirmation of transmission received, if sent by facsimile, or the like; (c) on the day following deposit with an overnight courier; or (d) on the date three business days following deposit with the United States mail, certified or registered.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives as of the date first above written.

Temple University — Of The Commonwealth System of Higher Education:

By Susan J. Karakantas
Susan J. Karakantas
Interim Treasurer

DATE 01-23-2007

ATTESTATION:

By J. Carruth
Name: JANET CARRUTH
Title: ASSISTANT SECRETARY

DATE 01-23-2007

Save the World Air, Inc.:

By /s/ Bruce McKinnon
Bruce McKinnon
Chief Executive Officer

DATE 02-02-2007

EXHIBIT A

PCT Application PCT/US2005/04498 filed December 13, 2005, designating all member states (including the US) entitled "Method for Reduction of Crude Oil Viscosity"

Page 14 of 14 pages

R&D AGREEMENT

This Agreement is made effective by and between Temple University — Of The Commonwealth System of Higher Education (hereinafter referred to as “TEMPLE”), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, having a principal place of business at Broad Street and Montgomery Avenue, Philadelphia, Pennsylvania and Save The World Air, Inc. (hereinafter referred to as “COMPANY”), a corporation organized and existing under the laws of the State of Nevada, having a principal place of business at 5125 Lankershim Boulevard, North Hollywood, California 91601.

WHEREAS, the parties have entered into certain license agreements effective _____ pertaining to the effect of electric fields on fuel droplet size and to the effect of electric fields on crude oil viscosity (hereinafter referred to collectively as the “LICENSES”);

WHEREAS, COMPANY wishes to fund research pertaining to LICENSED PRODUCT, as defined in the LICENSES, and wishes to license intellectual property contained in the results of said research;

WHEREAS, TEMPLE wishes to receive the aforementioned research funding from COMPANY and wishes to disclose to COMPANY the results of said research; and

WHEREAS, COMPANY wishes to receive the results of the aforementioned research without jeopardizing the patentability of inventions contained therein or TEMPLE’s proprietary rights thereto;

NOW, THEREFORE, in consideration of the premises and of the covenants and obligations hereinafter set forth, the parties, intending to be legally bound, agree as follows:

ARTICLE 1 — DEFINITIONS

The definitions of all terms used in the LICENSE are incorporated herein by reference.

“PROJECT” shall mean the research project pertaining to LICENSED PRODUCT that is described in Exhibit A, which is attached hereto and is incorporated herein by reference.

“PROJECT PERIOD” shall mean the period beginning with the above written effective date and ending twenty-four (24) months thereafter.

1.4 “PROJECT RESULTS” shall mean discoveries, inventions, know-how, testing data, methods, techniques and other information, patentable or unpatentable, resulting from COMPANY’S funding of the PROJECT during the PROJECT PERIOD.

1.5 “PRINCIPAL INVESTIGATOR” shall mean Dr. Rongjia Tao, designated by TEMPLE to direct the PROJECT and to serve as the contact person for COMPANY on all technical matters relating to the PROJECT.

1.6 “PROJECT PATENT” shall mean an application filed by TEMPLE for PROJECT RESULTS, and any patents issuing therefrom.

1.7 “OPTION PERIOD” shall mean the period beginning with the above written effective date and ending six (6) months after the end of the PROJECT PERIOD.

ARTICLE 2 — SCOPE

2.1 The work to be carried out under the PROJECT pertains to LICENSED PRODUCT and is described in Exhibit A, which is attached hereto and is incorporated herein by reference. The PRINCIPAL INVESTIGATOR shall direct the PROJECT and control the manner of its performance.

2.2 TEMPLE shall make reasonable efforts to complete the PROJECT. However, TEMPLE makes no warranties as to the completion of the PROJECT or the achievement of any particular goal.

ARTICLE 3 — FUNDING

3.1 COMPANY shall pay five hundred thousand dollars (\$500,000) to TEMPLE to fund the PROJECT during the PROJECT PERIOD, as outlined in the budget incorporated in Exhibit A, attached hereto and incorporated herein by reference.

3.2 COMPANY shall provide its funding pursuant to Paragraph 3.1 in eight (8) non-refundable installments, as follows: (i) one hundred twenty three thousand five hundred dollars (\$123,500) no later than (30) thirty days from the effective date of this Agreement and (ii) fifty three thousand seven hundred fifty dollars (\$53,750) every three (3) months thereafter until fully paid. Checks shall be made to “Temple University” (with the name of the PRINCIPAL INVESTIGATOR shown for reference purposes) and sent to the attention of Business Manager at the address shown in Paragraph 6.5. If at any time during the Project Period Dr. Tao should become unavailable to perform the duties of the principal investigator for the Project. TEMPLE shall give STWA reasonable notice thereof, which notice shall be given no later than 30 days after TEMPLE learns of Dr. Tao’s unavailability. If another principal investigator reasonably acceptable to STWA is not promptly engaged by TEMPLE, STWA shall have the right to terminate this Agreement, STWA shall have to right to elect to terminate this Agreement, and upon such termination, STWA shall have no further obligations pursuant to Article 3 of this Agreement to make payments not then due in accordance with the provisions such Article 3.

ARTICLE 4 — OWNERSHIP RIGHTS

4.1 The entire right and title in all PROJECT RESULTS shall belong to Temple.

4.2 At any time during the OPTION PERIOD, TEMPLE may propose in writing to COMPANY the filing of an application for a PROJECT PATENT. If COMPANY agrees in writing to such filing within sixty (60) days of COMPANY'S receipt of the proposal, such PROJECT PATENT shall be subject to the terms of Paragraphs 5.1 and 5.2, and shall be hereinafter referred to as an "OPTION PATENT". However, if COMPANY fails to agree in writing to such filing within sixty (60) days of COMPANY'S receipt of the proposal, such PROJECT PATENT shall not be deemed an OPTION PATENT and shall not be subject to any rights or obligations of COMPANY hereunder or under the LICENSE.

4.3 At any time during the OPTION PERIOD, COMPANY may require in writing that TEMPLE file an application for a PROJECT PATENT in connection with which TEMPLE has not made a proposal to COMPANY pursuant to Paragraph 4.2, and such PROJECT PATENT shall be deemed an OPTION PATENT subject to Paragraphs 5.1 and 5.2.

4.4 Except as otherwise provided in Paragraphs 4.2, 4.3 and 4.6, TEMPLE, in consultation with COMPANY but in TEMPLE'S sole discretion, shall diligently prepare, file and prosecute applications for all OPTION PATENTS during the OPTION PERIOD or, for OPTION PATENTS that are subject to the negotiating provisions of Paragraph 5.2, during the OPTION PERIOD and six (6) months thereafter.

4.5 COMPANY shall reimburse TEMPLE, within thirty (30) days of receipt of a detailed invoice therefor, for all costs and expenses incurred by TEMPLE pursuant to Paragraph 4.4. TEMPLE, in its sole discretion, may elect to have its patent counsel submit such invoices directly to COMPANY, in which case COMPANY shall pay TEMPLE'S patent counsel directly.

4.6 In the event that COMPANY notifies TEMPLE in writing that it will stop paying the costs and expenses with respect to any OPTION PATENT, TEMPLE, at its option, may assume the obligation of supporting such OPTION PATENT, and COMPANY'S rights and obligations thereto under this Agreement shall immediately terminate. Termination of COMPANY'S rights and obligations with respect to an OPTION PATENT shall in no way affect COMPANY'S rights and obligations to any other OPTION PATENT.

ARTICLE 5 — LICENSE AND OPTION RIGHTS

5.1 At any time during the OPTION PERIOD, upon written notice thereof to TEMPLE, COMPANY may elect to add any OPTION PATENT to PATENT RIGHTS (as defined in the LICENSE) for all purposes of the LICENSE provided, however, that the exercise of any rights granted under such OPTION PATENT would have infringed, absent the LICENSE, at least one

VALID CLAIM within the PATENT RIGHTS in effect prior to the receipt of the notice by TEMPLE. If COMPANY fails to make an election as provided in the preceding sentence with respect to any OPTION PATENT, all of COMPANY's rights and obligations thereto shall immediately terminate, and TEMPLE shall be free to license such OPTION PATENT to others.

5.2 At any time during the OPTION PERIOD, upon written notice thereof to TEMPLE, COMPANY may elect to begin negotiating for an exclusive worldwide license under any OPTION PATENT provided, however, that the exercise of any rights granted under such OPTION PATENT would not have infringed, absent the LICENSE, any VALID CLAIM within the PATENT RIGHTS (as defined in the LICENSE) in effect prior to the receipt of the notice by TEMPLE. If after negotiating in good faith for six (6) months the parties are unable to enter into a mutually acceptable license agreement for any OPTION PATENT, all of COMPANY's rights and obligations thereto shall immediately terminate, and TEMPLE shall be free to license such OPTION PATENT to others.

ARTICLE 6 — MISCELLANEOUS

6.1 Except for the LICENSE, this Agreement constitutes the entire understanding of the parties with respect to the matters herein contained and each acknowledges and agrees that there are no warranties, representations or understandings between them other than those expressly set forth herein. Each party warrants and represents that the terms of this Agreement are not inconsistent with any other contractual or legal obligations it may have. This Agreement may be modified only by written consent signed by both parties.

6.2 The rights and duties of the parties shall be governed by the laws of the Commonwealth of Pennsylvania. The parties agree that any dispute arising out of this Agreement may be resolved by recourse to the courts of the Commonwealth of Pennsylvania or the United States District Court for the Eastern District of Pennsylvania.

6.3 If any litigation or other legal proceeding relating to this Agreement occurs, the prevailing party shall be entitled to recover from the other party (in addition to any other relief awarded or granted) its reasonable costs and expenses, including attorney's fees, incurred in the proceedings.

6.4 This Agreement is binding upon the parties hereto. The terms and conditions of Article 4 and Article 5 shall survive expiration or termination of this Agreement.

6.5 Any payment, notice, report, or other communication required hereunder shall be sent to the parties at the addresses below:

To TEMPLE: Office of Technology Transfer
 Temple University (083-45)
 1601 N. Broad Street, Room 406
 Philadelphia, PA 19122-6099

To LICENSEE: Bruce McKinnon, Chief Executive Officer
Save the World Air, Inc.
5125 Lankershim Boulevard
Los Angeles, California 91601

With copies to:

Lance Jon Kimmel
SEC Law Firm
11693 San Vicente Boulevard, Suite 357
Los Angeles, CA 90049

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives the day and year written below.

Temple University — Of The Commonwealth System of Higher Education:

BY Susan J. Karakantas DATE _____
Susan J. Karakantas
Interim Treasurer

Attest:

By J. Carruth
JANET CARRUTH
ASSISTANT SECRETARY

Save the World Air, Inc.:

By /s/ Bruce McKinnon DATE February 2, 2007
Bruce McKinnon
Chief Executive Officer

Attest:

By: /s/ Jerry Joves
Secretary

IN ACKNOWLEDGMENT OF HAVING READ AND UNDERSTOOD THE FOREGOING:

BY _____ DATE _____
Principal Investigator

EXHIBIT A

Dr. Rongjia Tao will be the principal investigator for this project and such involvement by Dr. Tao in this project is a material inducement to STWA to enter into and perform its obligations under this R&D Agreement. Temple University will perform research, development, and consulting towards the realization of the following two commercial products: (1) Device utilizing electric field to improve the fuel injection in engines for diesel, kerosene, and gasoline; (2) Device utilizing electric or magnetic field to reduce crude oil viscosity and improve crude oil flow in pipelines.

Performance period: Two years, starting on the Effective Date

Tasks to be performed:

1. Design and manufacture a prototype device for STWA, which utilizes electric field to improve diesel injection in engines. Test the device and determine the droplet size distribution in the fuel injection, compare the results with the test on engine at STWA, and make necessary changes for the device.
2. Design and manufacture a prototype device for STWA, which utilizes electric field to improve gasoline injection in engines. Test the device and determine the droplet size distribution in the fuel injection, compare the results with the test on engine at STWA, and make necessary changes for the device.
3. Design and manufacture a prototype device for STWA, which utilizes electric field to improve kerosene injection in engines. Test the device and determine the droplet size distribution in the fuel injection, compare the results with the test on engine at STWA, and make necessary changes for the device.
4. Design a device for STWA, which utilizes electric field to reduce crude oil viscosity for crude oil flow in pipelines.
5. In cooperation with STWA, manufacture the device and test it in laboratory and on pipelines with asphalt-base or mixed base crude oil.
6. Design a device for STWA, which utilizes magnetic field to reduce crude oil viscosity for crude oil flow in pipelines.
7. In cooperation with STWA, manufacture the device and test is in laboratory and on pipelines with paraffin-base crude oil.

All tasks are to be performed on a reasonable efforts basis.

Deliverables and Due Dates

- | | |
|--|-----------------------------|
| 1. Prototype device for diesel | 1 week after Effective Date |
| 2. 1 st Quarterly Report (about fuel injection for diesel) | 3/31/2007 |
| 3. 2 nd Quarterly Report (about fuel injection for gasoline) | 6/30/2007 |
| 4. 3 rd Quarterly Report (about fuel injection for kerosene) | 9/30/2007 |
| 5. 4 th Quarterly Report (about design of the electric device for pipelines) | 12/31/2007 |
| 6. 5 th Quarterly Report (about tests with asphalt- and mixed base crude oil) | 3/31/2008 |
| 7. 6 th Quarterly Report (about the magnetic device for pipelines) | 6/30/2008 |
| 8. 7 th Quarterly Report (about tests with paraffin-base crude oil) | 9/30/2008 |
| 9. Final report (comprehensive report) | 12/31/2008 |

Budget:**Year 1**

Labor Costs:

Three summer months (July-September) for Dr. Tao	\$ 47,277
12 month salary for postdoctoral fellow	\$ 48,000
12 month salary for one graduate student	\$ 20,400
3 month salary (part-time) for one technician	\$ 12,000
Fringe Benefits	\$ 18,532

Equipment:

Laser Scattering system to measure particle size distribution	\$ 70,000
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Travel	\$ 6,000
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Lab supplies, computer service, publication charges, etc.	\$ 17,000
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Technology Transfer Fee

Total direct costs	\$239,209
Modified Direct Costs (excluding equipment)	\$169,209
Indirect costs (25% of Modified Direct Costs)	\$ 42,302
Total Costs for Year 1	\$281,511

Year 2

Labor Costs:

Three summer months (July-September) for Dr. Tao	\$ 48,695
12 month salary for postdoctoral fellow	\$ 49,440
12 month salary for one graduate student	\$ 21,012
3 month salary (part-time) for one technician	\$ 12,360
Fringe Benefits	\$ 19,088

Travel	\$ 6,180
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Lab supplies computer service, publication charges, etc.	\$ 18,016
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Total direct costs	\$174,791
Modified Direct Costs (excluding equipment)	\$174,791
Indirect costs (25% of Modified Direct Costs)	\$ 43,698
Total Costs for Year 2	\$218,489

Total Costs for the Project in 2 years	\$500,000
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Temple-SWA R&D Agreement