EAU TECHNOLOGIES, INC.
Form 10-K
March 30, 2010

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

FORM 10-K

(Mark One)

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

For the fiscal year ended: December 31, 2009

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

For the transition period from ________________ to ________________

Commission File Number: 000-51807

EAU TECHNOLOGIES, INC.
(Name of Registrant in Our Charter)

Delaware (State of Incorporation)	2842 (Primary Standard Industrial Classification Code Number)	87-0654478 (I.R.S. Employer Identification No.)

	Wade R. Bradley
1890 Cobb International Blvd	1890 Cobb International Blvd
Suite A	Suite A
Kennesaw, Georgia 30152	Kennesaw, Georgia 30152
(678) 388-9492	(678)-388-9492
(Address and telephone number of Principal Place of Business)	(Name, address and telephone number of agent for service)

Securities registered under Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	None

Securities registered under Section 12(g) of the Act:

Common Stock, $0.0001 par value
(Title of class)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 o No o

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer" "accelerated filer" and smaller reporting company" in Rule 12b-2 of the Act (Check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

At March 30, 2010, 19,986,168 shares of the Registrant's common stock, $0.0001 par value per share, were outstanding. The aggregate market value of shares of common stock held by nonaffiliates as of June 30, 2009, was $2,331,201.

Documents Incorporated By Reference: None

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 PROVIDES A "SAFE HARBOR" FOR FORWARD LOOKING STATEMENTS. This Form 10-K contains statements that are not historical facts. These statements are called "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements involve important known and unknown risks, uncertainties and other factors and can be identified by phrases using "estimate," "anticipate," "believe," "project," "expec "intend," "predict," "potential," "future," "may," "should" and similar expressions or words. Our future results, performan achievements may differ materially from the results, performance or achievements discussed in the forward-looking statements. There are numerous factors that could cause actual results to differ materially from the results discussed in forward-looking statements, including:

- Our ability to raise investment capital necessary to continue to fund our operations and product development activities.
- Our ability to adequately manage and fund the development of our business.
- The introduction of new laws, regulations or policies that could affect our products or our business practices. These laws, regulations or policies could impact our industry as a whole, or could impact only those portions in which we are currently active.
- Our ability to continue to develop our products and to develop products and services that will be accepted by our customers.
- Changes in economic conditions, including changes in interest rates, financial market performance and our industry. These types of changes can impact the economy in general, resulting in a downward trend that impacts not only our business, but all companies with which we compete; or, the changes can impact only those parts of the economy upon which we rely in a unique manner.
- Changes in relationships with customers and/or suppliers: an adverse change in our relationships with customers and/or suppliers would have a negative impact on our earnings and financial position.
- Our ability to protect our intellectual property and trade secrets in order to maintain an advantage over our competitors.
- Our failure to achieve and maintain effective internal control over financial reporting.
- Factors that we have discussed in previous public reports and other documents filed with the Securities and Exchange Commission.

This list provides examples of factors that could affect the results described by forward-looking statements contained in this Form 10-K. However, this list is not intended to be exhaustive; many other factors could impact our business, and it is impossible to predict with any accuracy which factors could result in which negative impacts. Although we believe that the forward-looking statements contained in this Form 10-K are reasonable, we cannot provide you with any guarantee that the anticipated results will be achieved. All forward-looking statements in this Form 10-K are expressly qualified in their entirety by the cautionary statements contained in this section, and you are cautioned not to place undue reliance on the forward-looking statements contained in this Form 10-K. In addition to the risks listed above, other risks may arise in the future, and we disclaim any obligation to update information contained in any forward-looking statement.

PART I

ITEM 1. BUSINESS

EAU TECHNOLOGIES, INC., previously known as Electric Aquagenics Unlimited, Inc. (referred to herein sometimes as “EAU,” “we,” “us,” or the “Company”), is in the business of developing, manufacturing and marketing equipment that uses water electrolysis to create non-toxic cleaning and disinfecting fluids as well as dairy drinking water. These fluids have various commercial applications and may be used in commercial food processing and agricultural products that clean, disinfect, remediate, hydrate and moisturize. The processes for which these fluids may be used are referred to in this Report (the “Report”) as the “EW Technology.” For example, we believe that our food and agricultural treatment products potentially may be used to systemically treat various facets and phases of the food chain, from soil to animal feed to meat processing, by eliminating dangerous and unhealthy pathogens from the food chain with organically based and highly effective solutions. We make the claim that our products are “non-toxic”. We can do this because at the levels we employ our technology, our studies both internal as well as through third parties show no toxicity. Further studies are in progress to make more specific claims. At the levels employed, the fluids and products are environmentally safe and non-toxic and do not contain or leave harmful residues associated with chemical-based supplements or disinfecting and cleaning agents. The electrolyzed water fluids created by the EW Technology (referred to herein sometimes as the “EW Fluids” or “Empowered WaterTM”) generated by our specialized equipment can be used in place of many of the traditional products used in commercial, industrial and residential disinfecting and cleaning.

Our focus is on our three core competencies which are, producing high volumes of electrolyzed water, controlling the properties of the water and using our application knowledge. Because of our ability to produce high volumes of water and control the water properties, our target market is in commercial applications where we believe we can add value by generating measurable productivity and efficiency gains. We will continue to use a disciplined stage gate development process that drives ideas to commercial test installations that turn into revenues. Once we have developed an application we will attempt to find strategic partners that would be able to assist us with a large scale commercial roll-out of the technology. Our goal is to generate streams of revenues through pricing contracts that let us participate in the on-going added value.

We have identified the following industries for early stage sales and marketing focus: 1) dairy production and processing, 2) meat and poultry processing, 3) clean in place (“CIP”) for food and beverage processing and 4) agricultural grow-out and processing (“Primary Markets”). As of the date of this Report, the Company was focused on these markets because we believe that for each of these markets we have a competitive advantage, the potential ability to attract a leading strategic industry partner, or we can provide an attractive value-added proposition. To penetrate these markets, EAU is conducting trials and completing commercial installations that will lead to partnerships with enterprises who can assist in rolling the technology out on a large scale.

We have obtained patent protection on four separate uses of electrolyzed fluids (cleaning and disinfecting eggs, carpet cleaning, mold remediation and poultry processing). Those applications are how the fluids are used and how they are stabilized for use in different applications. Additionally, we have a patent pending on the electrolysis equipment and several provisional patent pending applications filed to protect new processes and products, as described herein.

Products and Related Markets

EW Technology

We intend to lease or sell generators that create electrolyzed fluids that are produced on-site at commercial processing facilities. As of the date of this Report, generators have been sold on a commercial basis as well as continuing trials in multiple new commercial applications.

Dairy Cattle. The Company commenced hydration and production tests on dairy cattle in 2006. Initial results indicate an increase in milk production and milk fat while maintaining the protein content. In August 2008, we reached an agreement with a dairy located in Georgia to begin paying for the use of our equipment. During the first quarter of 2009, the Company installed a second unit at the dairy located in Georgia to provide our fluids to all of the cows on the dairy. EAU is currently receiving minimal revenues in a commercial capacity. We will continue to do more clinical research and field testing in the dairy market in order to support a full industry rollout.

Poultry. In 2005, we began testing of our EW Technology and EW Fluids (the "EW System") in Tyson Food's Shelbyville, Tennessee, poultry processing plant. In March, 2006, our EW System trial was completed. The trial yielded significant results in killing salmonella on the processed poultry. Independent testing analysis conducted by ABC Research, Inc., in Gainesville, Florida, revealed pre-chill microbial reduction was significantly below the Food Safety Inspection Services (the enforcement arm of the USDA) allowable limit.

From these results we successfully completed Phase I of our USDA Online Reprocessing ("OLR") Certification. The EAU Technologies OLR intervention also tested well showing a statistically significant difference between control and test groups.

The Company has experienced some sales resistance from the multiple industries including the poultry industry, because operators did not have sufficient motivation to invest in new technologies to improve the safety and cleanliness of food products. In February 2008, a regulatory change occurred that we believe may increase the motivation. The Food Safety Inspection Service ("FSIS"), a division of the USDA, sets the public heath performance standards for all raw and processed meat, poultry and egg- processing standard for the United States. The FSIS has implemented a process called the "Public Health Risk Based Inspection" platform to regulate these industries based on the relative risk a processing facility imposes to the human health index. The new system allows the FSIS to allocate and prioritize its resources at processing plants based on the risk each plant presents. The new categorization platform lists processors in three categories, Category 1: 10% positive and below; Category 2: 10%-20% positive for Salmonella and other pathogens; Category 3: 20%-22% positive for Salmonella and other pathogens. For processors with strong processes and intervention systems meeting the Category 1 criteria, there would be far less FSIS inspectors on site, thus reducing the cost incurred by the plant. We believe that with the success that we have achieved in field trials and commercial installations, in conjunction with the new FSIS policies and regulations, will make EAU's products appealing to the industry. While it will take time for the poultry industry to fall into compliance with this new rating system, EAU now has a tangible reason for poultry plants to seriously consider our EW technology for its pathogen remediation process.

In 2008, EAU signed a lease agreement with Fieldale Farms, a large poultry producer in northern Georgia, to install our equipment at their facility. We began receiving revenues of approximately $27,500 per month from this facility in February 2009. Per the terms of the agreement, we were to help the plant achieve Category 1 status. The plant completed a USDA test set October 2009 with the result that it complied with Category 1 status. The plant has indicated that it intends to terminate the agreement as of November 23, 2009. We currently are not receiving monthly rent payments, while management is in negotiations to continue operations. We completed the OLR data gathering stage and submitted our findings to the USDA for OLR approval. EAU received a letter from the USDA approving our fluids for use in the plant for OLR applications.

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Clean in Place. In the third quarter of 2008 we installed our equipment to test a clean-in-place (CIP) application with an international beverage bottling company for use with cold beverages. This test is complete and was a success. There were three stages of this trial that were conducted simultaneously: 1) Syrup tanks; 2) Bag in box; 3) Bottling. The purpose of the trial was to identify whether EAU's non-toxic ambient temperature Empowered Waters could replace current 3-5 step CIP processes. In order to become an approved technology for this bottling company, EAU had to show good antimicrobial efficacy, water savings, and improved CIP efficiency. At this time, this installation does not generate any revenues. With the positive results of all phases of the tests being completed for carbonated beverages, EAU is now in a position to begin marketing our systems within the bottling company. We are expanding our CIP capabilities have plans to work with the bottling company on a hot fill application for pasteurized beverages. EAU will continue to test other CIP applications to manage all beverage and food products as the technology is introduced.

EW Fluids. EW Fluids can have varying strength and properties. We have created products by researching and testing the cleaning and sanitizing characteristics of EW Fluids with varying electrical charges, pH levels and ppm (parts per million) of hypochlorous acid and sodium hydroxide. We are able to create new applications for electrolyzed water by producing various models of our electrolyzing machines, which can create electrolyzed water to meet the needs of specific markets and their application requirements.

The versatility of our EW equipment is unique in the marketplace. Beyond our initial focus in our four Primary Markets, our EW Fluids have potential uses in many other areas. The Company produces its electrolyzed fluids through an advanced continuous-flow electrolysis process using the basic raw materials of water, electricity, and sodium chloride (salt). EAU's generators produce the following EW Fluids:

- Primacide A is a disinfecting and sanitizing fluid that kills bacteria; yeast; molds; viruses, including e-coli, salmonella, staphylococcus, streptococcus, lysteria, campylobacter, vibrio vulnificus; and hundreds of other organisms. It is highly oxidative and acidic due to its pH of 2.4 and positive 1150 millivolt (one thousandth of a volt) ORP (oxidative reduction potential) and hypochlorous acid concentration of 10 to 200 ppm. Primacide A can be applied to a wide variety of surfaces. Hands sprayed with Primacide A and then wiped with a micro fiber cloth were found to have less residual bacteria and other microbes than hands cleaned using 62% alcohol. Tests performed by the University of Georgia Food Science Department indicated that Primacide A can be used to sanitize and wash meat carcasses, strawberries, lettuce, cabbage, carrots and other vegetables. Surfaces such as floors in hospital operating rooms, bench tops, treatment tables, cutting boards and other surfaces can be effectively sanitized by cleaning with Primacide A. Further tests performed at the University of Georgia Poultry Science Department have established successful and dramatic log reductions of organisms in chicken chillers and also in in-line spraying. We have filed and received patent protection for the washing and sanitizing of eggs and mold remediation and expect to receive additional patent protection for other uses of Primacide A. EAU has completed successful commercial installations as well as trials in the field to further validate the use of Primacide A as a disinfectant.

- Primacide B is an alkaline based cleaner. Primacide B is created in the electrolysis process with a sodium hydroxide ion attached to the oxygen and hydrogen molecules. It emulsifies oils, fats and other lipids, but has no surfactant base and therefore leaves no residue when used to clean surfaces. It has a pH of 11.0 to 11.5, and is therefore very alkaline. Its alkaline nature and its negative (960) millivolt ORP result in a product that is effective in emulsifying oil and grease. Primacide B is primarily a cleaner with some bacteria killing properties, but is significantly slower and less effective as an anti-bacterial agent than Primacide A. We have submitted provisional patent applications to the United States Patent and Trademark Office to approve Primacide B for many uses. We have received a patent for using Primacide B in carpet cleaning. We recently applied to the U.S. Patent and Trademark Office for a utility patent relating to Primacide A and Primacide B as cleaners and sanitizers of all hard surfaces.

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- Primacide C is a product that was developed by the University of Georgia by Dr. Yen Con Hung and Company executives to stabilize acid water (Primacide A). This process has been submitted for patent protection and is currently pending. We license this technology from the University of Georgia. This product is useful in applications ranging from spraying on produce in grocery stores to consumer products requiring a longer shelf life. Recently we have modified the license agreement to reflect the current state of our business relationship with the University of Georgia Research Foundation, the department that commercializes UGA's technologies. This agreement allows EAU to continue to aggressively market and develop uses of Primacide C for numerous applications. Early in 2009 EAU received an issued patent for the use of Empowered Water™ (both Primacide A and C) in mold remediation.

- Dairy Drinking Water – The Company commenced hydration and production tests on dairy cattle in 2006. Initial results indicate a possible increase in milk production and milk fat while maintaining the protein content. The Company has expanded its investment into the application of its technology in the dairy channel. Multiple trials and University studies are being either planned or implemented to validate early results. EAU is currently in three commercial installations.

Agriculture

In 2006 we made initial sales to Water Science, LLC, a Florida limited liability company ("Water Science") for the Latin American markets. Water Science is a major shareholder of the Company and its managing member, Peter Ullrich, is a director of our company. We have shipped a total of five P-1200s to Ecuador, Mexico, Columbia, Costa Rica and Holland for trials and Water Science internal use. Water Science is utilizing the technology for its own flower and agricultural endeavors. Further studies are being done as each country that has the Empowered Water™ technology ramps up for their own outside sales efforts.

Additional Agricultural Markets

While the majority of our efforts and all of our sales in agriculture have been in connection with Water Science, we are investigating the potential to enter other agricultural markets such as green house and grow out of vegetable plants and vegetable packing facilities.

Other Markets, Products and Industries

Some of the other markets and industries that are attractive channels for our EW Technology and other products and services are listed below. We intend to focus more efforts on these markets after we attain our business plan in our current market channels.

Environmental Remediation – Environmental remediation is a multi-billion dollar industry that consists of home and commercial cleanup and reconstruction, generally following disasters such as floods or fires. The Company believes that its technology can be used for mold remediation. The Company's electrolyzed fluids can be employed to kill mold spores and break down associated mycotoxins. Early in 2009 EAU received an issued patent for the use of Empowered Water™ in mold remediation.

Medical – The medical industry is in need of new and more effective sanitizing and disinfecting solutions. We believe that our EW Technology will work well in many facets of the medical industry. However, the regulatory, environmental and governmental restrictions and requirements to operate in the market will require significant capital and personnel expenditures. We intend to look for appropriate joint venture partners to assist in this market.

Fish Processing – We believe that our EW Fluids are an excellent sanitizer in seafood processing houses as earlier studies conducted on fish in the Cook Islands proved effective. We intend to further research this area at an undetermined future date.

Grocery Store Produce and Meat Departments - We are currently installed in four Whole Foods Market (WFM) stores in the South Region. These stores are using the Empowered Water™ in three areas of the store: floral, fresh cut produce and leafy vegetable rinse area. Empowered Water™ may also be used by grocery store meat departments as a cleaning agent and disinfectant on cutting surfaces where multiple products, such as beef, poultry and seafood are cut and packaged, and where cross contamination commonly occurs. Using our electrolyzed fluids, a store's processing machinery and floor surfaces can be cleaned and sanitized without the use of toxic chemicals.

Markets and Distribution

We presently market our existing products in our identified market channels (dairy production and processing, meat and poultry processing, food and beverage processing clean in place ("CIP") and agricultural grow-out). Future plans include enhancing our current products, and introducing new products and features to meet changing customer requirements and evolving industry standards, as opportunities arise and are fiscally reasonable. Our present products are based on the use of EW Technology, to kill bacteria, viruses and fungus and to clean the living environment without the use of harsh chemicals. Our agricultural products manage pathogens, stimulate plant growth and animal productivity.

Our products meet the growing demand for safe foods and environmentally friendly, non-toxic disinfectants and cleaning fluids. Consumers are becoming more aware of the detrimental effects of toxic products, chemicals, and biocides (as evidenced by the preponderance of anti-microbial agents). There are numerous companies attempting to enter the EW market with their own versions of electrolysis or plasma generators that create similar fluids as Empowered Water™. EAU has focused much of its time and energy in developing high volume systems that meet the needs of a commercial marketplace. As a result, we have an opportunity to penetrate and lease our systems in these markets because our equipment is better suited for larger applications.

Our solutions provide an ecologically safe alternative to toxic cleaning chemicals and pesticides. We have identified a large number of potential markets for our products within specific industry channels, but will focus initially on developing and marketing in the dairy production and processing, meat and poultry processing, clean in place (CIP) applications initially in liquid food and beverage processing, environmental remediation and agricultural grow-out industries.

The safe food, sanitizing, disinfecting, agricultural and cleaning industries are currently using products and methodologies that have increasingly expensive environmental and social consequences as compared to our Fluids. We believe that our products provide an attractive alternative to the chemicals and other toxic substances and technologies currently being used.

Manufacturing and Sources of Supply

We manufacture and assemble specialized parts in our Kennesaw, Georgia facility. We utilize contract labor both internally as well as externally for certain aspects of the manufacturing and assembly process until demand for our technology increases to a level necessary for further investment. Eventually we expect to outsource to third parties the majority of manufacturing and assembly of electrolyzed water generator components that comprise our EW Technology. In the future, outsourcing more of the Empowered Generator manufacture and assembly will enable us to benefit from the manufacturing capabilities of those who can accommodate significant increases in production volume as necessary. We have been in discussions with several companies to assist us in rolling out our technology. However, as of the date of this Report, we do not have any definitive agreements in place.

Production and Distribution

As of the date of this Report, the Company maintained an inventory of several EW generators sufficient to meet demand. We have established relationships with independent manufacturing facilities to assure that we are able to meet any dramatic increase in demand for our products. Using components supplied by reliable third parties, we believe that our generator technology is not exposed to any problems related to using a single source supplier. EAU markets the high volume equipment developed primarily for installation on dairies and in poultry, beef and produce processing facilities and in other high use areas.

Our current product line consists of several different commercial generators varying in volume capacity and active ingredient concentrations. The volume and concentration levels vary widely by industry and application. Commercial generators have an expected lifespan of approximately five to seven years. This may lead to recurring sales, creating additional and ongoing revenues.

We assemble and distribute our Empowered Water™ generators from our company facility plant in Kennesaw, Georgia. However, in the future, as generator sales volume increases and our electrolyzed fluid product lines are launched, we intend to partner with industry leaders with established distribution channels to assist with the marketing of our products.

Competition

There is broad competition in the market for disinfecting, sanitizing, and surface cleaning products as well as agricultural products. Many of our competitors are extremely large, financially healthy companies, which have substantial market share and name recognition, and easy access to marketing outlets and capital markets. Many of these companies are able to frequently update and expand their products, introduce new products, and diversify product offerings. These other companies with substantially greater financial, creative and marketing resources, and proven histories, may decide to enter and effectively compete in some or all of our markets, which could adversely affect our operations.

We believe our products are unique because of their volume capabilities, effectiveness and price, and because they are environmentally safe and non-toxic at the levels we employ. There have been many companies in the EW marketplace for many years. Application and volume constraints have contributed to slow growth in the market. We believe that we have more usable application knowledge with the technology on a commercial scale as compared to most competitors using other EW technologies. We believe that we will be able to capture a portion of the market for environmentally safe and non-toxic cleaning products and for our Agricultural Products, although there can be no guarantee that we will be successful in these plans.

Governmental Regulation

Because many of our products are sanitizing products and have applications related to the food industry, existing governmental regulations have a large potential effect on our new products. We frequently will be required to obtain approval or favorable designations from governmental agencies, such as the FDA, USDA, FSIS, EPA, NOP, and others, in order to bring new products to market. We believe that our current applications for electrolyzed water products are subject to specific sections in the United States Code of Federal Regulations, which contain regulations created by the aforementioned government agencies. In addition, commercial laboratories such as National American Medical Science Association (NAMSA) have performed several toxicity tests. At the concentrations analyzed, the electrolyzed water solutions show no toxicity. Further approvals will be required when we advance our products into the medical and certain health care industries. These approvals can be costly and time consuming. We intend to approach each sector based on market demand and capital availability.

The active ingredient in our Primacide A and C fluid is electrolytically generated hypochlorous acid. This, in addition to the oxidation-reduction potential of positive 1,150 millivolts plus, and a low pH makes Primacide A and C effective disinfectants. We have established that our particular method of creating hypochlorous acid at the level we employ through the electrolysis process is safe for indirect food contact and food contact surfaces based on scientific data, trials and commercial installations.

The active ingredient in our Primacide B is electrolytically generated sodium hydroxide. This, in addition to the negative oxidative-reduction potential of approximately -400 and a high pH, makes Primacide B a very effective emulsifier or cleaner. We have established that our particular method of creating sodium hydroxide through electrolysis is GRAS (generally regarded as safe) for most surfaces.

The EPA indicated that even though our generator is exempt from an antimicrobial type registration, we are required to register it with the EPA annually. We utilize our internal regulatory specialists as well as outside consultants to ensure this process is completed properly and competently.

Trademarks & Proprietary Rights

The name Primacide is registered with the U.S. Patent and Trademark Office. The names "Empowered Water," "EAU Technologies, Inc." and "Electric Aquagenics Unlimited," are some of our trademarks.

We have filed several provisional utility patent applications with the U.S. Patent and Trademark Office. Four patents have been issued (for carpet cleaning, egg sanitization, mold remediation and poultry processing) while others are in pending or application status. We have entered into an exclusive license for certain stabilized acid water (Primacide C) technology developed by the University of Georgia. Two other patent applications that have been filed by us involve stabilizing our Primacide C product and a process application for poultry processing.

We retain patent counsel, Bracewell and Giuliani, LLP located in Houston, Texas, to prepare other patent applications related to the use of Primacide A, B and C in various cleaning and disinfecting applications. In addition to several utility applications, a process patent application has been filed for the water generator and stabilization processes, including Primacide A, B and C. We retain Clayton, Howarth & Cannon, P.C. located in Salt Lake City, Utah to prepare and handle our Trademark applications and Trademark related issues.

Research and Development

The goal of our research and development activities is to further the introduction of environmentally safe products for our customers that address the limitations and dangers caused by chemical sanitizers. Our efforts are focused on researching and testing the cleaning and sanitizing characteristics of electrolyzed water with varying electrical charges and pH levels. Our research focuses on the ability and range of efficacy of our electrolyzed water to kill specific microorganisms. We are attempting to develop new technologies, applications and products that will:

- generate electrolyzed water that has a longer shelf life;
- show value add propositions through commercial installations;
- sanitize agricultural products;

- enhance current products for further use in carpet cleaning;
- sanitize and disinfect hard and soft surfaces;
- find more efficient ways to apply our effective solutions;
- provide a superior dairy drinking water product.

Our research and development expenditures totaled approximately $448,000 for the year ended December 31, 2009, and $228,000 in 2008.

Employees

As of December 31, 2009 we had 9 full-time employees and 3 consultants. As our business grows, we anticipate that we will need to employ additional project managers, field technicians, salaried clerical staff and sales personnel. We believe that our relationships with our employees are good.

ITEM 1A. RISK FACTORS

We are subject to various risks that may materially harm our business, financial condition and results of operations. You should carefully consider the risks and uncertainties described below and the other information in this filing before deciding to purchase our common stock. If any of these risks or uncertainties actually occurs, our business, financial condition or operating results could be materially harmed. In that case, the trading price of our common stock could decline and you could lose all or part of your investment.

Risks Related To Our Business

An investment in the Company's securities involves a high degree of risk, including, but not necessarily limited to, the risk factors described below. Each prospective investor should carefully consider the following risk factors inherent in and affecting the Company and its business before making an investment decision to purchase the Company's securities.

We cannot guarantee that we will continue as a going concern because we have not yet been successful in establishing profitable operations.

We have received a report from our independent auditors on our financial statements for fiscal years ended December 31, 2009 and 2008. The footnotes to our financial statements list factors, including recurring losses since incorporation, which raise some doubt about our ability to continue as a going concern.

We will need substantial additional funds that we may not be able to acquire.

We do not receive sufficient revenues to fund all of our operational needs. The majority of our funding has come from shareholders. We currently have sufficient funds to operate our business until the middle of 2010. We do not have any agreements in place for additional funding. We may not have enough funding for operations to fund our business until it is developed enough to bring the business plan to maturity. Our cash requirements may vary materially from those now planned as a result of marketing efforts, relationships with suppliers, changes in the direction of our business strategy, and/or competitive and technical advances for electrolyzed water as a sanitizer. We may not be able to continue to improve or develop successful electrolyzed water products. In addition, it may be more costly than we have anticipated developing new products. We may incur costs that are necessary to comply with governmental requirements. For example, we may be required to obtain approval from the U.S. Food and Drug Administration for our current or planned products. We may require substantial additional funding for our operating expenses and for marketing and sales programs. We may not be able to obtain adequate funds for these purposes when we need them or on acceptable terms.

It is difficult for third parties to evaluate our likely future performance because we are an early stage company without long operating history.

Since our incorporation in March 2000, we have been engaged in start-up and development activities. We have operated at a loss, and we expect losses to continue. We have little operating history upon which a third party may base an evaluation of our likely future performance.

We may not be able to successfully develop our business because our products and market are evolving.

There can be no assurance that our business strategies will lead to any profits. We face risks and uncertainties relating to our ability to successfully implement our strategies. We face expenses and uncertainties related to operating with a little known product, with an unproven business model, and a new and rapidly evolving market. Our business model is based on an expectation that demand for ecologically friendly disinfecting and cleaning products will increase materially. However, the demand may never materialize.

We have a history of losses, and we will need additional capital to continue our operations. If we are unable to obtain additional capital, we will have to curtail our operations.

We have generated limited revenues and incurred significant losses. We have never been profitable and continue to incur losses from operations. We may never generate sufficient revenue, income and cash flows to support our operations. We expect to incur losses because we anticipate incurring significant expenses in connection with developing our generators and products, expanding markets, and building brand awareness. Our future revenues could decline by reason of factors beyond our control such as technological changes and developments, downturns in the economy and decreases in demand for sanitizing electrolyzed fluid related products. If we continue to incur losses, if our revenues decline or grow at a slower rate, or if our expenses increase without commensurate increases in revenues, our operating results will suffer and the value of our common stock may decline.

Our management may not have adequate time and resources to conduct our distribution activities, which could hinder our ability to sell products.

Currently we do not use independent parties to distribute or place our generators. We may not be able to sell our products effectively if our management does not have adequate time and resources to conduct our distribution activities. Moreover, as our sales grow, the strain on our management to sell and distribute products may increase. In the event that we decide to retain distributors, we may not be able to establish relationships with distributors. In addition, we may incur additional costs and business delays and interruptions in sourcing distributors.

It may be difficult to assess our future income performance as a number of factors may cause fluctuations in operating results.

We believe that period-to-period comparisons of our operating results are not a good indication of our future performance because of variables which include:

- Growth rate of the market for environmentally friendly sanitizing products;

- Our ability to attract and retain customers;

- Our ability to upgrade, develop and maintain our systems and infrastructure;

- Amount and timing of operating costs and capital expenditures relating to business expansion and infrastructure;

- Delays in developing and introducing new products;

- Announcement, introduction and market acceptance of new or enhanced sanitizing products by competitors;
- Governmental regulation of our products by agencies such as the FDA, USDA, EPA, or others.

Failure to successfully develop and introduce new products would harm our business.

Our future success depends in large part on our ability to develop new or enhanced uses for our products. We may fail to identify new product opportunities successfully or develop and timely bring new products to market. We may also experience delays in completing development of enhancements to, and new versions of, our products. We may be unable to develop or acquire marketable products in a timely manner. In addition, product innovations may not achieve the market penetration or price stability necessary for profitability. As the market and technology related to environmentally friendly sanitizing products grows, we may change our business model to take advantage of new business opportunities, including business areas in which we do not have extensive experience. Failure to develop these or other businesses successfully would be harmful to our business.

We may be unable to protect our intellectual property and proprietary rights, which could harm our business.

Our success depends in part upon our ability to protect our intellectual property. We rely on a combination of trade secret, trademark, and contractual protection to establish and protect our proprietary rights. We have been assigned rights to applications submitted to the U.S. Patent and Trademark Office for a utility patent relating to the use of our electrolyzed acidic fluid to sanitize eggs, and a second patent relating to the use of our electrolyzed alkaline fluid to clean and sanitize carpets and hard surfaces. We are also applying for patent protection from the United States government, but do not own patents on products that we intend to launch in the next 12 months. We may enter into confidentiality agreements with employees and consultants involved in product development or distribution. Despite efforts to protect proprietary rights through confidentiality and license agreements, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. Precautions may not prevent someone from misappropriating or infringing our intellectual property, or an independent third-party from developing competitive products.

Our products are not patented which creates vulnerability to competitors.

The active ingredient in the sanitizing fluids that are created by our generator products is electrolyzed water that kills bacteria, viruses and molds shortly after contact. Our patents and patent applications apply only to certain aspects of our technology and products. We did not create the concept of electrolyzed water as a sanitizer and cleaner and other companies may purchase machines to create electrolyzed water or develop machines to create electrolyzed water and compete with us. Such competition could have a harmful effect on our business.

If our services and technologies are used in defective products or include defective parts, we may be subject to product liability or other claims.

If we market products that are defectively manufactured, used in defective or malfunctioning products or contain defective components, we could be subject to product liability claims and product recalls, safety alerts or advisory notices. While we have product liability insurance coverage, we cannot assume that it will be adequate to satisfy claims made against us in the future or that we will be able to obtain insurance in the future at satisfactory rates or in adequate amounts. Product liability claims or product recalls in the future, regardless of their ultimate outcome, could have a material adverse effect on our business, financial condition, results of operations and reputation, and on our ability to attract and retain licensees and customers.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could have a material adverse effect on our business and stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 ("the Sarbanes-Oxley Act") requires that we establish and maintain an adequate internal control structure and procedures for financial reporting and include a report of management on our internal control over financial reporting in our annual report on Form 10-K. That report must contain an assessment by management of the effectiveness of our internal control over financial reporting and must include disclosure of any material weaknesses in internal control over financial reporting that we have identified.

The requirements of Section 404 of the Sarbanes-Oxley Act are ongoing and also apply to future years. We expect that our internal controls over financial reporting will continue to evolve as we continue in our efforts to grow and expand our business. Although we intend to continue to improve our internal control processes in order to ensure compliance with the Section 404 requirements, any control system, regardless of how well designed, operated and evaluated, can provide only reasonable, not absolute, assurance that its objectives will be met. Therefore, we cannot assure you that in the future additional material weaknesses or significant deficiencies will not exist or otherwise be discovered.

We will incur substantial costs to comply with the requirements of the Sarbanes-Oxley Act of 2002.

The Sarbanes-Oxley Act of 2002 (the Act) introduced new requirements regarding corporate governance and financial reporting. Among the many requirements is the requirement under Section 404 of the Act for management to annually assess and report on the effectiveness of our internal control over financial reporting and for our registered public accountant to attest to this report. The SEC has modified the effective date and adoption requirements of Section 404 implementation for non-accelerated filers, such as us, such that we were first required to issue our management report on internal control over financial reporting in our annual report on Form 10-K for the fiscal year ending December 31, 2007. We have dedicated significant time and resources during fiscal years 2008 and 2009 and expect to dedicate more time and resources during fiscal 2010 to ensure compliance. The costs to comply with these requirements will likely be significant and adversely affect our operating results. In addition, there can be no assurance that we will be successful in our efforts to comply with Section 404. If we fail to comply with Section 404, we could incur penalties and additional expenditures to meet the requirements, which could affect the ability of our auditors to issue an unqualified report, which is currently required to be submitted by December 31, 2010. If the auditors are unable to issue an unqualified report, this, in turn, may further adversely affect our business and operating results.

We may incur additional costs to address federal and state tax compliance issues.

Management has determined that the Company owes taxes with respect to certain stock options and warrants granted for services provided to the Company. This tax liability arose because the Company failed to satisfy withholding tax obligations when options were exercised and to timely amend certain options to comply with the applicable requirements of Section 409A of the Code during fiscal year 2005 and the first six months of 2006. Management has reviewed all options and warrants with professional tax advisors to determine the proper treatment. However, based on the present estimate of this tax liability, the Company has accrued a liability in its financial statements of $82,000 for these taxes. The Company's estimate assumes that a significant discount may be utilized in determining the fair market value of the Company's stock for purposes of calculating the applicable employment taxes owed by the Company based on factors such as lack of marketability or restrictions on trading. If this position were challenged successfully by the Internal Revenue Service, the Company's actual tax liability may be greater. The Company has estimated its maximum potential tax liability attributable to the options to be approximately $184,000.

The Company has also determined that it may owe additional taxes with respect to compensation paid to certain former officers in 2005 and the first six months of 2006. The Company classified these former officers as independent contractors for federal and state tax purposes. If the Company's classification of these former officers as independent contractors were challenged successfully, the Company would be liable for underpayment of federal and state employment taxes. Based on the present estimate of this tax liability, the Company has accrued a liability in its financial statements of approximately $173,000. This estimate assumes that the Company may reduce its tax liability for the income and self-employment taxes paid by these former officers on the compensation received from the Company. If the Company is unable to reduce its tax liability for taxes paid by these former officers, the Company's actual tax liability attributable to this issue may be greater. The Company has estimated its maximum potential tax liability attributable to this issue to be up to approximately $390,000.

GENERAL RISKS RELATING TO THE SANITATION AND CLEANING INDUSTRIES.

Competition from major companies may decrease our market share, net revenues and gross margins.

Competition in the chemical based disinfecting and surface cleaning products market is intense, and we expect competition to increase. Companies such as SC Johnson, The Clorox Company, Dow, and Procter & Gamble dominate the market. It is possible that large companies that sell chemical based disinfecting and surface cleaning products could develop sanitizers composed of electrolyzed fluids as the key ingredient. Due to these potential competitors' extreme size and financial health, they could use their substantial market share and name recognition, and easy access to marketing outlets and capital markets to compete with us. These companies have substantially greater financial, creative and marketing resources, and proven histories, and may decide to enter and effectively compete in the electrolyzed fluid market, which could adversely affect our business.

Competitors currently selling electrolyzed fluid based sanitation and cleaning products may decrease our market share, net revenues and gross margins.

Many of the companies that already sell electrolyzed fluid based sanitation and cleaning products are able to frequently update and expand products and introduce new products and to diversify product offerings. Many of these competitors are large and financially strong. We compete with these companies primarily in developing electrolyzed fluid products and applications and obtaining customers. These companies have substantially greater financial, creative and marketing resources and proven histories that could make it difficult to compete or maintain customers in the electrolyzed fluid sanitizer market.

Our net revenues and gross margins will not improve if the market for environmentally friendly sanitizing products does not develop.

The market for environmentally friendly sanitizing products is new and evolving. As a result, demand and market acceptance for our products is uncertain. If this new market fails to develop, develops more slowly than expected or becomes saturated with competitors, or if our products do not achieve or sustain market acceptance, our business could be harmed.

Our success will depend on growth in consumer acceptance of environmentally friendly sanitizing products as an alternative to chemically based products.

Factors that might influence market acceptance of our products over which we have little or no control include development of alternative products or methods and willingness of consumers and businesses to use environmentally friendly sanitizing products. Our success depends on the increasing demand for environmentally friendly disinfecting and sanitizing products. If such demand does not continue to increase, demand for our products will be limited and our financial results will suffer.

Inability to manage growth could hinder our success.

We believe electrolyzed water as a sanitizer has broad applications and due to its non-toxic nature has advantages over chemical based sanitizers. As a result, we believe that we have the ability to grow rapidly during the next few years. In the event we do grow rapidly, we will be in circumstances currently unfamiliar to us. Our efforts to manage our production and larger scale quality assurance efforts may not be successful or we may fail to satisfy large demand requirements on a timely and/or cost-effective basis. A failure to manage our growth would have an adverse effect on our operations and overall financial health.

ADDITIONAL RISKS RELATED TO OUR COMMON STOCK

Continued control by existing management and a limited number of shareholders.

The Company's management and a limited number of shareholders retain significant control over the Company and its business plans and investors may be unable to meaningfully influence the course of action of the Company. The existing management and a limited number of shareholders are able to control substantially all matters requiring shareholder approval, including nomination and election of directors and approval or rejection of significant corporate transactions. There is also a risk that the existing management of the Company and a limited number of shareholders will pursue an agenda which is beneficial to themselves at the expense of other shareholders.

There is no assurance of an active public market for the Company's common stock and the price of the Company's common stock may be volatile.

Given the relatively minimal public float and trading activity in the Company's securities, there is little likelihood of any active and liquid public trading market developing for its shares. If such a market does develop, the price of the shares may be volatile. Since the shares do not qualify to trade on any national securities exchange, if they do actually trade, the only available market will continue to be through the OTC Bulletin Board or in the "pink sheets". It is possible that no active public market with significant liquidity will ever develop. Thus, investors run the risk that investors may never be able to sell their shares.

Possible future issuances of additional shares that are authorized may dilute the interests of stockholders.

The Company's Certificate of Incorporation currently authorizes its Board of Directors to issue up to 50,000,000 shares of Common Stock. Any additional issuances of any of the Company's securities will not require the approval of shareholders and may have the effect of further diluting the equity interest of shareholders.

Existence of limited market for the Company's common stock.

There has been a very limited market for the Company's common stock. Accordingly, although quotations for the Company's common stock have been, and continue to be, published on the OTC Bulletin Board and the "pink sheets" published by the National Quotation Bureau, Inc., these quotations, in light of the Company's operating history, continuing losses and financial condition, are not necessarily indicative of the value of the Company. Such quotations are inter-dealer prices, without retail mark-up, mark-down or commissions and may not necessarily represent actual transactions.

There are legal restrictions on the resale of the common shares, including penny stock regulations under the U.S. federal securities laws. These restrictions may adversely affect the ability of investors to resell their shares.

Our securities are subject to the “penny stock” rules, which apply generally to equity securities with a price of less than $5.00 per share, other than securities registered on certain national exchanges or quoted on the NASDAQ Capital Market. For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchaser of such securities and have received the purchaser's written consent to the transactions prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the transaction, of a disclosure schedule prepared by the Securities and Exchange Commission relating to the penny stock market. The broker-dealer also must disclose the commissions payable to the broker-dealer and the registered underwriter, current quotations for the securities and, if the broker-dealer is the sole market-maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market. Finally among other requirements, monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. As such, the "penny stock" rules may restrict the ability of purchasers in this offering to sell the common stock and warrants offered hereby in the secondary market. The transaction costs associated with penny stocks are high, reducing the number of broker-dealers willing to engage in the trading of our shares. This results in reduced liquidity and an increase in the spread between the bid and ask price. Investors should be aware that the level of trading activity on the secondary market can be very illiquid and investors may find it expensive and difficult to sell their shares.

Sales of a substantial number of restricted shares that will be eligible for sale could adversely affect the price of our common stock.

We have issued shares of "restricted" common stock in consideration for proprietary rights, business plans, organizational services and expenses and cash in private placements. Many of the shares are held by persons who are officers, directors and/or control persons of the Company and who hold such shares as "restricted securities", as that term is defined in Rule 144 promulgated under the Securities Act of 1933, as amended. These securities held by officers, directors and/or control persons may be sold in compliance with Rule 144 which provides, in essence, that officers and directors and others holding restricted securities may each sell, in brokerage transactions, an amount equal to 1% of the company's total outstanding common stock every three months. In addition, Rule 144 provides that shares must not be sold until they have been held for a period of at least one year from the date they were fully paid for. The possible sale of these restricted securities under Rule 144 may, in the future, have a depressive effect on the price of the company's Common Stock in any public market which may develop, assuming there is such a market, of which there can be no assurance. Furthermore, persons holding restricted securities for one year who are not "affiliates" of the company, as that term is defined in Rule 144, may sell their securities pursuant to Rule 144 without any restrictions and/or limitations on the number of shares sold.

ITEM 2. PROPERTY

Our corporate headquarters are located in leased office space at 1890 Cobb International Blvd, Suite A, B & C, Kennesaw, GA 30152. We believe that our current offices are adequate for present needs. Office space is leased and will be increased, as we deem necessary. We believe that it will not be difficult to find additional or alternative office space if necessary in the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

None

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND PURCHASES OF EQUITY SECURITIES

Our common stock is presently listed on the OTC Bulletin Board under the symbol EAUI.OB. Prior to the completion of our name change from Electric Aquagenics Unlimited, Inc. to EAU Technologies, Inc., on January 17, 2007, our common stock was listed under the symbol EAQU.OB. We have not declared dividends on our common stock and do not anticipate paying dividends on our common stock in the foreseeable future.

In February 2010, Theodore Jacoby, a director of the Company, purchased 100,000 shares of common stock of the Company for $100,000 at a price of $1.00 per share.

In July 2009, the Company granted 25,000 shares of EAU common stock to Larry Earle, a consultant to the Company, pursuant to the Company's 2007 Stock Incentive Plan.

In May 2009, the Compensation Committee of the Board of Directors of the Company granted 30,000 shares of restricted stock for each director, effective on May 14, 2009. The restricted stock will vest ratably over a period of two years from the date of grant. These grants were made pursuant to the annual directors' compensation program approved by the Board in December 2007.

In November 2008, Theodore Jacoby, a director of the Company, purchased 100,000 shares of common stock of the Company for $100,000 at a price of $1.00 per share.

In October 2008, the Board of Directors approved a transaction with Water Science, LLC, ("WS") a related party, pursuant to (1) a Stock Purchase Agreement (the "Purchase Agreement") and (2) a Second Amended and Restated Senior Secured Convertible Promissory Note (the "Second Amended Convertible Note"). The Purchase Agreement provides for the purchase of 2.5 million shares of common stock of the Company at a price of $1.00 per share and the amendment of the original Amended and Restated Senior Secured Convertible Promissory Note dated as of May 8, 2008, to change the conversion rate from $3.00 per share to $1.00 per share, as reflected in the Second Amended Convertible Note. The purchase of the common stock will occur in six monthly installments of $350,000 beginning October 14, 2008 plus a final installment of $400,000 on April 15, 2009. On March 27, 2009, the Company and Water Science amended the payment schedule of the Stock Purchase Agreement. The purchase of the common stock will occur in four monthly installments of $250,000 on April 15, 2009, $250,000 on May 15, $250,000 on June 15 and a final installment of $200,000 on July 15, 2009. If WS defaults on its obligation to purchase the stock under the Purchase Agreement, then the conversion price reverts back to $3.00 per share. The Second Amended Convertible Note includes an interest rate of 3% and a maturity date of March 16, 2009. In March 2009, the Company and WS amended the Second Amended Convertible Note to extend the maturity date to September 16, 2009 and increase the interest rate to 10%. WS is controlled by Peter Ullrich, a member of the Board of Directors of the Company.

In February 2008, the Compensation Committee of the Board of Directors of the Company granted $30,000 to each board member in the form of 23,077 shares of restricted stock for each director, effective on February 27, 2008. The restricted stock will vest ratably over a period of two years from the date of grant. These grants were made pursuant to the annual directors' compensation program approved by the Board in December 2007. The amount of compensation was based on recommendations from a non-related human resource consulting firm. The Compensation Committee also granted 49,500 shares of restricted stock to various employees, which will vest one year from the date of grant.

In January 2008, an officer of the Company exercised 150,000 options for $1,500 or $0.01 per share. The options were granted in 2003 for services.

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Our shares are thinly traded, with low average daily volume. This, coupled with a limited number of market makers, impairs the liquidity of our common stock, not only in the number of shares of common stock that can be bought and sold, but also through possible delays in the timing of transactions, and lower prices for our common stock that might otherwise prevail. This could make it difficult for an investor to sell shares of our common stock or to obtain a desired price.

Our common stock may be subject to the low-price security, or so called "penny stock," rules that impose additional sales practice requirements on broker-dealers who sell such securities. The securities Enforcement and Penny Stock Reform Act of 1990 require additional disclosure in connection with any trades involving a stock defined as a "penny stock" (generally defined as, according to recent regulations adopted by the U.S. Securities and Exchange Commission, any equity security that has a market price of less than $5.00 per share, subject to certain exceptions), including the deliver, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and the risks associated therewith. The regulations governing low-priced or penny stocks sometimes may limit the ability of broker-dealers to sell the Company's common stocks and thus, ultimately, the ability of the investors to sell their securities in the secondary market. Prices for the Company's shares will be determined in the marketplace and may be influenced by many factors, including the depth and liquidity of the market for the shares, the Company's results of operations, what investors think of the Company and general economic and market conditions. Market fluctuations could have a material adverse impact on the trading of our shares.

The table below sets forth the range of high and low closing prices of our common stock as reported on the OTC Bulletin Board, for the last two years. Common stock began trading publicly during May 2004.

	EAU Technologies, Inc. Common Stock	
	High	Low
Year Ended December 31, 2009		
Quarter Ended March 31, 2009	$ 0.65	$ 0.13
Quarter Ended June 30, 2009	0.40	0.18
Quarter Ended September 30, 2009	0.39	0.20
Quarter Ended December 31, 2009	1.01	0.23

	EAU Technologies, Inc. Common Stock	
	High	Low
Year Ended December 31, 2008		
Quarter Ended March 31, 2008	$ 1.40	$ 0.92
Quarter Ended June 30, 2008	1.10	0.80
Quarter Ended September 30, 2008	1.15	0.80
Quarter Ended December 31, 2008	0.80	0.25

As the foregoing are over-the-counter market quotations, they reflect inter-dealer prices, without retail markup, markdown, or commissions, and may not represent actual transactions.

As of December 31, 2009, the Company had approximately 400 record holders of common stock.

ITEM 6. SELECTED FINANCIAL DATA

As a smaller reporting company, as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), we are not required to provide the information required by this item.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EAU TECHNOLOGIES, INC., previously known as Electric Aquagenics Unlimited, Inc. (referred to herein sometimes as “EAU,” “we,” “us,” or the “Company”), is in the business of developing, manufacturing and marketing equipment that uses water electrolysis to create non-toxic cleaning and disinfecting fluids as well as dairy drinking water. These fluids have various commercial applications and may be used in commercial food processing and organic or non-organic agricultural products that clean, disinfect, remediate, hydrate and moisturize. The processes for which these fluids may be used are referred to in this Report (the “Report”) as the “EW Technology.” For example, we believe that our food and agricultural treatment products potentially may be used to systemically treat various facets and phases of the food chain, from soil to animal feed to meat processing, by eliminating dangerous and unhealthy pathogens from the food chain with organically based and highly effective solutions. We make the claim that our products are “non-toxic”. We can do this because at the levels we employ our technology, our studies both internal as well as through third parties show no toxicity. Further studies are in progress to make more specific claims. At the levels employed, the fluids and products are environmentally safe and non-toxic and do not contain or leave harmful residues associated with chemical-based supplements or disinfecting and cleaning agents. The electrolyzed water fluids created by the EW Technology (referred to herein sometimes as the “EW Fluids” or “Empowered WaterTM”) generated by our specialized equipment can be used in place of many of the traditional products used in commercial, industrial and residential disinfecting and cleaning.

Our focus is on our three core competencies which are, producing high volumes of electrolyzed water, controlling the properties of the water and using our application knowledge. Because of our ability to produce high volumes of water and control the water properties, our target market is in commercial applications where we believe we can add value by generating measurable productivity and efficiency gains. We will continue to use a disciplined stage gate development process that drives ideas to commercial test installations that turn into revenues. Once we have developed an application we will attempt to find strategic partners that would be able to assist us with a large scale commercial roll-out of the technology. Our goal is to generate streams of revenues through pricing contracts that let us participate in the on-going added value.

We have identified the following industries for early stage sales and marketing focus: 1) dairy production and processing, 2) meat and poultry processing, 3) clean in place (“CIP”) for food and beverage processing and 4) agricultural grow-out and processing (“Primary Markets”). As of the date of this Report, the Company was focused on these markets because we believe that for each of these markets we have a competitive advantage, the potential ability to attract a leading strategic industry partner, or we can provide an attractive value-added proposition. To penetrate these markets, EAU is conducting trials and completing commercial installations that will lead to partnerships with industry leaders who can assist in rolling the technology out on a large scale.

We have obtained patent protection on four separate uses of electrolyzed fluids (cleaning and disinfecting eggs, carpet cleaning, mold remediation and poultry processing). Those uses are how the fluids are used and how they are stabilized for use in different applications. Additionally, we have a patent pending on the electrolysis equipment and several provisional patent pending applications filed to protect new processes and products, as described herein.

Our operations are currently funded by a combination of revenues and capital funding.

Critical Accounting Estimates

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles and our discussion and analysis of our financial condition and results of operations require us to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Note 1 of the notes to consolidated financial statements in Part II, Item 7 of this Form 10-K, describes the significant accounting policies and methods used in preparation of our consolidated financial statements. We base our estimates on historical experience, current trends, future projections, and on various other assumptions 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. Actual results may differ from these estimates. We believe the following to be our critical accounting estimates because they are both important to the portrayal of our financial condition and results and they require us to make judgments and estimates about matters that are inherently uncertain.

Our critical accounting policies and estimates include the following:

- Revenue recognition;
- Inventory valuation;
- Impairment of long-lived assets; and
- Allowances for doubtful accounts.

Revenue recognition. We recognize revenue according to the terms of the contract and when title passes to the customer or when services are performed in accordance with contract terms. The Company provides an allowance for sales returns based on current and historical experience.

Inventory. Inventory consists primarily of finished goods, is stated at the lower of cost or market; cost is determined on first-in, first-out (FIFO) method.

Impairment of long-lived assets. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the fair value of the asset. Long-lived assets are reported at the lower of carrying or fair value less costs to sell.

Allowance for doubtful accounts. The Company sells its products to various commercial customers. It regularly reviews its aging and reserves for amounts that may be at risk in collection.

Commitments and Contingencies

On May 1, 2006, we entered into a consulting agreement with JL Montgomery Consulting, LLC, a Florida limited liability company. By the terms of this agreement, JL Montgomery Consulting agreed to assist the Company in locating and structuring equity and long-term debt financing; to help establish financial policies and procedures; to offer strategic financial assistance; to provide strategic business planning; to offer financial advice to the Company and its Board of Directors on financial matters; and to introduce the Company to third parties, including independent companies, governmental contacts, and/or third party individuals interested in purchasing our products or forming a business relationship with us. As compensation, we granted to JL Montgomery Consulting a five-year, fully vested warrant to purchase up to 500,000 of our $.0001 common stock at the price of $2.76 per share. In October 2007, these warrants were extended an additional 5 years.

In December 2006, the Company entered into an amended exclusive licensing and product supplier agreement with Zerorez, an affiliated entity, to provide Zerorez with its Primacide water solutions and water generator for its carpet cleaning franchisees. The Company is committed to sell to Zerorez the Primacide B water generator over the next 5 years under the agreement, ending on December 31, 2011. The agreement allows for the automatic renewal of the agreement for three (3) terms of five year terms, unless both parties agree to the cancellation of the agreement.

In September 2005, Water Science, a related party, paid to the Company $1,000,000 for the exclusive rights to sell our products in South America and Mexico. The agreement allows for a pro-rated refund during the first 5 years under certain circumstances. The agreement provides termination rights by Water Sciences and a pro rata refund of the fee. This agreement also gives Water Science the rights to purchase machinery from the Company at cost plus 25 percent.

Management has determined that certain stock options and warrants granted for services may not have been properly treated for income tax withholding purposes. Management is reviewing all granted options and warrants with professional tax accountants to determine the proper treatment. In addition, in the past the Company has classified several consultants and officers as independent contractors for federal and state tax purposes. This classification could be challenged by the applicable taxing authorities for some or all of these individuals. Management believes that it is reasonably estimatable and probable that the amount of liability to the Company will be approximately $255,000. The Company has estimated the potential tax liability as a range between $129,000 and $574,000.

Our operations are currently funded by a combination of capital funding and revenues.

Financial Position and Results of Operations

The following discussion should be read in conjunction with selected financial data and the financial statements and notes to financial statements.

Financial Position

The Company had $181,481 in cash as of December 31, 2009, compared to $494,612 at December 31, 2008. Our working capital as of December 31, 2009 was a negative $3,261,810 compared to a negative $895,317 at December 31, 2008. The primary reason for the change in our working capital for the year ended December 31, 2009, was due to the increased net value of the senior convertible note and our reduced inventory values. The Company has received and recorded approximately $350,000 in advance deposits from Water Science on machine orders at December 31, 2009. We expect this will be reduced as the Company delivers machines on order to Water Science, a related party. Water Science, who has exclusive rights to sell our products in South America and Mexico, is also an affiliate of the Company, by agreement may purchase machinery from us at cost plus 25 percent. Long term debt decreased to $6,512 at December 31, 2009 from $39,150 at December 31, 2008. At December 31, 2009 our stockholders' deficit was $10,822,050.

Summary of select balance sheet information follows:

	December 31, 2009	December 31, 2008
Balance Sheet Data:		
Cash and Cash Equivalents	$ 181,481	$ 494,612
Total Current Assets	2,298,605	4,080,824
Total Assets	3,407,770	4,665,778
Total Current Liabilities	5,560,415	4,976,141

Long Term Debt	6,512	39,150
Derivative Liability	8,662,893	8,621,940
Total liabilities and stockholders' equity	$ 3,407,770	$ 4,665,778

Results Of Operations For The Year Ended December 31, 2009 As Compared To The Year Ended December 31, 2008

Revenues and Net Loss - Net revenues for the year ended December 31, 2009, increased by $287,401, to $724,510, of which $201,264 are revenues from a related party, compared to revenues of $437,109 for the year ended December 31, 2008. The majority of the revenues are from leasing revenues from our EW water systems in the poultry and dairy market. We also recognized $200,000 in licensing revenues related to the exclusive license granted to Water Science, a related party.

Our cost of sales increased by $58,242, to $143,048, for the year ended December 31, 2009. This is a 67% increase over the $84,806 cost of sales during the year ended December 31, 2008. This increase is attributable to the additional sales of our EW water machines.

Our net loss for the year ended December 31, 2009, was $3,425,708, which is $3,301,506 less than the $6,727,214 net loss for the fiscal year ended December 31, 2008. This decrease of 48% in the net loss is primarily attributable to the Company's continued efforts to focus on our core segments and continued cost saving measures. A significant change in the net loss is also directly related to the derivative liability. In October 2008, as part of a financing agreement with a related party, the Company reduced the conversion rate of the Company's convertible note from $3.00 per share to $1.00 per share. This reduction, as well as adjusting the fair market value of the liability, resulted in a loss on derivative liability of $1,863,866 in 2008 as compared with a loss on the adjustment to fair value of the derivative liability of $40,953 in 2009. Due to the uncertainty of continuing operations of our system at the poultry plant, the Company recorded an impairment loss of approximately $248,000.

General and Administrative Expense – The Company incurred total general and administrative expenses of $2,903,769, a 32% decrease over the $4,193,761 incurred in 2008. The majority of the change is due to certain warrants that were issued in 2008 as part of ongoing financing agreements. General and administrative expenses for 2009 consist primarily of payroll and labor expense of $1,323,000, expenses related to stock options and warrants of $267,000, professional fees of $512,000, insurance expense of $300,000, and travel related expenses of $90,000.

During the year ended December 31, 2009, we expended approximately $512,000 in professional fees, which include legal and consulting fees. This was a decrease of $148,000 or 22%, from the $660,000 spent in 2008. This decrease is primarily due to the Company's efforts to reduce costs and better utilize its own resources.

Our interest expense decreased from $742,625 in 2008 to $358,415 in 2009. The majority of the interest expense is related to a $3,000,000 loan to us from Water Sciences. This loan has a full discount of $3,000,000 which is being amortized to interest expense over the life of the loan. See Note 11 to our audited financial statements. This required accounting treatment resulted in our recognizing $76,754 and $631,579 in interest expense for the years ended December 31, 2009 and 2008, respectively.

Research and Development - Our research and development expenses for the year ended December 31, 2009, were $447,637, an increase of $219,606, or 96%, as compared to $228,031 for the year ended December 31, 2008.

Summary of select income statement information follows:

	Year Ended December 31, 2009	2008	Better (Worse)	Percent Change
Revenue, net	$ 724,510	$ 437,109	$ 287,401	66%
Gross profit	581,462	352,303	229,159	65%
Net loss	3,425,708	6,727,214	3,301,506	48%
Loss per share	0.18	0.41	0.23	56%

Liquidity And Capital Resources

We do not receive sufficient revenues to fund all of our operational needs. The majority of our funding has come from shareholders. We currently have sufficient funds to operate our business until the middle of 2010. We do not have any agreements in place for additional funding. We may not have enough funding for operations to fund our business until it is developed enough to bring the business plan to maturity. Our working capital requirements for the foreseeable future will vary based upon a number of factors, including, our timing in the implementation of our business plan, our growth rate and the level of our revenues. Our current assets, along with cash generated from anticipated revenues, will not provide us with sufficient funding for the next twelve months. Our two convertible notes payable with Water Science, which will become due in November 2010, will require cash of $3,600,000, plus interest, in order to satisfy the debt, if the note is not converted into common stock. We anticipate that we may need an additional $2,000,000 or more in future funding to execute our business plan over the next twelve months. Moreover, if we able to expand our sale of EW machines as anticipated, we may need significant additional working capital to fund that expansion. We do not have arrangements in place to provide us with this funding or any additional funding. In light of these circumstances, the ability of the Company to continue as a going concern is in substantial doubt.

At December 31, 2009, we had cash and cash equivalents of $181,481, compared to $494,612 at December 31, 2008. We have had continuing net losses of $3,425,708 for the year ended December 31, 2009 compared with net losses of $6,727,214 for the year ended December 31, 2008. The net loss per share for the year ended 2009 was $0.18 compared to a loss of $0.41 per share for the same period in 2008. Our working capital as of December 31, 2009 was a negative $3,261,810 for reasons discussed above under financial position.

Net cash used in operating activities for the year ended December 31, 2009 was $2,375,816, a 36% decrease, compared to $3,728,474 for the same period in 2008. The primary changes to the cash flow from operating activities were the decrease in the advance deposits on machine orders of $347,514, which was offset by a decrease in accounts receivable of $277,008, the increase in accrued expenses of $265,499, the recognition of deferred revenue of $200,000 and an increase in accounts payable of $28,457.

The operating outflow of cash was reduced by the Company issuing warrants and stock options in lieu of cash during the quarter of $266,778. The Company recognized a non-cash increase from the discounting of the Company's note payable to Water Science, LLC of $76,754. (See Note 11 to the Company's financial statements.) Further, the Company recognized a non-cash increase in the derivative liability of $40,953, due to changes in the Black-Scholes value of the liability.

At December 31, 2009, the Company's net inventory was $2,022,462, representing a decrease of 33% from the $3,014,503 on hand at December 31, 2008. The Company installed some equipment in a commercial capacity and removed the equipment from inventory and reclassified it into property and equipment during 2009 pursuant to lease agreements. The Company also reviewed the inventory and have made adjustments to the fair value in order to bring it to the lower of cost or market.

Net cash provided in investing activities during the period ended December 31, 2009 was $18,072 as compared to cash used of $26,003 in the same period in 2008. During 2009, the cash flows consisted primarily of cash received from a note receivable of $150,000 and expenditures of $107,580 for property and equipment and $24,348 for patent work. During 2008 the primary cash flows from investing activities consisted of $26,003 related to intellectual property disbursements.

Cash flows from financing activities provided the Company $2,044,613 and $2,835,345 for the years ended December 31, 2009 and 2008, respectively. This is primarily a result of the Company's continued sales of its common stock and issuance of a note payable to fund operations. During the years ended 2009 and 2008, the Company raised $1,450,000 and $2,851,500 from the sale of stock, respectively. The Company also received $600,000 from the issuance of a note payable during 2009. This amount was offset by payments made on notes payable in the amount of $5,387 and $16,155 in 2009 and 2008, respectively.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we are not required to provide the information required by this item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements and the independent auditors' report are attached to this Report and are incorporated into this Item 7 by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes in our independent accountants, HJ & Associates, LLC, or disagreements with them on matters of accounting or financial disclosure.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company has evaluated, with the participation of the Company's principal executive and principal financial officers, the effectiveness of the issuer's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of December 31, 2009, pursuant to Exchange Act Rule 15d-15. Based upon that evaluation, the principal executive and financial officers concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been or will be detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdown can occur because of simple error or mistake.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) 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 associates, 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 those policies and procedures that:

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

(2) 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

(3) 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2009. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, known as COSO, in Internal Control – Integrated Framework. Based on its assessment, management has concluded that, as of December 31, 2009, the Company's internal control over financial reporting was effective to provide reasonable assurance based on those criteria.

The scope of management's assessment of the effectiveness of internal control over financial reporting includes all of the Company's operations.

The Company has taken the steps discussed below under "Changes to Internal Control Over Financial Reporting."

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation requirements by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

Changes to Internal Control Over Financial Reporting

There have been no significant changes in our internal control over financial reporting that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, or other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation.

ITEM 9B. OTHER INFORMATION

On March 25, 2010, the Company obtained an unsecured short term loan of $250,000 from Peter Ullrich a member of the Board of Directors of the Company. This is in addition to an advance of $100,000 from Mr. Ullrich which occurred on February 18, 2010, as previously reported on the Company Form 8-K filed on February 24, 2010. The final agreements to document the loan have not been signed, and the material terms are not final. However, the parties have discussed and preliminarily agreed to terms similar to the $600,000 loan with Mr. Ullrich on August 27, 2009, and described in the Company Form 8-K filed on September 2, 2009, except the new loan will not include a term requiring a potential reversion of the exercise price to $3.00 per share. In addition, the new loan will provide for an additional advance of $50,000 to be available to the Company in June 2010. Assuming the other terms remain as anticipated, the final loan will be a $400,000 loan at 10% simple interest, with a maturity of November 1, 2010, and conversion rights into Company common stock at an exercise price of $1.00 per share. The material terms of the final agreement will be disclosed in subsequent filings with the Securities and Exchange Commission.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Directors and Executive Officers

The following table sets forth the names, age, and position of each of our directors and executive officers.

Name and Address	Age	Position and Office Held
Wade R. Bradley 1890 Cobb International Blvd. Kennesaw, GA 30152	49	Chief Executive Officer; Director
Brian D. Heinhold 1890 Cobb International Blvd. Kennesaw, GA 30152	37	Chief Financial Officer
Doug Kindred 1890 Cobb International Blvd. Kennesaw, GA 30152	55	Executive Vice President and Chief Technology Officer
Joseph A. Stapley 1890 Cobb International Blvd. Kennesaw, GA 30152	41	Senior Vice President of Investor Relations and Business Development
William J. Warwick 1063 Ocean Ridge Drive Wilmington, North Carolina 28405	74	Director
Peter Ullrich 1800 NW 89th Place Miami, FL 33172	67	Director
Theodore C. Jacoby, Jr. 1716 Hidden Creek Ct. St. Louis, MO 63131	69	Director

J. Leo Montgomery 1890 Cobb International Blvd. Kennesaw, GA 30152	69	Non-executive Chairman of the Board; Director
Karl G. Hellman 1776 Chadds Lake Drive Marietta, GA 30068	63	Director

In May 2009, Jay Potter, a director of the Company, resigned his position as a director. Mr. Potter has served on the audit committee of EAU.

William J. Warwick, an independent board member who is also a member of the Company's audit committee, is an audit committee financial expert as defined in Item 407(d)(5) of Regulation S-B promulgated by the U.S. Securities and Exchange Commission. Mr. Warwick is also a member of the Company's Compensation Committee.

In April 2007, the Board of Directors of the Company appointed Peter Ullrich, as a member of the Board of Directors.

In September 2007, the Board of Directors of the Company appointed Ted Jacoby, Jr., as a member of the Board of Directors. The Board also appointed Mr. Jacoby as a member of the Audit Committee and the Compensation Committee.

In October 2007, the Board of Directors of the Company appointed Karl Hellman and J. Leo Montgomery as members of the Board of Directors. The Board also appointed Mr. Hellman as a member of the Compensation Committee and appointed Mr. Montgomery as a member of the Audit Committee. Mr. Montgomery serves as Non-Executive Chairman of the Board. In October 2009, Mr. Montgomery was appointed chairman of the Audit Committee.

Biographical Information

Set forth below is biographical information for each officer and director.

Wade Bradley is the Company's Chief Executive Officer and a board member. Before joining EAU Mr. Bradley served as President of the Retail and Wholesale Group from November 2005 to November 2006, and as Vice President of the Consumer Products Group from June 2000 to November 2005, of Oil-Dri Corporation of America (NYSE:ODC). He worked at various other positions with Oil-Dri from 1990 to 2000. Mr. Bradley began his career at the public accounting firm of Arthur Young & Company in their Entrepreneurial Services Group. He then worked as the Executive Director of a Non-Profit organization that assisted disadvantaged youths in furthering their education. Mr. Bradley received his Bachelor of Science in Accountancy from University of Illinois. He then attended the Harvard Business School for a Master of Business Administration.

Brian D. Heinhold is the Company's Chief Financial Officer. Mr. Heinhold took over as CFO when the former CFO resigned in September 2006. He served as the Company's controller since joining the Company in May 2006. Before joining EAU, he worked for a Certified Public Accounting firm, from 2004 to 2006, as an auditor and consultant. While working at the CPA firm, Mr. Heinhold was involved with both private and public companies. From 2002 to 2004, he worked as a manager of an entertainment center in Salt Lake City, where he oversaw the operations of the company. Prior to that, he worked as the business and finance manager at a local automotive dealership from 2001 to 2002. From 1994 to 2001, Mr. Heinhold was the accounting manager of a small engineering and manufacturing firm, where he oversaw all the functions of the accounting department. He has also served in many volunteer positions where he worked with adults and youth. Mr. Heinhold graduated from the University of Utah with a Masters of Public Accountancy degree and a Bachelor of Arts degree in Finance.

Doug Kindred is currently the Company's Chief Technology Officer and has over 27 years of management and engineering experience in numerous industries. He was a co-owner and Vice President of ESI, Inc., a turnkey, design/build engineering construction firm for over 18 years. He served as President of an air pollution control equipment manufacturer prior to joining EAU. He has extensive experience throughout his career with the production of premium quality water including numerous boiler feed water systems that utilized demineralizers, automated acid and caustic regeneration systems, water softeners and condensate polishing systems for various industries. Mr. Kindred holds a B.S. degree in Mechanical Engineering from Georgia Tech and is a graduate of the Kenan-Flagler Business School Executive Program at The University of North Carolina, Chapel Hill. He is a registered professional engineer.

Joseph A. Stapley is Senior Vice President of Investor Relations and Business Development. He has worked for the Company since 2003 and became an executive officer in June 2005. Prior to joining the Company, Mr. Stapley was the head of Corporate Finance at Nexcore Capital, Inc., a San Diego, California based broker-dealer. Since 1996, Mr. Stapley has been involved with the funding of over $100 million in financings, joint ventures, mergers and acquisitions for start-up and growth stage companies. Mr. Stapley held a Series 7 Registered Representative license until 2005. He has extensive international experience gained as the owner of a number of restaurants and an import-export company based in Tokyo, Japan. Mr. Stapley holds a Bachelor of Science degree in Business and Entrepreneurship from the Marshall School at the University of Southern California.

William J. Warwick has served as a director of the Company since 2003. As an early investor in the Company, Mr. Warwick brought international executive experience to the Company. He retired from AT&T after 39 years of service with responsibilities including President of AT&T Consumer Products and Senior Vice President AT&T. In 1993 he was elected Chairman and CEO, AT&T China. His business activities are numerous and worldwide, having served on many high profile boards of directors and industry associations. He is currently Chairman, Executive Advisory Board, Cameron School of Business and a member of the Board of Directors of the UNC-W Corporation at the University of North Carolina at Wilmington, North Carolina. Mr. Warwick obtained his BSBA from the University of North Carolina, Chapel Hill, and his MBA from Northwestern University, Chicago.

Peter Ullrich has served as a director of the Company since April 2007. Mr. Ullrich is currently EAU's largest shareholder and single largest customer and brings vast international business experience to EAU. Mr. Ullrich is the owner of Water Science, LLC ("WS"), Latin America's exclusive licensee of EAU's Empowered Water™ technologies. Mr. Ullrich is also the owner and Chairman of the Board of Esmeralda Farms, an innovative leader in the international floral industry. Mr. Ullrich has been involved in all aspects of the international floral industry for over 35 years. He is a pioneer in developing and adopting cutting edge technologies that not only assist in building better business in the floral industry but creating cleaner safer working environments for his over 5,000 employees. Esmeralda Farms are certified by various international "green" organizations, such as Florverde, Flower Label Program and Veriflora. Mr. Ullrich was the recipient of the 2006 SAF Gold Medal Achievement Award. Mr. Ullrich was born and educated in Germany.

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Theodore C. Jacoby, Jr. was appointed as a director in September 2007. Mr. Jacoby's experience in the dairy industry provides both application and practical knowledge to EAU. Mr. Jacoby is currently President and Chief executive Officer of T.C. Jacoby & Co., the leading independent distributor of bulk dairy products including raw milk, cream, condensed milk, powdered milk, butter and cheese in the U.S. Mr. Jacoby has expanded T.C. Jacoby to numerous international markets. Mr. Jacoby is an active member of the international dairy community serving on the Board of Directors of the U.S. Dairy Export Committee Council since 1995. He currently serves on the Trade Policy Committee. T.C. Jacoby & Company is a member of many other prominent dairy trade organizations including the International Dairy Foods Association, California Milk Processors Association and Associate Member of National Milk Producers Federation. Mr. Jacoby received his Bachelor of Science degree in Agriculture from the Missouri College of Agriculture, Food, and Natural Resources. After graduation, Mr. Jacoby proudly served in the United States Marine Corp for four years.

J. Leo Montgomery was appointed as a director and non-executive Chairman of the Board in October 2007. Mr. Montgomery brings vast financial and business experience to EAU. Mr. Montgomery was a senior partner at Ernst & Young retiring in 2003 after a 39 year career. Mr. Montgomery served in several leadership roles at Ernst & Young and was the coordinating partner for many major clients of the firm. He is also a member of the Board of Directors of Cypress Communications, Inc. Mr. Montgomery has served as a consultant to EAU Technologies since May 2006. Mr. Montgomery is a Certified Public Accountant and holds a B.A. degree from Harding University.

Karl G. Hellman was appointed as a director in October 2007. Mr. Hellman provides the Company with vast marketing and business experience. Mr. Hellman is the founder of Resultrek, a management consulting and marketing training firm, where he has served as Chief Executive Officer and President since 1999. Prior to that from 1997 to 1999, Mr. Hellman served as a Principal of Scott, Madden & Associates, a management consulting firm. Mr. Hellman has more than 30 years of consulting and corporate experience. He received his B.A. from Beloit College and his Masters Degree from Northwestern University.

Committees

The Board of Directors maintains standing Audit and Compensation Committees.

Audit Committee. The Audit Committee, which consists of Theodore C. Jacoby, Jr., J. Leo Montgomery and William J. Warwick, serves as an independent and objective party to, among other things, review the Company's financial statements and annual report, review and appraise the audit efforts of the Company's auditors and pre-approve permissible services to be performed for the Company by its auditors, and is responsible for the appointment, compensation and oversight of the work of the independent public accountants which audit the Company's financial statements. The primary function of the Audit Committee involves oversight functions to support the quality and integrity of the Company's accounting and financial reporting processes generally. It should be noted, however, that the members of the Committee are not necessarily experts in the fields of auditing and accounting and do not provide special assurances on such matters. The Audit Committee met five times during 2009. The Board of Directors has determined that J. Leo Montgomery is an "audit committee financial expert" as that term is defined by applicable rules of the Securities and Exchange Commission. The report of the Audit Committee appears below in this Proxy Statement. A copy of the Audit Committee's charter is included on the Company's website at www.eau-x.com.

Compensation Committee. The Compensation Committee, consisting of Karl Hellman, Theodore C. Jacoby, Jr. and William J. Warwick, sets the compensation of executive officers and administers the Company's incentive plans, including the Company's stock option plans. The Compensation Committee met twice during 2009. The Compensation Committee has adopted a written charter, a copy of which is available on the Company's website at www.eau-x.com. As set forth in the Compensation Committee charter, the Committee:

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Has the authority to engage independent compensation consultants and legal advisors when determined by the Committee to be necessary or appropriate. In 2007, the Committee engaged a compensation consultant, Phillip Blount & Associates, Inc., to assist it with, among other things, research on appropriate director, executive and employee compensation levels.

- Has the authority to delegate its responsibilities as it may deem appropriate, to the extent allowed under applicable law. The Committee generally does not delegate its responsibilities to others.

- Requests that the Chief Executive Officer provide to the Committee his recommendations relative to compensation of other executive officers of the Company. The Committee meets in executive session to determine the compensation of the Chief Executive Officer of the Company.

Meetings and Attendance. The Board of Directors held 5 meetings during 2009. Each incumbent director attended at least 75 percent of the aggregate of the meetings of the Board of Directors and of the committees of which he was a member. The Company strongly encourages each Board member to attend the Company's annual meeting of stockholders.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, and the regulations of the Securities and Exchange Commission promulgated thereunder, require our directors, executive officers and persons who own more than 10% of a registered class of our equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission, and provide us with copies of such reports.

Based solely on a review of the copies of the reports furnished to us, or written representations that no reports were required to be filed, we believe that during the fiscal year ended December 31, 2009 all Section 16(a) filing requirements applicable to our directors, officers, and greater than 10% beneficial owners were completed.

ITEM 11. EXECUTIVE COMPENSATION

Compensation of Executive Officers

The following table provides certain summary information concerning the compensation paid or accrued by us and our subsidiaries, to or on behalf of our Chief Executive Officer. Other than as set forth in the table, no executive officer's cash salary and bonus exceeded $100,000 in any of the applicable years. The following information includes the dollar value of base salaries, bonus awards, the value of restricted shares issued in lieu of cash compensation and certain other compensation, if any, whether paid or deferred:

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Wade R. Bradley Chief Executive Officer	2009	240,000	0.00	0.00	0.00	0.00	0.00	6,000 (1)	246,000
	2008	240,000	0.00	0.00	0.00	0.00	0.00	6,000 (1)	246,000
Doug Kindred	2009	176,985	0.00	0.00	0.00	0.00	0.00	6,000 (1)	182,985
	2008	176,985	0.00	0.00	0.00	0.00	0.00	6,000 (1)	182,985

Chief Technology Officer									
Joe Stapley	2009	136,000	0.00	0.00	0.00	0.00	0.00	0.00	136,000
Senior Vice President, Investor Relations	2008	136,000	0.00	0.00	0.00	0.00	0.00	0.00	136,000

(1) Other compensation consists of car allowances.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table sets forth information regarding stock options and restricted stock held by the Company's Named Executive Officers at December 31, 2009.

	Option Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date
Wade R. Bradley, Chief Executive Officer	400,000	100,000	1.30	11/6/2016
Doug Kindred,	20,000		3.50	5/27/2015
Chief Technology	25,000		2.45	6/1/2015
Officer	265,000	265,000	1.30	11/8/2017
Joseph Stapley,	25,000		3.50	5/27/2015
Senior Vice	25,000		2.45	6/1/2015
President, Investor Relations	79,615	79,615	1.30	12/6/2017

Employee Compensation

In April 2007, the Company engaged Phillip Blount and Associates, Inc., a consulting firm in Human Resources, to review the company's overall compensation program. Based upon the findings of that study, recommendations of management, and review by the Board, the compensation changes noted below were made.

Base compensation – Phillip Blount and Associates, Inc. performed an analysis on compensations levels for each employee based on job description and comparative compensation levels to companies our size. Based on the results of their findings certain employee's base compensation was adjusted upon approval by the Company's board of directors. Among the employee's whose base compensation levels were adjusted was Joseph A. Stapley and Douglas Kindred (named executives). The base pay for Mr. Stapley was increased from $120,000 to $136,000. Mr. Kindred's employment agreement is summarized below.

Incentive Stock Options – Based on the recommendations of Phillip Blount and Associates, Inc. and upon approval from the Board of Directors, a total of 480,260 stock options were granted to various employees, pursuant to the Company's 2007 Stock Incentive Plan. The following executives were included in the stock option grants: Joseph Stapley and Larry Earle, effective immediately. The options were issued at a $1.30 exercise price and vest ratably over a period of four years. Mr. Stapley was awarded a stock option grant of 159,230 shares. It was also recommended that Douglas Kindred was granted stock options, which were granted in November 2007 as part of Mr. Kindred's employment agreement.

Corporate Bonus Program – In connection with the adjustments to our Human Resources policies, the Board approved a corporate bonus program. Bonuses will be paid to executive officers when the Company achieves an approximate operational break-even run rate, measured as the achievement of consistent revenues of $250,000 per month over two consecutive months, not taking into account capital or one time extraordinary charges. In the calculation of monthly revenues, equipment revenues will only comprise up to $50,000 of the $250,000 monthly revenue target for the calculation of the bonus. Once this target is achieved, the payout of the bonus will be over a period of 2 months to 12 months, at the discretion of management.

The following executives are included in the Bonus Program: Wade R. Bradley (President and Chief Executive Officer) is eligible for a $72,000 bonus, 30% of his base pay. Doug Kindred (Chief Technology Officer) is eligible for a $61,600 bonus, 35% of his base pay. Mr. Stapley is eligible for a $40,800 bonus, 30% of his base pay.

401(k) retirement plan – As part of the compensation package, the Company established a "safe-harbor" retirement plan for its employees. Effective January 1, 2008, the Company established the EAU 401(k) Retirement Trust, wherein all full time employees are eligible to participate, including executives. The plan allows the employee's to defer a portion of their income in a retirement account. As an incentive for the employee's to participate in the retirement plan, the Company has agreed to match the employee's deferral 100% of the amount of the deferrals that do not exceed 3% of the participant's compensation, plus 50% of the amount of the participant's deferrals that exceed 3% of the participant's compensation but do not exceed 5% of the participant's compensation.

Employment Agreements

As of December 31, 2009, 2 executives had current employment agreements.

Employment Agreement and Option Agreement with Doug Kindred

In connection with the continued employment of Mr. Kindred as Chief Technology Officer on November 8, 2007, Mr. Kindred and the Company entered into an employment agreement (the "Agreement"), a copy of which is attached as Exhibit 10.1 to the Form 8-K filed by the Company dated November 8, 2007 and incorporated herein by reference.

The material terms of the agreement include the following:

1. Appointment. Per the terms of the Agreement, Mr. Kindred will continue to serve as the Company's Chief Technology Officer.

2. Base Salary. Mr. Kindred's initial base salary will be $176,985 per year.

3. Annual Bonuses. Beginning with the Company's fiscal year which commences on January 1, 2008, Mr. Kindred is entitled to receive a bonus of up to 35% of his base salary ($61,945), upon the achievement of annual performance benchmarks, to be set by the Board of Directors (the "Board") and the CEO.

4. Inducement Stock Option Grant. Mr. Kindred is entitled to receive stock options to purchase 530,000 shares of the Company's common stock. The options will not constitute incentive stock options under Section 422 of the Internal Revenue Code of 1986. The options shall vest in installments in accordance with the schedule below:

- 132,500 shares shall vest on November 8, 2008

- 132,500 shares shall vest on November 8, 2009
- 132,500 shares shall vest on November 8, 2010
- 132,500 shares shall vest on November 8, 2011

The exercise price per option is $1.30. The terms and conditions of the options are included in a separate option grant agreement substantially in the form attached in an 8-K the Company filed with the SEC dated November 8, 2007.

5. Standard Benefits. Mr. Kindred will be eligible to participate in the Company's standard benefits package, on the same basis as other senior executives of the Company.

6. Vacation. Mr. Kindred will be entitled to 20 business days of paid vacation per calendar year.

7. Company Car. The Company shall reimburse Mr. Kindred for the amount required to lease an automobile of Mr. Kindred's choice up to a maximum of $500 per month. In addition, the Company will reimburse Mr. Kindred, up to a maximum of $1,000 per year, for the following properly documented expenses related to such automobile: (i) service, (ii) maintenance, (iii) repair and (iv) excess mileage fees required by the automobile lease, if such excess mileage is the result of required business travel by Mr. Kindred on behalf of the Company.

8. Term. The employment agreement expires on the third anniversary of the Effective Date, subject to automatic renewal for a one-year term unless either party has given the other 60 days' prior written notice.

9. Severance. Mr. Kindred will be entitled to certain severance payments and other rights if his employment is terminated: (i) by the Company without "Cause," as that term is defined in his agreement, or (ii) by Mr. Kindred for "Good Reason," as that term is defined in his agreement. In each such instance, Mr. Kindred's severance benefits will be as follows:

- Salary. Any unpaid base salary through the date of termination.
- Vacation. Any earned but unused vacation time.
- Severance Payment. He will be entitled to an amount equal to twelve months of base salary payable over the 12-month period immediately following termination.
- Options. All unvested options shall immediately vest and, together with the previously vested options, must be exercised during the 60 days immediately following the date of termination (and if not so exercised, all such options shall automatically and irrevocably terminate).

10. Additional Covenants. The employment agreement contains restrictive covenants, including anti-solicitation provisions extending one year after termination of his employment, as well as standard confidentiality obligations.

Employment Agreement, Option Agreement, and Escrow Agreement with Mr. Bradley

In connection with the appointment of Wade R. Bradley as Chief Executive Officer and President and as further described under Item 5.02 below, the contents of which are incorporated hereunder by reference, on October 24, 2006, Mr. Bradley and the Company entered into an employment agreement, a copy of which was filed as Exhibit 10.1 in an 8-K the Company filed with the SEC dated October 30, 2006 and incorporated herein by reference. Mr. Bradley agreed to begin working for the Company on a date determined by him and in no event later than November 6, 2006 (the "Effective Date").

In February 2010, the Company and Wade R. Bradley amended Mr. Bradley's employment agreement to (i) remove a provision that required the Company to maintain $240,000 in an escrow account as collateral for any future severance payment to which Mr. Bradley may become entitled pursuant to the Employment Agreement and (ii) reduce any future severance payment to which Mr. Bradley may become entitled pursuant to the Employment Agreement from twelve months salary, paid over the twelve month period following termination, to six months salary, paid over the six month period following termination.

In consideration of Mr. Bradley's agreement to amend the Employment Agreement, $120,000, less applicable Federal and state tax withholdings (which will be retained by the Company and remitted to the applicable taxing authorities) and applicable escrow agent fees, was disbursed directly to Mr. Bradley. The remaining balance of $120,000 of the escrow funds, less applicable escrow agent fees, was disbursed to the Company. All interest earned on the escrow funds has also be remitted to the Company. Mr. Bradley and the Company agreed to these amendments to provide the Company with short-term liquidity it needs for operations.

In conjunction with the disbursement of funds from escrow, the escrow agreement between the Company, Mr. Bradley and Specialized Title Services, Inc., filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed October 30, 2006, was terminated.

The material terms of the employment agreement include the following:

1. Appointment. Beginning on the Effective Date, Mr. Bradley will serve as President and Chief Executive Officer of the Company. The Company's Board of Directors (the "Board") is obligated to nominate him to serve on the Board. Subject to shareholder elections, he will serve on the Board through the term of his employment, with no additional compensation for services as a director.

2. Base Salary. Mr. Bradley's initial base salary will be $240,000 per year. The Board may increase his base salary from time to time.

3. Annual Bonuses. Beginning with the Company's fiscal year which commences on January 1, 2007, Mr. Bradley is entitled to receive a bonus of up to 30% of his base salary ($72,000), upon the achievement of annual performance benchmarks, to be set by the Board from time to time in advance of each fiscal year.

4. Inducement Stock Option Grant. Mr. Bradley is entitled to receive stock options to purchase 500,000 shares of the Company's common stock, which will represent approximately 2.17% of the Company's fully diluted capital stock. The options will not constitute incentive stock options under Section 422 of the Internal Revenue Code of 1986. The options shall vest in installments in accordance with the schedule below:

- 100,000 shares shall vest on February 6, 2007
- 100,000 shares shall vest on November 6, 2007
- 100,000 shares shall vest on November 6, 2008
- 100,000 shares shall vest on November 6, 2009

- 100,000 shares shall vest on November 6, 2010

The exercise price per option shall be equal to the closing sale price of the Company's common stock on October 24, 2006. The number of shares subject to the options will be equitably adjusted in the event of any stock split, stock dividend, reverse stock split or other similar event. The terms and conditions of the options are included in a separate option grant agreement substantially in the form attached in an 8-K the Company filed with the SEC dated October 30, 2006 as Exhibit 10.2.

5. Standard Benefits. Mr. Bradley will be eligible to participate in the Company's standard benefits package, on the same basis as other senior executives of the Company.

6. Vacation. Mr. Bradley will be entitled to 20 business days of paid vacation per calendar year.

7. Company Car. The Company shall reimburse Mr. Bradley for the amount required to lease an automobile of Mr. Bradley's choice up to a maximum of $500 per month. In addition, the Company will reimburse Mr. Bradley, up to a maximum of $1,000 per year, for the following properly documented expenses related to such automobile: (i) service, (ii) maintenance, (iii) repair and (iv) excess mileage fees required by the automobile lease, if such excess mileage is the result of required business travel by Mr. Bradley on behalf of the Company.

8. Term. The employment agreement expires on the third anniversary of the Effective Date, subject to automatic renewal for a one-year term unless either party has given the other 60 days' prior written notice.

9. Severance. Mr. Bradley will be entitled to certain severance payments and other rights if his employment is terminated: (i) by the Company without "Cause," as that term is defined in his agreement, (ii) by Mr. Bradley for "Good Reason," as that term is defined in his agreement, or (iii) non-renewal other than for "Cause." In each such instance, Mr. Bradley's severance benefits will be as follows:

- Salary. Any unpaid base salary through the date of termination.

- Vacation. Any earned but unused vacation time.

- Severance Payment. He will be entitled to an amount equal to six months of base salary payable over the 6-month period immediately following termination. (This was amended in February 2010.)

- Options. All unvested options shall immediately vest and, together with the previously vested options, must be exercised during the 60 days immediately following the date of termination (and if not so exercised, all such options shall automatically and irrevocably terminate).

10. Additional Covenants. The employment agreement contains restrictive covenants, including anti-solicitation provisions extending one year after termination of his employment, as well as standard confidentiality obligations.

Code of Ethics

The Company adopted a Code of Ethics on April 6, 2004, that applies to its principal executive officer, principal financial officer, principal accounting officer and controller or persons performing similar functions. A copy of our Code of Ethics was filed as an exhibit to our Annual Report for the year ended December 31, 2004. The Company undertakes to provide to any person, without charge, upon written or verbal request directed to Joseph A. Stapley, 1890 Cobb International Boulevard, Kennesaw, Georgia, 30152, (678)388-9492.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table presents information about the beneficial ownership of our common stock as of March 26, 2010 by:

- each person or entity who is known by us to own beneficially more than 5% of the outstanding shares of our common stock;
- each of our directors;
- each of our named executive officers; and
- all directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities, subject to community property laws, where applicable. The percentage of beneficial ownership is based on 19,986,168 shares of common stock outstanding as of March 26, 2010.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Shares Outstanding
Peter F. Ullrich (1) 1800 NW 89th Place Miami, FL 33172	19,715,769	68.3%
Water Science, LLC. (1) 1800 NW 89th Place Miami, FL 33172	15,550,000	55.1%
Wade R. Bradley (2) 1890 Cobb International Blvd., Ste 100 Kennesaw, GA 30152	400,000	2.0%
Joseph A. Stapley (3) 1890 Cobb International Blvd., Ste 100 Kennesaw, GA 30152	227,865	1.1%
Doug Kindred (4) 1890 Cobb International Blvd., Ste 100 Kennesaw, GA 30152	438,250	2.2%
William J. Warwick 1063 Ocean Ridge Drive Wilmington, North Carolina 28405	203,077	1.0%
Theodore C. Jacoby, Jr. 1716 Hidden Creek Ct. St. Louis, MO 63131	303,077	1.5%

Karl Hellman 555 Northpoint Center East, 4th Floor Alpharetta, GA 30022	53,077	*
J. Leo Montgomery (5) 1890 Cobb International Blvd., Ste 100 Kennesaw, GA 30152	597,377	2.9%
All current directors and executive officers as a group (11 persons)	21,969,342	72,7%

*Less than 1%

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(1) Mr. Ullrich is the managing member of Water Science, LLC. Mr. Ullrich beneficially owns 3,515,769 shares and indirectly through Water Science beneficially owns 7,330,770 shares, warrants to purchase 5,169,230 shares at an exercise price of $1.30 per share and a convertible note currently convertible into 3,700,000 shares. The warrants and $3,000,000 of the convertible notes are held by Water Science, LLC.

(2) Mr. Bradley holds options to purchase a total of 500,000 shares at an exercise price of $1.30 per share; 400,000 shares are currently exercisable or exercisable within 60 days of the date of this report.

(3) Mr. Stapley beneficially owns 98,250 shares and holds options to purchase a total of 25,000 shares at an exercise price of $3.50 per share, options to purchase 25,000 shares at an exercise price of $2.45 per share and options to purchase 159,230 shares at an exercise price of $1.30. Options to purchase 25,000 shares with an exercise price of $3.50, 25,000 shares with an exercise price of $2.45 and 79,615 shares with an exercise price of $1.30 are currently exercisable or exercisable within 60 days of the date of this report.

(4) Mr. Kindred beneficially owns 128,250 shares and holds options to purchase a total of 575,000 shares at exercise prices between $1.30 and $3.50 per share. Options to purchase 20,000 shares with an exercise price of $3.50, 25,000 shares with an exercise price of $2.45 and 265,000 shares with an exercise price of $1.30 are currently exercisable or exercisable within 60 days of the date of this report.

(5) Mr. Montgomery beneficially owns 97,377 shares and beneficially holds warrants to purchase up to 500,000 shares at an exercise price of $2.76 per share held by JL Montgomery Consulting, LLC.

Securities Authorized for Issuance Under Equity Compensation Plans

EQUITY COMPENSATION PLAN INFORMATION AS OF DECEMBER 31, 2009

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	585,260	$1.69	1,769,740
Equity compensation plans not approved by security holders*	7,802,607	$1.60	N/A
Total	8,387,867	$1.60	N/A

(*) Equity compensation plans not approved by security holders consist of individually negotiated grants of options or warrants to consultants, directors, suppliers, vendors and others who provide goods or services to the Company, and grants of warrants to investors in connection with limited offerings of the Company’s common stock.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The following are certain transactions during the year ended December 31, 2009, involving our officers, directors and shareholders owning more than 10% of our outstanding stock. We believe that the terms of these transactions are at least as favorable to us as we would expect to negotiate with unrelated third parties.

On March 25, 2010, the Company obtained an unsecured short term loan of $250,000 from Peter Ullrich a member of the Board of Directors of the Company. This is in addition to an advance of $100,000 from Mr. Ullrich which occurred on February 18, 2010, as previously reported on the Company Form 8-K filed on February 24, 2010. The final agreements to document the loan have not been signed, and the material terms are not final. However, the parties have discussed and preliminarily agreed to terms similar to the $600,000 loan with Mr. Ullrich on August 27, 2009, and described in the Company Form 8-K filed on September 2, 2009, except the new loan will not include a term requiring a potential reversion of the exercise price to $3.00 per share. In addition, the new loan will provide for an additional advance of $50,000 to be available to the Company in June 2010. Assuming the other terms remain as anticipated, the final loan will be a $400,000 loan at 10% simple interest, with a maturity of November 1, 2010, and conversion rights into Company common stock at an exercise price of $1.00 per share. The material terms of the final agreement will be disclosed in subsequent filings with the Securities and Exchange Commission.

Effective February 2009, Mr. Larry Earle resigned from the Company to pursue independent consulting. We will to continue to work with Mr. Earle in the poultry industry and benefit from his industry experience as he consults with the Company.

During the years ended December 31, 2009 and 2008, the Company engaged the services of Resultrek for business consulting and planning. Resultrek is controlled by Karl Hellman, a director of the Company. The Company paid approximately $11,500 and $68,000, respectively, for various projects.

In November 2008, Theodore Jacoby, a director of the Company, purchased 100,000 shares of common stock of the Company for $100,000 at a price of $1.00 per share.

The Company has a consulting agreement with JL Montgomery Consulting, LLC, a consulting practice owned by Mr. J. Leo Montgomery, who is the non-executive Chairman of the Board. Under the agreement, in April 2006 Mr. Montgomery received a warrant to purchase 500,000 shares of common stock at $2.76 per share, to expire at the end of five years. (The agreement is described more fully in the Company's March 31, 2006 Quarterly Report on Form 10-QSB and attached to the Form 10-QSB as exhibit 10.13. The consulting agreement and its description are incorporated herein by this reference.) In October 2007, the warrant was amended to expire in ten rather than five years. This agreement also provides for consulting fees in a monthly amount to be negotiated after the Company achieves two consecutive quarters of positive EBITDA. As the Company has not achieved this milestone, no fees have been payable to date.

In September 2005, the Company entered into a Senior Convertible Note (the "Note") with Water Science, a related party, in exchange for $3,000,000. Pursuant to the debt agreement, the Note accrues interest at the rate of 3% per annum and was initially due, principal and interest together, on September 16, 2008. In June 2008, Water Science agreed to extend the maturity date of the Note to March 16, 2009. In March 2009, the Company and Water Science agreed to extend the maturity date to September 16, 2009 and increase the interest rate to 10%. No principal or interest payments need to be paid during the loan period. In October 2008, as part of a new financing agreement, the Company amended the Note and changed the conversion rate from $3.00 per share to $1.00 per share. The Note may be converted into 3,000,000 shares of the Company's $0.0001 par value common stock prior to the maturity date, and at any time, by the holder at a price per share equal to $1.00 per share, subject to certain other conversion adjustments. The Company granted a security interest in all of the Company's assets as collateral for the loan. In connection with the original issuance of the Note, the Company granted a three year warrant to purchase up to two million shares of the Company’s $0.0001 par value common stock with an exercise price of $2.76 per share.

In August 2009, the Company entered into the Second Amendment (the “Amendment”) to the Second Amended and Restated Senior Secured Convertible Promissory Note (the “Promissory Note”) with Water Science, a related party. The Amendment extends the maturity date of the Promissory Note from September 16, 2009 to November 1, 2010. In all other material respects, the Promissory Note remains unchanged.

In May 2007, the Company entered into a termination agreement related to the cancellation and reissuance of the existing warrants (“Original Warrants”) to purchase a total of 8.4 million shares of $0.0001 par value common stock of the Company, at a price of $2.76 per share, held by Water Science. The Company granted to Water Science replacement warrants to purchase 8.4 million shares of common stock at a price of $1.30 per share, with an expiration date of May 9, 2010. The Company had a right to require Water Science to exercise warrants for up to 3,230,769 shares. During the year ended 2008, the Company required Water Science to exercise all of the options under the put rights.

On August 27, 2009, the Company entered into a Loan Agreement with Mr. Peter Ullrich, a related party, whereby he agreed to loan $600,000 to the Company, funded in three installments, as follows, $200,000 payable on September 15, 2009, $200,000 payable on October 15, 2009, and $200,000 payable on November 15, 2009.

Simple interest will accrue at a rate of 10% per annum on the unpaid principal amount outstanding and the loan will mature on November 1, 2010, at which time accrued interest and the outstanding principal balance shall be due. The agreement contains an optional conversion right, whereby the Lender may convert all or any portion of the outstanding principal and interest due into shares of the Company’s common stock at a price per share equal to $1.00 per share; however, if the Lender fails to make any of the installment payments on the dates set forth above, the conversion price will increase to $3.00 per share.

The remaining warrants and the conversion rate contain “round down” provisions where the exercise price is to be adjusted if the Company should issue stock for less than the original exercise price. Due to this feature, and pursuant to SEC guidance, the Company accounts for the warrants and convertible feature as a derivative liability with changes in fair value being recorded in the income statement. As of December 31, 2009 and 2008, the value of the derivative liability was $8,662,893 and $8,621,940, respectively. The Company recorded a loss of $40,953 and $3,140,087 in the change of the derivative liability to fair market value for the years ended December 31, 2009 and 2008, respectively.

Director Independence

The Board of Directors has determined in accordance with the listing standards of The NASDAQ Stock Market that each of the following directors is an independent director: Mr. Hellman, Mr. Jacoby and Mr. Warwick. To be an independent director under those listing standards, a director must have no relationship which, in the opinion of the Company’s Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director, and must have no relationships which are specified in the independence standards to preclude an independence determination. Mr. Bradley is not independent because he is an executive officer. Mr. Ullrich is not independent due to the level of beneficial ownership of common stock of the Company. As described at “Certain Relationships and Related Transactions,” Mr. Hellman received consulting fees in the amount of approximately $11,500. Due to the nature and amount of these fees, Mr. Hellman is not disqualified from independence under the NASDAQ listing standards. In making the foregoing determination, the Board considered all relationships between members of the Board of Directors and the Company, including the relationships described at “Certain Relationships and Related Transactions.”

The Board of Directors unanimously concluded that the above-rule listed relationships would not affect the independent judgment of the three independent directors, Mr. Hellman, Mr. Jacoby and Mr. Warwick, based on their experience, character and independent means, and therefore do not preclude an independence determination.

The Board approved the participation of J. Leo Montgomery as a non-independent member of the Audit Committee in accordance with the NASDAQ listing standards exception.

The Board has determined that J. Leo Montgomery does not meet the above independence standards due to his consulting arrangement with the Company. The Board nonetheless appointed Mr. Montgomery to the Audit Committee due to his extensive financial and accounting expertise. The Board of Directors has determined that Mr. Montgomery is an "audit committee financial expert" as that term is defined by applicable rules of the Securities and Exchange Commission. The Audit Committee previously did not have such an expert.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

AUDIT FEES

The following table shows the audit fees for professional services rendered by the principal accountant for the audit of the Company's annual financial statements and review of financial statements included in the Company's Form 10-Q or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years. Audit fees consisted of work performed in the integrated audit of the financial statements or the review of interim financial statements and the related SEC Form 10-K and 10-Q filings, respectively.

HJ & Associates, LLC

	2009	2008
Audit Fees	$ 58,218	$ 51,255

AUDIT-RELATED FEES

HJ did not bill us for any "audit-related fees" (as defined in Regulation S-X) in connection with its audit of our financial statements for the fiscal years ended December 31, 2009 or December 31, 2008.

FINANCIAL INFORMATION SYSTEMS DESIGN AND IMPLEMENTATION FEES

For the fiscal years ended December 31, 2009 and December 31, 2008, HJ & Associates did not bill us for, nor performed, any financial information systems design or implementation.

TAX FEES

HJ & Associates did not bill us for any professional services rendered for tax related services for the fiscal years ended December 31, 2009 or 2008. Tax services provided by other firms are not included in this disclosure.

ALL OTHER FEES

We were billed $1,119 and $0 for other professional services by HJ & Associates, LLC for the fiscal years ended December 31, 2009 and December 31, 2008, respectively.

AUDITOR INDEPENDENCE

Our Board of Directors considers that the work done for us in the year ended December 31, 2009 by HJ & Associates, LLC is compatible with maintaining HJ & Associates, LLC independence.

POLICY ON PRE-APPROVAL OF INDEPENDENT AUDITOR SERVICES

The Audit Committee has adopted a written policy providing guidelines and procedures for the pre-approval of all audit and permissible non-audit services provided by the Company's independent auditors. This policy contemplates that the independent auditors will provide to the Audit Committee a proposed engagement letter and an audit service fee proposal during the first quarter of each of the Company's fiscal years with a target of approving an engagement letter and appointing an independent auditor for the audit of the Company's financial statements as of and for the year ended during such fiscal year prior to the review by the Company's independent auditor of the Company's financial statements for the Company's first quarter. For non-audit services, Company's management is expected to submit to the Committee for approval a list of non-audit services that it recommends that the Committee engage the independent auditor to provide for the fiscal year, together with a budget estimating non-audit service spending for the fiscal year. The Committee must approve both the engagement of the auditor to provide the non-audit services and the budget for such services prior to commencing the engagement. To ensure prompt handling of unexpected matters, the Audit Committee has delegated to its Chair the authority to amend or modify the list of approved permissible non-audit services and fees. The Audit Committee approved all of the audit, audit related and tax services of the Company's principal accountant described in the preceding paragraphs.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

The following financial statements are incorporated by reference in Item 8 of this Report:

Independent Auditors' Report
Balance Sheet, December 31, 2009 and 2008
Statements of Operations for years ended December 31, 2009 and 2008
Statements of Changes of Stockholder Equity for years ended December, 2009 and 2008
Statements of Cash Flow for year ended December, 2009 and 2008
Notes to Financial Statements

(a)(2) Exhibits

Exhibit No.	Identification of Exhibit
3(i).1	Articles of Incorporation (incorporated by reference from registration statement on Form SB-2 filed with the SEC on July 29, 2002)
3(i).2	Certificate of Amendment of Certificate of Incorporation (incorporated by reference from registration statement on Form SB-2 filed with the Securities and Exchange Commission on July 29, 2002)
3(i).3	Certificate of Amendment of Certificate of Incorporation (Incorporated by reference from current report on Form 8-K filed with the Securities and Exchange Commission on January 17, 2007)
3(ii).1	Amended and Restated Bylaws (incorporated by reference from registration statement on Form 8-K filed with the Securities and Exchange Commission on September 12, 2007).
10.1	Settlement and License Amendment dated as of March 7, 2008 between the Company and University of Georgia Research Foundation (Incorporated by reference from current report on Form 8-K filed with the Securities and Exchange Commission on March 13, 2008)
10.2	Stock Purchase Agreement dated as of October 6, 2008 between the Company and Water Sciences LLC (Incorporated by reference from current report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2008)
10.3	Second Amended and Restated Senior Secured Convertible Promissory Note dated as of October 6, 2008 between the Company and Water Sciences LLC (Incorporated by reference from current report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2008)
10.4	Warrant Agreement, by and between the Company and Water Science, LLC, dated May 1, 2006 (Incorporated by reference to Exhibit 10.2 of the Company’s Form 8-K, dated May 4, 2006)
10.5	Registration Rights Agreement by and between the Company and Water Science, LLC, dated May 1, 2006 (Incorporated by reference to Exhibit 10.3 of the Company’s Form 8-K, dated May 4, 2006)
10.6	Amended and Restated Exclusive License and Distribution Agreement, by and between the Company and Water Science, LLC, dated May 1, 2006 (Incorporated by reference to Exhibit 10.4 of the Company’s Form 8-K, dated May 4, 2006)
10.7	Consulting Agreement by and between the Company and JL Montgomery Consulting, LLC, dated May 1, 2006 (Incorporated by

reference to Exhibit 10.13 of the Company's Form 10-QSB for the quarter ended March 31, 2006)

10.8*	Form of Employment Agreement dated as of October 24, 2006 with Wade R. Bradley. (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated October 30, 2006.)
10.9*	Form of Option Agreement dated as of October 24, 2006 with Wade R. Bradley. (Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K dated October 30, 2006.)
10.10	Form of Escrow Agreement dated as of October 24, 2006 with Wade R. Bradley. (Incorporated by reference to Exhibit 10.3 of the Company's Form 8-K dated October 30, 2006.)
10.11	Amended and Restated License Agreement dated as of January 10, 2007 by and between Electric Aquagenics Unlimited, Inc. and Zerorez Franchising Systems, Inc. (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated November 16, 2006.)
10.12	Warrant Agreement dated as of May 9, 2007 between the Company and Peter F. Ullrich and Water Sciences LLC (Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K dated May 15, 2007)
10.13	Warrant and Put Agreement dated as of May 9, 2007 between the Company and Peter F. Ullrich and Water Sciences LLC (Incorporated by reference to Exhibit 10.3 of the Company's Form 8-K dated May 15, 2007)
10.14	Amended and Restated Registration Rights Agreement dated as of May 9, 2007 between the Company and Peter F. Ullrich and Water Sciences LLC (Incorporated by reference to Exhibit 10.4 of the Company's Form 8-K dated May 15, 2007)
10.15	License agreement between University of Georgia Research Foundation, Inc. and Electric Aquagenics Unlimited, Inc. dated June 18, 2002 (Incorporated by reference to Exhibit 10.9 of the Company's Form 10-QSB for the quarter ended June 30, 2007)
10.16	Agreement for Purchase and Sale of Assets dated as of August 13, 2007 between the Company and Perfect Water & Essentials, LLC ("PWE") (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated August 22, 2007)
10.17	Agreement for Purchase and Sale of Assets dated as of August 13, 2007 between the Company and Perfect Water & Essentials, LLC ("PWE") (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated September 27, 2007)

Exhibit No.	Identification of Exhibit
10.18*	EAU Technologies, Inc. 2007 Stock Incentive Plan (incorporated by reference to Annex A to the Registrant's Definitive Proxy Statement filed with the Commission on November 5, 2007).
10.19*	Form of Employment Agreement dated as of November 8, 2007 with Doug Kindred (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated November 8, 2007)
10.20*	Form of Option Agreement dated as of November 8, 2007 with Doug Kindred (Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K dated November 8, 2007)
10.21	Promissory Note dated November 15, 2007 in favor of the Company by Perfect Water & Essentials, LLC (Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K dated November 15, 2007)
10.22*	Form of Option Agreement dated as of December 6, 2007 with select employees (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated December 6, 2007)
10.23	Waiver and Consent Letter dated August 30, 2007 between the Company and Water Science, LLC. (Incorporated by reference to Exhibit 10.28 of the Company's Form 10-KSB dated March 27, 2008)
10.24	Stock Purchase Agreement dated as of January 10, 2007 by and between Electric Aquagenics Unlimited, Inc. and Peter Ullrich. (Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K dated November 16, 2006.)
10.25	Stock Purchase Agreement dated as of November 10, 2008 between the Company and Theodore Jacoby. (Incorporated by reference from Ex. 4 to quarterly report on Form 10-Q filed with the Securities and Exchange Commission on November 13, 2008)
10.26	Form of Restricted Stock Award Agreement for Non-Employee Directors. (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated February 27, 2008.)
10.27*	Form of Restricted Stock Award Agreement for Employees. (Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K dated February 27, 2008.)
10.28	First Amendment to Lease Agreement dated as of October 31, 2006 between the Company and Cobb International Associates. (Incorporated by reference to Exhibit 10.39 of the Company's Registration Statement on Form S-1 (File No. 333-144646 dated April 11, 2008.)

10.29	Security Agreement dated September 16, 2005 between the Company and Water Science LLC (Incorporated by reference to Ex.10.3 to the Company's Form 8-K filed on October 12, 2005).
10.30	First Amendment to Second Amended and Restated Senior Secured Convertible Promissory Note signed March 24, 2009 between the Company and Water Science LLC. (Incorporated by reference to Ex.10.30 to the Company's Form 10-K filed on March 30, 2009).
10.31	First Amendment to Stock Purchase Agreement dated March 25, 2009 between the Company and Water Science LLC. (Incorporated by reference to Ex.10.31 to the Company's Form 10-K filed on March 30, 2009).
10.32*	Amendment to Employment Agreement dated as of December 17, 2008 between the Company and Wade Bradley. (Incorporated by reference to Ex.10.32 to the Company's Form 10-K filed on March 30, 2009).
10.33*	Amendment to Employment Agreement dated as of December 17, 2008 between the Company and Doug Kindred (Incorporated by reference to Ex.10.33 to the Company's Form 10-K filed on March 30, 2009).
10.34	Second Amendment to Second Amended and Restated Senior Secured Convertible Promissory Note dated August 27, 2009, between the Company and Water Science LLC. (Incorporated by reference to Ex. 10.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on September 2, 2009)
10.35	$600,000 Loan Agreement dated August 27, 2009, between the Company and Peter Ullrich. (Incorporated by reference to Ex. 10.2 to the Company's Form 8-K filed with the Securities and Exchange Commission on September 2, 2009)
10.36	Stock Purchase agreement between the Company and Ted Jacoby. (Incorporated by reference to Ex. 10.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on March 10, 2010)
10.37	Waiver and Consent Letter dated August 30, 2007 between the Company and JLM Consulting, LLC. (Incorporated by reference to Ex. 10.2 to the Company's Form 8-K filed with the Securities and Exchange Commission on March 10, 2010)

Exhibit No.	Identification of Exhibit
10.38	Waiver and Consent Letter dated August 30, 2007 between the Company and Water Science, LLC. (Incorporated by reference to Ex. 10.3 to the Company's Form 8-K filed with the Securities and Exchange Commission on March 10, 2010)
14	Code of Ethics (incorporated by reference from our Annual Report for the year ended December 31, 2004, filed with the Securities and Exchange Commission on April 15, 2005).
23.1	Consent of HJ & Associates, LLC.
31.1	Certification by Wade R. Bradley under section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Brian D. Heinhold under section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Wade R. Bradley pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Brian D. Heinhold pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*Executive Compensation Arrangement Pursuant to 601(b)(10)(iii)(A) of Regulation S-K.

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EAU Technologies, Inc.:

Dated: March 30, 2010

By: /s/ Wade R. Bradley
Wade R. Bradley
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Brian D. Heinhold
Brian D. Heinhold
Chief Financial Officer
(Principal Financial Officer)

Pursuant to the requirements of the Securities Act of 1933, this report has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Wade R. Bradley Wade R. Bradley	Chief Executive Officer (principal executive officer)	March 30, 2010
/s/ Brian D. Heinhold Brian D. Heinhold	Chief Financial Officer (principal accounting officer)	March 30, 2010
/s/ J. Leo Montgomery J. Leo Montgomery	Director	March 30, 2010
/s/ Karl Hellman Karl Hellman	Director	March 30, 2010
/s/ Theodore C. Jacoby, Jr. Theodore C. Jacoby, Jr.	Director	March 30, 2010
/s/ Peter F. Ullrich Peter F. Ullrich	Director	March 30, 2010
/s/ William J. Warwick William J. Warwick	Director	March 30, 2010

EAU TECHNOLOGIES, INC.

REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
EAU Technologies, Inc.
Kennesaw, Georgia

We have audited the accompanying balance sheets of EAU Technologies, Inc. as of December 31, 2009 and 2008, and the related statements of operations, stockholders equity (deficit) and cash flows for each of the two years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EAU Technologies, Inc. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We were not engaged to examine management's assessment about the effectiveness of EAU Technologies, Inc.'s internal control over financial reporting as of December 31, 2009 and, accordingly, we do not express an opinion thereon.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 16 to the financial statements, the Company has a working capital deficit as well as a deficit in stockholders equity. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to this matter are also described in Note 16. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ HJ & Associates, LLC

HJ & Associates, LLC
Salt Lake City, Utah
March 30, 2010

EAU TECHNOLOGIES, INC.

BALANCE SHEETS

ASSETS

	December 31, 2009	December 31, 2008
CURRENT ASSETS		
Cash and cash equivalents	$ 181,481	$ 494,612
Accounts receivable, net	42,995	8,710
Accounts receivable – related party, net	6,248	358,656
Accrued interest	-	1,875
Prepaid expense	45,419	52,468
Note Receivable, current portion	-	150,000
Inventory, net	2,022,462	3,014,503
Total current assets	2,298,605	4,080,824
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $133,821 and $113,360	26,183	46,644
LEASED EQUIPMENT, net of accumulated depreciation of $406,952 and $15,156	721,221	200,253
OTHER ASSETS		
Deposits	10,496	10,496
Restricted cash	240,000	240,000
Patents, net of accumulated amortization of $644 and $0	111,265	87,561
Total other assets	361,761	338,057
Total assets	$ 3,407,770	$ 4,665,778

The accompanying footnotes are an integral part of these financial statements

EAU TECHNOLOGIES, INC.

BALANCE SHEETS (Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	December 31, 2009	December 31, 2008
CURRENT LIABILITIES		
Accounts payable	$ 401,663	$ 373,206
Accrued expenses	924,107	658,608
Warranty reserve	92,160	100,000
Advance deposits on machine orders – related party	349,986	697,500
Current portion of long-term debt	50,832	23,581
Current portion of deferred licensing revenue – related party	141,667	200,000
Convertible note payables – related party, current portion net of discounts of $0 and $76,754	3,600,000	2,923,246
Total current liabilities	5,560,415	4,976,141
LONG TERM LIABILITIES		
Long term debt, net of current portion	6,512	39,150
Deferred licensing revenue – related party	-	141,667
Derivative liability – related party	8,662,893	8,621,940
Total long term liabilities	8,669,405	8,802,757
Total Liabilities	14,229,820	13,778,898
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock, $.0001 par value; 50,000,000 shares authorized; 19,886,168 and 18,285,918 issued and outstanding, respectively	1,989	1,829
Additional paid in capital	41,311,512	39,594,894
Accumulated deficit	(52,135,551)	(48,709,843)
Total stockholders' equity (deficit)	(10,822,050)	(9,113,120)
Total liabilities and stockholders' equity (deficit)	$ 3,407,770	$ 4,665,778

The accompanying footnotes are an integral part of these financial statements

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EAU TECHNOLOGIES, INC.

STATEMENTS OF OPERATIONS

	For the Year Ended December 31, 2009	2008
NET REVENUES – RELATED PARTY	$ 201,264	$ 226,188
NET REVENUES	523,246	210,921
TOTAL REVENUES	724,510	437,109
COST OF GOODS SOLD	143,048	84,806
GROSS PROFIT	581,462	352,303
OPERATING EXPENSES		
Depreciation and amortization	21,106	64,330
Research and development	447,637	228,031
General and administrative	2,903,769	4,193,761
Total operating expenses	3,372,512	4,486,122
LOSS BEFORE OTHER INCOME (EXPENSE)	(2,791,050)	(4,133,819)
OTHER INCOME (EXPENSE)		
Interest expense	(358,415)	(742,625)
Interest income	13,458	12,956
Gain (Loss) on derivative liability	(40,953)	(1,863,866)
Impairment of fixed assets	(248,748)	140
Total other income (expense)	(634,658)	(2,593,395)
LOSS BEFORE PROVISION FOR INCOME TAXES	(3,425,708)	(6,727,214)
PROVISION FOR INCOME TAXES	-	-
NET LOSS	$ (3,425,708)	$ (6,727,214)
NET LOSS PER SHARE	$ (0.18)	$ (0.41)
WEIGHTED AVERAGE OF SHARES OUTSTANDING	19,336,215	16,404,945

The accompanying footnotes are an integral part of these financial statements

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EAU TECHNOLOGIES, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY(DEFICIT)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID IN CAPITAL	ACCUMULATED DEFICIT	TOTAL
Balance, December 31, 2007	15,105,650	$ 1,511	$ 35,406,545	$ (41,982,629)	$ (6,574,573)
Issuance of shares for cash of $1,500	150,000	15	1,485	-	1,500
Issuance of shares of restricted stock to members of the Board of Directors and certain employees	187,962	19	216,137	-	216,156
Exercise of warrants for $2,200,000, or $1.30 per share, by Water Science, a related party	1,692,306	169	2,199,831	-	2,200,000
Issuance of shares for $1,050,000, or $1.00 per share, to Water Science, a related party	1,050,000	105	1,049,895	-	1,050,000
Issuance of shares for $100,000, or $1.00 per share, to Theodore Jacoby, a director	100,000	10	99,990	-	100,000
Issuance and vesting of options and warrants for services	-	-	621,011	-	621,011
Net loss for the year ended December 31, 2008	-	-	-	(6,727,214)	(6,727,214)
Balance, December 31, 2008	18,285,918	1,829	39,594,894	(48,709,843)	(9,113,120)
Issuance of shares for cash at $1.00 per share, to Water Science, a related party.	1,450,000	145	1,449,855	-	1,450,000
Issuance and vesting of options and warrants for services	-	-	197,028	-	197,028
Cancellation of shares	(24,750)	(2)	2		-
Issuance of shares of restricted stock to members of the Board of Directors	150,000	15	59,985		60,000
Issuance of shares for consulting services	25,000	2	9,748		9,750

Net loss for the year ended December 31, 2009	-	-	-	(3,425,708)	(3,425,708)
Balance, December 31, 2009	19,886,168	$ 1,989	$ 41,311,512	$ (52,135,551)	$ (10,822,050)

The accompanying footnotes are an integral part of these financial statements

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EAU TECHNOLOGIES, INC.

STATEMENTS OF CASH FLOWS

	For the Year ended December 31, 2009	For the Year ended December 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (3,425,708)	$ (6,727,214)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	412,901	77,996
Bad debt expense	41,115	55,092
Common stock issued for services	69,750	216,156
Warrants and options granted	197,028	621,011
Discount of note payable	76,754	631,579
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(75,400)	(2,606)
(Increase) decrease in accounts receivable – related party	352,408	(1,041)
(Increase) decrease in pre-paid expense	7,049	(21,868)
(Increase) decrease in accrued interest	1,875	(1,875)
Decrease (increase) in inventory	186,858	(318,309)
Decrease in deposits	-	1,162
Increase in accounts payable	28,456	86,023
Increase in accrued expenses	265,499	13,554
(Decrease) in warranty reserve	(7,840)	(22,000)
(Decrease) in advance deposits on machine orders – related party	(347,514)	-
(Decrease) in deferred revenue	(200,000)	(200,000)
Increase in derivative liability	40,953	1,863,866
Net cash used in operating activities	(2,375,816)	(3,728,474)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(107,580)	-
Proceeds from note receivable	150,000	-
Intellectual property disbursements	(24,348)	(26,003)
Net cash provided (used) in investing activities	18,072	(26,003)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(5,387)	(16,155)
Proceeds from issuance of common stock – related party	1,450,000	2,851,500
Proceeds from issuance of notes payable – related party	600,000	-
Net cash provided by financing activities	2,044,613	2,835,345
NET INCREASE (DECREASE) IN CASH	(313,131)	(919,132)
CASH and cash equivalents, beginning of period	494,612	1,413,744
CASH and cash equivalents, end of period	$ 181,481	$ 494,612

The accompanying footnotes are an integral part of these financial statements

EAU TECHNOLOGIES, INC.

STATEMENTS OF CASH FLOWS
(Continued)

	Year ended December 31, 2009	2008
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for:		
Interest	$ 4,369	$ 20,650
Income Taxes	$ -	$ -
Supplemental Disclosures of Non-cash Investing and Financing Activities		
Common stock issued for services	$ 69,750	$ 216,156

The accompanying footnotes are an integral part of these financial statements

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EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – BUSINESS DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES

Business Description – EAU Technologies, Inc. (the “Company” or “EAU”), was incorporated on March 6, 2000, under the laws of the state of Delaware and commenced operations in September, 2000 as Primacide, Inc. On May 10, 2001, the Company changed its name from Primacide, Inc., to Electric Aquagenics Unlimited, Inc. On January 17, 2007 the Company changed its name from Electric Aquagenics Unlimited, Inc. to EAU Technologies, Inc. The Company is in the business of developing, manufacturing and marketing equipment that uses water electrolysis to create fluids. These fluids have various commercial applications and may be used in commercial food processing organic or non-organic agricultural and consumer products that clean, disinfect, remediate, hydrate and moisturize. These products, which the Company intends to market nationally and internationally, are for commercial and residential use. The Company’s financial statements are presented in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents - For purposes of the balance sheet and statement of cash flows, the Company considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents.

Receivables – Receivables represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and are reduced to their estimated net realizable value. The Company estimates allowances for doubtful accounts based on the aged receivable balances and historical losses. The Company charges off uncollectible accounts receivable when management estimates no possibility of collecting the related receivable.

Inventory – Inventory, consisting primarily of finished goods, is stated at the lower of cost or market; cost is determined on first-in, first-out (FIFO) method.

Property and Equipment, and Depreciation – Property and equipment are recorded at historical cost. Expenditures for additions and major improvements that extend the life of the asset are capitalized, whereas the cost of maintenance and repairs are expensed as incurred. The Company is currently testing its system in multiple locations. Upon completion of the tests, and once the lease for the system has started, the cost of the system will be transferred from inventory to property and equipment. Depreciation is computed on the straight-line method over the estimated useful lives of the assets ranging from three to seven years. Depreciation expense for the years ended December 31, 2009 and 2008 was $20,684 and $64,330, respectively. In September 2005, the Company pledged all the assets of the Company as collateral for the Senior Convertible Note, payable to Water Science, a related party.

Long-Lived Assets – Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the fair value of the asset. Long-lived assets are reported at the lower of carrying or fair value less costs to sell.

Fair Value of Financial Instruments – The carrying values of cash on hand, receivables, payables and accrued expenses approximate their fair value due to the short period to maturity of these instruments.

EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – BUSINESS DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of Sales and Costs of Goods Sold – The Company records sales of its products based upon the terms of the contract; when title passes to its customers; and, when collectibility is reasonably assured. The Company provides an allowance for sales returns based on current and historical experience. Cost of goods sold consists of the purchase price of products sold including inbound shipping charges.

Warranties – The Company warrants its products against defects in materials and workmanship for a period of three years. The Company has accrued a reserve for these anticipated future warranty costs.

Income Taxes – Deferred income taxes are provided using the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates of the date of enactment.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of income.

Accounting Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company 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. Actual results could differ from those estimates.

Research and Development – Research and development costs are expensed as incurred. Research and development expenses for the years ended December 31, 2009 and 2008 were approximately $448,000 and $228,000, respectively.

Patents, Trademarks and Intellectual Property – Patents, trademarks and intellectual property, consisting of trade secrets and formulas are recorded in accordance with Accounting Standards Codification 350, Intangibles – Goodwill and Other (ASC 350), (formerly Statement of Financial Accounting Standards “SFAS” No. 142, "Goodwill and Other Intangible Assets"). As such, patents and trademarks are initially measured based on their fair values.

Loss Per Share – The Company follows the provisions of ASC Topic 260 "Earnings Per Share". Earnings per share (EPS) are computed based on the weighted average number of shares actually outstanding. No changes in the computation of diluted earnings per share amounts are presented because warrants granted would have been anti-dilutive due to the Company's net reported loss.

EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – BUSINESS DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock Based Compensation - Stock-based compensation is calculated according to FASB ASC Topic 718, Compensation — Stock Compensation, which requires a fair-value-based measurement method to account for stock-based compensation.

Recently Enacted Accounting Standards - Accounting Standards Codification (ASC 105)(the "Codification"). The Codification, which was launched on July 1, 2009, became the single source of authoritative non-governmental U.S. generally accepted accounting principles (GAAP), superseding various existing authoritative accounting pronouncements. The Codification eliminates the GAAP hierarchy contained in Statement 162 and establishes one level of authoritative GAAP. All other literature is considered non-authoritative. This Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. There are no changes to our consolidated financial statements due to the implementation of the Codification other than changes in reference to various authoritative accounting pronouncements in our consolidated financial statements.

Business Combinations (ASC 805): In January 2009, the Company adopted Business Combinations changing the method of applying the acquisition method in a number of significant aspects. The standard also amends Income Taxes, such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of Business Combinations would also apply the provisions of Business Combinations. The standard was effective on a prospective basis for all acquisitions on or after January 1, 2009 and does not have a significant impact on the Company's financial statements.

Fair Value Measurements and Disclosures (ASC 820): In September 2009, an update was made to Fair Value Measurements and Disclosures – "Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)." This update permits entities to measure the fair value of certain investments, including those with fair values that are not readily determinable, on the basis of the net asset value per share of the investment (or its equivalent) if such net asset value is calculated in a manner consistent with the measurement principles in Financial Services-Investment Companies as of the reporting entity's measurement date. The update also requires enhanced disclosures about the nature and risks of investments within its scope that are measured at fair value on a recurring or nonrecurring basis. Effective for interim and annual periods ending after December 15, 2009, the Company is currently evaluating the effect that adoption of this update will have, if any, on its financial statements.

In August 2009, an update was made to Fair Value Measurements and Disclosures – "Measuring Liabilities at Fair Value." This update permits entities to measure the fair value of liabilities, in circumstances in which a quoted price in an active market for an identical liability is not available, using a valuation technique that uses a quoted price of an identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities when traded as assets or the income or market approach that is consistent with the principles of Fair Value Measurements and Disclosures. Effective upon issuance, the Company has determined the update does not currently have an impact on its financial statements.

EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – BUSINESS DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

In April 2009, the FASB provided additional guidance in Fair Value Measurements and Disclosures for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased and on identifying circumstances that indicate a transaction is not orderly. The guidance emphasizes that the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sales) between market participants at the measurement date under current market conditions. This guidance is effective for interim and annual reporting periods ending after June 15, 2009. The Company believes the adoption of this guidance has no impact on its financial statements.

Subsequent Events (ASC 855): In May 2009, the FASB issued Subsequent Events establishing general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. Subsequent Events sets forth the period after the balance sheet date that entities should evaluate events of transactions that may occur for potential recognition or disclosure in the financial statements, circumstances under which entities should recognize and the disclosures that should be made about events or transactions that occur after the balance sheet date. Effective for interim and annual periods ending after June 15, 2009, we adopted this standard for our quarter ended June 30, 2009, and the adoption did not have a material impact on our results of operations, financial position or cash flows.

Revenue Recognition (ASC 605): In October 2009, an update was made to Revenue Recognition – “Multiple-Deliverable Revenue Arrangements – a consensus of the FASB Emerging Issues Task Force” and the corresponding Software—“Certain Revenue Arrangements That Include Software Elements – a consensus of the FASB Emerging Issues Task Force.” The update to Revenue Recognition removes the objective-and-reliable-evidence-of-fair-value criterion, replaces references to “fair value” with “selling price”, provides a hierarchy that entities must use to estimate the selling price, eliminates the use of the residual method for allocation, and expands the ongoing disclosure requirements. The Software update changes the accounting model for revenue arrangements and provides guidance on how a vendor should allocate arrangement consideration to deliverables that includes both tangible products and software. Both standards are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The adoption of this standard is not expected to have a material impact on our financial statements.

Reclassification - The financial statements for periods prior to December 31, 2009, have been reclassified to conform to the headings and classifications used in the December 31, 2009, financial statements.

NOTE 2 – CONCENTRATIONS OF CREDIT RISK

The Company occasionally maintains cash balances in excess of the $250,000 federally insured limit. To date, the Company has not incurred, and the Company’s management does not currently expect to incur, any losses associated with its cash balances.

The Company extends unsecured credit to its customers in the normal course of business. Periodically, the Company performs credit evaluations of its customers’ financial condition for determination of doubtful accounts.

EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – RESTRICTED CASH

In November 2006 the Company entered into an employment agreement with Wade Bradley, the Company's CEO. Pursuant to the agreement the Company deposited $240,000 with an escrow agent in January 2007. The Company has recognized this amount as restricted cash on the Company's financial statements. The Company recognized $40 and $2,962 in interest income from the escrow account for the years ended December 31, 2009 and 2008, respectively. In February 2010, the Company and Mr. Bradley amended Mr. Bradley's employment agreement and removed the requirement of the escrow account and have closed the account.

NOTE 4 - TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable consist of the following at:

	December 31	
	2009	2008
Trade accounts receivable	$ 130,660	$ 78,710
Trade accounts receivable – related party	6,248	358,656
Less allowance for doubtful accounts	(87,665)	(70,000)
	$ 49,243	$ 367,366

During 2009, sales to three customers represented approximately 89% of our revenues. During 2008, one customer, a related party represented approximately $52% of our revenues. Bad debt expense for the years ended December 31, 2009 and 2008 was $41,115 and $55,092, respectively.

NOTE 5 - INVENTORIES

The composition of inventories is as follows at December 31:

	2009	2008
Finished goods	$ 894,488	$ 1,828,984
Raw materials	1,527,974	1,585,519
Allowance for obsolete inventory	(400,000)	(400,000)
	$ 2,022,462	$ 3,014,053

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2009	2008
Machinery and equipment	$ 63,426	$ 63,426
Furniture and fixtures	64,442	64,442
Leasehold improvements	32,136	32,136
Total property and equipment	160,004	160,004

Less: accumulated depreciation		(133,821)		(113,360)
Property and equipment, net	$	26,183	$	46,644

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EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – LEASED ASSETS

Leased assets consist of equipment that has been placed in service and is under an operating lease agreement with two customers. Each system is custom designed for the size and fluid requirements of the application. We recorded approximately $445,000 and $39,000 in revenues from the lease of these systems for the year ended December 31, 2009 and 2008, respectively. The amount of equipment at December 31:

	2009	2008
Leased equipment	1,128,173	215,409
Less: accumulated depreciation	(406,952)	(15,156)
Leased equipment, net	$ 721,221	$ 200,253

Due to the uncertainty of continuing operations of our system at a poultry plant, the Company recorded an impairment loss of approximately $248,000. The impairment was determined to be an amount that the Company could not recover should the system be removed. We concluded that the remaining value could be recouped in a subsequent sale.

At December 31, 2009, minimum lease payments receivable for each succeeding period based on current agreements is as follows:

2010	$ 168,000
2011	$ 168,000
2012	$ 126,000
2013	$ -
2014	$ -

NOTE 8 – INTANGIBLE ASSETS

Patents, trademarks and intellectual property, consisting of trade secrets and formulas are recorded in accordance with Accounting Standards Codification 350, Intangibles – Goodwill and Other (ASC 350), (formerly Statement of Financial Accounting Standards “SFAS” No. 142, "Goodwill and Other Intangible Assets"). As such, patents are initially measured based on their fair values. The patents which have been granted are being amortized over a period of 20 years. Patents which are pending or are being developed are not amortized until a patent has been issued. The amount of intangible assets, consisting of patents, as of December 31, 2009 is as follows:

Gross amount of patents	$ 111,909
Less amount of accumulated amortization	(644)
Net value of patents	$ 111,265

Amortization expense for the fiscal years ended December 31, 2009 and 2008 was $644 and $0, respectively.

The estimated amortization expense, based on current intangible balances, for the next fiscal years beginning January 1, 2010 is as follows:

2010	$ 1,357
2011	$ 1,357
2012	$ 1,357

2013	$	1,357
2014	$	1,357

EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 9 – RELATED PARTY TRANSACTIONS

Sales to Affiliates – In September 2005, Water Science, a related party, paid to the Company $1,000,000 for the exclusive rights to sell our products in South America and Mexico. The agreement allows for a pro-rated refund during the first 5 years under certain circumstances. The Company recognizes income from this agreement over the first 5 years of the agreement. The Company recognized $200,000 in each of the years ended December 31, 2009 and 2008. This agreement also gives Water Science the rights to purchase machinery from the Company at cost plus 25 percent. During the year ended December 31, 2009, the Company sold less than $1,500 in parts to Water Science. During the year ended December 31, 2008, the Company sold one small water generator and miscellaneous spare parts to Water Science for $26,188. Further, the Company has received and recorded $349,986 in advance deposits from Water Science on machine orders at December 31, 2009. In connection with the sales to Water Sciences, the Company has recorded approximately $750 in accounts receivable at December 31, 2009.

Convertible Note Payable - In September 2005, the Company entered into a Senior Convertible Note with Water Science in exchange for $3,000,000 (see Note 11). Due to the discount of this note and the beneficial conversion feature, the Company has recognized approximately $76,750 and $632,500 in interest expense for the years ended December 31, 2009 and 2008, respectively. The Company accounts for the warrants and convertible debt feature as a derivative liability with changes in fair value being recorded in the income statement. The Company recorded a loss of $40,953 due to the change in the fair market value at December 31, 2009. The Company recorded a loss of $1,863,866 in the change of the derivative liability to fair market value for the year ended December 31, 2008.

The Company entered into a Loan Agreement with Mr. Peter Ullrich, a related party, whereby he agreed to loan $600,000 to the Company. Simple interest will accrue at a rate of 10% per annum on the unpaid principal amount outstanding and the loan will mature on November 1, 2010. (See Note 11)

Escrow Arrangement with Chief Executive Officer – In October 2006, the Company entered into an escrow agreement with the Chief Executive Officer. Pursuant to the escrow agreement, to secure the Company's obligation to make the Severance Payment, the Company is required to deposit, at its election, either (1) cash in the amount of $240,000 or (2) an irrevocable letter of credit with a face amount of $240,000, with an agreed upon escrow agent who shall hold such funds (or letter of credit) in escrow. In January 2007, the Company deposited $240,000 in cash with an escrow agent. In February 2010, the Company and the Chief Executive Officer entered into an agreement to terminate the escrow agreement and close the account.

Advances – Periodically throughout the year, the Company advances officers and employees cash for certain reimbursable expenses. As of December 31, 2009 and 2008, the Company had advances to employees or officers in the amount of $5,500.

Employee Options – In December 2007, the Company granted 480,260 options to various employees. The options are for a term of ten (10) years and have an exercise price of $1.30 per share. The options vest over a period of four (4) years. The options were valued using the Black-Scholes model with the following assumptions: risk free rate of 4.64%, volatility at 87.06% and the stock price at $1.30. The value of each option is approximately $1.13. In May 2009, 36,000 options were cancelled due to the departure of an employee. The Company recognized $74,709 during the year ended December 31, 2009.

In November 2007, the Company granted 530,000 options to Douglas Kindred, in connection with the appointment of Mr. Kindred as Chief Technology Officer. The options are for a term of ten (10) years and have an exercise price of

$1.30 per share. The options vest over a period of four (4) years. The options were valued using the Black-Scholes model with the following assumptions: risk free rate of 4.28%, volatility at 85.99% and the stock price at $1.01. The value of each option is approximately $0.85. The Company recognized $69,424 during the year ended December 31, 2009.

In October 2006, the Company granted 500,000 options to Mr. Wade Bradley, the Company's CEO, pursuant to his employment agreement. The options vest over four years and have an exercise price of $1.30 per share. The Company recognized $52,895 during the year ended December 31, 2009. (See Note 13)

EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 10 – WARRANTY RESERVE

The Company warrants its products against defects in materials and workmanship for a period of three years. The Company reviews the historical experience of failure rates and estimates the rate of warranty claims that will be made and has accrued a warranty reserve for these anticipated future warranty costs. If actual results differ from the estimates, the Company would adjust the estimated warranty liability. Changes in the warranty reserve are as follows:

	For the Year Ended December 31,	
	2009	2008
Warranty reserve at beginning of period	$ 100,000	$ 122,000
Costs accrued for additional warranties	-	3,208
Service obligations honored	(7,840)	(25,208)
Warranty reserve at end of period	$ 92,160	$ 100,000

NOTE 11 - SENIOR CONVERTIBLE DEBT

In September 2005, the Company entered into a Senior Convertible Note (the “Note”) with Water Science, a related party, in exchange for $3,000,000. Pursuant to the debt agreement, the Note accrues interest at the rate of 3% per annum and was initially due, principal and interest together, on September 16, 2008. In June 2008, Water Science agreed to extend the maturity date of the Note to March 16, 2009. In March 2009, the Company and Water Science agreed to extend the maturity date to September 16, 2009 and increase the interest rate to 10%. No principal or interest payments need to be paid during the loan period. In October 2008, as part of a new financing agreement, the Company amended the Note and changed the conversion rate from $3.00 per share to $1.00 per share. The Note may be converted into 3,000,000 shares of the Company’s $0.0001 par value common stock prior to the maturity date, and at any time, by the holder at a price per share equal to $1.00 per share, subject to certain other conversion adjustments. The Company granted a security interest in all of the Company’s assets as collateral for the loan. In connection with the original issuance of the Note, the Company granted a three year warrant to purchase up to two million shares of the Company’s $0.0001 par value common stock with an exercise price of $2.76 per share.

In August 2009, the Company entered into the Second Amendment (the “Amendment”) to the Second Amended and Restated Senior Secured Convertible Promissory Note (the “Promissory Note”) with Water Science, a related party. The Amendment extends the maturity date of the Promissory Note from September 16, 2009 to November 1, 2010. In all other material respects, the Promissory Note remains unchanged.

In May 2007, the Company entered into a termination agreement related to the cancellation and reissuance of the existing warrants (“Original Warrants”) to purchase a total of 8.4 million shares of $0.0001 par value common stock of the Company, at a price of $2.76 per share, held by Water Science. The Company granted to Water Science replacement warrants to purchase 8.4 million shares of common stock at a price of $1.30 per share, with an expiration date of May 9, 2010. The Company had a right to require Water Science to exercise warrants for up to 3,230,769 shares. During the year ended 2008, the Company required Water Science to exercise all of the options under the put rights.

EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 11 - SENIOR CONVERTIBLE DEBT – (Continued)

On August 27, 2009, the Company entered into a Loan Agreement with Mr. Peter Ullrich, a related party, whereby he agreed to loan $600,000 to the Company, funded in three installments, as follows, $200,000 payable on September 15, 2009, $200,000 payable on October 15, 2009, and $200,000 payable on November 15, 2009. Simple interest will accrue at a rate of 10% per annum on the unpaid principal amount outstanding and the loan will mature on November 1, 2010, at which time accrued interest and the outstanding principal balance shall be due. The agreement contains an optional conversion right, whereby the Lender may convert all or any portion of the outstanding principal and interest due into shares of the Company's common stock at a price per share equal to $1.00 per share.

The warrants and the conversion rate of the convertible notes contain "round down" provisions where the exercise price is to be adjusted if the Company should issue stock for less than the original exercise price. Due to this feature, and pursuant to SEC guidance, the Company accounts for the warrants and convertible feature as a derivative liability with changes in fair value being recorded in the income statement. As of December 31, 2009 and 2008, the value of the derivative liability was $8,662,893 and $8,621,940, respectively. The Company recorded a loss of $40,953 and $1,863,866 in the change of the derivative liability to fair market value for the years ended December 31, 2009 and 2008, respectively.

NOTE 12 – LONG TERM DEBT

Long-term debt consisted of the following at:

	December 31, 2009	December 31, 2008
Unsecured note payable to unrelated third party, payable in monthly installments of $1,500, including interest of approximately 22%, due October 2012	$ 28,672	$ 31,366
Unsecured note payable to unrelated third party, payable in monthly installments of $1,500, including interest of approximately 22%, due October 2012	28,672	31,365
Total debt	57,344	62,731
Less: current portion	(50,832)	(23,581)
Long term debt	$ 6,512	$ 39,150

The Company has paid extra payments in the past and there is a potential that the notes could be paid off prior to the original maturity date. The estimated maturities of the notes payable are as follows:

Year Ending December 31,	Amount
2009	$ 50,832
2010	6,512
2011	-
Thereafter	-
	$ 57,344

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EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 13 – COMMON STOCK

In July 2009, the Company granted 25,000 shares of EAU common stock to Larry Earle, a consultant to the Company, pursuant to the Company's 2007 Stock Incentive Plan.

In May 2009, the Compensation Committee of the Board of Directors of the Company granted 30,000 shares of restricted stock for each director, effective on May 14, 2009. The restricted stock will vest ratably over a period of two years from the date of grant. These grants were made pursuant to the annual directors' compensation program approved by the Board in December 2007.

In November 2008, Theodore Jacoby, a director of the Company, purchased 100,000 shares of common stock of the Company for $100,000 at a price of $1.00 per share.

In October 2008, the Board of Directors approved a transaction with Water Science, LLC ("WS"), a related party, pursuant to (1) a Stock Purchase Agreement (the "Purchase Agreement") and (2) a Second Amended and Restated Senior Secured Convertible Promissory Note (the "Second Amended Convertible Note"). The Purchase Agreement provides for the purchase of 2.5 million shares of common stock of the Company at a price of $1.00 per share and the amendment of the original Amended and Restated Senior Secured Convertible Promissory Note dated as of May 8, 2008, to change the conversion rate from $3.00 per share to $1.00 per share, as reflected in the Second Amended Convertible Note. The purchase of the common stock was to occur in six monthly installments of $350,000 beginning October 14, 2008 plus a final installment of $400,000 on April 15, 2009. As of December 31, 2008, the Company had received $1,050,000 under the agreement. As of September 30, 2009, the Company received the remaining payments of $1,450,000 under this agreement.

In March 2009, the Company and Water Science amended the payment schedule of the Purchase Agreement on the final $950,000. The purchase of the common stock was scheduled to occur in four monthly installments of $250,000 on April 15, 2009, $250,000 on May 15, $250,000 on June 15 and a final installment of $200,000 on July 15, 2009. As of the date of this report, the Company has received payment of all of these installments. The Second Amended Convertible Note included an interest rate of 3% and a maturity date of March 16, 2009. In March 2009, the Company and Water Science agreed to extend the maturity date to September 16, 2009 and increase the interest rate to 10%. In August 2009, the note was again extended until November 1, 2010. WS is controlled by Peter Ullrich, a member of the Board of Directors of the Company

In February 2008, the Compensation Committee of the Board of Directors of the Company granted $30,000 to each board member in the form of 23,077 shares of restricted stock for each director, effective on February 27, 2008. The restricted stock will vest ratably over a period of two years from the date of grant. These grants were made pursuant to the annual directors' compensation program approved by the Board in December 2007. The amount of compensation was based on recommendations from a non-related human resource consulting firm. The Compensation Committee also granted 49,500 shares of restricted stock to various employees, which will vest one year from the date of grant.

In January 2008, an officer of the Company exercised 150,000 options for $1,500 or $0.01 per share. The options were granted in 2003 for services.

A summary of the status of the options and warrants granted at December 31, 2009 and 2008, and changes during the years then ended is presented below.

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EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 13 – COMMON STOCK – (Continued)

	For the years ended December 31, 2009			2008		
	Shares		Weighted Average Exercise Price	Shares		Weighted Average Exercise Price
Outstanding at beginning of period	8,387,867	$	1.60	10,641,839	$	1.55
Granted	-		-	-		-
Exercised	-		-	(1,842,306)		1.19
Expired or cancelled	(570,576)		3.52	(411,666)		2.21
Outstanding at end of period	7,817,291	$	1.46	8,387,867	$	1.60
Weighted average fair value of options exercisable	7,230,161	$	1.47	7,430,172	$	1.63

A summary of the status of the options and warrants outstanding at December 31, 2009 is presented below:

		Warrants Outstanding			Warrants Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life		Weighted-Average Exercise Price	Number Exercisable		Weighted-Average Exercise Price
$ .01-.50	210,000	0.4 years	$	0.10	210,000	$	0.10
1.00-1.99	6,688,491	1.6 years		1.30	6,101,361		1.30
2.00-2.99	720,000	4.6 years		2.56	720,000		2.56
3.00-3.99	115,000	5.0 years		3.46	115,000		3.46
4.00-4.99	5,000	0.4 years		4.00	5,000		4.00
5.00-5.50	78,800	0.3 years		5.00	78,800		5.00
$ .01-5.50	7,817,291	1.9 years	$	1.46	7,230,161	$	1.47

The fair value of each warrant granted is estimated on the date granted using the Black-Scholes pricing model, with the following assumptions used for the grants during 2007: risk-free interest rate of between 4.28% and 4.64%, expected dividend yield of zero, expected lives of three to ten years and expected volatility of between 72.07% and 87.06%.

EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 14 – INCOME TAXES

The Company accounts for income taxes in accordance with ASC 740, Income Taxes. ASC 740 requires the Company to provide a net deferred tax asset or liability equal to the expected future tax benefit or expense of temporary reporting differences between book and tax accounting and any available operating loss or tax credit carryforwards. At December 31, 2009 and 2008, the total of all deferred tax assets was approximately $16,010,000 and $14,837,000, respectively, and the total of the deferred tax liabilities was approximately $0 and $0, respectively. The amount of and ultimate realization of the benefits from the deferred tax assets for income tax purposes is dependent, in part, upon the tax laws in effect, the Company's future earnings, and other future events, the effects of which cannot be determined. Because of the uncertainty surrounding the realization of the deferred tax assets, the Company established a valuation allowance of approximately $16,010,000 and $14,837,000 as of December 31, 2009 and 2008, respectively, which has been offset against the deferred tax assets. The net change in the valuation allowance during the year ended December 31, 2009, was $1,201,000.

The Company has available at December 31, 2009, unused tax operating loss carryforwards of approximately $32,439,000, which may be applied against future taxable income and expire in various years through 2029.

The components of income tax expense from continuing operations for the years ended December 31, 2009 and 2008 consist of the following:

	Year Ended December 31,			
	2009		2008	
Current income tax expense:				
Federal	$	-	$	-
State		-		-
Net current tax expense		-		-
Deferred tax expense (benefit) arising from:				
Excess of tax over financial accounting depreciation	$	(14,008)	$	(6,518)
Accrued compensation and taxes		(10,084)		-
Accrued interest		(213,689)		-
Reserve for bad debts		(6,589)		(16,785)
Derivative liability		(15,275)		(695,223)
Warranty reserve		2,924		8,206
Deferred income		74,600		74,600
Impairment of fixed assets		(92,783)		-
Net operating loss carryforwards		(907,827)		(1,681,089)
Other		(18,503)		1,249
Valuation allowance		1,201,234		2,315,560
Net deferred tax expense	$	-	$	-

Deferred income tax expense results primarily from the reversal of temporary timing differences between tax and financial statement income.

EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 14 – INCOME TAXES – (Continued)

The temporary differences gave rise to the following deferred tax asset (liability) at December 31, 2009 and 2008:

	December 31, 2009	2008
Excess of tax over book accounting depreciation	$ (95,301)	$ (81,293)
Obsolete inventory	149,200	149,200
Accrued interest – related party	213,689	-
Accrued compensation and payroll taxes	112,152	102,068
Warranty reserve	34,376	37,300
Contribution carryover	7,124	7,124
Deferred income	52,842	127,442
Reserve for bad debt	32,699	26,110
263A capitalization	79,684	-
NOL carryforwards	12,099,731	11,191,903
Derivative liability	3,231,259	3,277,167
Impairment of fixed assets	92,783	-

The Company files income tax returns in the U.S. federal jurisdiction, and North Carolina, Georgia, and Utah. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2003. The statue of limitations remains open on all years from 2000 going forward. Once the returns have been filed the IRS will have 3 years to examine and adjust the amounts reported.

The company operates at a loss and will only be liable for minimum state tax payments once returns are filed. No unrecognized liability will be added to the Company's balance sheet for the un-filed returns as the amounts reported are an immaterial amount.

At December 31, 2009, there are no tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 15 – COMMITMENTS AND CONTINGENCIES

The Company entered into an amended exclusive licensing and product supplier agreement with Zerorez, an affiliated entity, to provide Zerorez with its Primacide water solutions and water generator for its carpet cleaning franchisees. The Company is committed to sell to Zerorez the Primacide B water generator for over the next 5 years under the agreement, ending on December 31, 2011. The agreement allows for the automatic renewal of the agreement for three (3) terms of five year terms, unless both parties agree to the cancellation of the agreement.

In September 2005, the Company entered into an exclusive license and distribution agreement with Water Sciences LLC, a related party, in exchange for receiving $1,000,000 and future royalty payments. Under the agreement, the licensee was granted the exclusive right to commercialize and develop the Company's low-cost, non-toxic electrolyzed oxidative fluids used for cleaning, disinfection, remediation and hydration and to manufacture, distribute and sell the products to certain territories within Central and South America. Royalty payments under the agreement range from 2% - 5% depending on the annual sales volume of the licensee. This agreement automatically renews each year and shall remain in effect unless sooner terminated by the Company or licensee.

Management has determined that certain stock options and warrants granted for services may not have been properly treated for income tax withholding purposes. Management is reviewing all granted options and warrants with professional tax accountants to determine the proper treatment. In addition, in the past the Company has classified several consultants and officers as independent contractors for federal and state tax purposes. This classification could be challenged by the applicable taxing authorities for some or all of these individuals. Management believes that it is reasonably estimatable and probable that the amount of liability to the Company will be approximately $255,000. The Company has estimated the potential tax liability as a range between $129,000 and $574,000.

NOTE 16 – GOING CONCERN

The Company has incurred significant losses and has had negative cash flows from operations. As a result, at December 31, 2010, the Company has had a high level of equity financing transactions and additional financing will be required by the Company to fund its future activities and to support its operations. We currently have sufficient funds to operate our business until the middle of 2010. We do not have any agreements in place for additional funding. Management will continue to seek to obtain sufficient funding for its operations through either debt or equity financing. However, there is no assurance that the Company will be able to obtain additional financing. Furthermore, there is no assurance that rapid technological changes, changing customer needs and evolving industry standards will enable the Company to introduce new products and services on a continual and timely basis so that profitable operations can be attained. The Company's ability to achieve and maintain profitability and positive cash flows is dependent upon its ability to achieve positive sales and profit margins and control operating expenses.

The Company estimates that it will need approximately $2,000,000 for the upcoming twelve months to execute our business plan and an additional $3,600,000, plus interest, in order to satisfy our senior notes payable with Water Science, which becomes due in November 2010, if the note is not converted into common stock. Management plans to mitigate its losses in the near term through the further development and marketing of its trademarks, brand and product offerings.

Our auditors have issued their Independent Registered Public Accountants' Report on the Company's financial statements for the fiscal year ended December 31, 2009 with an explanatory paragraph regarding the Company's ability to continue as a going concern. The financial statements have been prepared on a going concern basis, which contemplates continuity of operations, realization of assets and satisfaction of liabilities in the ordinary course of business. However, as a result of recurring operating losses, such realization of assets and satisfaction of liabilities are subject to uncertainty, which raises substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 17 – LOSS PER SHARE

Basic earnings per share is based on the weighted effect of all common shares issued and outstanding, and is calculated by dividing net income by the weighted average shares outstanding during the period. Diluted earnings per share is calculated by dividing net income by the weighted average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming exercise or conversion of all potentially dilutive common shares outstanding. At December 31, 2009, the Company had outstanding warrants and notes payable convertible into shares of common stock, which were not used in the computation of loss per share because their effect would be anti-dilutive.

The following data shows the amounts used in computing loss per share:

	For the years ended December 31, 2009	2008
Net loss	$ (3,425,708)	$ (6,727,214)
Total net loss per share	$ (0.18)	$ (0.41)
Weighted average number of common shares outstanding used in loss per share for the period	19,336,215	16,404,945

NOTE 18 – SUBSEQUENT EVENTS

In February 2010, the Company and Wade R. Bradley amended Mr. Bradley's employment agreement to (i) remove a provision that required the Company to maintain $240,000 in an escrow account as collateral for any future severance payment to which Mr. Bradley may become entitled pursuant to the Employment Agreement and (ii) reduce any future severance payment to which Mr. Bradley may become entitled pursuant to the Employment Agreement from twelve months salary, paid over the twelve month period following termination, to six months salary, paid over the six month period following termination.

In consideration of Mr. Bradley's agreement to amend the Employment Agreement, $120,000, less applicable Federal and state tax withholdings (which will be retained by the Company and remitted to the applicable taxing authorities) and applicable escrow agent fees, was disbursed directly to Mr. Bradley. The remaining balance of $120,000 of the escrow funds, less applicable escrow agent fees, was disbursed to the Company. All interest earned on the escrow funds has also be remitted to the Company. Mr. Bradley and the Company agreed to these amendments to provide the Company with short-term liquidity it needs for operations.

In conjunction with the disbursement of funds from escrow, the escrow agreement between the Company, Mr. Bradley and Specialized Title Services, Inc., filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed October 30, 2006, was terminated.

EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 18 – SUBSEQUENT EVENTS – (Continued)

On March 25, 2010, the Company obtained an unsecured short term loan of $250,000 from Peter Ullrich a member of the Board of Directors of the Company. This is in addition to an advance of $100,000 from Mr. Ullrich which occurred on February 18, 2010, as previously reported on the Company Form 8-K filed on February 24, 2010. The final agreements to document the loan have not been signed, and the material terms are not final. However, the parties have discussed and preliminarily agreed to terms similar to the $600,000 loan with Mr. Ullrich on August 27, 2009, and described in the Company Form 8-K filed on September 2, 2009, except the new loan will not include a term requiring a potential reversion of the exercise price to $3.00 per share. In addition, the new loan will provide for an additional advance of $50,000 to be available to the Company in June 2010. Assuming the other terms remain as anticipated, the final loan will be a $400,000 loan at 10% simple interest, with a maturity of November 1, 2010, and conversion rights into Company common stock at an exercise price of $1.00 per share. The material terms of the final agreement will be disclosed in subsequent filings with the Securities and Exchange Commission.

On March 10, 2010, the Board of Directors of EAU Technologies authorized the sale by the Company of 100,000 unregistered shares of Common Stock of the Company at a price of $1.00 per share to Theodore Jacoby, a director of the Company.

Management evaluated events subsequent to December 31, 2009 and concluded there were no other events or transactions during this period that required recognition or disclosure in its financial statements.