
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): **November 20, 2009**

SAVE THE WORLD AIR, INC.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation)

0-29185
(Commission File Number)

52-2088326
(IRS Employer Identification No.)

235 Tennant Avenue
Morgan Hill, California 95037

Telephone No.: (408) 778-0101
(Address and telephone number of Registrant's principal
executive offices and principal place of business)

(Former name or 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
and
Item 3.02 Unregistered Sales of Equity Securities**

Offerings of Convertible Notes

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

Specific Terms of Notes and Warrants

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

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

The Warrants issued in connection with the Note Offering are exercisable commencing six months after the issuance date until 5:00 p.m., E.S.T on September 29, 2012 at \$.30 per share. The Warrant exercise price is adjustable based on weighted average anti dilution provisions as set forth in the Warrant.

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

Exemption from registration of the Notes is claimed under Section 4(2) of the Act and Rule 506 promulgated thereunder, based on, among other things, the representations made by each of the investors in the Purchase Agreement that include, among other things, a representation from each such purchaser that it or he is an “accredited investor” within the meaning of Regulation D promulgated under the Act and that such purchases were not made as part of a general or public solicitation or with a view towards distribution or resale of securities acquired in the financing.

The foregoing is a summary only of the Purchase Agreement, the Note, the Warrant and the Placement Agent Warrant, the forms of each of which are filed herewith as exhibits to this report and, the provisions of which are incorporated by reference herein.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

The Exhibits to this report are listed in the Index to Exhibits which immediately follows the signature page hereto.

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.

SAVE THE WORLD AIR, INC.,

Date: December 4, 2009

By: /s/Cecil Bond Kyte
Chief Executive Officer

INDEX TO EXHIBITS

<u>Exhibits</u>	<u>Description</u>
4.1	Securities Purchase Agreement between Save the World Air, Inc., a Nevada corporation and certain note Holders, with respect to 7% Convertible Promissory Notes.
4.2	Form of 7% Convertible Promissory Note.
10.1	Form of Common Stock Purchase Warrant, exercisable at \$.30 per share.
10.2	Form of Common Stock Purchase Warrant-Placement Agent, exercisable at \$.30 per share.

SAVE THE WORLD AIR, INC.

SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (“**Agreement**”) is made as of October __, 2009, by and between Save The World Air, Inc., a company organized under the laws of the State of Nevada (the “**Company**”), and the purchasers who execute the Purchaser Signature Page (as hereinafter defined) hereto (each, a “**Purchaser**”).

RECITALS

A. The Company desires to obtain funds from each Purchaser in order to fund the Company’s general working capital needs.

B. In order to obtain such funds, the Company is borrowing and in exchange therefore issuing Units (the “**Units**”), each Unit comprised of (i) an unsecured \$25,000 principal amount of 7% Convertible Promissory Note, initially convertible at \$.25 per share (as may be adjusted from time to time, the “**Conversion Price**”) a form of which is annexed hereto as **Exhibit 1**, (each a “**Note**,” and collectively, the “**Notes**”), and (ii) Common Stock Purchase Warrants, initially exercisable at the \$.30 per share, a form of which is annexed hereto as **Exhibit 2** (the “**Warrants**”). The Company is offering the Units on a “best efforts, \$100,000 minimum principal amount of Notes, \$500,000 maximum principal amount of Notes” basis, wherein a minimum of 3 Units, representing subscriptions for \$75,000 of principal amount of Notes may be sold, with a maximum of 20 Units for \$500,000 of Notes may be sold (with minimum increments of 1/2 Unit). The Placement Agent (as hereinafter defined) may exercise its over-allotment option and sell up to an additional 25% of Notes and Warrants at the sole discretion of the Placement Agent. The common stock, par value \$.001 per share of the Company (“**Common Stock**”) into which the Notes are convertible are sometimes referred to herein as the Conversion Shares, and the shares of Common Stock into which the Warrants are exercisable are sometimes referred to herein as the “**Warrant Shares**”. The Notes, Warrants, Conversion Shares and Warrant Shares are sometimes referred to herein as the “**Securities**”.

C. Purchasers understand that there is a great deal or risk, illiquidity and uncertainty in the Purchase of the Units herein and that no assurance can be made that the Company will complete its business plans or, if completed, that it will be successful in doing so. Purchasers have received and examined that certain Amended and Restated Confidential Private Placement Memorandum of the Company dated as of October 15, 2009, containing such information as, among other things, a description of this offering and the Company’s annual report and most recent quarterly reports (as amended, the “**Information Memorandum**”).

D. Placement Agent and the Company have consented to the appointment of Manufacturers and Traders Trust Company as independent Escrow Agent (the “**Escrow Agent**”), pursuant to the terms of the Escrow Agreement (the “**Escrow Agreement**”) annexed hereto as **Exhibit 3**. All funds will be held in a non-interest bearing money market or other account with Escrow Agent. The Purchaser’s acknowledge and agree that their subscriptions are irrevocable and binding commitments on the part of the Purchaser and that once their funds have been tendered to escrow with the appropriate subscription documents and the minimum offering amount has been raised in accepted funds and subscriptions, the Escrow Agent may, at the request of the Placement Agent and Company together, disburse funds from escrow and conduct a Closing without any consent of or notice to Purchasers. The Placement Agent or Company may reject any subscriptions in whole or in part for any reason or for no reason and shall cause the Escrow Agent to return funds to the Purchaser to the extent of such non accepted funds, or retains the right to hold the same in escrow until termination of the offering, at which time, any unused subscription funds shall be returned to Purchaser.

AGREEMENT

NOW THEREFORE, based on the mutual premises and consideration of the parties, it is agreed as follows:

1. PURCHASE AND SALE OF NOTES.

1.1 Purchase and Sale. In reliance upon the representations and warranties of the Company and each Purchaser contained herein and the Information Memorandum and subject to the terms and conditions set forth herein, at Closing (as hereinafter defined), each Purchaser hereby agrees to purchase, and the Company shall sell and issue to each Purchaser, the Units comprised of Notes and Warrants as set forth on the signature page annexed to the end of this Agreement (the "**Purchaser Signature Page**") at a purchase price equal to the principal amount of Notes being acquired (the "**Purchase Price**") as set forth in Section 1.2 below. After the initial minimum amount of Units are sold at a Closing in this offering, the Company may accept additional Purchasers in Closings held during the Offering Period from time to time without notice to or consent of any investor, until the maximum offering amount (inclusive of the over-allotment option) is sold hereby.

1.2 Notes and Warrants. At Closing, the Company will issue and deliver to the Purchaser as listed on the Purchaser Signature Page hereto, the (i) Notes for the principal amount of Notes subscribed for and, (ii) Warrants to acquire such number of shares of common stock of the Company (the "**Common Stock**") as equals the principal amount of Notes acquired and accepted divided by the initial Conversion Price of \$.25 per share (the "**Warrant Shares**"), and exercisable at \$.30 per share (the "**Exercise Price**") at any time prior to the three year anniversary of the first Closing of this offering.

2. CLOSING.

2.1 Date and Time.

(a) The sale of Notes and Warrants will take place only after the Escrow Agent has advised of at least \$75,000 cleared funds represented by subscriptions accepted by the Company (the "**Closing**") subject to the satisfaction of all the parties hereto of their obligations herein. The Purchasers shall each submit an executed copy of this Agreement to the Placement Agent along with the Purchase Price in advance of Closing which shall be held in escrow by an escrow agent (the "**Escrow Agent**") appointed by the Company and Placement Agent. Once \$75,000 of subscriptions acceptable to the Company have been provided during the Offering Period, along with cleared funds therefore in escrow as advised by the Escrow Agent, the Closing of the sale of Notes contemplated by this Agreement may take place. The Closing shall take place at the offices of counsel to the Company, or at such other place as the Company and the Placement Agent (as hereinafter defined) shall agree in writing, on or before October 31, 2009, unless this Offering is extended by the Company for up to a further period of thirty (30) days ending November 30, 2009 (the "**Termination Date**").

(b) Placement Agent and the Company have consented to the appointment of M&T Bank as independent Escrow Agent and have all accepted the terms of the non-interest bearing Escrow Agreement. Purchasers will not have an opportunity to approve of a Closing or request refund of any moneys held in escrow after a Closing has occurred if such Closing is held during the offering period. Purchaser's acknowledge and agree that their subscriptions are irrevocable and binding commitments on the part of the Purchaser and that once their funds have been tendered to escrow with the appropriate subscription documents and the minimum offering amount has been raised in accepted funds and subscriptions during the Offering Period, the Escrow Agent may, at the request of the Placement Agent and Company together, disburse funds from escrow and conduct a Closing without any consent or notice to Purchasers. The Placement Agent or Company may reject any subscriptions in whole or in part for any reason or for no reason and shall cause the Escrow Agent to return funds (i.e. amounts willfully received net subscribers banks' fees) to the Purchaser to the extent of such non accepted funds, or, retains the right to hold the same in escrow for acceptance or rejection at a future closing, until termination of the offering, at which time, any unused subscription funds shall be returned to Purchaser. Additionally, in the event that the minimum offering amount of \$100,000 in cleared funds representing accepted subscriptions is not raised by the Termination Date, the Escrow Agent shall return all funds to the Purchasers, without deduction.

3. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

As a material inducement to each Purchaser to enter into this Agreement and to purchase the Units, the Company represents and warrants that the following statements are true and correct in all material respects as of the date hereof and will be true and correct in all material respects at Closing, except as expressly qualified or modified herein. For avoidance of doubt, these warranties and representations are made to Purchasers and, to both Sandgrain Securities, Inc. and Wellfleet Partners, Inc., as third party beneficiaries hereto.

3.1 Organization and Qualification. The Company is duly incorporated or otherwise organized, validly existing and in good standing under the laws of the state of Nevada, with the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted. The Company is not in any violation of any of the provisions of its certificate of incorporation, bylaws or other organizational or charter documents (the "**Company Documents**").

3.2 Authorization; Enforcement. The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated under this Agreement, the Notes and along with the Warrants (collectively as may be amended or supplemented through each Closing, the "**Transaction Documents**") herein and otherwise to carry out its obligations hereunder. The execution and delivery of the Transaction Documents by the Company and the consummation by it of the transactions contemplated thereby have been duly authorized by all necessary corporate action on the part of the Company and no further action is required by the Company in connection therewith. This Agreement and the other Transaction Documents have been duly executed by the Company and, when delivered in accordance with the terms hereof or thereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally the enforcement of, creditors' rights and remedies, or (ii) laws relating to the availability of specific performance, injunctive relief or other equitable principles of general application.

3.3 SEC Reports; Financial Statements. The Company has filed all reports required to be filed by it under the Securities Act and the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof, for the twelve months preceding the date hereof (or such shorter period as the Company was required by law to file such reports) (the foregoing materials, as finally amended being collectively referred to herein as the "**SEC Reports**") on a timely basis or has timely filed a valid extension of such time of filing and has filed any such SEC Reports prior to the expiration of any such extension. As of their respective dates, the SEC Reports, as amended, complied in all material respects with the requirements of the Securities Act and the Exchange Act and the rules and regulations of the Commission promulgated thereunder, and none of the SEC Reports, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, except to the extent that such SEC Reports may have been subsequently amended or supplemented to correct such misstatement or omission or to correct information relating to the Company's internal controls. The financial statements of the Company included in the SEC Reports comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with GAAP applied on a consistent basis during the periods involved, except as may be otherwise specified in such financial statements or the notes thereto, and fairly present in all material respects the financial position of the as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

3.4 Certain Registration Matters. Assuming the accuracy of each Purchaser's representations and warranties, no registration under the Securities Act is required for the offer and sale of the Securities by the Company to the Purchaser under this Agreement.

3.5 Capitalization. Capitalization of the Company is as set forth in the Information Memorandum and incorporated by reference therein. There are no shares of preferred stock or other securities or convertible securities outstanding other than as disclosed. All outstanding shares of the company's capital stock have been duly authorized and validly issued, and are fully paid and non-assessable, and are free of any preemptive rights. The Company has not entered into any agreement, or granted any right to any party, that results or would result in, the Company's obligation to redeem or repurchase any securities or issue any dividends. The shares issuable upon conversion of the Notes and upon exercise of the Warrants are, duly authorized and reserved for issuance and, upon issuance upon due conversion of the Notes or due exercise of the Warrants, will be deemed validly issued and fully paid.

3.6 Securities Law Compliance. Without consideration of the actions of the Placement Agent (as defined in Section 8 herein), and assuming the accuracy of the representations and warranties of each Purchaser set forth in this Agreement and the Questionnaire, the offer, issue, sale and delivery of the Notes and Warrants will constitute an exempted transaction under the Securities Act of 1933, as amended and now in effect (the "**Securities Act**"), and registration of the Notes, Warrants, or the issuance of the Conversion Shares (upon conversion of the Note) or Warrant Shares (upon due exercise thereof), under the Securities Act is not required. The Company shall make such filings as may be necessary to comply with the Federal securities laws and the "blue sky" laws of any state or other jurisdictions where filings must be made, which filings will be made in a timely manner.

3.7 Tax Matters. The Company has timely prepared and filed all tax returns required to have been filed by the Company with all appropriate governmental agencies and timely paid all taxes shown thereon or otherwise owed by it. The charges, accruals and reserves on the books of the Company in respect of taxes for all fiscal periods are adequate in all material respects, and there are no material unpaid assessments against the Company nor, to the Company's Knowledge, any basis for the assessment of any additional taxes, penalties or interest for any fiscal period or audits by any federal, state or local taxing authority except for any assessment which is not material to the Company, taken as a whole. All taxes and other assessments and levies that the Company is required to withhold or to collect for payment have been duly withheld and collected and paid to the proper governmental entity or third party when due. For the purposes of this agreement, "Company's Knowledge" means the actual knowledge of the executive officers (as defined in Rule 405 under the Securities Act) of the Company, after due inquiry.

3.8 Title to Properties. The Company has good and marketable title to all real properties and all other properties and assets owned by it (if any), in each case free from liens, encumbrances and defects that would materially affect the value thereof or materially interfere with the use made or currently planned to be made thereof by them; the Company holds any leased real or personal property under valid and enforceable leases with no exceptions that would materially interfere with the use made or currently planned to be made thereof by them.

3.9 Litigation. There are no pending actions, suits or proceedings against or affecting the Company, its subsidiaries or any of its or their properties; and to the Company's Knowledge, no such actions, suits or proceedings are threatened or contemplated.

3.10 No Directed Selling Efforts or General Solicitation. Neither the Company, nor any Person acting on its or their behalf has conducted any general solicitation or general advertising (as those terms are used in Regulation D) in connection with the offer or sale of any of the Securities.

3.11 No Integrated Offering. Neither the Company nor any of its Affiliates, nor any Person acting on its or their behalf has, directly or indirectly, made any offers or sales of any Company security or solicited any offers to buy any security, under circumstances that would adversely affect reliance by the Company on Section 4(2) for the exemption from registration for the transactions contemplated hereby or would require registration of the Securities under the Securities Act. For purposes of this Agreement, "**Affiliate**" means, with respect to any Person, any other Person which directly or indirectly through one or more intermediaries controls, is controlled by, or is under common control with, such Person.

3.12 Questionable Payments. Neither the Company nor, to the Company's Knowledge, any of their respective directors, executive officers, employees, or other Persons acting at the direction of the Company or any subsidiary, has on behalf of the Company or any subsidiary or in connection with their respective businesses: (i) used any corporate funds for unlawful contributions, gifts, entertainment or other unlawful expenses relating to political activity; (ii) made any direct or indirect unlawful payments to any governmental officials or employees from corporate funds; (iii) established or maintained any unlawful or unrecorded fund of corporate monies or other assets; (iv) made any false or fictitious entries on the books and records of the Company or any subsidiary; or (v) made any unlawful bribe, rebate, payoff, influence payment, kickback or other unlawful payment of any nature.

3.13 Transactions with Affiliates. None of the officers or directors of the Company is presently a party to any transaction with the Company or any subsidiary (other than as holders of stock options and/or warrants, and for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the Company's Knowledge, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner. The Company will be compensating the Placement Agent a fee as set forth below in Section 7.

3.14 Disclosures. The written materials delivered to the Purchasers in connection with the transactions contemplated by the Transaction Documents do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

4. REPRESENTATIONS AND WARRANTIES OF EACH PURCHASER.

Each Purchaser hereby represents warrants and covenants with the Company as follows. For avoidance of doubt, these warranties and representations are made to Purchasers and, to both Sandgrain Securities, Inc. and Wellfleet Partners, Inc., as third party beneficiaries hereto:

4.1 Legal Power. Each Purchaser has the requisite individual, corporate, partnership, limited liability company, trust, or fiduciary power, as appropriate, and is authorized, if such Purchaser is a corporation, partnership, limited liability company, or trust, to enter into this Agreement, to purchase the Units hereunder, and to carry out and perform its obligations under the terms of the Transaction Documents to which it is a party.

4.2 Due Execution. This Agreement and the other Transaction Documents have been duly authorized, if such Purchaser is a corporation, partnership, limited liability company, trust or fiduciary, executed and delivered by such Purchaser, and, upon due execution and delivery by the Company, this Agreement and such other Transaction Documents will be a valid and binding agreement of such Purchaser.

4.3 Access to Information. **Purchaser has thoroughly reviewed this Agreement including, without limitation, Information Memorandum Section 3 which discloses certain material information about the Company and Section 6.** Each Purchaser represents that such Purchaser has been given full and complete access to the Company and to all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Notes and Warrants and the issuance of Conversion Shares and/or Warrant Shares upon conversion or exercise thereof, which have been requested by Purchaser or its advisors. Each Purchaser represents that such Purchaser has been afforded the opportunity to ask questions of, and has inquired with, the officers of the Company regarding its business prospects and the Notes, all as such Purchaser or such Purchaser's qualified representative have found necessary to make an informed investment decision to purchase the Units. Neither such inquiries nor any other due diligence investigation conducted by Purchaser or any of its advisors or representatives shall modify, amend or affect purchaser's right to rely on the Company's representations and warranties contained herein. The Purchaser understands that an investment in the Units involves a significant degree of risk and illiquidity. The Purchaser understands further that the Conversion Shares and Warrant Shares when issued will also be restricted securities, and may only be re-sold pursuant to an exemption from the registration requirements of the Securities Act that may or may not be available at such time, and, that even if the Company is successful and succeeds with its business plan, no assurance can be made that the securities of the Company will be liquid or will increase in market price.

4.4 Restricted Securities.

4.4.1 Each Purchaser has been advised that none of the Notes, Warrants, Conversion Shares or Warrant Shares (collectively, the "Securities") have been registered under the Securities Act or any other applicable securities laws and that Securities are being offered and sold pursuant to Section 4(2) of the Securities Act and/or Rule 506 of Regulation D thereunder or such other exemption as may be available from the Securities Act registration requirements as may be available from time to time, and that the Company's reliance upon Section 4(2) and/or Rule 506 of Regulation D is predicated in part on such Purchaser's representations as contained herein. Each Purchaser acknowledges that the Notes and Warrants, and upon conversion or exercise thereof, the Conversion Shares and the Warrant Shares when issued, will be issued as "restricted securities" as defined by Rule 144 promulgated pursuant to the Securities Act. None of the Securities may be resold in the absence of an effective registration thereof under the Securities Act and applicable state securities laws unless, in the opinion of the Company's counsel, an applicable exemption from registration is available.

4.4.2 Each Purchaser represents that such Purchaser is acquiring the Securities for such Purchaser's own account, and not as nominee or agent, for investment purposes only and not with a view to, or for sale in connection with, a distribution, as that term is used in Section 2(11) of the Securities Act, in a manner which would require registration under the Securities Act or any state securities laws.

4.4.3 Each Purchaser understands and acknowledges that the Notes and Warrants, and if and when issued, the Conversion Shares, will bear substantially the following legend:

NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS NOTE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE CONVERTIBLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL, IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

4.4.4 Each Purchaser acknowledges that an investment in any of the Securities are not liquid and are transferable only under limited conditions. Each Purchaser acknowledges that such securities must be held indefinitely unless they are subsequently registered under the Securities Act or an exemption from such registration is available. Each Purchaser is aware of the provisions of Rule 144 promulgated under the Securities Act, which permits limited resale of restricted securities subject to the satisfaction of certain conditions and that such Rule is not now available and, in the future, may not become available for resale of any of the Notes or Conversion Shares.

4.4.5 Each Purchaser is an “accredited investor” as defined under Rule 501(a) of Regulation D of the Securities Act (an “**Accredited Investor**”).

4.4.6 The representations made by each Purchaser on the Purchaser Signature Page and in the questionnaire immediately preceding the same (the “**Questionnaire**”) are true and correct and do not omit any material information.

4.5 Purchaser Sophistication and Ability to Bear Risk of Loss. Each Purchaser acknowledges that it is able to protect its interests in connection with the acquisition of the Notes and Warrants and other Securities and can bear the economic risk of investment in such Securities without producing a material adverse change in such Purchaser’s financial condition. Each Purchaser, either alone or with such Purchaser’s representative(s), otherwise has such knowledge and experience in financial or business matters that such Purchaser is capable of evaluating the merits and risks of the investment in the Notes.

4.6 Preexisting Relationship. Each Purchaser has a preexisting personal or business relationship with the Company, one or more of its officers, directors, or controlling persons, or the Placement Agent (as defined herein).

4.7 Purchases by Groups. Each Purchaser represents, warrants and covenants that it is not acquiring the Securities as part of a group within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended.

4.8 Placement Agent Review. Each Purchaser acknowledges that neither Sandgrain Securities, Inc., as Placement Agent nor Wellfleet Partners, Inc., has independently verified the accuracy, completeness, materiality or otherwise, of any information, representation or warranty contained in this Purchase Agreement or any offering documents provided, that such placement agent related entities and their principals shall have no liability for any representation (express or implied) contained in, or for any omissions from, the Purchase Agreement or any offering documents provided or any other written or oral communications transmitted to the recipient in the course of his or her evaluation of the investment, and that it is understood that each prospective investor will make an independent investigation and analysis of a potential investment in the Company and will be relying upon same in making any such investment.

5. COVENANTS OF THE COMPANY.

5.1 Use of Proceeds. The Company intends to employ the net proceeds from the purchase and sale of the Units (after legal, blue-sky, and Placement Agent fees) for general working capital purposes only.

5.2 Best Efforts. The parties shall use their best efforts to satisfy timely each of the conditions described herein as applicable to them.

5.3 Form D; Blue Sky Laws. The Company agrees to file a Form D with respect to the Notes and Warrants as required under Regulation D and to provide a copy thereof to each Purchaser promptly after such filing. The Company shall, on or before the Closing, take such action as the Company shall reasonably determine is necessary to qualify the Securities for sale to the Purchasers at the applicable closing pursuant to this Agreement under applicable securities or “blue sky” laws of the states of the United States (or to obtain an exemption from such qualification), and shall provide evidence of any such action so taken to each Purchaser on or prior to the Closing Date.

5.4 Financial Information. For as long as the Notes are outstanding, the Company agrees to remain current with the filings of its SEC Reports.

5.5 Reservation of Shares. The Company shall, as a condition to any merger or business combination (and in addition to other restrictions that may arise), require the provisions of this Agreement and the Notes and Warrants (including issuance of shares upon conversion or exercise thereof) to be assumed by the surviving parent company.

5.6 Covenants Relating to Promissory Note. For so long as any principal or interest is outstanding on the Notes the Company shall not, without consent of holders of a majority of the outstanding principal amount of Notes that will be outstanding immediately after the consummation of taking such action:

5.6.1 effect a merger or consolidation, share exchange, asset purchase or similar transaction resulting in a Change of Control (as hereinafter defined) with an entity without causing the assumption of the obligations herein and under the Notes and Warrants by such surviving entity. The term “**Change of Control**” shall mean any merger or consolidation, business transaction or similar transaction in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company’s outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction, whether or not the Company or a subsidiary is the surviving corporation or other transaction wherein the Company becomes a material or controlling stockholder of any other corporation. Notwithstanding the foregoing, the Company may raise capital in the form of debt, convertible debt or equity financings;

5.6.2 sell, transfer or otherwise dispose of more than 50% of the consolidated assets of the Company (computed either on the basis of book value, as determined in accordance with generally accepted accounting principles consistently applied, or fair market value) in any transaction or series of related transactions outside of the ordinary course of the Company's business consistent with past practice;

5.6.3 sell or transfer in any transaction or series of related transactions, any of the Company's assets to any person or entity that is an Affiliate of the Company, other than a sale or transfer in the ordinary course of business or such assets as are immaterial to the business purpose of the Company;

5.6.4 declare or pay any distribution or dividend, in cash or otherwise on any of the Shares of the Company, or redeem, purchase or otherwise acquire any of its Shares now or hereafter outstanding;

provided, however, that the Company may take any of the foregoing actions without the consent of the Purchasers in connection with, if contemporaneous with the consummation of such action, the Notes are converted in accordance with their terms, and Section 5.5 above is complied with.

5.7 Conversion of Notes.

5.7.1 Upon the conversion of a Note or part thereof, the Company shall, at its own cost and expense, take all commercially reasonable action, including obtaining and delivering, an opinion of counsel to assure that the Company's transfer agent shall issue stock certificates in the name of Purchaser (or its permitted nominee) or such other persons as designated by Purchaser and in such denominations to be specified at conversion representing the number of shares of Common Stock issuable upon such conversion. The Company warrants that no instructions other than these instructions have been or will be given to the transfer agent of the Company's Common Stock and that the certificates representing such shares shall contain no legend other than the usual Securities Act restriction from transfer legend.

5.7.2 A Purchaser will give notice of its decision to exercise its right to convert the Note, interest, or part thereof by telecopying, or otherwise delivering a completed Notice of Conversion (a form of which is annexed as "Exhibit A" to the Note) to the Company via confirmed telecopier transmission or otherwise pursuant to Section 13(a) of this Agreement. Such Purchaser will not be required to surrender the Note until the Note has been fully converted or satisfied. Each date on which a Notice of Conversion is telecopied to the Company in accordance with the provisions hereof by 6 PM Eastern Time ("**ET**") (or if received by the Company after 6 PM ET or at any time on a non-business day then the next business day) shall be deemed a "**Conversion Date**." The Company will itself or cause the Company's transfer agent to transmit the Company's Common Stock certificates representing the Shares issuable upon conversion of the Note to such Purchaser via express courier for receipt by such Purchaser within ten (10) business days after receipt by the Company of the Notice of Conversion (such seventh day being the "**Delivery Date**"). In the event the Conversion Shares are electronically transferable, then delivery of the Shares must be made by electronic transfer provided request for such electronic transfer has been made by the Purchaser. A Note representing the balance of the Note not so converted will be provided by the Company to such Purchaser if requested by Purchaser, provided such Purchaser delivers the original Note to the Company. In the event that a Purchaser elects not to surrender a Note for reissuance upon partial payment or conversion of a Note, such Purchaser hereby indemnifies the Company against any and all loss or damage attributable to a third-party claim in an amount in excess of the actual amount then due under the Note.

5.7.3 Delivery of Shares. In lieu of delivering physical certificates representing the Unlegended Shares, upon request of a Purchaser, so long as the certificates therefor do not bear a legend and the Purchaser is not obligated to return such certificate for the placement of a legend thereon, the Company will undertake commercially reasonable efforts cause its transfer agent to electronically transmit the Unlegended Shares by crediting the account of Purchaser's prime broker with the Depository Trust Company through its Deposit Withdrawal Agent Commission system, if such transfer agent participates in such DWAC system. Such delivery must be made on or before the Unlegended Shares Delivery Date.

5.8. Exchange of Notes for New Securities Issued in Subsequent Offering. In the event the Company conducts any subsequent financings (each, a "**Follow On Offering**") of any kind, if any, the Notes may, at the discretion of each holder thereof, be exchanged in whole or in part to the extent of outstanding principal and/or interest in such Note, into the securities offered in the Follow On Offering, by applying and exchanging the outstanding principal and interest of such Notes towards the purchase price of the securities offered in such Follow On Offering the same price offered for such units or securities to other investors generally. In lieu of offering cash, such Note holder shall tender the Note with the duly executed subscription documents provided to all investors in such Follow On Offering, and a notice indicating the dollar amount of principal and interest being applied, and the Company shall, at closing of such Follow On Offering, issue to such holder any securities acquired by such holder in such offering, and a Note certificate reflecting the remaining principal and interest owed, if any. In the event that the holder of the Notes elects not to so convert, such holder may do so in whole or in part from time to time, until the Note is either repaid or fully exchanged for securities issued in Follow On Offerings.

5.9 Preemptive Rights With Respect to Conversion Shares and Note Shares. From the date hereof until the earliest to occur of (i) the closing of any Public Offering or Follow On Offering of greater than \$5,000,000 (together, a "**Qualified Offering**"), or (ii) the date that is 24 months from the first Closing of this offering, or (iii) the sale of all or substantially all of the assets of the Company in a transaction wherein the Notes are being repaid, or (iv) such time as less than 75% of the aggregate amount of Notes offered hereby are still outstanding, in the event that the Company conducts a private or other offering any Common Stock or securities convertible into or exercisable or exchangeable for shares of Common Stock, other than any Exempted Issuances (each, a "**Subsequent Placement**") the Company shall have first complied with this Section 5.9.

5.9.1 The Company shall deliver to each holder of Notes (each, a "**Noteholder**"), an irrevocable confidential written notice (the "**Offer Notice**") of any proposed or intended issuance or sale or exchange (the "**Offer**") of the securities being offered (the "**Offered Securities**") in a subsequent placement, which Offer Notice shall (w) identify and describe the Offered Securities, (x) describe the price and other terms upon which they are to be issued, sold or exchanged, and the number or amount of the Offered Securities to be issued, sold or exchanged, (y) identify the class or group of persons or entities (if known) to which or with which the Offered Securities are to be offered, issued, sold or exchanged and (z) offer to issue and sell to or exchange with such Noteholders all of the Offered Securities, allocated among such Noteholders at identical terms and prices as provided in the Offer Notice (a) based on such Buyer's pro rata portion of the aggregate principal amount of Notes purchased hereunder (the "**Basic Amount**"), and (b) with respect to each Noteholders that elects to purchase its Basic Amount, any additional portion of the Offered Securities attributable to the Basic Amounts of other Noteholders as such Noteholders shall indicate it will purchase or acquire should the other Noteholders subscribe for less than their Basic Amounts (the "**Undersubscription Amount**") or with a statement from the Noteholders that it will waive any rights to subscribe for any portion of the Undersubscribed Amount, which process shall not be repeated after the first offer Notice, and shall be deemed waived to the extent not duly accepted.

5.9.2 To accept an Offer, in whole or in part, such accepting Noteholder(s) must deliver a written notice to the Company prior to the end of the fifth (5th) Business Day after such Noteholder's receipt of the Offer Notice (the "**Offer Period**"), setting forth the portion of such Noteholder's Basic Amount that such Noteholder elects to purchase and, if such Noteholder shall elect to purchase all of its Basic Amount, the Undersubscription Amount, if any, that such Noteholder elects to purchase (in either case, the "**Notice of Acceptance**"). If the Basic Amounts subscribed for by all Noteholders are less than the total of all of the Basic Amounts, then each Noteholder who has set forth an Undersubscription Amount in its Notice of Acceptance shall be entitled to purchase, in addition to the Basic Amounts subscribed for, the Undersubscription Amount it has subscribed for; *provided, however*, that if the Undersubscription Amounts subscribed for exceed the difference between the total of all the Basic Amounts and the Basic Amounts subscribed for (the "**Available Undersubscription Amount**"), each Noteholder who has subscribed for any Undersubscription Amount shall be entitled to purchase only that portion of the Available Undersubscription Amount as the Basic Amount of such Noteholder bears to the total Basic Amounts of all Noteholders that have subscribed for Undersubscription Amounts, subject to rounding by the Company to the extent its deems reasonably necessary. Notwithstanding anything to the contrary contained herein, if the Company desires to modify or amend the terms and conditions of the Offer prior to the expiration of the Offer Period, the Company may deliver to the Noteholders a new Offer Notice (which shall be deemed to have replaced and restated the prior Offer Notice) and the Offer Period shall expire on the fifth (5th) Business Day after such Noteholder's receipt of such new Offer Notice. The Noteholder agents and covenants to keep the offer notice and any transaction terms disclosed therein, completely confidential and further understands any disclosure of the same (other than to its professional representatives) may cause improbable harm to the Company.

5.9.3. The Company shall have 150 calendar days from the later of: (i) the expiration of the Offer Period above; or (ii) upon the written consent of the Noteholder, such longer period for which the Offered Securities are being offered to third parties as part of the Subsequent Placement, to offer, issue, sell or exchange all or any part of such Offered Securities as to which a Notice of Acceptance has not been given by the Noteholders (the "**Refused Securities**"), to any offerees (whether disclosed or not) and only upon terms and conditions (including, without limitation, unit prices and interest rates) that are not materially more favorable to the acquiring person or persons or materially less favorable to the Company than those set forth in the Offer Notice and, to publicly announce as required the execution of definitive agreements relating to the closing of the Subsequent Placement and all other related required disclosure that the Company deems appropriate or necessary in its sole discretion, and (x) the consummation of the transactions contemplated by such Subsequent Placement or (y) the termination of definitive agreements relating to the Subsequent Placement.

5.9.4 In the event the Company shall propose to sell less than all the Refused Securities (any such sale to be in the manner and on the terms specified above), then each Noteholder may, at its sole option and in its sole discretion, reduce the number or amount of the Offered Securities specified in its Notice of Acceptance to an amount that shall be not less than the number or amount of the Offered Securities that such Noteholder elected to purchase pursuant above multiplied by a fraction, (i) the numerator of which shall be the number or amount of Offered Securities the Company actually proposes to issue, sell or exchange (including Offered Securities to be issued or sold to Noteholder as set forth above prior to such reduction) and (ii) the denominator of which shall be the original amount of the Offered Securities. In the event that any Noteholder so elects to reduce the number or amount of Offered Securities specified in its Notice of Acceptance, the Company may not issue, sell or exchange more than the reduced number or amount of the Offered Securities unless and until such securities have again been offered to the Noteholder in accordance with this Section 5.9.

5.9.5 Upon the closing of the issuance, sale or exchange of all or less than all of the Refused Securities, the Noteholders shall acquire from the Company, and the Company shall issue to the Noteholders, the number or amount of Offered Securities specified in the Notices of Acceptance, as reduced under Section 5.9.4 above if the Noteholders have so elected, upon the terms and conditions specified in the Offer. The purchase by the Noteholders of any Offered Securities is subject in all cases to the preparation, execution and delivery by the Company and the Noteholders of a purchase agreement relating to such Offered Securities reasonably satisfactory in form and substance to the Noteholders and their respective counsel.

5.9.6 The Noteholder may, at its/his discretion, apply outstanding portions of the Note or interest towards the purchase of any Offered Securities as provided in Section 5 above with respect to Follow On Offerings, or may utilize new funds. The Noteholder, at such time, will be required to execute all subscription or other documents as provided to other investors in such Subsequent Offering in order exercise its rights under this Section 5.9 and, to the extent the Note is no longer outstanding (if the Note is used for such purchase) shall not be deemed a Noteholder subject to the provisions of this Agreement or the Note.

5.9.7 Notwithstanding anything herein to the contrary, no violation, default or breach of this Section 5.9 shall be deemed an Event of Default under the Note.

5.9.8 The rights of each Subscriber set forth in this Section 5.9 are in addition to any other rights the Subscriber has pursuant to any Transaction Document, and any other agreement referred to or entered into in connection herewith or to which such Subscriber and Company are parties. The term “**Excepted Issuance**” as used herein shall mean (i) the Company’s issuance of Common Stock or Common Stock Equivalent described in Reports filed not later than five business days before the Closing Date, and (ii) as a result of the exercise of Warrants or conversion of Notes which are granted or issued pursuant to this Agreement, or (iii) other notes or convertible indebtedness or convertible securities existing or otherwise disclosed at or before the issuance hereof, (iv) any securities issued in connection with a bonafide acquisition of a business, intellectual property or business assets, or exercise of Warrants or conversion of Notes which are granted or issued pursuant to this Agreement, or otherwise issued to the placement agent or (v) as granted in connection with any existing board approved stock option, incentive or similar plan or any stock option plan approved by the Board of Directors of the Company.

5.10 Third Party Beneficiaries. The Company acknowledges that Sandgrain Securities, Inc., and Wellfleet Partners, Inc., are third party beneficiaries to the covenants made hereby.

6. CONDITIONS.

6.1 Conditions Precedent to the Obligation of the Company to Close and to Sell the Notes. The obligation hereunder of the Company to close and issue and sell the Units to the Purchasers at a Closing is subject to the satisfaction or waiver, at or before such Closing of the conditions set forth below. These conditions are for the Company’s sole benefit and may be waived by the Company at any time in its sole discretion.

6.1.1 Accuracy of the Purchasers’ Representations and Warranties. The representations and warranties of each Purchaser herein and in the Questionnaire attached hereto shall be true and correct in all material respects as of the date when made and as of such Closing as though made at that time, except for representations and warranties that are expressly made as of a particular date, which shall be true and correct in all material respects as of such date.

6.1.2 Performance by the Purchasers. Each Purchaser shall have performed, satisfied, and complied in all material respects with all covenants, agreements and conditions required by this Agreement or the Escrow Agreement to be performed, satisfied or complied with by the Purchasers at or prior to such Closing.

6.1.3 No Injunction. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction which prohibits the consummation of any of the transactions contemplated by this Agreement.

6.1.4 Delivery of Purchase Price. The Purchase Price for the Units shall have been delivered to the Company (or to an Escrow Agent on its behalf) on or before such Closing.

6.1.5 Delivery of Transaction Documents. The Transaction Documents shall have been duly executed and delivered by the Purchasers to the Company.

6.2 Conditions Precedent to the Obligation of the Purchasers to Close and to Purchase the Notes. The obligation hereunder of the Purchasers to purchase the Units and consummate the transactions contemplated by this Agreement is subject to the satisfaction or waiver, at or before such Closing, of each of the conditions set forth below. These conditions are for the Purchasers' sole benefit and may be waived by the Purchasers at any time in their sole discretion.

6.2.1 Accuracy of the Company's Representations and Warranties. Each of the representations and warranties of the Company in this Agreement and the other Transaction Documents shall be true and correct in all material respects as of such Closing, except for representations and warranties that speak as of a particular date, which shall be true and correct in all material respects as of such date.

6.2.2 Performance by the Company. The Company shall have performed, satisfied and complied in all material respects with all covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Company at or prior to such Closing.

6.2.3 No Injunction. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction which prohibits the consummation of any of the transactions contemplated by this Agreement.

6.2.4 No Proceedings or Litigation. No action, suit or proceeding before any arbitrator or any governmental authority shall have been commenced, and no investigation by any governmental authority shall have been initiated, against the Company or any subsidiary, or any of the officers, directors or affiliates of the Company or any subsidiary seeking to restrain, prevent or change the transactions contemplated by this Agreement, or seeking damages in connection with such transactions.

6.2.5 Notes and Shares. At the Closing, the Company shall have delivered to the Purchasers the Notes in such denominations as each Purchaser may request.

6.2.6 Closing Date. In the event that no Closing occurs by the Termination Date, then the Company and Placement Agent shall cause the Escrow Agent to return to each Purchaser the Net amount of all of the funds for subscription amounts of such Purchaser without interest or set off, other than any check or wire or similar fees.

7. PLACEMENT AGENT/LEGAL FEES.

7.1 Placement Agent's Commission. The Company acknowledges that it has retained Sandgrain Securities, Inc. to act as its exclusive placement agent (the "**Placement Agent**"). The Company has agreed to compensate Placement Agent at each Closing, based on investors introduced by them to the Company, (i) a cash fee equal to 8% of the gross dollar amount raised herein, (ii) such number of shares of Common Stock as equals 8% of the number of Conversion Shares initially issuable upon exercise of the Notes herein (the "**Placement Agent Stock**") and, (iii) warrants, identical to the Warrants in all respects, exercisable for such number of shares of Common Stock as equals 8% of the shares initially issuable upon exercise of the Warrants issued hereby. The Company shall also reimburse the Placement Agent for all of its actual non-accountable additional due diligence, selling and closing related expenses, not to exceed 1% of the gross proceeds of this offering without the Consent of the Company. The Company will be required to repay any legal fees of the Placement Agent, not to exceed \$5,000 as well as all costs for its own counsel. In addition, the Placement Agent, Affiliates of the Company or other placement agents or investment bankers may invest in the Notes herein or in any future offerings and certain persons may be paid a fee in cash, stock or warrants in connection with the provision of such services. The Company represents that there are no other parties entitled to receive fees, commissions, or similar payments in connection with the offering described in this Agreement except the Placement Agent. The parties also agree and acknowledge hereby that such fees shall not be deemed as interest or fees relating to the Note.

7.2 Legal Fees. The Purchasers and the Company shall each bear their own legal fees in connection with this Agreement.

8. MISCELLANEOUS.

8.1 Indemnification. Each Purchaser agrees to defend, indemnify and hold the Company harmless against any liability, costs or expenses arising as a result of any dissemination of any of the Shares by such Purchaser in violation of the Securities Act or applicable state or jurisdiction's securities law.

8.2 Governing Law - Waiver of Stay, Extension or Usury Laws. This Agreement shall be governed by and construed under the laws of the State of New York. The Company represents and warrants that it deems the sale of the Units hereby as an Investment and does not consider the sale of the Units together with the payment of all fees and expenses in connection herewith to be usurious under the usury laws of the State of New York ("**Applicable Law**"). If, from any circumstances whatsoever, interest (or any original issue discount that would be determined to be interest) would otherwise be payable to any holder of the Notes in excess of the maximum amount permissible under Applicable Law, the interest payable to such holder shall be reduced to the maximum amount permissible under Applicable Law, and if from any circumstances such holder shall ever receive anything deemed interest by the Applicable Law in excess of the maximum amount permissible under the Applicable Law, an amount equal to the excessive interest shall be applied to the reduction of the principal hereof and not to the payment of interest, or if such excessive amount of interest exceeds the unpaid principal balance of principal hereof, such excess shall be refunded to the Company as applicable. All interest paid or agreed to be paid to the holders of the Notes shall, to the extent permitted by Applicable Law, be amortized, prorated, allocated and spread throughout full period (including any renewal or extension) until payment in full of the principal so that the interest hereon for such full period shall not exceed the maximum amount permissible under the Applicable Law.

8.3 Successors and Assigns. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors, and administrators of the parties hereto.

8.4 Entire Agreement. This Agreement and the Exhibits hereto and thereto, and the other documents delivered pursuant hereto and thereto, constitute the full and entire understanding and agreement among the parties with regard to the subjects hereof and no party shall be liable or bound to any other party in any manner by any representations, warranties, covenants, or agreements except as specifically set forth herein or therein. Nothing in this Agreement, express or implied, is intended to confer upon any party, other than the parties hereto and their respective successors and assigns, any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided herein.

8.5 Severability. In case any provision of this Agreement shall be invalid, illegal, or unenforceable, it shall to the extent practicable, be modified so as to make it valid, legal and enforceable and to retain as nearly as practicable the intent of the parties, and the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

8.6 Amendment and Waiver. Except as otherwise provided herein, any term of this Agreement may be amended, and the observance of any term of this Agreement may be waived (either generally or in a particular instance, either retroactively or prospectively, and either for a specified period of time or indefinitely), with the written consent of the Company and the Purchasers holding a majority of the outstanding principal amount of Notes, or, to the extent such amendment affects only one Purchaser, by the Company and such Purchaser. Any amendment or waiver effected in accordance with this Section shall be binding upon each future holder of any security purchased under this Agreement (including securities into which such securities have been converted) and the Company.

8.7 Notices. All notices and other communications required or permitted hereunder shall be in writing and shall be effective when delivered personally, or sent by telex or telecopier (with receipt confirmed), provided that a copy is mailed by registered mail, return receipt requested, or when received by the addressee, if sent by Express Mail, Federal Express or other nationally recognized overnight courier service (receipt requested) in each case to the appropriate address set forth below:

If to the Company: Save the World Air, Inc.
235 Tennant Avenue
Morgan Hill, California 95037
Attn: Cecil Bond Kyte, CEO
Tel: (408)778- 0101
Fax: (805) 845-4377

With a copy to: Hodgson Russ, LLP
1540 Broadway, 24 Floor
New York, New York 10036
Attn. Ronniel Levy, Esq.
(646) 218-7643
(Fax) (646) 943-7078

If to the Purchaser: At the address set forth on the Purchaser's Signature Page

With a copy to: Sandgrain Securities, Inc.
1050 Franklin Avenue, Suite 300
Garden City, NY 11530
Facsimile: (516) 741-0390
Attention: Peter Grassel

With a copy to: Lazare Potter & Giacovas LLP,
950 Third Avenue,
New York, New York 10022,
(212) 758- 9300
(Fax) (212) 888-0919

8.8 Faxes and Counterparts. This Agreement may be executed in one or more counterparts. Delivery of an executed counterpart of the Agreement or any exhibit attached hereto by facsimile transmission shall be equally as effective as delivery of an executed hard copy of the same. Any party delivering an executed counterpart of this Agreement or any exhibit attached hereto by facsimile transmission shall also deliver an executed hard copy of the same, but the failure by such party to deliver such executed hard copy shall not affect the validity, enforceability or binding nature effect of this Agreement or such exhibit.

8.9 Consent of Purchasers. As used in the Agreement, “consent of the Purchasers” or similar language means the consent of holders of not less than 50% of the total principal and interest outstanding on the Notes owned by Purchasers on the date consent is requested.

8.10 Titles and Subtitles. The titles of the paragraphs and subparagraphs of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

[Counterpart Signature Page to Securities Purchase Agreement of Save the World Air, Inc.]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth on the Purchase Signature Page hereto.

PURCHASER

(By Counterpart Form - See Purchaser Signature
Pages following the Questionnaire)

COMPANY

SAVE THE WORLD AIR, INC

(By Execution of Acceptance Page following
Certificate of Signatory)

QUESTIONNAIRE

The undersigned Purchaser has read the Securities Purchase Agreement of Save the World Air, Inc., dated as of October __, 2009, and acknowledges that the completion of this Questionnaire and the execution of the Purchaser Signature Page that follows shall constitute the undersigned's execution of such Agreement. This Questionnaire is and shall remain part of the Agreement. All capitalized terms used herein shall be as defined in such Agreement

I hereby subscribe for ____ Units, each Unit constituting a \$25,000 7% Convertible Promissory Note and _____ Common Stock Purchase Warrants to purchase 100,000 share at \$.30 per share, for an aggregate principal amount of \$ _____, and Common Stock Purchase Warrants and tender a purchase price of \$ _____ therefore.

I am a resident of the State of _____.

Please print above the exact name(s) in which the Notes are to be held

My address is: _____

I agree to keep information relating to the Company strictly confidential and not to discuss or exploit or distribute any of the information herein except to my professional advisors or as necessary to comply with law.

I acknowledge that the offering of the Units is subject to the Federal securities laws of the United States and state securities laws of those states in which the Notes are offered, and that, pursuant to the U.S. Federal securities laws and state securities laws, the Units may be purchased by persons who come within the definition of an “**Accredited Investor**” as that term is defined in Rule 501(a) of Regulation D promulgated under the Securities Act (“**Regulation D**”).

By initialing one of the categories below, I represent and warrant that I come within the category so initialed and have truthfully set forth the factual basis or reason I come within that category. All information in response to this paragraph will be kept strictly confidential. I agree to furnish any additional information that the Company deems necessary in order to verify the answers set forth below.

NOTE: You must either initial that at least ONE category.

Individual Purchaser:

(A Purchaser who is an individual may initial either Category I, II, or III)

Category I _____ I am a director or executive officer of the Company.

Category II _____ I am an individual (not a partnership, corporation, etc.) whose individual net worth, or joint net worth with my spouse, presently exceeds \$1,000,000.

Explanation. In calculation of net worth, you may include equity in personal property and real estate, including your principal residence, cash, short term investments, stocks and securities. Equity in personal property and real estate should be based on the fair market value of such property less debt secured by such property.

Category III _____ I am an individual (not a partnership, corporation, etc.) who had an individual income in excess of \$200,000 in 2007 and 2008, or joint income with my spouse in excess of \$300,000 in 2007 and 2008, and I have a reasonable expectation of reaching the same income level in 2009.

Entity Purchasers:

(A Purchaser which is a corporation, limited liability company, partnership, trust, or other entity may initial either Category IV, V, VI, VII or VIII)

Category IV _____ The Purchaser is an entity in which all of the equity owners are “**Accredited Investors**” as defined in Rule 501(a) of Regulation D. **If relying upon this category alone, each equity owner must complete a separate copy of this Agreement.**

(describe entity)

Category V _____ The Purchaser is a trust, with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring the Units offered, whose purchase is directed by a “**Sophisticated Person**” as described in Rule 506(b)(2)(ii) of Regulation D.

Category VI _____ The Purchaser is an organization described in Section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the Units, with total assets in excess of \$5,000,000.

(describe entity)

Category VII _____ The Purchaser is a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940.

(describe entity)

Executed this _____ day of _____, 2009 at _____.

PURCHASER SIGNATURE PAGE

(For Individual Purchasers)

This Securities Purchase Agreement of Save the World Air, Inc. (including the Questionnaire) is hereby executed and entered into by the below Purchaser.

Principal Amount of Note \$ _____

No. of Warrants _____

Signature (Individual)

Name (Print)

Street address

City, State and Zip Code

Tax Identification or Social Security Number

(_____) _____
Telephone Number

(_____) _____
Facsimile Number

Address to Which Correspondence Should Be Directed (if different from above)

c/o Name

Street Address

City, State and Zip Code

(_____) _____
Telephone Number

(_____) _____
Facsimile Number

PURCHASER SIGNATURE PAGE
(for Corporation, Partnership, Trust or Other Entities)

This Securities Purchase Agreement of Save the World Air, Inc. (including the Questionnaire) is hereby executed and entered into by the below Purchaser:

Principal Amount of Note \$ _____

Name of Entity

No. of Warrants _____

Type of Entity (i.e., corporation, partnership, etc.)

Tax Identification or Social Security Number

State of Formation of Entity

Name of Signatory Typed or Printed

Its:

Title

Address to Which Correspondence Should Be Directed (if different from above)

c/o Name

Street Address

City, State and Zip Code

(_____) _____
Telephone Number

(_____) _____
Facsimile Number

***If Notes are being subscribed for by an entity, the Certificate of Signatory that follows must also be completed.**

CERTIFICATE OF SIGNATORY

To be completed if Units are being subscribed for by an entity.

I, _____, am the _____ of _____ (the **“Entity”**).

I certify that I am empowered and duly authorized by the Entity to execute and carry out the terms of the Securities Purchase Agreement and to purchase and hold the Notes and Shares. The Securities Purchase Agreement has been duly and validly executed on behalf of the Entity and constitutes a legal and binding obligation of the Entity.

IN WITNESS WHEREOF, I have hereto set my hand this _____ day of _____, 2009.

Signature

**ACCEPTANCE PAGE TO SECURITIES PURCHASE AGREEMENT OF
SAVE THE WORLD AIR, INC**

The foregoing subscriptions for _____ Units, for an aggregate of \$_____ principal amount of 7% Convertible Promissory Notes and Warrants at a purchase price of \$25,000 per Unit, in accordance with the foregoing Securities Purchase Agreement, AGREED AND ACCEPTED; *provided, however*, that the Company may accept additional subscriptions from time to time without consent of Purchasers until the maximum offering amount (plus the over-allotment option, if any) are accepted and Closed upon, in accordance with this Agreement:

SAVE THE WORLD AIR, INC

By: _____

Name:

Title:

Date: _____, 2009

EXHIBIT 1

Form of 7% Convertible Promissory Note

[This Exhibit is Included in the Memorandum as Part of Exhibit B]

EXHIBIT 2

Form of Common Stock Purchase Warrant

[This Exhibit is Included in the Memorandum as Part of Exhibit B]

EXHIBIT 3

Form of Executed Escrow Agreement Between Sandgrain Securities, Inc., Save the World Air, Inc., and Manufacturers and Traders Trust Company, as Escrow Agent

[This Exhibit is Included in the Memorandum as Part of Exhibit B]

Exhibit 4-2

NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS NOTE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE CONVERTIBLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

Principal Amount: \$25,000

Issue Date: November 19, 2009

7% CONVERTIBLE PROMISSORY NOTE

FOR VALUE RECEIVED, **SAVE THE WORLD AIR, INC.**, a Nevada corporation (hereinafter called "**Borrower**"), hereby promises to pay to [], [], (the "**Holder**") or its registered assigns or successors in interest or order, without demand, the sum of TWENTY FIVE THOUSAND (\$25,0900) ("**Principal Amount**"), with interest compounded quarterly at the annual rate of seven percent (7%) on September 28, 2012 (the "**Maturity Date**"), if not sooner paid.

This Note has been entered into pursuant to the terms of a Securities Purchase Agreement between the Borrower, the Holder and certain other holders (the "**Other Holders**") of convertible promissory notes (the "**Other Notes**") and Common Stock Purchase Warrants, dated of even date herewith (the "**Subscription Agreement**"), and shall be governed by the terms of such Subscription Agreement. Unless otherwise separately defined herein, all capitalized terms used in this Note shall have the same meaning as is set forth in the Subscription Agreement. The following terms shall apply to this Note:

ARTICLE I

INTEREST

1.1. **Interest Rate.** Interest on this Note shall compound quarterly and shall accrue at the annual rate of seven percent (7%). Interest will be payable commencing December 31, 2009 and on the last business day of each calendar quarter thereafter and on the Maturity Date, accelerated or otherwise, when the principal and remaining accrued but unpaid interest shall be due and payable, or sooner as described below. Interest will be payable in cash, or at the election of the Borrower, and subject to Section 2.2, with shares of Common Stock at a per share value equal to the Conversion Price set forth in Section 2.1. Interest may be paid at the Company's election in cash, registered Common Stock or Common Stock immediately to the extent resellable pursuant to Rule 144 without transfer or volume restrictions.

1.2. Default Interest Rate. Following the occurrence and during the continuance of an Event of Default, which, if susceptible to cure is not cured within the cure periods (if any) set forth in Article III, otherwise then from the first date of such occurrence until cured, the annual interest rate on this Note shall (subject to Section 4.7) be Ten Percent (10%), and be due on demand.

ARTICLE II

CONVERSION RIGHTS

2.1. Holder's Conversion Rights. Subject to Section 2.2, for so long as this Note remains outstanding and not fully paid, the Holder shall have the right, but not the obligation, to convert all or any portion of the then aggregate outstanding Principal Amount of this Note, together with interest, into shares of Common Stock, subject to the terms and conditions set forth in this Article III, at the rate of \$0.25 per share of Common Stock ("**Conversion Price**"), as the same may be adjusted pursuant to this Note. The Holder may exercise such right by delivery to the Borrower of a written Notice of Conversion pursuant to Section 2.3.

2.2. Conversion Limitation. Neither Holder nor the Borrower may convert (or in the Borrowers case, cause repayment with stock) on any date that amount of the Note Principal or interest in connection with that number of shares of Common Stock which would be in excess of the sum of (i) the number of shares of Common Stock beneficially owned by the Holder and its affiliates on a Conversion Date, (ii) any Common Stock issuable in connection with the unconverted portion of the Note, and (iii) the number of shares of Common Stock issuable upon the conversion of the Note with respect to which the determination of this provision is being made, which would result in beneficial ownership by the Holder and its affiliates of more than 4.99% of the outstanding shares of Common Stock of the Borrower on such Conversion Date. For the purposes of the provision to the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and Regulation 13d-3 thereunder. Subject to the foregoing, the Holder shall not be limited to aggregate conversions of only 4.99% and aggregate conversion by the Holder may exceed 4.99%. The Holder shall have the authority and obligation to determine whether the restriction contained in this Section 2.2 will limit any conversion hereunder and to the extent that the Holder determines that the limitation contained in this Section applies, the determination of which portion of the Notes are convertible shall be the responsibility and obligation of the Holder. The Holder may waive the conversion limitation described in this Section 2.2, in whole or in part, upon and effective after 61 days prior written notice to the Borrower to increase such percentage to up to 9.99%. Once a Holder has waived this limitation, the same shall be deemed waived for all other future conversions, warrant exercises, or share issuances by the Holder.

2.3. Mechanics of Holder's Conversion.

(a) In the event that the Holder elects to convert any amounts outstanding under this Note into Common Stock, the Holder shall give notice of such election by delivering an executed and completed notice of conversion (a "**Notice of Conversion**") to the Borrower, which Notice of Conversion shall provide a breakdown in reasonable detail of the Principal Amount, accrued interest and amounts being converted. The original Note is not required to be surrendered to the Borrower until all sums due under the Note have been paid. On each Conversion Date (as hereinafter defined) and in accordance with its Notice of Conversion, the Holder shall make the appropriate reduction to the Principal Amount, accrued interest and fees as entered in its records. Each date on which a Notice of Conversion is delivered or telecopied to the Borrower in accordance with the provisions hereof shall be deemed a "Conversion Date." A form of Notice of Conversion to be employed by the Holder is annexed hereto as Exhibit A.

(b) Pursuant to the terms of a Notice of Conversion, the Borrower will issue instructions to the transfer agent accompanied by an opinion of counsel (if so required by the Borrower's transfer agent), to issue the Conversion Shares as provided in the Subscription Agreement.

2.4. Adjustments to Conversion Price.

(a) The number of shares of Common Stock to be issued upon each conversion of this Note pursuant to this Article II shall be determined by dividing that portion of the Principal Amount and interest and fees to be converted, if any, by the then applicable Conversion Price. Notwithstanding the foregoing, in the event that any principal or interest is applied towards an investment in a Follow On Offering, the principal and interest shall entitle the Holder converting the same to the securities offered in such Follow On Offering at the same price offered to other investors therein, but shall be entitled to keep the Warrants.

(b) The Conversion Price and number and kind of shares or other securities to be issued upon conversion shall be subject to adjustment from time to time as described in the Subscription Agreement and upon the happening of certain events while this conversion right remains outstanding, as follows:

A. Merger, Sale of Assets, etc. If (A) the Company effects any merger or consolidation of the Company with or into another entity, (B) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (C) any tender offer or exchange offer (whether by the Company or another entity) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, (D) the Company consummates a stock purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with one or more persons or entities whereby such other persons or entities acquire more than the 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by such other persons or entities making or party to, or associated or affiliated with the other persons or entities making or party to, such stock purchase agreement or other business combination), (E) any "person" or "group" (as these terms are used for purposes of Sections 13(d) and 14(d) of the 1934 Act) is or shall become the "beneficial owner" (as defined in Rule 13d-3 under the 1934 Act), directly or indirectly, of 50% of the aggregate Common Stock of the Company (other than through open market purchases), or (F) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (in any such case, a "Fundamental Transaction"), this Note, as to the unpaid principal portion thereof and accrued interest thereon, shall thereafter be deemed to evidence the right to convert into such number and kind of shares or other securities and property as would have been issuable or distributable on account of such Fundamental Transaction, upon or with respect to the securities subject to the conversion right immediately prior to such Fundamental Transaction. The foregoing provision shall similarly apply to successive Fundamental Transactions of a similar nature by any such successor or purchaser. Without limiting the generality of the foregoing, the anti-dilution provisions of this Section shall apply to such securities of such successor or purchaser after any such Fundamental Transaction.

B. Reclassification, etc. If the Borrower at any time shall, by reclassification or otherwise, change the Common Stock into the same or a different number of securities of any class or classes, this Note, as to the unpaid principal portion hereof and accrued interest hereon, shall thereafter be deemed to evidence the right to convert into an adjusted number of such securities and kind of securities as would have been issuable as the result of such change with respect to the Common Stock immediately prior to such reclassification or other change.

C. Stock Splits, Combinations and Dividends. If the shares of Common Stock are subdivided or combined into a greater or smaller number of shares of Common Stock, or if a dividend is paid on the Common Stock in shares of Common Stock, the Conversion Price shall be proportionately reduced in case of subdivision of shares or stock dividend or proportionately increased in the case of combination of shares, in each such case by the ratio which the total number of shares of Common Stock outstanding immediately after such event bears to the total number of shares of Common Stock outstanding immediately prior to such event.

(c) Whenever the Conversion Price is adjusted pursuant to Section 2.4(b) above, the Borrower shall promptly mail to the Holder a notice setting forth the Conversion Price after such adjustment and setting forth a statement of the facts requiring such adjustment.

(d) Nothing herein shall be deemed a waiver or consent of the Holders to the taking of any action by the Company set forth in Section 5 of the Subscription Agreement.

2.5. Reservation. During the period the conversion right exists, Borrower will make best efforts, to reserve from its authorized and unissued Common Stock not less than one hundred and ten percent (120%) of the number of shares to provide for the issuance of Common Stock upon the full conversion of this Note. Borrower represents that upon issuance, such shares will be duly and validly issued, fully paid and non-assessable. Borrower acknowledges that it may be required to amend its Articles of Incorporation so as to increase its authorized capital from time to time in order to satisfy this covenant, and agrees to make best efforts to make such filings, proxy or information statement distributions, and obtain such board, shareholder or other third party consents as are necessary from time to time to maintain the adequate number of Common Stock reserved and available for issuance.

2.6 Issuance of Replacement Note. Upon any partial conversion of this Note, a replacement Note containing the same date and provisions of this Note shall, at the written request of the Holder, be issued by the Borrower to the Holder for the outstanding Principal Amount of this Note and accrued interest which shall not have been converted or paid, provided Holder has surrendered an original Note to the Borrower. In the event that the Holder elects not to surrender a Note for reissuance upon partial payment or conversion, the Holder hereby indemnifies the Borrower against any and all loss or damage attributable to a third-party claim in an amount in excess of the actual amount then due under the Note, and the Borrower is hereby expressly authorized to offset any such amounts mutually agreed upon by Borrower and Holder or pursuant to a judgment in Borrower's favor against amounts then due under the Note.

ARTICLE III

EVENTS OF DEFAULT

The occurrence of any of the following events of default ("**Event of Default**") shall, at the option of the Holder hereof, make all sums of principal and interest then remaining unpaid hereon and all other amounts payable hereunder immediately due and payable, upon demand, without presentment, or grace period, all of which hereby are expressly waived, except as set forth below:

3.1 Failure to Pay Principal or Interest. The Borrower fails to pay any installment of Principal Amount, interest or other sum due under this Note when due and such failure continues for a period of eight (8) business days after the due date.

3.2 Breach of Covenant. The Borrower breaches any material covenant or other term or condition of the Subscription Agreement in any material respect and such breach, if subject to cure, continues for a period of ten (10) business days after written notice to the Borrower from the Holder. Notwithstanding the foregoing, in the event that the provisions of Section 2.2 wherein the Borrower does not have sufficient number of shares available for issuance pursuant to its Articles of Incorporation, as amended, then the default shall be deemed cured at the time of the initial filing of a preliminary information statement or proxy statement, provided, that the Company makes best efforts to obtain effectiveness of the same and complete the filing of any Amendment to the Articles of Incorporation (or amended and restated Articles of Incorporation) within 45 days thereafter.

3.3 Breach of Representations and Warranties. Any material representation or warranty of the Borrower made herein or in the Subscription Agreement, or in any agreement, statement or certificate given in writing pursuant hereto or in connection herewith or therewith shall be false or misleading in any material respect as of the Closing Date.

3.4 Receiver or Trustee. The Borrower shall make an assignment for the benefit of creditors, or apply for or consent to the appointment of a receiver or trustee for them or for a substantial part of their property or business; or such a receiver or trustee shall otherwise be appointed.

3.5 Judgments. Any money judgment, writ or similar final process shall be entered or filed against Borrower States or any subsidiary of Borrower in the United or any of their property or other assets in the United States for more than \$300,000, and shall remain unvacated, unbonded, unappealed, unsatisfied, or unstayed for a period of forty-five (45) days.

3.6 Non-Payment. A default by the Borrower under any one or more obligations in an aggregate monetary amount in excess of \$300,000 for more than twenty (20) days after the due date, unless the Borrower is contesting the validity of such obligation in good faith and has segregated cash funds equal to not less than one-half of the contested amount.

3.7 Bankruptcy. Bankruptcy, insolvency, reorganization, or liquidation proceedings or other proceedings or relief under any bankruptcy law or any law, or the issuance of any notice in relation to such event, for the relief of debtors shall be instituted by or against the Borrower or any Subsidiary of Borrower and if instituted against them are not dismissed within forty-five (45) days of initiation.

3.8 Delisting. Delisting of the Common Stock from any Principal Market for a period of seven consecutive trading days; or notification from a Principal Market that the Borrower is not in compliance with the conditions for such continued listing on such Principal Market.

3.9 Stop Trade. An SEC or judicial stop trade order or Principal Market trading suspension with respect to Borrower's Common Stock that lasts for five or more consecutive trading days.

3.10 Failure to Deliver Common Stock or Replacement Note. Borrower's failure to timely deliver Common Stock to the Holder pursuant to and in the form required by this Note or the Subscription Agreement, or if required, a replacement Note.

3.11 [Omitted]

3.12 Reservation Default. Failure by the Borrower to have reserved for issuance upon conversion of the Note the amount of Common Stock as set forth in this Note and the Subscription Agreement.

3.13 Financial Statement Restatement. The restatement of any financial statements filed by the Borrower for any date or period from two years prior to the Issue Date of this Note and until this Note is no longer outstanding, if the result of such restatement would, by comparison to the unrestated financial statements, have constituted a Material Adverse Effect.

ARTICLE IV

MISCELLANEOUS

4.1 Failure or Indulgence Not Waiver. No failure or delay on the part of Holder hereof in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege. All rights and remedies existing hereunder are cumulative to, and not exclusive of, any rights or remedies otherwise available.

4.2 Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be: (i) if to the Borrower to: Save the World Air, Inc., 235 Tennant Avenue, Morgan Hill, California 95037, Attn: Cecil Bond Kyte, CEO, Tel: (408)778- 0101, Fax: (805) 845-4377, with a copy by facsimile and mail to: Hodgson Russ LLP, 1540 Broadway, 24th Floor, New York, NY 10036, Attn: Ronniel Levy, Esq., Fax: (646) 943-7078, and (ii) if to the Holder, to the name, address and facsimile number set forth on the front page of this Note.

4.3 Amendment Provision. The term “**Note**” and all reference thereto, as used throughout this instrument, shall mean this instrument as originally executed, or if later amended or supplemented, then as so amended or supplemented.

4.4 Assignees. This Note shall be binding upon the Borrower and its successors and assigns, and shall inure to the benefit of the Holder and its successors and assigns.

4.5 Cost of Collection. If default is made in the payment of this Note, Borrower shall pay the Holder hereof reasonable costs of collection, including reasonable attorneys’ fees.

4.6 Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of New York, **including, but not limited to, New York statutes of limitations.** Any action brought by either party against the other concerning the transactions contemplated by this Agreement shall be brought only in the civil or state courts of New York or in the federal courts located in the State and county of New York. Both parties and the individual signing this Agreement on behalf of the Borrower agree to submit to the jurisdiction of such courts. The prevailing party shall be entitled to recover from the other party its reasonable attorney’s fees and costs. In the event that any provision of this Note is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or unenforceability of any other provision of this Note. Nothing contained herein shall be deemed or operate to preclude the Holder from bringing suit or taking other legal action against the Borrower in any other jurisdiction to collect on the Borrower’s obligations to Holder, to realize on any collateral or any other security for such obligations, or to enforce a judgment or other decision in favor of the Holder. **This Note shall be deemed an unconditional obligation of Borrower for the payment of money and, without limitation to any other remedies of Holder, may be enforced against Borrower by summary proceeding pursuant to New York Civil Procedure Law and Rules Section 3213 or any similar rule or statute in the jurisdiction where enforcement is sought.**

4.7 Maximum Payments. Nothing contained herein shall be deemed to establish or require the payment of a rate of interest or other charges in excess of the maximum permitted by applicable law. In the event that the rate of interest required to be paid or other charges hereunder exceed the maximum permitted by such law, any payments in excess of such maximum shall be credited against amounts owed by the Borrower to the Holder and thus refunded to the Borrower.

4.8 Construction. Each party acknowledges that its legal counsel participated in the preparation of this Note and, therefore, stipulates that the rule of construction that ambiguities are to be resolved against the drafting party shall not be applied in the interpretation of this Note to favor any party against the other.

4.9 Redemption. This Note may not be redeemed or called without the consent of the Holder except as described in this Note.

4.10 Shareholder Status. The Holder shall not have rights as a shareholder of the Borrower with respect to unconverted portions of this Note. However, the Holder will have the rights of a shareholder of the Borrower with respect to the Shares of Common Stock to be received after delivery by the Holder of a Conversion Notice to the Borrower.

4.11 Non-Business Days. Whenever any payment or any action to be made shall be due on a Saturday, Sunday or a public holiday under the laws of the State of New York, such payment may be due or action shall be required on the next succeeding business day and, for such payment, such next succeeding day shall be included in the calculation of the amount of accrued interest payable on such date.

IN WITNESS WHEREOF, Borrower has caused this Note to be signed in its name by an authorized officer as of the ____ day of July, 2009.

SAVE THE WORLD AIR, INC.

By: _____

Name:

Title: CEO

WITNESS:

[Print Name]
Chief Financial Officer

NOTICE OF CONVERSION

(To be executed by the Registered Holder in order to convert the Note)

The undersigned hereby elects to convert \$ _____ of the principal and \$ _____ of the interest due on the Note issued by Save the World Air, Inc. on November 19, 2009 into Shares of Common Stock of Save the World Air, Inc. (the "**Borrower**") according to the conditions set forth in such Note, as of the date written below.

Date of Conversion: _____

Conversion Price: _____

Number of Shares of Common Stock Beneficially Owned on the Conversion Date: Less than 5% of the outstanding Common Stock of Save the World Air, Inc.

Shares To Be Delivered: _____

Signature: _____

Print Name: _____

Address: _____

Exhibit 10.1

NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

Right to Purchase 100,000 shares of Common Stock of Save the World Air, Inc.
(subject to adjustment as provided herein)

FORM OF COMMON STOCK PURCHASE WARRANT

No. 2009-001

Issue Date: November 19, 2009

SAVE THE WORLD AIR, INC., a corporation organized under the laws of the State of Nevada (the "**Company**"), hereby certifies that, for value received, _____, _____, or its assigns (the "**Holder**"), is entitled, subject to the terms set forth below, to purchase from the Company at any time commencing six months after the Issue Date until 5:00 p.m., E.S.T on September 28, 2012 (the "**Expiration Date**"), up to One Hundred Thousand (100,000) fully paid and nonassessable shares of Common Stock at a per share purchase price of \$0.30. The afore described purchase price per share, as adjusted from time to time as herein provided, is referred to herein as the "**Purchase Price.**" The number and character of such shares of Common Stock and the Purchase Price are subject to adjustment as provided herein. The Company may reduce the Purchase Price for some or all of the Warrants, temporarily or permanently. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in that certain Securities Purchase Agreement (the "**Subscription Agreement**"), accepted as of November 19, 2009, entered into by the Company and the Holder.

As used herein the following terms, unless the context otherwise requires, have the following respective meanings:

- (a) The term "**Company**" shall include Save the World Air, Inc. and any corporation which shall succeed or assume the obligations of Save the World Air, Inc. hereunder.
- (b) The term "**Common Stock**" includes (a) the Company's Common Stock, \$.001 par value per share, as authorized on the date of the Subscription Agreement, and (b) any other securities into which or for which any of the securities described in (a) may be converted or exchanged pursuant to a plan of recapitalization, reorganization, merger, sale of assets or otherwise.
- (c) The term "**Other Securities**" refers to any stock (other than Common Stock) and other securities of the Company or any other person (corporate or otherwise) which the holder of the Warrant at any time shall be entitled to receive, or shall have received, on the exercise of the Warrant, in lieu of or in addition to Common Stock, or which at any time shall be issuable or shall have been issued in exchange for or in replacement of Common Stock or Other Securities pursuant to Section 4 or otherwise.

(d) The term “**Warrant Shares**” shall mean the Common Stock issuable upon exercise of this Warrant.

1. Exercise of Warrant

1.1. Number of Shares Issuable upon Exercise. From and after the Issue Date through and including the Expiration Date, the Holder hereof shall be entitled to receive, upon exercise of this Warrant in whole in accordance with the terms of subsection 1.2 or upon exercise of this Warrant in part in accordance with subsection 1.3, shares of Common Stock of the Company, subject to adjustment pursuant to Section 4.

1.2. Full Exercise. This Warrant may be exercised in full by the Holder hereof by delivery of an original or facsimile copy of the form of subscription attached as **Exhibit A** hereto (the “**Subscription Form**”) duly executed by such Holder and delivery within two days thereafter of payment, in cash, wire transfer or by certified or official bank check payable to the order of the Company, in the amount obtained by multiplying the number of shares of Common Stock for which this Warrant is then exercisable by the Purchase Price then in effect. The original Warrant is not required to be surrendered to the Company until it has been fully exercised.

1.3. Partial Exercise. This Warrant may be exercised in part (but not for a fractional share) by delivery of a Subscription Form in the manner and at the place provided in subsection 1.2 except that the amount payable by the Holder on such partial exercise shall be the amount obtained by multiplying (a) the number of whole shares of Common Stock designated by the Holder in the Subscription Form by (b) the Purchase Price then in effect. On any such partial exercise provided the Holder has surrendered the original Warrant, the Company, at its expense, will forthwith issue and deliver to or upon the order of the Holder hereof a new Warrant of like tenor, in the name of the Holder hereof or as such Holder (upon payment by such Holder of any applicable transfer taxes) may request, the whole number of shares of Common Stock for which such Warrant may still be exercised.

1.4. Fair Market Value. Fair Market Value of a share of Common Stock as of a particular date (the “**Determination Date**”) shall mean:

(a) If the Company's Common Stock is traded on an exchange or is quoted on the NASDAQ Global Market, Nasdaq Global Select Market, the NASDAQ Capital Market, the New York Stock Exchange, the American Stock Exchange, LLC, OTC Bulletin Board, or Pink Sheets LLC, then the average of the closing or last sale prices, respectively, reported for the ten trading days immediately preceding the Determination Date;

(b) If the Company's Common Stock is not traded on an exchange or on the NASDAQ Global Market, Nasdaq Global Select Market, the NASDAQ Capital Market, the New York Stock Exchange, the American Stock Exchange, LLC, OTC Bulletin Board, or Pink Sheets LLC, but is traded in the over-the-counter market, then the average of the closing bid and ask prices reported for the ten trading days immediately preceding the Determination Date;

(c) Except as provided in clause (d) below and Section 3.1, if the Company's Common Stock is not publicly traded, then as the Holder and the Company agree, or in the absence of such an agreement, by arbitration in accordance with the rules then standing of the American Arbitration Association, before a single arbitrator to be chosen from a panel of persons qualified by education and training to pass on the matter to be decided with such arbitration to be conducted in New York City, New York; or

(d) If the Determination Date is the date of a liquidation, dissolution or winding up, or any event deemed to be a liquidation, dissolution or winding up pursuant to the Company's charter, then all amounts to be payable per share to holders of the Common Stock pursuant to the charter in the event of such liquidation, dissolution or winding up, plus all other amounts to be payable per share in respect of the Common Stock in liquidation under the charter, assuming for the purposes of this clause (d) that all of the shares of Common Stock then issuable upon exercise of all of the Warrants are outstanding at the Determination Date.

1.5. Company Acknowledgment. The Company will, at the time of the exercise of the Warrant, upon the request of the Holder hereof acknowledge in writing its continuing obligation to afford to such Holder any rights to which such Holder shall continue to be entitled after such exercise in accordance with the provisions of this Warrant. If the Holder shall fail to make any such request, such failure shall not affect the continuing obligation of the Company to afford to such Holder any such rights.

1.6. Trustee for Warrant Holders. In the event that a bank or trust company shall have been appointed as trustee for the Holder of the Warrants pursuant to Subsection 3.2, such bank or trust company shall have all the powers and duties of a warrant agent (as hereinafter described) and shall accept, in its own name for the account of the Company or such successor person as may be entitled thereto, all amounts otherwise payable to the Company or such successor, as the case may be, on exercise of this Warrant pursuant to this Section 1.

1.7. Delivery of Stock Certificates, etc. on Exercise. The Company agrees that the shares of Common Stock purchased upon exercise of this Warrant shall be deemed to be issued to the Holder hereof as the record owner of such shares as of the close of business on the date on which delivery of a Subscription Form shall have occurred and payment made for such shares as aforesaid. As soon as practicable after the exercise of this Warrant in full or in part, and in any event within ten (10) business days thereafter (“**Warrant Share Delivery Date**”), the Company at its expense (including the payment by it of any applicable issue taxes) will cause to be issued in the name of and delivered to the Holder hereof, or as such Holder (upon payment by such Holder of any applicable transfer taxes) may direct in compliance with applicable securities laws, a certificate or certificates for the number of duly and validly issued, fully paid and non-assessable shares of Common Stock (or Other Securities) to which such Holder shall be entitled on such exercise, plus, in lieu of any fractional share to which such Holder would otherwise be entitled, cash equal to such fraction multiplied by the then Fair Market Value of one full share of Common Stock, together with any other stock or other securities and property (including cash, where applicable) to which such Holder is entitled upon such exercise pursuant to Section 1 or otherwise. The Company understands that a delay in the delivery of the Warrant Shares after the Warrant Share Delivery Date could result in economic loss to the Holder. The Company shall not, however, be responsible for any out of pocket or potential lost profits as a result of a decline in stock price during any delay. Furthermore, in addition to any other remedies which may be available to the Holder, in the event that the Company fails for any reason to effect delivery of the Warrant Shares by the Warrant Share Delivery Date, the Holder may revoke all or part of the relevant Warrant exercise by delivery of a notice to such effect to the Company, whereupon the Company and the Holder shall each be restored to their respective positions immediately prior to the exercise of the relevant portion of this Warrant.

2. Cashless Exercise.

(a) This Warrant may be exercised in whole or in part either in (i) cash, wire transfer or by certified or official bank check payable to the order of the Company equal to the applicable aggregate Purchase Price, (ii) by delivery of Common Stock issuable upon exercise of the Warrants in accordance with Section (b) below or (iii) by a combination of any of the foregoing methods, for the number of Common Stock specified in such form (as such exercise number shall be adjusted to reflect any adjustment in the total number of shares of Common Stock issuable to the holder per the terms of this Warrant) and the holder shall thereupon be entitled to receive the number of duly authorized, validly issued, fully-paid and non-assessable shares of Common Stock (or Other Securities) determined as provided herein.

(b) Subject to the provisions herein to the contrary, if the Fair Market Value of one share of Common Stock is greater than the Purchase Price (at the date of calculation as set forth below), in lieu of exercising this Warrant for cash, the holder may elect to receive shares equal to the value (as determined below) of this Warrant (or the portion thereof being cancelled) by surrender of this Warrant at the principal office of the Company together with the properly endorsed Subscription Form in which event the Company shall issue to the holder a number of shares of Common Stock computed using the following formula:

$$X = \frac{Y(A-B)}{A}$$

- Where X= the number of shares of Common Stock to be issued to the holder
- Y= the number of shares of Common Stock purchasable under the Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being exercised (at the date of such calculation)
- A= the average of the closing sale prices of the Common Stock for the ten (10) Trading Days immediately prior to (but not including) the Exercise Date, or Fair Market Value, whichever is less
- B= Purchase Price (as adjusted to the date of such calculation)

For purposes of Rule 144 promulgated under the 1933 Act, it is intended, understood and acknowledged that the Warrant Shares issued in a cashless exercise transaction shall be deemed to have been acquired by the Holder, and the holding period for the Warrant Shares shall be deemed to have commenced, on the date this Warrant was originally issued pursuant to the Subscription Agreement.

3. Adjustment for Reorganization, Consolidation, Merger, Subsequent Share Issuances etc.

3.1. Fundamental Transaction. If, at any time while this Warrant is outstanding, (A) the Company effects any merger or consolidation of the Company with or into another entity, (B) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (C) any tender offer or exchange offer (whether by the Company or another entity) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, (D) the Company consummates a stock purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with one or more persons or entities whereby such other persons or entities acquire more than the 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by such other persons or entities making or party to, or associated or affiliated with the other persons or entities making or party to, such stock purchase agreement or other business combination), (E) any "person" or "group" (as these terms are used for purposes of Sections 13(d) and 14(d) of the 1934 Act) is or shall become the "beneficial owner" (as defined in Rule 13d-3 under the 1934 Act), directly or indirectly, of 50% of the aggregate Common Stock of the Company, or (F) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (in any such case, a "**Fundamental Transaction**"), then, upon any subsequent exercise of this Warrant, the Holder shall have the right to receive, for each Warrant Share that would have been issuable upon such exercise immediately prior to the occurrence of such Fundamental Transaction, at the option of the Holder, (a) upon exercise of this Warrant, the number of shares of Common Stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and any additional consideration (the "**Alternate Consideration**") receivable upon or as a result of such reorganization, reclassification, merger, consolidation or disposition of assets by a Holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such event or (b) if the Company is acquired in (1) a transaction where the consideration paid to the holders of the Common Stock consists solely of cash, (2) a "Rule 13e-3 transaction" as defined in Rule 13e-3 under the 1934 Act, or (3) a transaction involving a person or entity not traded on a national securities exchange, the Nasdaq Global Select Market, the Nasdaq Global Market or the Nasdaq Capital Market, cash equal to the Black-Scholes Value. For purposes of any such exercise, the determination of the Purchase Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Purchase Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. To the extent necessary to effectuate the foregoing provisions, any successor to the Company or surviving entity in such Fundamental Transaction shall issue to the Holder a new warrant consistent with the foregoing provisions and evidencing the Holder's right to exercise such warrant into Alternate Consideration. The terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this Section 3.1 and insuring that this Warrant (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction. "Black-Scholes Value" shall be determined in accordance with the Black-Scholes Option Pricing Model obtained from the "OV" function on Bloomberg L.P. using (i) a price per share of Common Stock equal to the VWAP of the Common Stock for the Trading Day immediately preceding the date of consummation of the applicable Fundamental Transaction, (ii) a risk-free interest rate corresponding to the U.S. Treasury rate for a period equal to the remaining term of this Warrant as of the date of such request and (iii) an expected volatility equal to the 100 day volatility obtained from the HVT function on Bloomberg L.P. determined as of the Trading Day immediately following the public announcement of the applicable Fundamental Transaction.

3.2. Dissolution. In the event of any dissolution of the Company following the transfer of all or substantially all of its properties or assets, the Company, prior to such dissolution, shall at its expense deliver or cause to be delivered the stock and other securities and property (including cash, where applicable) receivable by the Holder of the Warrants after the effective date of such dissolution pursuant to this Section 3 to a bank or trust company (a "Trustee") having its principal office in New York, NY, as trustee for the Holder of the Warrants. Such property shall be delivered only upon payment of the Warrant exercise price.

3.3. Continuation of Terms. Upon any reorganization, consolidation, merger or transfer (and any dissolution following any transfer) referred to in this Section 3, this Warrant shall continue in full force and effect and the terms hereof shall be applicable to the Other Securities and property receivable on the exercise of this Warrant after the consummation of such reorganization, consolidation or merger or the effective date of dissolution following any such transfer, as the case may be, and shall be binding upon the issuer of any Other Securities, including, in the case of any such transfer, the person acquiring all or substantially all of the properties or assets of the Company, whether or not such person shall have expressly assumed the terms of this Warrant as provided in Section 4. In the event this Warrant does not continue in full force and effect after the consummation of the transaction described in this Section 3, then only in such event will the Company's securities and property (including cash, where applicable) receivable by the Holder of the Warrants be delivered to the Trustee as contemplated by Section 3.2.

3.4. Anti-Dilution.

(a) Anti Dilution. Other than in connection with an Excepted Issuance (as defined below), if at any time while any part of the Warrants are outstanding, the Company shall agree to or actually issue or grant the right to receive any Common Stock or securities convertible, exercisable or exchangeable for shares of Common Stock (or modify any of the foregoing which may be outstanding) (“**Common Stock Equivalent**”) to any person or entity at a price per share or conversion price or exercise price per share which shall be less than the Warrant exercise price in respect of the Warrant Shares then in effect (“**Lower Price Issuance**”), without the consent of the Holder of such Warrant, then the Warrant exercise price shall automatically and without further action be reduced to an amount equal to the product of the Warrant exercise price then in effect multiplied by a fraction of which the numerator shall be the number of shares of Common Stock outstanding prior to such issuance plus the number of shares of Common Stock which the aggregate purchase price or exercise price for such Common Stock (plus, if applicable, the aggregate consideration received from the issuance of the Common Stock Equivalents) would purchase at the then current Warrant exercise price and the denominator shall be the number of shares of Common Stock outstanding or deemed to be outstanding immediately after such issuance. For so long as a Warrant is outstanding upon the occurrence of a Lower Price Issuance, the Warrant exercise price shall be reduced to an amount equal to the product of the Warrant exercise price then in effect multiplied by a fraction of which the numerator shall be the number of shares of Common Stock outstanding prior to such issuance plus the number of shares of Common Stock which the aggregate purchase price or exercise price for such Common Stock (plus, if applicable, the aggregate consideration received from the issuance of the Common Stock Equivalents) would purchase at the then current Warrant exercise price and the denominator shall be the number of shares of Common Stock outstanding or deemed to be outstanding immediately after such issuance; provided, however, that the Warrant exercise price shall not, as a result of a Lower Price Issuance, be reduced to below \$0.10 per share (but may be reduced below said amount as a result of stock splits, combinations, mergers or similar organic changes as provided herein).

(b) Effective Price. For purposes of Section 3.4 in connection with any issuance of any Common Stock Equivalents, (A) the maximum number of shares of Common Stock potentially issuable at any time upon conversion, exercise or exchange of such Common Stock Equivalents (the “**Deemed Number**”) shall be deemed to be outstanding or subscribed for and required to be issued upon issuance of such Common Stock Equivalents, (B) the deemed issue price (“**Effective Price**”) applicable to such Common Stock shall equal the minimum dollar value of consideration payable to the Company to purchase such Common Stock Equivalents and to convert, exercise or exchange them into Common stock (net of any discounts, fees, commissions and other expenses), divided by the Deemed number, and (C) no further adjustment shall be made to the Conversion Price upon the actual issuance of Common Stock upon conversion exercise or exchange of such Common Stock Equivalents if issued at or higher than the Effective Price. Common Stock issued or issuable by the Company for no consideration will be deemed to have been issued or to be issuable for \$0.0001 per share of Common Stock.

(c) Excepted Issuances. The rights of each Warrant Holder set forth in this Section 3.4 are in addition to any other rights the Holder has pursuant to this Agreement, any Transaction Document, and any other agreement referred to or entered into in connection herewith or to which such Holder and Company are parties. For purposes of Section 3.4, “**Excepted Issuance**” shall mean (i) the Company’s issuance of Common Stock or Common Stock Equivalent described in Reports filed not later than five business days before the Closing Date, (ii) as a result of the conversion of any the Notes or exercise of any of the Warrants issued pursuant to the Subscription Agreement or any of securities or warrants issued to the Placement Agent acting in connection with the sale of these Warrants (including the exercise or conversion of any of the foregoing), (iii) other notes or convertible indebtedness or convertible securities existing or otherwise disclosed at or before the issuance hereof, (iv) any securities issued in connection with a bonafide acquisition of a business, intellectual property or business assets, or exercise of Warrants or conversion of Notes which are granted or issued pursuant to this Agreement, or (v) as granted in connection with any existing board approved stock option, incentive or similar plan or any stock option plan approved by the Board of Directors of the Company and the Placement Agent.

4. Extraordinary Events Regarding Common Stock. In the event that the Company shall (a) issue additional shares of the Common Stock as a dividend or other distribution on outstanding Common Stock, (b) subdivide its outstanding shares of Common Stock, or (c) combine its outstanding shares of the Common Stock into a smaller number of shares of the Common Stock, then, in each such event, the Purchase Price shall, simultaneously with the happening of such event, be adjusted by multiplying the then Purchase Price by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such event and the denominator of which shall be the number of shares of Common Stock outstanding immediately after such event, and the product so obtained shall thereafter be the Purchase Price then in effect. The Purchase Price, as so adjusted, shall be readjusted in the same manner upon the happening of any successive event or events described herein in this Section 4. The number of shares of Common Stock that the Holder of this Warrant shall thereafter, on the exercise hereof, be entitled to receive shall be adjusted to a number determined by multiplying the number of shares of Common Stock that would otherwise (but for the provisions of this Section 4 be issuable on such exercise by a fraction of which (a) the numerator is the Purchase Price that would otherwise (but for the provisions of this Section 4 be in effect, and (b) the denominator is the Purchase Price in effect on the date of such exercise.

5. Certificate as to Adjustments. In each case of any adjustment or readjustment in the shares of Common Stock (or Other Securities) issuable on the exercise of the Warrants, the Company at its expense will promptly cause its Chief Financial Officer or other appropriate designee to compute such adjustment or readjustment in accordance with the terms of the Warrant and prepare a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based, including a statement of (a) the consideration received or receivable by the Company for any additional shares of Common Stock (or Other Securities) issued or sold or deemed to have been issued or sold, (b) the number of shares of Common Stock (or Other Securities) outstanding or deemed to be outstanding, and (c) the Purchase Price and the number of shares of Common Stock to be received upon exercise of this Warrant, in effect immediately prior to such adjustment or readjustment and as adjusted or readjusted as provided in this Warrant. The Company will forthwith mail a copy of each such certificate to the Holder of the Warrant and any Warrant Agent of the Company (appointed pursuant to Section 11 hereof).

6. Reservation of Stock, etc. Issuable on Exercise of Warrant; Financial Statements. The Company will at all times reserve and keep available, solely for issuance and delivery on the exercise of the Warrants, all shares of Common Stock (or Other Securities) from time to time issuable on the exercise of the Warrant. This Warrant entitles the Holder hereof to receive copies of all financial and other information distributed or required to be distributed to the holders of the Company's Common Stock.

7. Assignment; Exchange of Warrant. Subject to compliance with applicable securities laws, this Warrant, and the rights evidenced hereby, may be transferred by any registered holder hereof (a "**Transferor**"). On the surrender for exchange of this Warrant, with the Transferor's endorsement in the form of **Exhibit B** attached hereto (the "**Transferor Endorsement Form**") and together with an opinion of counsel reasonably satisfactory to the Company that the transfer of this Warrant will be in compliance with applicable securities laws, the Company will issue and deliver to or on the order of the Transferor thereof a new Warrant or Warrants of like tenor, in the name of the Transferor and/or the transferee(s) specified in such Transferor Endorsement Form (each a "**Transferee**"), calling in the aggregate on the face or faces thereof for the number of shares of Common Stock called for on the face or faces of the Warrant so surrendered by the Transferor.

8. Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction of this Warrant, on delivery of an indemnity agreement or security reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, on surrender and cancellation of this Warrant, the Company at the Holder's expense, will execute and deliver, in lieu thereof, a new Warrant of like tenor.

9. Subscription Agreement. The terms of the Subscription Agreement are incorporated herein by this reference.

10. Maximum Exercise. The Holder shall not be entitled to exercise this Warrant on an exercise date, in connection with that number of shares of Common Stock which would be in excess of the sum of (i) the number of shares of Common Stock beneficially owned by the Holder and its affiliates on an exercise date, and (ii) the number of shares of Common Stock issuable upon the exercise of this Warrant with respect to which the determination of this limitation is being made on an exercise date, which would result in beneficial ownership by the Holder and its affiliates of more than 4.99% of the outstanding shares of Common Stock on such date. For the purposes of the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities 1934 Act, and Rule 13d-3 thereunder. Subject to the foregoing, the Holder shall not be limited to aggregate exercises which would result in the issuance of more than 4.99%. The restriction described in this paragraph may be waived, in whole or in part, upon sixty-one (61) days prior notice from the Holder to the Company to increase such percentage to up to 9.99%, but not in excess of 9.99%. The Holder may decide whether to convert a Convertible Note or exercise this Warrant to achieve an actual 4.99% or up to 9.99% ownership position as described above, but not in excess of 9.99%.

11. Warrant Agent. The Company may, by written notice to the Holder of the Warrant, appoint an agent (a "**Warrant Agent**") for the purpose of issuing Common Stock (or Other Securities) on the exercise of this Warrant pursuant to Section 1, exchanging this Warrant pursuant to Section 7, and replacing this Warrant pursuant to Section 8, or any of the foregoing, and thereafter any such issuance, exchange or replacement, as the case may be, shall be made at such office by such Warrant Agent.

12. Transfer on the Company's Books. Until this Warrant is transferred on the books of the Company, the Company may treat the registered holder hereof as the absolute owner hereof for all purposes, notwithstanding any notice to the contrary.

13. Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be: if to the Company, to: Save the World Air, Inc. 235 Tennant Avenue, Morgan Hill, California 95037, Attn: Cecil Bond Kyte, Tel: (408)778- 0101 Fax: (805)845-4377, with a copy by facsimile and return receipt requested or recognized overnight courier delivery: Hodgson Russ LLP, 1540 Broadway, 24th Floor, New York, NY 10036, Attn: Ronniel Levy, Esq., fax: (646) 943-7078, and (ii) if to the Holder, to the address and facsimile number listed on the first paragraph of this Warrant, with a copy by facsimile only to: the Placement Agent as set forth in the Subscription Agreement.

14. Law Governing This Warrant. This Warrant shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Warrant shall be brought only in the state courts of New York or in the federal courts located in the state and county of New York. The parties to this Warrant hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon forum non conveniens. The Company and Holder waive trial by jury. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Warrant or any other agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of any agreement. Each party hereby irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Agreement or any other Transaction Document by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

IN WITNESS WHEREOF, the Company has executed this Warrant as of the date first written above.

SAVE THE WORLD AIR, INC.

By: _____

Name:

Title: CEO

Exhibit A

FORM OF SUBSCRIPTION
(to be signed only on exercise of Warrant)

TO: SAVE THE WORLD AIR, INC.

The undersigned, pursuant to the provisions set forth in the attached Warrant (No. ____), hereby irrevocably elects to purchase (check applicable box):

_____ shares of the Common Stock covered by such Warrant; or

_____ the maximum number of shares of Common Stock covered by such Warrant pursuant to the cashless exercise procedure set forth in Section 2.

The undersigned herewith makes payment of the full purchase price for such shares at the price per share provided for in such Warrant, which is \$ _____. Such payment takes the form of (check applicable box or boxes):

_____ \$ _____ in lawful money of the United States; and/or

_____ the cancellation of such portion of the attached Warrant as is exercisable for a total of _____ shares of Common Stock (using a Fair Market Value of \$ _____ per share for purposes of this calculation); and/or

_____ the cancellation of such number of shares of Common Stock as is necessary, in accordance with the formula set forth in Section 2, to exercise this Warrant with respect to the maximum number of shares of Common Stock purchasable pursuant to the cashless exercise procedure set forth in Section 2.

The undersigned requests that the certificates for such shares be issued in the name of, and delivered to _____ whose address is _____

The undersigned represents and warrants that all offers and sales by the undersigned of the securities issuable upon exercise of the within Warrant shall be made pursuant to registration of the Common Stock under the Securities Act of 1933, as amended (the "**Securities Act**"), or pursuant to an exemption from registration under the Securities Act.

Dated: _____

(Signature must conform to name of holder as specified on the face of the Warrant)

(Address)

Exhibit B

FORM OF TRANSFEROR ENDORSEMENT

(To be signed only on transfer of Warrant)

For value received, the undersigned hereby sells, assigns, and transfers unto the person(s) named below under the heading "Transferees" the right represented by the within Warrant to purchase the percentage and number of shares of Common Stock of SAVE THE WORLD AIR, INC. to which the within Warrant relates specified under the headings "Percentage Transferred" and "Number Transferred," respectively, opposite the name(s) of such person(s) and appoints each such person Attorney to transfer its respective right on the books of SAVE THE WORLD AIR, INC. with full power of substitution in the premises.

Transferees	Percentage Transferred	Number Transferred

Dated: _____, _____

(Signature must conform to name of holder as specified on the face of the warrant)

Signed in the presence of:

(address)

(Name)

ACCEPTED AND AGREED:
[TRANSFEREE]

(address)

(Name)

NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

Right to Purchase 24,000 shares of Common Stock of Save the World Air, Inc. (subject to adjustment as provided herein)

FORM OF COMMON STOCK PURCHASE WARRANT

No. 2009-PA 001

Issue Date: November 20, 2009

SAVE THE WORLD AIR, INC., a corporation organized under the laws of the State of Nevada (the "**Company**"), hereby certifies that, for value received, Sandgrain Securities, Inc., or its assigns (the "**Holder**"), is entitled, subject to the terms set forth below, to purchase from the Company at any time commencing six months after the Issue Date until 5:00 p.m., E.S.T on September 28, 2012 (the "**Expiration Date**"), up to Twenty Four Thousand (24,000) fully paid and nonassessable shares of Common Stock at a per share purchase price of \$0.30. The afore described purchase price per share, as adjusted from time to time as herein provided, is referred to herein as the "**Purchase Price.**" The number and character of such shares of Common Stock and the Purchase Price are subject to adjustment as provided herein. The Company may reduce the Purchase Price for some or all of the Warrants, temporarily or permanently. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in that certain Securities Purchase Agreement (the "**Subscription Agreement**"), accepted as of November 20, 2009, entered into by the Company and the Holder.

As used herein the following terms, unless the context otherwise requires, have the following respective meanings:

(a) The term "**Company**" shall include Save the World Air, Inc. and any corporation which shall succeed or assume the obligations of Save the World Air, Inc. hereunder.

(b) The term "**Common Stock**" includes (a) the Company's Common Stock, \$.001 par value per share, as authorized on the date of the Subscription Agreement, and (b) any other securities into which or for which any of the securities described in (a) may be converted or exchanged pursuant to a plan of recapitalization, reorganization, merger, sale of assets or otherwise.

(c) The term "**Other Securities**" refers to any stock (other than Common Stock) and other securities of the Company or any other person (corporate or otherwise) which the holder of the Warrant at any time shall be entitled to receive, or shall have received, on the exercise of the Warrant, in lieu of or in addition to Common Stock, or which at any time shall be issuable or shall have been issued in exchange for or in replacement of Common Stock or Other Securities pursuant to Section 4 or otherwise.

(d) The term “**Warrant Shares**” shall mean the Common Stock issuable upon exercise of this Warrant.

1. Exercise of Warrant.

1.1. Number of Shares Issuable upon Exercise. From and after the Issue Date through and including the Expiration Date, the Holder hereof shall be entitled to receive, upon exercise of this Warrant in whole in accordance with the terms of subsection 1.2 or upon exercise of this Warrant in part in accordance with subsection 1.3, shares of Common Stock of the Company, subject to adjustment pursuant to Section 4.

1.2. Full Exercise. This Warrant may be exercised in full by the Holder hereof by delivery of an original or facsimile copy of the form of subscription attached as Exhibit A hereto (the “**Subscription Form**”) duly executed by such Holder and delivery within two days thereafter of payment, in cash, wire transfer or by certified or official bank check payable to the order of the Company, in the amount obtained by multiplying the number of shares of Common Stock for which this Warrant is then exercisable by the Purchase Price then in effect. The original Warrant is not required to be surrendered to the Company until it has been fully exercised.

1.3. Partial Exercise. This Warrant may be exercised in part (but not for a fractional share) by delivery of a Subscription Form in the manner and at the place provided in subsection 1.2 except that the amount payable by the Holder on such partial exercise shall be the amount obtained by multiplying (a) the number of whole shares of Common Stock designated by the Holder in the Subscription Form by (b) the Purchase Price then in effect. On any such partial exercise provided the Holder has surrendered the original Warrant, the Company, at its expense, will forthwith issue and deliver to or upon the order of the Holder hereof a new Warrant of like tenor, in the name of the Holder hereof or as such Holder (upon payment by such Holder of any applicable transfer taxes) may request, the whole number of shares of Common Stock for which such Warrant may still be exercised.

1.4. Fair Market Value. Fair Market Value of a share of Common Stock as of a particular date (the “**Determination Date**”) shall mean:

(a) If the Company's Common Stock is traded on an exchange or is quoted on the NASDAQ Global Market, Nasdaq Global Select Market, the NASDAQ Capital Market, the New York Stock Exchange, the American Stock Exchange, LLC, OTC Bulletin Board, or Pink Sheets LLC, then the average of the closing or last sale prices, respectively, reported for the ten trading days immediately preceding the Determination Date;

(b) If the Company's Common Stock is not traded on an exchange or on the NASDAQ Global Market, Nasdaq Global Select Market, the NASDAQ Capital Market, the New York Stock Exchange, the American Stock Exchange, LLC, OTC Bulletin Board, or Pink Sheets LLC, but is traded in the over-the-counter market, then the average of the closing bid and ask prices reported for the ten trading days immediately preceding the Determination Date;

(c) Except as provided in clause (d) below and Section 3.1, if the Company's Common Stock is not publicly traded, then as the Holder and the Company agree, or in the absence of such an agreement, by arbitration in accordance with the rules then standing of the American Arbitration Association, before a single arbitrator to be chosen from a panel of persons qualified by education and training to pass on the matter to be decided with such arbitration to be conducted in New York City, New York; or

(d) If the Determination Date is the date of a liquidation, dissolution or winding up, or any event deemed to be a liquidation, dissolution or winding up pursuant to the Company's charter, then all amounts to be payable per share to holders of the Common Stock pursuant to the charter in the event of such liquidation, dissolution or winding up, plus all other amounts to be payable per share in respect of the Common Stock in liquidation under the charter, assuming for the purposes of this clause (d) that all of the shares of Common Stock then issuable upon exercise of all of the Warrants are outstanding at the Determination Date.

1.5. Company Acknowledgment. The Company will, at the time of the exercise of the Warrant, upon the request of the Holder hereof acknowledge in writing its continuing obligation to afford to such Holder any rights to which such Holder shall continue to be entitled after such exercise in accordance with the provisions of this Warrant. If the Holder shall fail to make any such request, such failure shall not affect the continuing obligation of the Company to afford to such Holder any such rights.

1.6. Trustee for Warrant Holders. In the event that a bank or trust company shall have been appointed as trustee for the Holder of the Warrants pursuant to Subsection 3.2, such bank or trust company shall have all the powers and duties of a warrant agent (as hereinafter described) and shall accept, in its own name for the account of the Company or such successor person as may be entitled thereto, all amounts otherwise payable to the Company or such successor, as the case may be, on exercise of this Warrant pursuant to this Section 1.

1.7. Delivery of Stock Certificates, etc. on Exercise. The Company agrees that the shares of Common Stock purchased upon exercise of this Warrant shall be deemed to be issued to the Holder hereof as the record owner of such shares as of the close of business on the date on which delivery of a Subscription Form shall have occurred and payment made for such shares as aforesaid. As soon as practicable after the exercise of this Warrant in full or in part, and in any event within ten (10) business days thereafter ("**Warrant Share Delivery Date**"), the Company at its expense (including the payment by it of any applicable issue taxes) will cause to be issued in the name of and delivered to the Holder hereof, or as such Holder (upon payment by such Holder of any applicable transfer taxes) may direct in compliance with applicable securities laws, a certificate or certificates for the number of duly and validly issued, fully paid and non-assessable shares of Common Stock (or Other Securities) to which such Holder shall be entitled on such exercise, plus, in lieu of any fractional share to which such Holder would otherwise be entitled, cash equal to such fraction multiplied by the then Fair Market Value of one full share of Common Stock, together with any other stock or other securities and property (including cash, where applicable) to which such Holder is entitled upon such exercise pursuant to Section 1 or otherwise. The Company understands that a delay in the delivery of the Warrant Shares after the Warrant Share Delivery Date could result in economic loss to the Holder. The Company shall not, however, be responsible for any out of pocket or potential lost profits as a result of a decline in stock price during any delay. Furthermore, in addition to any other remedies which may be available to the Holder, in the event that the Company fails for any reason to effect delivery of the Warrant Shares by the Warrant Share Delivery Date, the Holder may revoke all or part of the relevant Warrant exercise by delivery of a notice to such effect to the Company, whereupon the Company and the Holder shall each be restored to their respective positions immediately prior to the exercise of the relevant portion of this Warrant.

2. Cashless Exercise.

(a) This Warrant may be exercised in whole or in part either in (i) cash, wire transfer or by certified or official bank check payable to the order of the Company equal to the applicable aggregate Purchase Price, (ii) by delivery of Common Stock issuable upon exercise of the Warrants in accordance with Section (b) below or (iii) by a combination of any of the foregoing methods, for the number of Common Stock specified in such form (as such exercise number shall be adjusted to reflect any adjustment in the total number of shares of Common Stock issuable to the holder per the terms of this Warrant) and the holder shall thereupon be entitled to receive the number of duly authorized, validly issued, fully-paid and non-assessable shares of Common Stock (or Other Securities) determined as provided herein.

(b) Subject to the provisions herein to the contrary, if the Fair Market Value of one share of Common Stock is greater than the Purchase Price (at the date of calculation as set forth below), in lieu of exercising this Warrant for cash, the holder may elect to receive shares equal to the value (as determined below) of this Warrant (or the portion thereof being cancelled) by surrender of this Warrant at the principal office of the Company together with the properly endorsed Subscription Form in which event the Company shall issue to the holder a number of shares of Common Stock computed using the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where X= the number of shares of Common Stock to be issued to the holder

Y= the number of shares of Common Stock purchasable under the Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being exercised (at the date of such calculation)

A= the average of the closing sale prices of the Common Stock for the ten (10) Trading Days immediately prior to (but not including) the Exercise Date, or Fair Market Value, whichever is less

B= Purchase Price (as adjusted to the date of such calculation)

For purposes of Rule 144 promulgated under the 1933 Act, it is intended, understood and acknowledged that the Warrant Shares issued in a cashless exercise transaction shall be deemed to have been acquired by the Holder, and the holding period for the Warrant Shares shall be deemed to have commenced, on the date this Warrant was originally issued pursuant to the Subscription Agreement.

3. Adjustment for Reorganization, Consolidation, Merger, Subsequent Share Issuances etc.

3.1. Fundamental Transaction. If, at any time while this Warrant is outstanding, (A) the Company effects any merger or consolidation of the Company with or into another entity, (B) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (C) any tender offer or exchange offer (whether by the Company or another entity) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, (D) the Company consummates a stock purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with one or more persons or entities whereby such other persons or entities acquire more than the 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by such other persons or entities making or party to, or associated or affiliated with the other persons or entities making or party to, such stock purchase agreement or other business combination), (E) any "person" or "group" (as these terms are used for purposes of Sections 13(d) and 14(d) of the 1934 Act) is or shall become the "beneficial owner" (as defined in Rule 13d-3 under the 1934 Act), directly or indirectly, of 50% of the aggregate Common Stock of the Company, or (F) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (in any such case, a "**Fundamental Transaction**"), then, upon any subsequent exercise of this Warrant, the Holder shall have the right to receive, for each Warrant Share that would have been issuable upon such exercise immediately prior to the occurrence of such Fundamental Transaction, at the option of the Holder, (a) upon exercise of this Warrant, the number of shares of Common Stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and any additional consideration (the "**Alternate Consideration**") receivable upon or as a result of such reorganization, reclassification, merger, consolidation or disposition of assets by a Holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such event or

(b) if the Company is acquired in (1) a transaction where the consideration paid to the holders of the Common Stock consists solely of cash, (2) a "Rule 13e-3 transaction" as defined in Rule 13e-3 under the 1934 Act, or (3) a transaction involving a person or entity not traded on a national securities exchange, the Nasdaq Global Select Market, the Nasdaq Global Market or the Nasdaq Capital Market, cash equal to the Black-Scholes Value. For purposes of any such exercise, the determination of the Purchase Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Purchase Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. To the extent necessary to effectuate the foregoing provisions, any successor to the Company or surviving entity in such Fundamental Transaction shall issue to the Holder a new warrant consistent with the foregoing provisions and evidencing the Holder's right to exercise such warrant into Alternate Consideration. The terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this Section 3.1 and insuring that this Warrant (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction. "Black-Scholes Value" shall be determined in accordance with the Black-Scholes Option Pricing Model obtained from the "OV" function on Bloomberg L.P. using (i) a price per share of Common Stock equal to the VWAP of the Common Stock for the Trading Day immediately preceding the date of consummation of the applicable Fundamental Transaction, (ii) a risk-free interest rate corresponding to the U.S. Treasury rate for a period equal to the remaining term of this Warrant as of the date of such request and (iii) an expected volatility equal to the 100 day volatility obtained from the HVT function on Bloomberg L.P. determined as of the Trading Day immediately following the public announcement of the applicable Fundamental Transaction.

3.2. Dissolution. In the event of any dissolution of the Company following the transfer of all or substantially all of its properties or assets, the Company, prior to such dissolution, shall at its expense deliver or cause to be delivered the stock and other securities and property (including cash, where applicable) receivable by the Holder of the Warrants after the effective date of such dissolution pursuant to this Section 3 to a bank or trust company (a "Trustee") having its principal office in New York, NY, as trustee for the Holder of the Warrants. Such property shall be delivered only upon payment of the Warrant exercise price.

3.3. Continuation of Terms. Upon any reorganization, consolidation, merger or transfer (and any dissolution following any transfer) referred to in this Section 3, this Warrant shall continue in full force and effect and the terms hereof shall be applicable to the Other Securities and property receivable on the exercise of this Warrant after the consummation of such reorganization, consolidation or merger or the effective date of dissolution following any such transfer, as the case may be, and shall be binding upon the issuer of any Other Securities, including, in the case of any such transfer, the person acquiring all or substantially all of the properties or assets of the Company, whether or not such person shall have expressly assumed the terms of this Warrant as provided in Section 4. In the event this Warrant does not continue in full force and effect after the consummation of the transaction described in this Section 3, then only in such event will the Company's securities and property (including cash, where applicable) receivable by the Holder of the Warrants be delivered to the Trustee as contemplated by Section 3.2.

3.4. Anti-Dilution.

(a) Anti Dilution. Other than in connection with an Excepted Issuance (as defined below), if at any time while any part of the Warrants are outstanding, the Company shall agree to or actually issue or grant the right to receive any Common Stock or securities convertible, exercisable or exchangeable for shares of Common Stock (or modify any of the foregoing which may be outstanding) (“**Common Stock Equivalent**”) to any person or entity at a price per share or conversion price or exercise price per share which shall be less than the Warrant exercise price in respect of the Warrant Shares then in effect (“**Lower Price Issuance**”), without the consent of the Holder of such Warrant, then the Warrant exercise price shall automatically and without further action be reduced to an amount equal to the product of the Warrant exercise price then in effect multiplied by a fraction of which the numerator shall be the number of shares of Common Stock outstanding prior to such issuance plus the number of shares of Common Stock which the aggregate purchase price or exercise price for such Common Stock (plus, if applicable, the aggregate consideration received from the issuance of the Common Stock Equivalents) would purchase at the then current Warrant exercise price and the denominator shall be the number of shares of Common Stock outstanding or deemed to be outstanding immediately after such issuance. For so long as a Warrant is outstanding upon the occurrence of a Lower Price Issuance, the Warrant exercise price shall be reduced to an amount equal to the product of the Warrant exercise price then in effect multiplied by a fraction of which the numerator shall be the number of shares of Common Stock outstanding prior to such issuance plus the number of shares of Common Stock which the aggregate purchase price or exercise price for such Common Stock (plus, if applicable, the aggregate consideration received from the issuance of the Common Stock Equivalents) would purchase at the then current Warrant exercise price and the denominator shall be the number of shares of Common Stock outstanding or deemed to be outstanding immediately after such issuance; provided, however, that the Warrant exercise price shall not, as a result of a Lower Price Issuance, be reduced to below \$0.10 per share (but may be reduced below said amount as a result of stock splits, combinations, mergers or similar organic changes as provided herein).

(b) Effective Price. For purposes of Section 3.4 in connection with any issuance of any Common Stock Equivalents, (A) the maximum number of shares of Common Stock potentially issuable at any time upon conversion, exercise or exchange of such Common Stock Equivalents (the “**Deemed Number**”) shall be deemed to be outstanding or subscribed for and required to be issued upon issuance of such Common Stock Equivalents, (B) the deemed issue price (“**Effective Price**”) applicable to such Common Stock shall equal the minimum dollar value of consideration payable to the Company to purchase such Common Stock Equivalents and to convert, exercise or exchange them into Common stock (net of any discounts, fees, commissions and other expenses), divided by the Deemed number, and (C) no further adjustment shall be made to the Conversion Price upon the actual issuance of Common Stock upon conversion exercise or exchange of such Common Stock Equivalents if issued at or higher than the Effective Price. Common Stock issued or issuable by the Company for no consideration will be deemed to have been issued or to be issuable for \$0.0001 per share of Common Stock.

(c) Excepted Issuances. The rights of each Warrant Holder set forth in this Section 3.4 are in addition to any other rights the Holder has pursuant to this Agreement, any Transaction Document, and any other agreement referred to or entered into in connection herewith or to which such Holder and Company are parties. For purposes of Section 3.4, “**Excepted Issuance**” shall mean (i) the Company’s issuance of Common Stock or Common Stock Equivalent described in Reports filed not later than five business days before the Closing Date, (ii) as a result of the conversion of any the Notes or exercise of any of the Warrants issued pursuant to the Subscription Agreement or any of securities or warrants issued to the Placement Agent acting in connection with the sale of these Warrants (including the exercise or conversion of any of the foregoing), (iii) other notes or convertible indebtedness or convertible securities existing or otherwise disclosed at or before the issuance hereof, (iv) any securities issued in connection with a bonafide acquisition of a business, intellectual property or business assets, or exercise of Warrants or conversion of Notes which are granted or issued pursuant to this Agreement, or (v) as granted in connection with any existing board approved stock option, incentive or similar plan or any stock option plan approved by the Board of Directors of the Company and the Placement Agent.

4. Extraordinary Events Regarding Common Stock. In the event that the Company shall (a) issue additional shares of the Common Stock as a dividend or other distribution on outstanding Common Stock, (b) subdivide its outstanding shares of Common Stock, or (c) combine its outstanding shares of the Common Stock into a smaller number of shares of the Common Stock, then, in each such event, the Purchase Price shall, simultaneously with the happening of such event, be adjusted by multiplying the then Purchase Price by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such event and the denominator of which shall be the number of shares of Common Stock outstanding immediately after such event, and the product so obtained shall thereafter be the Purchase Price then in effect. The Purchase Price, as so adjusted, shall be readjusted in the same manner upon the happening of any successive event or events described herein in this Section 4. The number of shares of Common Stock that the Holder of this Warrant shall thereafter, on the exercise hereof, be entitled to receive shall be adjusted to a number determined by multiplying the number of shares of Common Stock that would otherwise (but for the provisions of this Section 4 be issuable on such exercise by a fraction of which (a) the numerator is the Purchase Price that would otherwise (but for the provisions of this Section 4 be in effect, and (b) the denominator is the Purchase Price in effect on the date of such exercise.

5. Certificate as to Adjustments. In each case of any adjustment or readjustment in the shares of Common Stock (or Other Securities) issuable on the exercise of the Warrants, the Company at its expense will promptly cause its Chief Financial Officer or other appropriate designee to compute such adjustment or readjustment in accordance with the terms of the Warrant and prepare a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based, including a statement of (a) the consideration received or receivable by the Company for any additional shares of Common Stock (or Other Securities) issued or sold or deemed to have been issued or sold, (b) the number of shares of Common Stock (or Other Securities) outstanding or deemed to be outstanding, and (c) the Purchase Price and the number of shares of Common Stock to be received upon exercise of this Warrant, in effect immediately prior to such adjustment or readjustment and as adjusted or readjusted as provided in this Warrant. The Company will forthwith mail a copy of each such certificate to the Holder of the Warrant and any Warrant Agent of the Company (appointed pursuant to Section 11 hereof).

6. Reservation of Stock, etc. Issuable on Exercise of Warrant; Financial Statements. The Company will at all times reserve and keep available, solely for issuance and delivery on the exercise of the Warrants, all shares of Common Stock (or Other Securities) from time to time issuable on the exercise of the Warrant. This Warrant entitles the Holder hereof to receive copies of all financial and other information distributed or required to be distributed to the holders of the Company's Common Stock.

7. Assignment; Exchange of Warrant. Subject to compliance with applicable securities laws, this Warrant, and the rights evidenced hereby, may be transferred by any registered holder hereof (a "**Transferor**"). On the surrender for exchange of this Warrant, with the Transferor's endorsement in the form of **Exhibit B** attached hereto (the "**Transferor Endorsement Form**") and together with an opinion of counsel reasonably satisfactory to the Company that the transfer of this Warrant will be in compliance with applicable securities laws, the Company will issue and deliver to or on the order of the Transferor thereof a new Warrant or Warrants of like tenor, in the name of the Transferor and/or the transferee(s) specified in such Transferor Endorsement Form (each a "**Transferee**"), calling in the aggregate on the face or faces thereof for the number of shares of Common Stock called for on the face or faces of the Warrant so surrendered by the Transferor.

8. Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction of this Warrant, on delivery of an indemnity agreement or security reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, on surrender and cancellation of this Warrant, the Company at the Holder's expense, will execute and deliver, in lieu thereof, a new Warrant of like tenor.

9. Subscription Agreement. The terms of the Subscription Agreement are incorporated herein by this reference.

10. Maximum Exercise. The Holder shall not be entitled to exercise this Warrant on an exercise date, in connection with that number of shares of Common Stock which would be in excess of the sum of (i) the number of shares of Common Stock beneficially owned by the Holder and its affiliates on an exercise date, and (ii) the number of shares of Common Stock issuable upon the exercise of this Warrant with respect to which the determination of this limitation is being made on an exercise date, which would result in beneficial ownership by the Holder and its affiliates of more than 4.99% of the outstanding shares of Common Stock on such date. For the purposes of the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities 1934 Act, and Rule 13d-3 thereunder. Subject to the foregoing, the Holder shall not be limited to aggregate exercises which would result in the issuance of more than 4.99%. The restriction described in this paragraph may be waived, in whole or in part, upon sixty-one (61) days prior notice from the Holder to the Company to increase such percentage to up to 9.99%, but not in excess of 9.99%. The Holder may decide whether to convert a Convertible Note or exercise this Warrant to achieve an actual 4.99% or up to 9.99% ownership position as described above, but not in excess of 9.99%.

11. Warrant Agent. The Company may, by written notice to the Holder of the Warrant, appoint an agent (a “**Warrant Agent**”) for the purpose of issuing Common Stock (or Other Securities) on the exercise of this Warrant pursuant to Section 1, exchanging this Warrant pursuant to Section 7, and replacing this Warrant pursuant to Section 8, or any of the foregoing, and thereafter any such issuance, exchange or replacement, as the case may be, shall be made at such office by such Warrant Agent.

12. Transfer on the Company's Books. Until this Warrant is transferred on the books of the Company, the Company may treat the registered holder hereof as the absolute owner hereof for all purposes, notwithstanding any notice to the contrary.

13. Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be: if to the Company, to: Save the World Air, Inc. 235 Tennant Avenue, Morgan Hill, California 95037, Attn: Cecil Bond Kye, Tel: (408)778- 0101 Fax: (805)845-4377, with a copy by facsimile and return receipt requested or recognized overnight courier delivery: Hodgson Russ LLP, 1540 Broadway, 24th Floor, New York, NY 10036, Attn: Ronniel Levy, Esq., fax: (646) 943-7078, and (ii) if to the Holder, to the address and facsimile number listed on the first paragraph of this Warrant, with a copy by facsimile only to: the Placement Agent as set forth in the Subscription Agreement.

14. Law Governing This Warrant. This Warrant shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Warrant shall be brought only in the state courts of New York or in the federal courts located in the state and county of New York. The parties to this Warrant hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon forum non conveniens. The Company and Holder waive trial by jury. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Warrant or any other agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of any agreement. Each party hereby irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Agreement or any other Transaction Document by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

IN WITNESS WHEREOF, the Company has executed this Warrant as of the date first written above.

SAVE THE WORLD AIR, INC.

By: _____
Name: Cecil Bond Kyte
Title: CEO

Exhibit A

FORM OF SUBSCRIPTION
(to be signed only on exercise of Warrant)

TO: SAVE THE WORLD AIR, INC.

The undersigned, pursuant to the provisions set forth in the attached Warrant (No. _____), hereby irrevocably elects to purchase (check applicable box):

_____ shares of the Common Stock covered by such Warrant; or
_____ the maximum number of shares of Common Stock covered by such Warrant pursuant to the cashless exercise procedure set forth in Section 2.

The undersigned herewith makes payment of the full purchase price for such shares at the price per share provided for in such Warrant, which is \$_____. Such payment takes the form of (check applicable box or boxes):

_____ \$_____ in lawful money of the United States; and/or
_____ the cancellation of such portion of the attached Warrant as is exercisable for a total of _____ shares of Common Stock (using a Fair Market Value of \$_____ per share for purposes of this calculation); and/or

_____ the cancellation of such number of shares of Common Stock as is necessary, in accordance with the formula set forth in Section 2, to exercise this Warrant with respect to the maximum number of shares of Common Stock purchasable pursuant to the cashless exercise procedure set forth in Section 2.

The undersigned requests that the certificates for such shares be issued in the name of, and delivered to _____ whose address is _____.

The undersigned represents and warrants that all offers and sales by the undersigned of the securities issuable upon exercise of the within Warrant shall be made pursuant to registration of the Common Stock under the Securities Act of 1933, as amended (the "**Securities Act**"), or pursuant to an exemption from registration under the Securities Act.

Dated: _____

(Signature must conform to name of holder as specified on the face of the Warrant)

(Address)

Exhibit B

FORM OF TRANSFEROR ENDORSEMENT

(To be signed only on transfer of Warrant)

For value received, the undersigned hereby sells, assigns, and transfers unto the person(s) named below under the heading "Transferees" the right represented by the within Warrant to purchase the percentage and number of shares of Common Stock of SAVE THE WORLD AIR, INC. to which the within Warrant relates specified under the headings "Percentage Transferred" and "Number Transferred," respectively, opposite the name(s) of such person(s) and appoints each such person Attorney to transfer its respective right on the books of SAVE THE WORLD AIR, INC. with full power of substitution in the premises.

<u>Transferees</u>	<u>Percentage Transferred</u>	<u>Number Transferred</u>

Dated: _____, _____

(Signature must conform to name of holder as specified on the face of the warrant)

Signed in the presence of:

(Name)

(address)

ACCEPTED AND AGREED:
[TRANSFEREE]

(Name)

(address)

