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

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2014**
**or**

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

**For the transition period from __________ to __________**

**Commission File Number 0-29185**

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

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

**735 State Street, Suite 500**
**Santa Barbara, California 93101**
**(Address, including zip code, of principal executive offices)**
**(805)-845-3561**
(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

| | |
|---|---|
| Large accelerated filer ☐ | Accelerated filer ☒ |
| Non-accelerated filer ☐ (Do not check if a smaller reporting company) | Smaller reporting company ☐ |

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

The number of shares of the Registrant's Common Stock outstanding as of April 30, 2014 was 180,603,764.

**SAVE THE WORLD AIR, INC.**
**FORM 10-Q**
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## PART I – FINANCIAL INFORMATION

**Item 1. Unaudited Financial Statements**

**SAVE THE WORLD AIR, INC.**
**(A DEVELOPMENT STAGE ENTERPRISE)**
**CONDENSED CONSOLIDATED BALANCE SHEETS**

| | March 31, 2014 (unaudited) | December 31, 2013 |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash | $ 4,076,653 | $ 4,137,068 |
| Other current assets | 31,623 | 56,930 |
| Total current assets | 4,108,276 | 4,193,998 |
| Property and Equipment, net of accumulated depreciation of $36,811 and $33,355 at March 31, 2014 and December 31, 2013 respectively | 32,315 | 35,771 |
| Other assets | 5,830 | 5,830 |
| **Total assets** | $ 4,146,421 | $ 4,235,599 |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current liabilities:** | | |
| Accounts payable-license agreements | $ 264,688 | $ 185,450 |
| Accounts payable-other | 45,854 | 184,597 |
| Accrued expenses and accounts payable-related parties | 555,286 | 662,028 |
| Accrued expenses-other | 145,089 | 128,208 |
| Total current liabilities | 1,010,917 | 1,160,283 |
| | | |
| **Commitments and contingencies** | | |
| | | |
| **Stockholders' equity** | | |
| Common stock, $.001 par value: 300,000,000 shares authorized 180,603,764 and 176,242,817 shares issued and outstanding at March 31, 2014 and December 31, 2013 respectively | 180,604 | 176,243 |
| Additional paid-in capital | 97,397,237 | 95,937,936 |
| Deficit accumulated during the development stage | (94,442,337) | (93,038,863) |
| Total stockholders' equity | 3,135,504 | 3,075,316 |
| **Total liabilities and stockholders' equity** | $ 4,146,421 | $ 4,235,599 |

See notes to condensed consolidated financial statements.

**SAVE THE WORLD AIR, INC.**
**(A DEVELOPMENT STAGE ENTERPRISE)**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS, UNAUDITED**

| | Three months ended March 31, 2014 | Three months ended March 31, 2013 | Inception (February 18, 1998) to March 31, 2014 |
|---|---|---|---|
| **Net sales** | $ – | $ – | $ 69,000 |
| **Cost of goods sold** | – | – | 24,120 |
| **Gross profit** | – | – | 44,880 |
| **Operating expenses** | 924,987 | 1,168,384 | 63,879,267 |
| **Research and development expenses** | 451,987 | 373,555 | 11,133,154 |
| **Non-cash patent settlement costs** | – | – | 1,610,066 |
| **Loss before other income (expense)** | (1,376,974) | (1,541,939) | (76,577,607) |
| **Other income (expense)** | | | |
| Other income (loss) | (26,500) | (28,845) | 166,300 |
| Interest income | – | – | 16,342 |
| Interest and financing expense | – | (260) | (20,304,609) |
| Gain (loss) due to change in fair value of derivative liabilities | – | (220,614) | (2,115,507) |
| Gain on extinguishment of derivative liabilities | – | 3,441,752 | 5,886,847 |
| Costs of private placement | – | – | (1,640,715) |
| Costs to induce conversion of notes | – | – | (469,043) |
| Gain on disposition of equipment | – | – | 27,497 |
| Settlement of debt due Morale/Matthews | – | – | (927,903) |
| Settlement of litigation and debt | – | (67,294) | 1,505,143 |
| **Net income (loss) before provision for income taxes** | (1,403,474) | 1,582,800 | (94,433,255) |
| Provision for income taxes | – | – | 9,082 |
| **Net income (loss)** | $ (1,403,474) | $ 1,582,800 | $ (94,442,337) |
| | | | |
| **Net income (loss) per common share, basic** | $ (0.01) | $ 0.01 | |
| **Net income (loss) per share, diluted** | (0.01) | 0.01 | |
| **Weighted average common shares outstanding, basic** | 179,341,951 | 150,112,286 | |
| **Weighted average common shares outstanding, diluted** | 179,341,951 | 172,461,669 | |

See notes to condensed consolidated financial statements.

**SAVE THE WORLD AIR, INC.**
**(A DEVELOPMENT STAGE ENTERPRISE)**
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**
**AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 2014, UNAUDITED**

| | Price Per Share | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Deficit Accumulated During the Development Stage | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| **Balance, December 31, 2013** | | 176,242,817 | $ 176,243 | $ 95,937,936 | $ (93,038,863) | $ 3,075,316 |
| Common stock issued upon exercise of warrants and options, net | $ 0.30 | 4,360,947 | 4,361 | 1,303,923 | – | 1,308,284 |
| Fair value of options and warrants issued as compensation | | | | 155,378 | – | 155,378 |
| Net loss | | | | | (1,403,474) | (1,403,474) |
| **Balance, March 31, 2014** | | 180,603,764 | $ 180,604 | $ 97,397,237 | $ (94,442,337) | $ 3,135,504 |

See notes to condensed consolidated financial statements.

**SAVE THE WORLD AIR, INC.**
**(A DEVELOPMENT STAGE ENTERPRISE)**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, UNAUDITED**

| | Three months ended March 31, 2014 | Three months ended March 31, 2013 | Inception (February 18, 1998) to March 31, 2014 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net income (loss) | $ (1,403,474) | $ 1,582,800 | $ (94,442,337) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Write off of intangible assets | – | – | 505,000 |
| Settlement of litigation and debt | – | 67,294 | (1,578,375) |
| Settlement of debt due Morale/Matthews | – | – | 927,903 |
| Stock based compensation expense | 155,378 | 428,897 | 13,166,885 |
| Issuance of common stock for services | – | 49,000 | 9,312,038 |
| Issuance of common stock as settlement | – | – | 3,108,347 |
| Issuance of warrants and options for legal settlement | – | – | 36,457 |
| Issuance of warrants for financing fees | – | – | 153,501 |
| Issuance of warrants and options for consulting fees | – | 23,251 | 1,280,329 |
| Increase in convertible notes related to default | – | – | 299,274 |
| Interest on related party loans | – | – | 22,305 |
| Patent acquisition cost | – | – | 1,610,066 |
| Amortization of issuance costs and original issue debt discounts including beneficial conversion feature-part of interest expense | – | – | 19,754,169 |
| Fair value of common stock and warrants issued to induce conversion of notes | – | – | 469,043 |
| Costs of private placement convertible notes | – | – | 1,640,715 |
| Change in fair value of derivative liabilities | – | 220,614 | 2,115,507 |
| Gain on extinguishment of derivative liabilities | – | (3,441,752) | (5,886,847) |
| Amortization of deferred compensation | – | – | 3,060,744 |
| Gain on disposition of assets | – | – | (27,497) |
| Depreciation and amortization | 3,456 | 4,371 | 549,831 |
| Bad debt | – | – | 1,300 |
| Changes in operating assets and liabilities: | – | | |
| Accounts receivable | – | – | (1,380) |
| Prepaid expenses and other current assets | 25,307 | (97,219) | (4,542) |
| Other assets | – | – | (5,830) |
| Accounts payable and accrued expenses | (121,862) | (45,299) | 4,669,784 |
| Accounts payable – license agreements | 79,238 | 109,375 | (386,449) |
| Accounts payable and accrued expenses – related parties | (106,742) | (49,311) | (350,710) |
| Net cash used in operating activities | (1,368,699) | (1,147,979) | (40,000,769) |
| **Cash flows from investing activities** | | | |
| Purchase of equipment | – | (537) | (622,577) |
| Proceeds from sale of equipment | – | 54,000 | 44,478 |
| Net cash used in investing activities | – | 53,463 | (578,099) |
| **Cash flows from financing activities** | | | – |
| Net proceeds under equity line of credit | – | – | 1,262,386 |
| (Decrease) increase in payables to related parties and stockholder | – | – | 536,979 |
| Advances from founding executive officer | – | – | 517,208 |
| Net proceeds from issuance of convertible notes and warrants | – | – | 18,400,888 |
| Repayment of convertible notes | – | – | (296,397) |
| Net proceeds from sale of stock and exercise of warrants and options | 1,308,284 | 4,029,277 | 24,234,457 |
| Net cash provided by financing activities | 1,308,284 | 4,029,277 | 44,655,521 |
| **Net increase in cash** | (60,415) | 2,934,761 | 4,076,653 |
| **Cash, beginning of period** | 4,137,068 | 1,601,791 | – |
| **Cash, end of period** | $ 4,076,653 | $ 4,536,552 | $ 4,076,653 |

**SAVE THE WORLD AIR, INC.**
**(A DEVELOPMENT STAGE ENTERPRISE)**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, UNAUDITED**
**(continued)**

| | Three months ended March 31, 2014 | Three months ended March 31, 2013 | Inception (February 18, 1998) to March 31, 2014 |
|---|---|---|---|
| **Supplemental disclosures of cash flow information** | | | |
| Cash paid during the year for: | | | |
| Interest | $ – | $ 260 | $ 179,280 |
| Income Taxes | $ – | $ – | $ 8,282 |
| **Non-cash investing and financing activities** | | | |
| Acquisition of intangible asset through advance from related party and issuance of common stock | $ – | $ – | $ 505,000 |
| Deferred compensation for stock options issued for services | – | – | 3,202,931 |
| Purchase of property and equipment financed by advance from related party | – | – | 3,550 |
| Conversion of related party debt to equity | – | – | 515,000 |
| Conversion of accounts payable and accrued expenses to common stock | – | – | 860,105 |
| Cancellation of stock | – | – | 8,047 |
| Conversion of accounts payable and accrued expenses to convertible debentures | – | – | 689,846 |
| Conversion of related party debt to convertible debentures | – | – | 72,500 |
| Conversion of convertible debentures to common stock | – | – | 19,540,985 |
| Issuance of shares for settlement of loans and other payable to Morale/Matthews | – | – | 2,783,711 |
| Write off of deferred compensation | – | – | 142,187 |
| Fair value of derivative liability recorded as note discount | – | – | 2,130,625 |
| Exercise of options applied to acounts payable | – | – | 116,500 |
| Fair value of warrants issued to sette payables | – | – | 129,622 |
| Receivable from sale of equipment | – | – | 27,000 |
| Fair value of warrants and beneficial conversion feature associated with issued convertible notes | – | – | 15,800,944 |

See notes to condensed consolidated financial statements.

**SAVE THE WORLD AIR, INC.**
**(A DEVELOPMENT STAGE ENTERPRISE)**
**NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS**
**THREE MONTHS ENDED MARCH 31, 2014 AND 2013**

## 1. Description of Business

### Description of Business

Save The World Air, Inc. ("STWA", "Company") was incorporated on February 18, 1998, as a Nevada Corporation under the name Mandalay Capital Corporation. The Company changed its name to Save the World Air, Inc. on February 11, 1999. The Company's common stock is quoted under the symbol "ZERO" on the Over-the-Counter Bulletin Board. More information including the Company's fact sheet, logos and media articles are available at our corporate website, www.stwa.com.

Save The World Air, Inc. develops and intends to commercialize energy efficiency technologies that assist in meeting increasing global energy demands, improving the economics of oil extraction and transport, and reducing greenhouse gas emissions. The Company's intellectual property portfolio includes 48 domestic and international patents and patents pending, a substantial portion of which have been developed in conjunction with and exclusively licensed from Temple University of Philadelphia, PA ("Temple"). STWA's technology is called Applied Oil Technology™ (AOT™), a commercial-grade crude oil pipeline transportation flow-assurance product. AOT™ has been proven in U.S. Department of Energy tests to increase the energy efficiency of oil pipeline pump stations. The AOT product has transitioned from the research and development stage to initial commercial production and testing for the midstream pipeline marketplace.

### Consolidation Policy

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

### Reclassification

In presenting the Company's statement of operations for the three-month period ended March 31, 2013, the Company reclassified certain salary and consulting expenses in the aggregate of $44,000 that were previously reflected as operating expenses to research and development expenses.

In presenting the Company's statement of operations from inception to March 31, 2014, the Company reclassified certain salary and consulting expenses in the aggregate of $531,500 previously reflected as operating expenses to research and development expenses as reported in the Company's Form 10-Q for the three-month period ending March 31, 2013.

## 2. Summary of Significant Accounting Policies

### Development Stage Enterprise

The Company is a development stage enterprise. Losses accumulated since the inception of the Company have been considered as part of the Company's development stage activities.

The Company's focus is on product development and marketing of proprietary devices that are designed to improve the operational parameters of petrochemical pipeline transport systems and has not yet generated revenues. The Company is currently transitioning from the product development cycle to the commercial manufacturing and sales cycle. Expenses have been funded through the sale of shares of common stock for cash, issuance of convertible notes for cash and the proceeds from exercise of options and warrants. The Company has taken actions to secure the intellectual property rights to the proprietary technologies and is the worldwide exclusive licensee for the intellectual property the Company co-developed with its intellectual property partner, Temple.

### Going Concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying consolidated financial statements, the Company is in a development stage and has not generated any revenues from operations, and had a net loss of $1,403,474 and a negative cash flow from operations of $1,368,699 for the quarter ended March 31, 2014 and accumulated deficit of $94,442,337 as of March 31, 2014. These factors raise substantial doubt about the Company's ability to continue as a going concern. As a result, the Company's independent registered public accounting firm, in its report on the Company's December 31, 2013 financial statements, has raised substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon the Company's ability to raise additional funds and implement its business plan. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

At March 31, 2014, the Company had cash on hand in the amount of $4,076,653. Management expects that the current funds on hand will be sufficient to continue operations through March 2015. Management is currently seeking additional funds, primarily through the issuance of debt and equity securities for cash to operate our business, including without limitation the expenses it will incur in connection with the license and research and development agreements with Temple; costs associated with product development and commercialization of the AOT technology; costs to manufacture and ship the products; costs to design and implement an effective system of internal controls and disclosure controls and procedures; costs of maintaining our status as a public company by filing periodic reports with the SEC and costs required to protect our intellectual property. In addition, as discussed below, the Company has substantial contractual commitments, including without limitation salaries to our executive officers pursuant to employment agreements, certain severance payments to former officers and consulting fees, during the remainder of 2014 and beyond.

No assurance can be given that any future financing will be available or, if available, that it will be on terms that are satisfactory to the Company. Even if the Company is able to obtain additional financing, it may contain undue restrictions on our operations, in the case of debt financing or cause substantial dilution for our stockholders, in case or equity financing.

**Property and Equipment and Depreciation**

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

**Basic and Diluted Income per share**

Our computation of earnings per share ("EPS") includes basic and diluted EPS. Basic EPS is measured as the income (loss) available to common stockholders divided by the weighted average common shares outstanding for the period. Diluted income (loss) per share reflects the potential dilution, using the treasury stock method, that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the income (loss) of the Company as if they had been converted at the beginning of the periods presented, or issuance date, if later. In computing diluted income (loss) per share, the treasury stock method assumes that outstanding options and warrants are exercised and the proceeds are used to purchase common stock at the average market price during the period. Options and warrants may have a dilutive effect under the treasury stock method only when the average market price of the common stock during the period exceeds the exercise price of the options and warrants. Potential common shares that have an antidilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS.

Income (loss) per common share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the respective periods. Basic and diluted (loss) per common share is the same for periods in which the company reported an operating loss because all warrants and stock options outstanding are anti-dilutive.

**Income Taxes**

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

**Stock-Based Compensation**

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

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

**Business and Credit Concentrations**

Company's cash balances in financial institutions at times may exceed federally insured limits. As of March 31, 2014 and December 31, 2013, before adjustments for outstanding checks and deposits in transit, the Company had $4,073,272 and $4,143,367, respectively, on deposit with two banks. The deposits are federally insured up to $250,000 at each bank. . The Company believes that no significant concentration of credit risk exists with respect to these cash balances because of its assessment of the creditworthiness and financial viability of these financial institutions.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Certain significant estimates were made in connection with preparing the Company's financial statements. This includes certain inputs to the Black-Scholes Option Pricing model used to value options and warrants to purchase stock and derivative liabilities. Actual results could differ from those estimates.

**Fair Value of Financial Instruments**

Effective January 1, 2008, fair value measurements are determined by the Company's adoption of authoritative guidance issued by the FASB, with the exception of the application of the statement to non-recurring, non-financial assets and liabilities as permitted. The adoption of the authoritative guidance did not have a material impact on the Company's fair value measurements. Fair value is defined in the authoritative guidance as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy was established, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

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

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

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

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

**Research and Development Costs**

Costs incurred for research and development are expensed as incurred. Purchased materials that do not have an alternative future use are also expensed. Furthermore, costs incurred in the construction of prototypes with no certainty of any alternative future use and established commercial uses are also expensed.

For the three months ended March 31, 2014 and 2013, and for the period from inception to March 31, 2014, research and development costs incurred were $451,987, $373,555 and $11,133,145, respectively.

**Recent Accounting Pronouncements**

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360)." ASU 2014-08 amends the requirements for reporting discontinued operations and requires additional disclosures about discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations or that have a major effect on the Company's operations and financial results should be presented as discontinued operations. This new accounting guidance is effective for annual periods beginning after December 15, 2014. The Company is currently evaluating the impact of adopting ASU 2014-08 on the Company's results of operations or financial condition.

On February 26, 2014, the FASB Board affirmed changes in a November 2013 Exposure Draft, Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, and directed the staff to draft a final Accounting Standards Update for vote by the Board. This is intended to reduce the cost and complexity in financial reporting by eliminating inception-to-date information from the financial statements of development stage entities.

Other recent accounting pronouncements issued by the FASB, including its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

**3. Certain Relationships and Related Transactions**

**Accrued Expenses and Accounts Payable - Related Parties**

As of March 31, 2014 and December 31, 2013, the Company had accounts payable to related parties in the amount of $18,203 and $85,869, respectively. These amounts are unpaid Committee Fees and unpaid Company expenses incurred by Officers and Directors.

As of March 31, 2014 and December 31, 2013, the Company accrued the unpaid salaries, unused vacation and the corresponding payroll taxes of Officers in the aggregate of $537,083 and $576,159, respectively. Included in these accruals are the unpaid salaries of the former Chief Executive Officer (CEO) of the Company of $218,750 and $306,250, respectively pursuant to November 2013 separation agreement, former President and current member of the Company’s Board of Directors of $180,429 and $195,429. The Company agreed to monthly payments ranging from $5,000 up to $29,167 to these Officers until their unpaid salaries are fully settled.

**Consulting Fees Paid to Related Party**

The Company incurred consulting fees of $15,000 to a consulting firm controlled by a member of our Board of Directors in each of the three-month periods ending March 31, 2014 and 2013.

**4. Property and Equipment**

At March 31, 2014 and December 31, 2013, property and equipment consists of the following:

| | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Office equipment | $ 65,051 | $ 65,051 |
| Furniture and fixtures | 4,075 | 4,075 |
| Subtotal | 69,126 | 69,126 |
| Less accumulated depreciation | (36,811) | (33,355) |
| Total | $ 32,315 | $ 35,771 |

Depreciation expense for the three months ended March 31, 2014 and 2013 was $3,456 and $15,399, respectively. Depreciation expense for the period from inception (February 18, 1998) through March 31, 2013 was $549,831.

**5. Research and Development**

**AOT Testing and Development**

Total expenses incurred during the three months ended March 31, 2014 and 2013 on AOT testing and development amounted to $14,670 and $291,680, respectively, and has been reflected as part of Research and Development expenses on the accompanying consolidated statement of operations.

**AOT Prototype**

On August 1, 2013, the Company entered into an Equipment Lease/Option to Purchase Agreement ("Agreement" or "Lease") with TransCanada Keystone Pipeline, L.P. by its agent TC Oil Pipeline Operations, Inc. ("TransCanada"), whereby, TransCanada has agreed to lease, install, maintain, operate and test the effectiveness of the Company's AOT technology and equipment (the "Equipment") on one of TransCanada's operating pipelines by the second quarter of 2014. The initial term of the lease is six (6) months at a rate of $60,000/month, with an option to extend the lease for an additional eighty-four (84) months. TransCanada has an option to purchase equipment during the term of the lease for approximately $4.3 million. The Company will account for this lease as an operating lease if accepted by TransCanada.

The Company began manufacturing equipment for delivery to TransCanada in the third quarter of 2013. The equipment was delivered to the installation site in March 2014 and installation was completed and accepted by TransCanada in April 2014. Total expenses incurred during three months ended March 31, 2014 amounted to $358,079 and has been reflected as part of Research and Development expenses on the accompanying consolidated statement of operations.

**Temple University Licensing Agreement**

On August 1, 2011, the Company and Temple University ("Temple") entered into two (2) Exclusive License Agreements (collectively, the "License Agreements") relating to Temple's patent applications, patents and technical information pertaining to technology associated with an electric and/or magnetic field assisted fuel injector system (the "First Temple License"), and to technology to reduce crude oil viscosity (the "Second Temple License"). The License Agreements are exclusive and the territory licensed to the Company is worldwide and replace previously issued License Agreements.

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

Total expenses recognized during the three months ended March 31, 2014 and 2013 pursuant to these two agreements amounted to $46,875 in each period, and has been reflected in Research and Development expenses on the accompanying consolidated statement of operations.

As of March 31, 2014 and December 31, 2013, total unpaid fees due to Temple pursuant to these agreements amounted to $200,000 and $153,125, respectively, which are included as part of Accounts Payable – licensing agreement in the accompanying consolidated balance sheets.

As of and during the period ended March 31, 2014 and December 31, 2013, there were no revenues generated from these two licenses.

**Temple University Sponsored Research Agreement**

On March 19, 2012, the Company entered into a Sponsored Research Agreement ("Research Agreement") with Temple University ("Temple"), whereby Temple, under the direction of Dr. Rongjia Tao, will perform ongoing research related to the Company's AOT device (the "Project"), for the period April 1, 2012, through April 1, 2014. All rights and title to intellectual property resulting from Temple's work related to the Project shall be subject to the Exclusive License Agreements between Temple and the Company, dated August 1, 2011. In exchange for Temple's research efforts on the Project, the Company has agreed to pay Temple $500,000, payable in quarterly installments of $62,500.

In August 2013, the Company and Temple amended the Research Agreement. Under the amended agreement, parties agreed that total cost for Phase 1 of the agreement expenses incurred in prior periods was $241,408, of which, $187,500 was already recognized in prior year and total cost for Phase 2 of the agreement was $258,592 payable beginning September 1, 2013 in eight quarterly installments of $32,324.

During the three months ended March 31, 2014 and 2013, the Company recognized a total of $32,363 and $62,500, respectively, pursuant to this agreement and has been reflected in Research and Development expenses on the accompanying consolidated statement of operations.

As of March 31, 2014 and December 31, 2013, total unpaid fees due to Temple pursuant to this agreement amounted to $64,688 and $32,325, respectively, which are included as part of Accounts Payable – licensing agreement in the accompanying consolidated balance sheets.

## 6. Common Stock Transactions

During the three months ended March 31, 2014, the Company issued 4,360,947 shares of its common stock upon exercise of options and warrants at a price of $0.30 per share with proceeds of $1,308,248.

## 7. Stock Options and Warrants

The Company periodically issues stock options and warrants to employees and non-employees in capital raising transactions, for services and for financing costs. Options vest and expire according to terms established at the grant date.

**Options**

The Company currently issues stock options to employees, directors and consultants under its 2004 Stock Option Plan (the Plan). The Company could issue options under the Plan to acquire up to 7,000,000 shares of common stock as amended in May 2006.

From the Plan's inception in 2004 up to March 31, 2014, the Company granted options to purchase 9,111,815 shares under the Plan, of which options to purchase 4,293,574 shares were subsequently cancelled or forfeited and made available for grants under the Plan. As of March 31, 2014, options to purchase 3,549,908 shares were issued and outstanding and 2,181,759 shares were available to be granted under the Plan.

From the Company's inception in February 1998 up to December 31, 2012, options to purchase a total of 37,050,000 shares were granted outside of the Plan, of which, options to purchase 17,430,000 shares were subsequently cancelled or forfeited. No options were granted and 55,000 shares were forfeited outside the Plan between January 1, 2013 and March 31, 2014. As of March 31, 2014, options to purchase 16,705,000 shares were issued and outstanding outside of the plan.

Employee options vest according to the terms of the specific grant and expire from 5 to 10 years from date of grant. Non-employee option grants have vested upon issuance and up to 2 years from the date of grant. The weighted-average, remaining contractual life of employee and Non-employee options outstanding at December 31, 2013 was 7.1 years. Stock option activity for the period January 1, 2013 to March 31, 2014, was as follows:

| | Weighted Avg. Options | Weighted Avg. Exercise Price |
|---|---|---|
| Options, January 1, 2013 | 27,278,098 | $ 0.27 |
| Options granted | 207,819 | 1.17 |
| Options exercised | (115,000) | 0.60 |
| Options forfeited | (7,061,009) | 0.25 |
| Options, December 31, 2013 | 20,309,908 | $ 0.28 |
| Options granted | 20,000 | 0.99 |
| Options exercised | (20,000) | 0.30 |
| Options forfeited | (55,000) | 1.00 |
| Options, March 31, 2014 | 20,254,908 | $ 0.28 |

The weighted average exercise prices, remaining contractual lives for options granted, exercisable, and expected to vest under the Plan as of March 31, 2014 were as follows:

| | Outstanding Options | | | Exercisable Options | |
|---|---|---|---|---|---|
| Option Exercise Price Per Share | Shares | Life (Years) | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| $ 0.21 - $ 0.99 | 19,991,679 | 6.8 | $0.27 | 17,991,679 | $0.27 |
| $ 1.00 - $ 1.99 | 263,229 | 6.0 | $1.22 | 119,601 | $1.27 |
| | 20,254,908 | 6.8 | $0.28 | 18,111,280 | $0.28 |

At March 31, 2014 the aggregate intrinsic value of the options outstanding was $ $12,643,371. Future unamortized compensation expense on the unvested outstanding options at December 31, 2013 is approximately $577,100.

**2014**

- Options to acquire 20,000 shares of common stock were exercised resulting in net proceeds of $6,000.
- The Company issued options to purchase 20,000 shares of common stock to an employee with a fair value of approximately $9,200 using the Black-Scholes Option Pricing model with the following assumptions: life of 1 year; risk free interest rate of 0.12%; volatility of 125% and dividend yield of 0%. The options are exercisable at $0.99/share, vested immediately and expire in two years from the date of grant. During the three months ended March 31, 2014, the Company recognized compensation costs of $9,200 based on the fair value of options that vested.
- During the three-months ended March 31, 2014, the Company amortized $107,907 of compensation cost based on the vesting of the options granted to employees and directors in prior years.

**Warrants**

The following table summarizes certain information about the Company's stock purchase warrants activity for the period starting January 1, 2013 and ending March 31, 2014.

| | Warrants | Weighted Avg. Exercise Price |
|---|---|---|
| Warrants outstanding, January 1, 2013 | 42,205,507 | $ 0.31 |
| Warrants granted | 150,000 | 0.31 |
| Warrants exercised | (29,037,389) | 0.29 |
| Warrants cancelled | (1,554,152) | 0.49 |
| Warrants outstanding, December 31, 2013 | 11,763,966 | $ 0.34 |
| Warrants granted | 120,000 | 1.01 |
| Warrants exercised | (4,340,947) | 0.30 |
| Warrants cancelled | (291,969) | 0.30 |
| Warrants outstanding, March 31, 2014 | 7,251,050 | $ 0.38 |

At March 31, 2014, the aggregate intrinsic value of the warrants outstanding was $3,855,525. Future unamortized compensation expense on the unvested outstanding warrants at March 31, 2014 is approximately $250,000.

| | Outstanding Warrants | | | Exercisable Warrants | |
|---|---|---|---|---|---|
| Warrant Exercise Price Per Share | Shares | Life (Years) | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| $ 0.30 - $ 0.99 | 6,631,050 | 4.3 | $0.32 | 5,747,716 | $0.31 |
| $ 1.00 - $ 1.99 | 620,000 | 0.5 | $1.00 | 500,000 | $1.00 |
| | 7,251,050 | | $0.38 | 6,247,716 | $0.38 |

**2014**

- During the three-month period ended March 31, 2014, warrants to acquire 4,340,947 shares of common stock were exercised resulting in proceeds of $1,302,284.

- During the three-month period ended March 31, 2014, the Company granted warrants to consultants to purchase 120,000 shares of its common stock. The warrants have an exercise price of $1.01 per share, vest over six months and will expire two years from the grant date. Total fair value of the warrant amounted to $42,000 using the Black-Scholes Option Pricing model with the following average assumptions: risk-free interest rate of 0.44%; dividend yield of 0%; volatility of 119%; and an expected life of one year. During the three months ended March 31, 2014, the Company recognized compensation costs of $21,000 based on the fair value of warrants that vested.

- During the three-months ended March 31, 2014, the Company amortized $17,271 of compensation cost based on the vesting of the warrants granted to an employee and consultants in prior years.

**8. Commitments and Contingencies**

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

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

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

This discussion contains forward-looking statements that involve risks and uncertainties. Such statements, which include statements concerning future revenue sources and concentration, selling, general and administrative expenses, research and development expenses, capital resources, additional financings and additional losses, are subject to risks and uncertainties, including, but not limited to, those discussed elsewhere in this Form 10-Q, particularly in "Risk Factors," that could cause actual results to differ materially from those projected. Unless otherwise expressly indicated, the information set forth in this Form 10-Q is as of March 31, 2014, and we undertake no duty to update this information.

**Overview**

We are a development stage company that has not yet generated any significant revenues since our inception in February 1998. We have devoted the bulk of our efforts to the completion of the design, and the commercial manufacturing of our production models, and testing of devices and the promotion of our commercialized crude oil pipeline products in the upstream and midstream energy sector. We anticipate that these efforts will continue during 2014.

In 2011, the Company conducted research and development of its AOT technology prototypes in a testing facility in Midwest, Wyoming, located at the U.S. Department of Energy Rocky Mountain Oilfield Testing Center, Naval Petroleum Reserve #3 (US DOE). The Company constructs the AOT technology prototypes through the assistance of various third party entities, located in Casper, Wyoming. Costs incurred and expensed includes fees charged by the US DOE, purchase of test equipment, pipeline pumping equipment, crude oil tank batteries, viscometers, SCADA systems, computer equipment and other related equipment and various logistical expenses for the purposes of evaluating and testing its AOT prototypes.

In 2012, the Company began the design and engineering efforts required to transition from prototype testing to full-scale commercial unit production. The Company has been working in a collaborative engineering environment with multiple Energy Industry companies to refine the AOT™ Midstream commercial design to comply with the stringent standards and qualification processes as dictated by independent engineering audit groups and North American industry regulatory bodies. In May 2013, the Company's first commercial prototype unit known as AOT™ Midstream, was completed.

In 2014, the Company began commercial development of a suite of products based around the new electrical heat system and plans to begin field-testing with commercial entities in the third quarter of 2014. The Company filed two additional provisional patents related to the technology's method and apparatus in the second quarter and fourth quarter of 2013, respectively. The first of the two provisional patents was finalized and submitted to non-provisional status on April 29, 2014. The second of the two provisional patents is scheduled to be finalized and submitted to non-provisional status at the end of the third quarter 2014.

Our expenses to date have been funded primarily through the sale of shares of common stock and convertible debt, as well as proceeds from the exercise of stock purchase warrants and options. We raised capital in the first quarter of 2014 and will need to raise substantial additional capital through the end of 2014, and possibly beyond, to fund our sales and marketing efforts, continuing research and development, and certain other expenses, until our revenue base grows sufficiently.

**Results of Operation**

There were no revenues and cost of sales for the three months ended March 31, 2014 and 2013.

Operating expenses were $924,987 for the three-month period ended March 31, 2014, compared to $1,168,384 for the three-month period ended March 31, 2013, a decrease of $243,397. This decrease is attributable to decreases in non-cash expenses of $346,685, offset by an increase in cash expenses of $58,787. Specifically, the decrease in non-cash expense is attributable to decreases in stock and warrants given to consultants, employees and directors of $345,770 and depreciation of $915. The increase in cash expense is attributable to increases in salaries and corporate expenses of $51,466, consulting and professional fees of $ $8,098 and travel and related expenses of $47,442, offset by a decrease in office and other expenses of $48,219.

Research and development expenses were $451,987 for the three-month period ended March 31, 2014, compared to $343,555 for the three-month period ended March 31, 2013, an increase of $122,933. This increase is attributable to a decrease in salaries charged to research and development of $9,425 and a decrease in licensing and related research and patent expenses of $30,137, offset by an increase in prototype product development, product testing, research and supplies of $162,495.

Other income and expense were $26,500 expense for the three-month period ended March 31, 2012, compared to $3,124,739 income for the three-month period ended March 31, 2012, a decrease in income of $3,151,239. This decrease, all non-cash, is attributable to increases in gain on extinguishment of derivative liabilities of $3,441,752, reduction in interest and financing expense of $260, increase due gain from change in fair value of derivative liabilities of $220,614, offset by a decrease in other expenses of $69,693 due to settlement of debt and accruals and write-off of doubtful receivables.

The Company had a net loss of $1,403,474, or $0.01 per share, for the three-month period ended March 31, 2014, compared to net income of $1,582,800, or $0.01 per share, for the three-month period ended March 31, 2013. We expect to incur net loss in the fiscal year ending December 31, 2014 primarily attributable to continued research and development, operating and marketing-related expenditures without the benefit of any significant revenue for the remainder of the year.

## Liquidity and Capital Resources

### General

We have incurred negative cash flow from operations in the developmental stage since our inception in 1998. As of March 31, 2014, we had cash of $4,076,653 and an accumulated deficit of $94,442,337. Our negative operating cash flow in 2013 and first quarter of 2014 was funded primarily through exercise of stock purchase warrants and options.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying consolidated financial statements, the Company is a development stage company and had not generated any revenues from operations, had a net loss of $1,403,474 and a negative cash flow from operations of $1,368,669 for the three-month period ended March 31, 2014. These factors raise substantial doubt about our ability to continue as a going concern. As a result, the Company's independent registered public accounting firm, in its report on the Company's December 31, 2013 financial statements, has raised substantial doubt about the Company's ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to raise additional funds and implement our business plan. The consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

### Summary

At March 31, 2014, we had cash on hand in the amount of $4,076,653. We will need additional funds to operate our business, including without limitation the expenses we will incur in connection with the license and research and development agreements with Temple University; costs associated with product development and commercialization of the AOT and related technologies; costs to manufacture and ship our products; costs to design and implement an effective system of internal controls and disclosure controls and procedures; costs of maintaining our status as a public company by filing periodic reports with the SEC and costs required to protect our intellectual property. In addition, as discussed below, we have substantial contractual commitments, including without limitation salaries to our executive officers pursuant to employment agreements, certain severance payments to a former officer and consulting fees, during the remainder of 2014 and beyond.

No assurance can be given that any future financing will be available or, if available, that it will be on terms that are satisfactory to the Company.

## Contractual Obligations

The Company has certain contractual commitments for future periods, including office leases, minimum guaranteed compensation payments and other agreements as described in the following table and associated footnotes:

| Year ending December 31, | Office Lease (1) | Research and License Agreements (2) | Compensation Agreements (3) | Total Obligations |
|---|---|---|---|---|
| 2014 | $ 52,470 | $ 284,472 | $ 481,250 | $ 765,722 |
| 2015 | 69,960 | 252,148 | 78,125 | 330,273 |
| 2016 | 69,960 | 187,500 | 60,000 | 247,500 |
| 2017 | 69,960 | 187,500 | 30,429 | 217,929 |
| 2018 | 40,810 | 187,500 | – | 187,500 |
| Total | $ 303,160 | $ 1,099,120 | $ 649,804 | $ 1,748,924 |

(1) Consists of rent for the Company's Santa Barbara Facility expiring on July 31, 2018. (For description of this property, see Part 1, Item 2, "Properties").

(2) Consists of license maintenance fees to Temple University in the amount of $187,500 paid annually through the life of the underlying patents or until otherwise terminated by either party, and research fees paid to Temple University in the amount of $32,324 paid quarterly through June 1, 2015.

(3) Consists of base salary and certain contractually-provided benefits, to an executive officer, pursuant to an employment agreement that expires on January 30, 2015 in the amount of $235,625 and two severance agreements of former officers in the amount of $414,179.

**Licensing Fees to Temple University**

For details of the licensing agreements with Temple University, see Financial Statements attached hereto, Note 5.

## Critical Accounting Policies and Estimates

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

The methods, estimates and judgments we use in applying our most critical accounting policies have a significant impact on the results that we report in our consolidated financial statements. The SEC considers an entity’s most critical accounting policies to be those policies that are both most important to the portrayal of a company’s financial condition and results of operations and those that require management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about matters that are inherently uncertain at the time of estimation. For a more detailed discussion of the accounting policies of the Company, see Note 2 of the Notes to the Consolidated Financial Statements, “Summary of Significant Accounting Policies”.

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

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Certain significant estimates were made in connection with preparing our consolidated financial statements as described in Note 2 to Notes to Consolidated Financial Statements. Actual results could differ from those estimates.

**Stock-Based Compensation**

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

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

**Research and Development Costs**

Costs incurred for research and development are expensed as incurred. Purchased materials that do not have an alternative future use are also expensed. Furthermore, costs incurred in the construction of prototypes with no certainty of any alternative future use and established commercial uses are also expensed.

For the three-month periods ended March 31, 2014 and 2013, and for the period from inception to December 31, 2013, research and development costs incurred were $451,987, 373,555 and 11,133,154, respectively.

**Recent Accounting Pronouncements**

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360)." ASU 2014-08 amends the requirements for reporting discontinued operations and requires additional disclosures about discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations or that have a major effect on the Company's operations and financial results should be presented as discontinued operations. This new accounting guidance is effective for annual periods beginning after December 15, 2014. The Company is currently evaluating the impact of adopting ASU 2014-08 on the Company's results of operations or financial condition.

On February 26, 2014, the FASB Board affirmed changes in a November 2013 Exposure Draft, Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, and directed the staff to draft a final Accounting Standards Update for vote by the Board. This is intended to reduce the cost and complexity in financial reporting by eliminating inception-to-date information from the financial statements of development stage entities.

Other recent accounting pronouncements issued by the FASB, including its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

**Item 3. Quantitative and Qualitative Disclosure about Market Risk**

We issue from time to time fixed rate discounted convertible notes. Our convertible notes and our equity securities are exposed to risk as set forth below, in Part II Item 1A, "Risk Factors." Please also see Item 2, above, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

**Item 4. Controls and Procedures**

**Disclosure Controls and Procedures**

The Company's management, with the participation of the Company's chief executive officer and chief financial officer, evaluated, as of March 31, 2014, the effectiveness of the Company's disclosure controls and procedures, which were designed to be effective at the reasonable assurance level. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Company's disclosure controls and procedures as of March 31, 2014, management, the chief executive officer and the chief financial officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level at that date.

**Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Save the Word Air, Inc.'s internal control system is designed to provide reasonable assurance to the Company's management and Board regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations which may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of Save the Word Air, Inc.' internal controls over financial reporting as of March 31, 2014. In making this assessment, it used the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") (1992 framework). Based on our assessment, we conclude that, as of March 31, 2014, the Company has maintained effective internal control over financial reporting based on those criteria.

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

**Changes in Internal Control over Financial Reporting**

No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the three-month period ended March 31, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II – OTHER INFORMATION

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

There have been no material changes in the risk factors previously disclosed in Form 10-K for the period ended December 31, 2013, which we filed with the SEC on March 17, 2014.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**Issuances**

During the three months ended March 31, 2014, we issued 4,340,947 shares of common stock upon exercise of warrants at $0.30 per share for aggregate net proceeds of $1,302,284.

During the three months ended March 31, 2014, we issued 20,000 shares of common stock upon exercise of options at $0.30 per share for aggregate net proceeds of $6,000.

The proceeds received by the company in connection with the above issuances of shares were used for general corporate purposes.

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

None

**Item 5. Other Information**

**Increase in Outstanding Shares**

No additional shares were issued by the Company during the period from April 1, 2014 through April 30, 2014.

**Item 6. Exhibits**

| Exhibit No. | Description |
|---|---|
| 31.1 | Certification of Chief Executive Officer of Quarterly Report Pursuant to Rule 13(a)-15(e) or Rule 15(d)-15(e) |
| 31.2 | Certification of Chief Financial Officer of Quarterly Report pursuant to Rule 13(a)-15(e) or Rule 15(d)-15(e) |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer of Quarterly Report Pursuant to 18 U.S.C. Section 1350 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Schema Document |
| 101.CAL | XBRL Calculation Linkbase Document |
| 101.LAB | XBRL Label Linkbase Document |
| 101.PRE | XBRL Presentation Linkbase Document |
| 101.DEF | XBRL Definition Linkbase Document |

## SIGNATURES

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

SAVE THE WORLD AIR, INC.

Date: May 9, 2014

By: /s/ Greggory M. Bigger
Greggory M. Bigger
Chief Financial Officer

## EXHIBITS

| Exhibit No. | Description |
|---|---|
| 31.1 | Certification of Chief Executive Officer of Quarterly Report Pursuant to Rule 13(a)-15(e) or Rule 15(d)-15(e) |
| 31.2 | Certification of Chief Financial Officer of Quarterly Report Pursuant to Rule 13(a)-15(e) or Rule 15(d)-15(e) |
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| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Schema Document |
| 101.CAL | XBRL Calculation Linkbase Document |
| 101.LAB | XBRL Label Linkbase Document |
| 101.PRE | XBRL Presentation Linkbase Document |
| 101.DEF | XBRL Definition Linkbase Document |

**EXHIBIT 31.1**

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

I, Greggory M. Bigger, certify that:

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

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: May 9, 2014

/s/Greggory M. Bigger
Greggory M. Bigger
Chief Executive Officer

**EXHIBIT 31.2**

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

I, Greggory M. Bigger, certify that:

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

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: May 9, 2014

/s/ Greggory M. Bigger
Greggory M. Bigger
Chief Financial Officer

**EXHIBIT 32**

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

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, we, the undersigned Acting Chief Executive Officer and the Chief Financial Officer of Save the World Air, Inc. (the "Company"), hereby certify, based on our knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2014 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2014

/s/ Greggory M. Bigger
Greggory M. Bigger
Chief Executive Officer

Date: May 9, 2014

/s/ Greggory M. Bigger
Greggory M. Bigger
Chief Financial Officer