EAU TECHNOLOGIES, INC.
Form 10-K
April 16, 2012

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

FORM 10-K

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

For the fiscal year ended: December 31, 2011

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.)

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

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 þ

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 þ 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 þ 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. þ

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 þ

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ
At March 30, 2012, 28,567,460 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, 2011, was $2,066,418.

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. Forward-looking statements inc statements about our expectations about reserves, patent protection, outsourcing, life spans of generators, losses, demand for our products, long-lived assets and internal controls. Our future results, performance or 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., (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 for food safety applications 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 and hydrate. 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 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 in commercial applications, as well as studies both internal and through third parties shows no toxicity. At the levels employed, the fluids and products are environmentally safe and non-toxic and do not contain or leave harmful residues. 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.

We have identified the following industries for early stage sales and marketing focus: 1) food and beverage processing, 2) dairy production and processing, 3) meat and poultry 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 that can assist in rolling the technology out on a large scale.

Food and Beverage Processing. The Company entered into a non-exclusive commercial relationship with an international manufacturer of food processing equipment. In connection with the agreement the company ordered two Empowered Water Generator systems. We shipped the systems during the fourth quarter of 2011. An additional two units were ordered in the first quarter of 2012.

In 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.

Results showed Empowered Water™ was able to improve current cleaning and sanitizing efficacy, minimizing the use of commercial chemicals while complying with microbiological integrity and sensory testing requirements. Testing also identified water and energy consumption savings as well as timesaving that can increase bottling production line availability.

In August 2010, the Company received its first purchase orders from the international beverage company. EAU installed its environmentally friendly Empowered Water™ CIP Systems at three of the company's bottling plants and recorded revenue from the sale of these systems during the first quarter 2011.

Dairy Cattle. The Company commenced hydration and production tests on dairy cattle in 2006. Initial results indicated 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. We will continue to do more clinical research and field testing in the dairy market in order to support a full industry rollout.

In April 2011, the Company signed a purchase agreement with Fonterra Co-Operative Group Limited, New Zealand for a Dairy Drinking Water System to be used in a new 3,000 cow dairy in Yutian, China. We shipped the system in August 2011 and installed the system in December 2011. We recognized revenues from the sale of this system during the third and fourth quarters of 2011. We expect to receive minimal ongoing revenues during 2012.

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.

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 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.

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 compliance for post-chill microbial performance. The plant completed a USDA test set October 2009 with the result that it met the Category 1 requirements for that test set. Fieldale indicated that it was suspending the agreement as of November 23, 2009 and ceased making payments. In February 2011, the Company filed a complaint in the Superior Court of Cobb County Georgia against Fieldale for breaching the agreement. (See Part I, Item 3 - Legal Proceedings)

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.

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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.

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.

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. 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.

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 - Empowered Water™ has been used in various areas of Grocery stores such as, 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 (food and beverage processing clean in place ("CIP"), dairy production and processing, meat and poultry processing, and agriculture markets). 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 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 to date we have focused 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 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 EW 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

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 in food and beverage processing facilities, on dairies, 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 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, 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 positive oxidation-reduction potential 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 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 with the EPA annually as a disinfectant device manufacturer. 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 $38,000 for the year ended December 31, 2011, and $2,000 in 2010.

Employees

As of December 31, 2011 we had 9 full-time employees and 2 contractors. 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.

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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, 2011 and 2010 which contains a modification indicating substantial doubt about the Company’s ability to continue as a going concern. In addition, the footnotes to our financial statements list factors, including recurring losses since incorporation, which raise substantial 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 second quarter of 2012. 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 still developing our markets.

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.

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.

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

Management has determined that the Company may owe 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. 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 could 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.

We are exposed to unique risks from operations in China which could affect our operations

Our international operations expose us to a wide variety of risks including increased credit risks, customs duties, import quotas and other trade restrictions, potentially greater inflationary pressures. Changes may occur in foreign trade and investment laws in the territories and countries where we will operate. United States laws and regulations relating to investment and trade in foreign countries could also change to our detriment. Any of these factors could adversely affect our revenues and profits.

We are subject to risk of political instability and trade sanctions within China. Since 1949, China has been primarily a planned economy subject to a system of macroeconomic management. Although the Chinese government still owns a significant portion of the productive assets in China, economic reform policies since the late 1970s have emphasized decentralization, autonomous enterprises and the utilization of market mechanisms. We cannot predict what affects the economic reform and macroeconomic measures adopted by the Chinese government may have on our business or results of operations. As China shifts to a market economy, growing economic and social freedoms may conflict with the more restrictive political and governmental policies.

Further risks relating to international operations include, but are not restricted to, unexpected changes in legal and regulatory requirements, changes in tariffs, exchange rates and other barriers, political and economic instability, possible effects of war and acts of terrorism, difficulties in accounts receivable collections, difficulties in managing distributors or representatives, difficulties in staffing and managing international operations, difficulties in protecting our intellectual property overseas, seasonality of sales and potentially adverse tax consequences. Any of these factors could adversely affect our revenues and profits. Additional risks include, but are not limited to the following:

> We may be sensitive to a slowdown in economic growth or other adverse changes in the China economy. This is particularly true in light of current financial and economic uncertainties. A slowdown in overall economic growth, an economic downturn or recession or other adverse economic developments in China may materially reduce the demand for our services and materially and adversely affect our business.

> A 2006 regulation establishes more complex procedures in the PRC for acquisitions conducted by foreign investors, which could make it more difficult for us to pursue growth through acquisitions.

New political and economic policies of the PRC government could affect our business.

The PRC legal system embodies uncertainties which could limit the legal protections available to us. The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. We are subject to laws and regulations applicable to foreign investment in mainland China. However, these laws, regulations and legal requirements are relatively recent, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to us and other foreign investors.

Any of these actions could have an adverse effect on our business, financial condition, results of operations and cash flows.

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 Ecolab, Johnson Diversey, 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 Markets. 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 Markets. 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.

Our stock is currently listed on the OTCQB™ market which may have an unfavorable impact on our stock price and liquidity.

The OTCQB market is a significantly more limited market in comparison to other larger trading markets such as the NASDAQ Stock Market. The quotation of our shares on the OTCQB results in a relatively illiquid market available for existing and potential shareholders to trade shares of our common stock, which could ultimately depress the trading price of our common stock and could have a long-term adverse impact on our ability to raise capital in the future.

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 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 six months 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 six months 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

On February 11, 2011, the Company filed a Verified Complaint for Damages (“Complaint”) in the Superior Court of Cobb County State of Georgia against Fieldale Farms Corporation (“Fieldale”). The lawsuit seeks approximately $1,100,000 plus interest, which is the amount due under the agreement and an additional amount not less than $100,000 for the costs of EAU’s replacement of Fieldale equipment. Pursuant to the agreement the Company leased and installed certain equipment to Fieldale. In exchange, Fieldale agreed to pay the Company a monthly rental fee for a guaranteed term of four (4) years. Although the Company and the Company’s technology performed in accordance with the agreement, Fieldale Farms cancelled the agreement in the fourth quarter of 2009. While we are unable at this time to estimate the likelihood of a favorable outcome in this matter, we intend to prosecute vigorously our claims against Fieldale. In March 2011, the Company received an Answer and Counterclaim, wherein Fieldale alleges that the Company caused damage to other equipment and property of Fieldale and seeks to recover its actual damages estimated at $400,000. The Company disputes the claim and will vigorously defend against the claim. In October 2011, the case was moved from Cobb County to Habersham County.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Beginning in 2010, our common stock began being quoted on the OTC Markets under the symbol EAUI.QB. Previously our common stock was quoted 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 quoted 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 December 2011, Theodore Jacoby, a director of the Company, purchased 161,291 shares of common stock of the Company for $50,000 at a price of $0.31 per share.

In December 2011, Peter Ullrich, a director of the Company, agreed to exercise 5,806,452 shares of common stock of the Company for $1,800,000, or $0.31 per share. The principle amount of two loans with total value of $1,800,000 was used as consideration for the exercise price. Mr. Ullrich also agreed to purchase 2,593,549 shares of the Company's common stock for $804,000, or $0.31 per share, which Mr. Ullrich had advanced to the Company during 2011.

In December 2011, the Compensation Committee of the Board of Directors of the Company authorized the Company to grant each director 96,775 warrants for the purchase of common stock at $0.31 per share for each year of service the director has been a member of the Board, covering the years 2010, 2011 and 2012, pursuant to the Company's Board of Directors compensation plan. The option will vest ratably over a period of two years from the date of when the option was earned. These grants were made pursuant to the annual directors' compensation program approved by the Board in December 2007.

In December 2011, the Company entered into an agreement to convert $358,527 of accrued interest into a new convertible note. Simple interest will accrue at a rate of 10% per annum on the unpaid principal amount outstanding and the loan will mature on November 30, 2013, 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. In connection with the issuance of the convertible note, the Company granted a five year warrant to purchase up to 358,527 shares of the Company's $0.0001 par value common stock with an exercise price of $0.31 per share.

In October, 2010, the Company entered into a loan agreement with Peter Ullrich, a related party. The principal amount of the Note is $1,200,000 ("Note"). The Note bears interest at a rate of 10% annually and will mature on December 1, 2011. The Note was convertible into shares of the Company's common stock at $1.00 per share and no principal or interest payments are due until maturity. The principle of the Note was paid off with the exercising of certain warrants.

Also, in conjunction with the Note, the Company issued a warrant to Peter Ullrich to purchase 6,969,231 shares of the Company's common stock at $0.31 per share (the "Warrant"). The Warrant has a term of five years.

In March 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 January 2010, a consultant exercised 20,000 warrants for $200, or $0.01 per share. The warrants were granted in 2005 for services.

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 Markets, for the last two years. Common stock began trading publicly during May 2004.

	EAU Technologies, Inc. Common Stock High	Low
Year Ended December 31, 2011		
Quarter Ended March 31, 2011	$0.31	$0.17
Quarter Ended June 30, 2011	0.45	0.25
Quarter Ended September 30, 2011	0.35	0.25
Quarter Ended December 31, 2011	0.35	0.20

	High	Low
Year Ended December 31, 2010		
Quarter Ended March 31, 2010	$0.71	$0.17
Quarter Ended June 30, 2010	0.41	0.21
Quarter Ended September 30, 2010	0.42	0.15
Quarter Ended December 31, 2010	0.40	0.17

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, 2011, the Company had approximately 375 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., (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 for food safety applications 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 and hydrate. 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 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 in commercial applications, as well as studies both internal and through third parties shows no toxicity. At the levels employed, the fluids and products are environmentally safe and non-toxic and do not contain or leave harmful residues. 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.

We have identified the following industries for early stage sales and marketing focus: 1) food and beverage processing, 2) dairy production and processing, 3) meat and poultry 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 that 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. Inventory items are reviewed for potential impairment and obsolescence and any adjustments are made as needed.

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 February 11, 2011, the Company filed a Verified Complaint for Damages (“Complaint”) in the Superior Court of Cobb County State of Georgia against Fieldale Farms Corporation (“Fieldale”). The lawsuit seeks approximately $1,100,000 plus interest, which is the amount due under the agreement and an additional amount not less than $100,000 for the costs of EAU’s replacement of Fieldale equipment. Pursuant to the agreement the Company leased and installed certain equipment to Fieldale. In exchange, Fieldale agreed to pay the Company a monthly rental fee for a guaranteed term of four (4) years. Although the Company and the Company’s technology performed in accordance with the agreement, Fieldale Farms cancelled the agreement in the fourth quarter of 2009. While we are unable at this time to estimate the likelihood of a favorable outcome in this matter, we intend to prosecute vigorously our claims against Fieldale. In March 2011, the Company received an Answer and Counterclaim, wherein Fieldale alleges that the Company caused damage to other equipment and property of Fieldale and seeks to recover its actual damages estimated at $400,000. The Company disputes the claim and will vigorously defend against the claim. In October 2011, the case was moved from Cobb County to Habersham County. The outcome of this legal action and potential impact on the Company’s financial statements is not readily determinable.

In December 2010, the Company entered into a Second Amended and Restated License Agreement with Zerorez Franchising Systems, Inc. (“Zerorez”). The agreement amended the previous agreements with Zerorez by expanding the license granted to Zerorez by allowing Zerorez to acquire and use commercial Electrolyzed Water Generators in connection with their performance of franchise services other than the Primacide Generators manufactured or sold by the Company. The term of the agreement is for five years. In exchange for the expanded license agreement, Zerorez paid to the Company cash consideration of $100,000. Further, Zerorez released the Company from any liability in connection with the promissory note obligations with Zerorez and a disputed lease deposit. Zerorez also agreed to pay to the Company the sum of $7,500 per calendar quarter, commencing with the first payment on October 1, 2011 and continuing on the first day of each calendar quarter thereafter for a period of five years. In addition to the expanded license agreement the Company released and discharges Zerorez from any liability in connection with the EAU accounts receivable due from Zerorez Franchisees as of December 30, 2010.

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 five 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.

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. The financial statements have been restated, which affects the financial position and results of operations that follow.

Financial Position

The Company had $84,328 in cash as of December 31, 2011, compared to $178,992 at December 31, 2010. Our working capital deficit as of December 31, 2011 was $1,715,759 compared to a deficit of $4,857,477 at December 31, 2010. The primary reason for the change in our working capital deficit for the year ended December 31, 2011, was due to the conversion of $2,604,000 of debt to equity and the extension of $3,000,000 of a note payable. The Company has received and recorded approximately $763,000 in advance deposits from Water Science on machine orders at December 31, 2011. 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 increased to $3,272,481 at December 31, 2011 from $0 at December 31, 2010. Convertible debt decreased from $4,216,199 at December 31, 2010 to $3,272,481 at December 31, 2011. At December 31, 2011 our stockholders' deficit was $4,242,696.

Summary of select balance sheet information follows:

	December 31, 2011	December 31, 2010
Balance Sheet Data:		
Cash	$ 84,328	$ 178,992
Total Current Assets	1,379,379	2,061,158
Total Assets	2,114,923	2,836,359
Total Current Liabilities	3,095,138	6,918,635
Long Term Debt	3,272,481	0
Total liabilities and stockholders' equity	$ 2,114,923	$ 2,836,359

Results Of Operations For The Year Ended December 31, 2011 As Compared To The Year Ended December 31, 2010

Revenues and Net Loss - Net revenues for the year ended December 31, 2011, increased by $1,206,059, to $1,903,614, of which $3,192 are revenues from a related party, compared to revenues of $697,555 for the year ended December 31, 2010. The majority of the revenues are from the sale of our EW water systems in the Clean-in-Place ("CIP") market ($998,000) and the dairy market ($805,000). We expect continued growth in revenues from the CIP and dairy markets in 2012.

Our cost of sales increased by $651,158, to $1,199,061, for the year ended December 31, 2011. This is a 119% increase over the $547,903 cost of sales during the year ended December 31, 2010. This increase is attributable to the increased sales of our EW water systems.

For the year ended December 31, 2011, the Company had a net loss of $3,045,429, compared to net income of $2,352,988 for the year ended December 31, 2010. The change from net income to net losses is directly attributable to the elimination of the derivative liability. The Company recorded a gain of $5,333,401 on the change in the fair value of the derivative liability at December 31, 2010. Excluding the gain on the derivative liability the Company would have recognized a loss of $2,980,413 in 2010.

General and Administrative Expense – The Company incurred total general and administrative expenses of $2,533,881, a decrease of $5,253 over the $2,539,134 incurred in 2010. General and administrative expenses for 2011 consist primarily of payroll and labor expense of $1,270,000, expenses related to stock options and warrants of $312,000, professional fees of $153,000, insurance expense of $355,000, and travel related expenses of $79,000.

During the year ended December 31, 2011, we expended approximately $153,000 in professional fees, which include legal and consulting fees. This was a decrease of $174,000 or 53%, from the $327,000 spent in 2010. This decrease is primarily due to the Company's efforts to reduce costs and better utilize its own resources.

Research and Development - Our research and development expenses for the year ended December 31, 2011, were $37,641, an increase of $35,789, as compared to $1,852 for the year ended December 31, 2010.

Interest Expense - Our interest expense increased from $573,619 in 2010 to $1,169,158 in 2011. During the year ended December 31, 2011, the Company raised money through the issuance of a convertible note payable. Due to the attached warrants to the debt, the Company recorded a debt discount on the debt, which resulted in additional interest expense for the year. The majority of the change in interest expense is related to the increased level of debt as well as the debt discount that was recorded and amortized during the period on the note agreed to in 2010.

Summary of select income statement information follows:

	Year Ended December 31, 2011	2010	Better (Worse)	Percent Change
Revenue, net	$1,903,614	$697,555	$1,206,059	173 %
Gross profit	$704,553	$377,045	$327,508	87 %
Net income (loss)	$(3,045,429)	$2,352,988	$(5,398,417)	229 %
Income (loss) per share	$(0.15)	$0.12	$(0.27)	225 %

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 second quarter of 2012. 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. We anticipate that we may need up to an additional $1,500,000 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, 2011, we had cash of $84,328, compared to $178,992 at December 31, 2010. We had a net loss of $3,045,429 for the year ended December 31, 2011 compared with net income of $2,352,988 for the year ended December 31, 2010. The net loss per share for the year ended 2011 was $0.15 compared to net income per share of $0.12 for the same period in 2010.

Net cash used in operating activities for the year ended December 31, 2011 was $875,748, a 33% decrease, compared to $1,316,703 for the same period in 2010. The primary changes to the cash flow from operating activities was a decrease in the advance deposits on machine orders of $432,536, an increase in the related party deposits on machine orders of $433,763, a decrease in inventory of $634,171 and an increase in accrued interest of $532,155.

The operating outflow of cash was reduced by the Company recognizing the expense of the vesting of warrants and stock options of $134,963. The Company also recognized a non-cash increase from the discounting of the Company's note payable to Water Science, LLC of $633,801. (See Note 11 to the Company's financial statements.)

At December 31, 2011, the Company's net inventory was $1,173,913, representing a decrease of 35% from the $1,808,084 on hand at December 31, 2010.

Net cash used in investing activities during the period ended December 31, 2011 was $22,916 as compared to cash provided of $21,358 in the same period in 2010. During 2011, the cash flows consisted of expenditures for patent work.

Cash flows from financing activities provided the Company $804,000 and $1,292,856 for the years ended December 31, 2011 and 2010, respectively. This is primarily a result of the Company's continued sales of its common stock and issuance of notes payable to fund operations. During the years ended 2011 and 2010, the Company raised $0 and $100,200 from the sale of stock, respectively. The Company also received $804,000 and $1,250,000 from the issuance of notes payable during 2011 and 2010. During 2011, the Company converted the $804,000 in notes payables into common stock.

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, 2011, 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, 2011. 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, 2011, 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.

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 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

In January, February and March, 2012, the Company obtained unsecured short term loans of $50,000, $100,000 and $175,000, respectively, from Peter Ullrich a member of the Board of Directors of the Company. The final agreements to document the loans have not been signed, and the material terms are not final. It is anticipated that the final loan will be at 10% simple interest 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 AND COPORATE GOVERNANCE

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	51	Chief Executive Officer; Director
Brian D. Heinhold 1890 Cobb International Blvd. Kennesaw, GA 30152	39	Chief Financial Officer
Doug Kindred 1890 Cobb International Blvd. Kennesaw, GA 30152	57	Executive Vice President and Chief Technology Officer
Joseph A. Stapley 1890 Cobb International Blvd. Kennesaw, GA 30152	43	Senior Vice President of Investor Relations and Business Development
William J. Warwick 1063 Ocean Ridge Drive Wilmington, North Carolina 28405	76	Director
Peter Ullrich 1800 NW 89th Place Miami, FL 33172	69	Director
Theodore C. Jacoby, Jr. 1716 Hidden Creek Ct. St. Louis, MO 63131	71	Director
J. Leo Montgomery 1890 Cobb International Blvd. Kennesaw, GA 30152	71	Non-executive Chairman of the Board; Director

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-K 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 J. Leo Montgomery as a member of the Board of Directors. The Board also 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.

In May 2011, Karl Hellman resigned as a director.

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 received his Masters of Business Administration from Harvard Business School.

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.

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. 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.

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 four times during 2011. 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 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 2011. 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:

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 three meetings during 2011. 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, 2011 all Section 16(a) filing requirements applicable to our directors, officers, and greater than 10% beneficial owners were completed, except the following: each of Messrs. Montgomery and Warwick filed a late Form 4 to report one option grant; Mr. Jacoby filed a late Form 4 to report one option grant and a purchase of stock from the Company; and Mr. Ullrich filed a late Form 4 to report a warrant purchase in October 2010, a warrant purchase, a warrant exercise and a convertible note purchase in December 2011, and one option grant.

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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	2011	240,000	0.00	0.00	0.00		0.00	0.00	6,000	(1)	246,000
Chief Executive Officer	2010	240,000	0.00	0.00	1,107	(2)	0.00	0.00	6,000	(1)	247,107
Doug Kindred	2011	176,985	0.00	0.00	0.00		0.00	0.00	6,000	(1)	182,985
Chief Technology Officer	2010	176,985	0.00	0.00	1,304	(2)	0.00	0.00	6,000	(1)	184,289
Joe Stapley	2011	72,000	0.00	0.00	0.00		0.00	0.00	0.00		72,000
Senior Vice President, Investor Relations	2010	126,667	0.00	0.00	475	(2)	0.00	0.00	0.00		127,142

(1) Other compensation consists of car allowances.
(2) In September 2010, the Company's Board of Directors amended certain stock options to reduce the exercise price to $0.31 per share.

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, 2011.

	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	500,000		0.31	11/6/2016
Doug Kindred,	20,000		0.31	5/27/2015
Chief Technology	25,000		0.31	6/1/2015
Officer	530,000		0.31	11/8/2017
Joseph Stapley,	25,000		0.31	5/27/2015
Senior Vice President,	25,000		0.31	6/1/2015
Investor Relations	159,230		0.31	12/6/2017

Employment Agreements

As of December 31, 2011, two 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. The exercise price per option was adjusted to $0.31 by the Company in September 2010.

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 on each one-year anniversary thereafter 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. The exercise price per option was adjusted to $0.31 by the Company in September 2010.

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 on each one-year anniversary thereafter 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 30, 2012 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 28,567,460 shares of common stock outstanding as of March 30, 2012.

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	24,271,536	72.3	%
Water Science, LLC. (1) 1800 NW 89th Place Miami, FL 33172	10,330,770	32.7	%
Wade R. Bradley (2) 1890 Cobb International Blvd., Ste 100 Kennesaw, GA 30152	500,000	1.7	%
Joseph A. Stapley (3) 1890 Cobb International Blvd., Ste 100 Kennesaw, GA 30152	307,480	1.1	%
Doug Kindred (4) 1890 Cobb International Blvd., Ste 100 Kennesaw, GA 30152	703,250	2.4	%
William J. Warwick (5) 1063 Ocean Ridge Drive Wilmington, North Carolina 28405	348,240	1.2	%
Theodore C. Jacoby, Jr. (6) 1716 Hidden Creek Ct. St. Louis, MO 63131	609,531	2.1	%
J. Leo Montgomery (7) 1890 Cobb International Blvd., Ste 100 Kennesaw, GA 30152	742,540	2.5	%
All current directors and executive officers as a group (8 persons)	27,482,577	76.7	%

*Less than 1%

(1) Mr. Ullrich is the managing member of Water Science, LLC. Mr. Ullrich beneficially owns 11,915,770 shares, warrants to purchase 1,521,306 shares at an exercise price of $0.31 per share, options to purchase 209,230 shares at an exercise price of $0.31 per share; 145,163 shares are currently exercisable or exercisable within 60 days of

the date of this report. Mr. Ullrich holds a convertible note currently convertible into 358,527 shares and indirectly through Water Science beneficially owns 7,330,770 shares and a convertible note currently convertible into 3,000,000 shares.

(2) Mr. Bradley holds options to purchase a total of 500,000 shares at an exercise price of $0.31 per share; all options 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 209,230 shares at an exercise price of $0.31 per share; all options 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 of $0.31 per share; all options are currently exercisable or exercisable within 60 days of the date of this report.
(5) Mr. Warwick beneficially owns 203,077 shares and holds options to purchase a total of 290,325 shares at an exercise price of $0.31 per share; options to purchase 145,163 shares are currently exercisable or exercisable within 60 days of the date of this report.
(6) Mr. Jacoby beneficially owns 464,368 shares and holds options to purchase a total of 290,325 shares at an exercise price of $0.31 per share; options to purchase 145,163 shares are currently exercisable or exercisable within 60 days of the date of this report.
(7) Mr. Montgomery beneficially owns 97,377 shares and beneficially holds options or warrants to purchase up to 645,163 shares at an exercise price of $0.31 per share. 500,000 of the warrants are held by JL Montgomery Consulting, LLC.

Securities Authorized for Issuance Under Equity Compensation Plans

EQUITY COMPENSATION PLAN INFORMATION AS OF DECEMBER 31, 2011

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	536,760	$0.31	1,467,778
Equity compensation plans not approved by security holders*	3,151,306	$0.31	N/A
Total	3,688,066	$0.31	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, 2011, 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.

In December 2011, the Compensation Committee of the Board of Directors of the Company authorized the Company to grant to each board member 96,775 options to purchase shares of the Company's common stock at an exercise price of $0.31 per share for each director for the years of service 2010, 2011 and 2012 for a total of 290,325 options each, effective on January 1, 2012. A portion of the options will vest immediately while some will vest over a period of two years from the date of grant as follows: 145,163 immediately, 96,775 on January 1, 2013 and 48,387 on January 1, 2014. The grants were made in March 2012 and were granted pursuant to the annual directors' compensation program approved by the Board in December 2007. The Board also granted 48,388 options to Karl Hellman for his year of service in 2009.

In October 2010, the Company entered into an amendment of certain terms of the Company's $3,000,000 Second Amended and Restated Senior Secured Convertible Promissory Note dated October 6, 2008 (the "Promissory Note") with Water Science and the Company's $600,000 Loan Agreement dated August 27, 2009 (the "Loan Agreement") with Peter Ullrich. The Promissory Note and the Loan Agreement will be amended to (1) extend the maturity dates of each to coincide with the maturity date of the Note, as described in the preceding paragraph, (2) delete the anti-dilution protection for subsequent equity offerings contained in the Promissory Note and the Loan Agreement, and (3) terminate the registration rights agreement contained in both agreements.

In December 2011, the Company and Water Science agreed to again extend the maturity date of the Promissory Note this time to November 30, 2013.

In December 2011, the Company entered into an agreement to convert $358,527 of accrued interest into a new convertible note. Simple interest will accrue at a rate of 10% per annum on the unpaid principal amount outstanding and the loan will mature on November 30, 2013, 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. In connection with the issuance of the convertible note, the Company granted a five year warrant to purchase up to 358,527 shares of the Company's $0.0001 par value common stock with an exercise price of $0.31 per share.

In December 2011, Theodore Jacoby, a director of the Company, purchased 161,291 shares of common stock of the Company for $50,000 at a price of $0.31 per share.

In October, 2010, the Company entered into a loan agreement with Peter Ullrich, a related party, which consolidates all advances and loans, other than the two convertible promissory notes, into one note. The principal amount of the Note is $1,200,000 ("Note"). The Note bears interest at a rate of 10% annually and will mature on December 1, 2011. The Note is convertible into shares of the Company's common stock at $1.00 per share and no principal or interest payments are due until maturity. The principle of the loan was extinguished with the exercise of warrants as agreed to in December 2011.

Also, in conjunction with the Note, the Company issued a warrant to Peter Ullrich to purchase 6,969,231 shares of the Company's common stock at $0.31 per share (the "Warrant"). The Warrant has a term of five years. In December 2011, Mr. Ullrich agreed to exercise 5,806,452 of these warrants.

In September, 2010, the Board approved the amendment of all outstanding options for all current officers, directors and employees of the Company so that the new exercise price for each such option is $0.31 per share, effective immediately. The new exercise price is based on a recent valuation of the Company. The following officers were included in the adjustment. Mr. Bradley had an option agreement for 500,000 shares reduced from $1.30 per share to $0.31. Mr. Kindred had an option agreement for 20,000 shares at $3.50 per share, an option agreement for 25,000 shares at $2.45 per share and an option agreement for 530,000 shares at $1.30 per share reduced. Mr. Heinhold had an option for 40,000 shares at $1.30 per share amended to $0.31 per share. Mr. Stapley had options for 25,000 shares at $3.50 per shares, 25,000 shares at $2.45 per share and 159,230 shares at $1.30 amended to $0.31.

In March 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.

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. In September 2010, the exercise price of the warrant was reduced to $0.31 per share. 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.

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. 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. 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 two independent directors, 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		
	2011	2010
Audit Fees	$51,500	$55,750

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, 2011 or December 31, 2010.

FINANCIAL INFORMATION SYSTEMS DESIGN AND IMPLEMENTATION FEES

For the fiscal years ended December 31, 2011 and December 31, 2010, 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, 2011 or 2010. Tax services provided by other firms are not included in this disclosure.

ALL OTHER FEES

We were not billed any fees for other professional services by HJ & Associates, LLC for the fiscal years ended December 31, 2011 and December 31, 2010, respectively.

AUDITOR INDEPENDENCE

Our Board of Directors considers that the work done for us in the year ended December 31, 2011 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, 2011 and 2010
Statements of Operations for years ended December 31, 2011 and 2010
Statements of Changes of Stockholder Equity for years ended December, 2011 and 2010
Statements of Cash Flow for year ended December, 2011 and 2010
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)
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)
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)
10.39	$1.2 Million Loan Agreement dated October 21, 2010, between the Company and Peter Ullrich. (Incorporated by reference to Ex. 10.1 to the Company's Form 10-Q filed with the Securities and Exchange Commission on November 15, 2010)
10.40	Warrant agreement, dated October 21, 2010, between the Company and Peter Ullrich. (Incorporated by reference to Ex. 10.2 to the Company's Form 10-Q filed with the Securities and Exchange Commission on November 15, 2010)
10.41	Third Amended and Restated Senior Secured Convertible Promissory Note dated October 21, 2010, between the Company and Water Science LLC. (Incorporated by reference to Ex. 10.3 to the Company's Form 10-Q filed with the Securities and Exchange Commission on November 15, 2010)
10.42	Amended and Restated $600,000 Loan Agreement dated October 21, 2010, between the Company and Peter Ullrich. (Incorporated by reference to Ex. 10.4 to the Company's Form 10-Q filed with the Securities and Exchange Commission on November 15, 2010)
10.43*	Form of Amended Stock Option Agreement for Employees, Officers and a director.
10.44	$358,527 Loan Agreement dated December 31, 2011 between the Company and Peter F. Ullrich (Incorporated by reference to Ex. 10.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on March 5, 2012)
10.45	Warrant Agreement dated December 31, 2011 between the Company and Peter F. Ullrich (Incorporated by reference to Ex. 10.2 to the Company's Form 8-K filed with the Securities and Exchange Commission on March 5, 2012)
10.46	First Amendment to Third Amended and Restated Senior Secured Convertible Promissory Note dated as of December 31, 2011 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 5, 2012)

10.47	Stock Purchase Agreement dated as of December 31, 2011 between the Company and Peter F. Ullrich (Incorporated by reference to Ex. 10.4 to the Company's Form 8-K filed with the Securities and Exchange Commission on March 5, 2012)
10.48	Stock Purchase Agreement dated as of December 28, 2011 between the Company and Theodore C. Jacoby, Jr. (Incorporated by reference to Ex. 10.5 to the Company's Form 8-K filed with the Securities and Exchange Commission on March 5, 2012)
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.

101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

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

**Furnished herewith. Pursuant to applicable securities laws and regulations, the Company is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions of the federal securities laws as long as the Company has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fails to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.

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: April 16, 2012	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)	April 16, 2012
/s/ Brian D. Heinhold Brian D. Heinhold	Chief Financial Officer (principal accounting officer)	April 16, 2012
/s/ J. Leo Montgomery J. Leo Montgomery	Director	April 13, 2012
/s/ Theodore C. Jacoby, Jr. Theodore C. Jacoby, Jr.	Director	April 13, 2012
/s/ Peter F. Ullrich Peter F. Ullrich	Director	April 13, 2012
/s/ William J. Warwick William J. Warwick	Director	April 13, 2012

EAU TECHNOLOGIES, INC.

REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

CONTENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
EAU Technologies, Inc.
Kennesaw, Georgia

We have audited the accompanying balance sheets of EAU Technologies, Inc as of December 31, 2011 and 2010, and the related statements of operations, stockholders' equity (deficit), and cash flows for the years then ended. 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 14 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 with regard to these matters are also described in Note 14. 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
April 16, 2012

EAU TECHNOLOGIES, INC.

BALANCE SHEETS

ASSETS

	December 31, 2011	December 31, 2010
CURRENT ASSETS		
Cash	$84,328	$178,992
Accounts receivable, net	83,378	25,119
Accounts receivable – related party, net	5,500	6,111
Prepaid expense	32,260	42,852
Inventory, net	1,173,913	1,808,084
Total current assets	1,379,379	2,061,158
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $119,712 and $111,669	1,009	9,052
LEASED EQUIPMENT, net of accumulated depreciation and impairment of $502,861 and $449,688	602,948	656,121
OTHER ASSETS		
Deposits	8,838	8,838
Intellectual property, net	122,749	101,190
Total other assets	131,587	110,028
Total assets	$2,114,923	$2,836,359

The accompanying footnotes are an integral part of these financial statements

EAU TECHNOLOGIES, INC.

BALANCE SHEETS (Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	December 31, 2011	December 31, 2010
CURRENT LIABILITIES		
Accounts payable	$530,056	$533,069
Accrued expenses	515,369	341,713
Accrued interest	1,152,250	978,622
Warranty reserve	120,000	72,796
Advance deposits on machine orders	14,070	446,606
Advance deposits on machine orders – related party	763,393	329,630
Convertible note payables – related party, current portion net of discounts of $0 and $633,801	-	4,216,199
Total current liabilities	3,095,138	6,918,635
LONG TERM LIABILITIES		
Convertible note payables – related party, current portion net of discounts of $86,046 and $0	3,272,481	-
Total long term liabilities	3,272,481	-
Total Liabilities	6,367,619	6,918,635
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock, $.0001 par value; 50,000,000 shares authorized; 28,567,460 and 20,006,168 issued and outstanding, respectively	2,857	2,001
Additional paid in capital	45,242,947	42,368,794
Accumulated deficit	(49,498,500)	(46,453,071)
Total stockholders' equity (deficit)	(4,252,696)	(4,082,276)
Total liabilities and stockholders' equity (deficit)	$2,114,923	$2,836,359

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, 2011	2010
NET REVENUES – RELATED PARTY	$3,192	$166,521
NET REVENUES	1,900,422	531,034
TOTAL REVENUES	1,903,614	697,555
COST OF GOODS SOLD	1,199,061	547,903
GROSS PROFIT	704,553	149,652
OPERATING EXPENSES		
Depreciation and amortization	9,400	15,537
Research and development	37,641	1,852
General and administrative	2,533,881	2,539,134
Total operating expenses	2,580,922	2,556,523
LOSS FROM OPERATIONS	(1,876,369)	(2,406,871)
OTHER INCOME (EXPENSE)		
Interest expense	(1,169,158)	(573,619)
Interest income	98	77
Gain on derivative liability	-	5,333,401
Total other income (expense)	(1,169,060)	4,759,859
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(3,045,429)	2,352,988
PROVISION FOR INCOME TAXES	-	-
NET INCOME (LOSS)	$(3,045,429)	$2,352,988
NET INCOME (LOSS) PER SHARE – BASIC	$(0.15)	$0.12
NET INCOME (LOSS) PER SHARE - FULLY DILUTED	$(0.15)	$0.12
WEIGHTED AVERAGE OF SHARES OUTSTANDING – BASIC AND FULLY DILUTED	20,007,494	19,986,606

The accompanying footnotes are an integral part of these financial statements

EAU TECHNOLOGIES, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID IN CAPITAL	ACCUMULATED DEFICIT	TOTAL
Balance, December 31, 2009	19,886,168	$1,989	$ 41,311,512	$(48,806,059)	$(7,492,558)
Issuance and vesting of options and warrants for services	-	-	189,094	-	189,094
Issuance of shares for cash at $1.00 per share, to a related party.	100,000	10	99,990	-	100,000
Issuance of shares at $0.01 per share upon exercise of warrants	20,000	2	198	-	200
Issuance of warrants to related party	-	-	768,000	-	768,000
Net gain for the year ended December 31, 2010	-	-	-	2,352,988	2,352,988
Balance, December 31, 2010	20,006,168	2,001	42,368,794	(46,453,071)	(4,082,276)
Issuance and vesting of options and warrants for services	-	-	134,963	-	134,963
Issuance of shares for cash at $0.31 per share, to a related party.	161,291	16	49,984	-	50,000
Issuance of shares at $0.31 per share upon exercise of warrants to related party	5,806,452	581	1,799,419	-	1,800,000
Issuance of shares for cash at $0.31 per share, to a related party.	2,593,549	259	803,741	-	804,000
Issuance of warrants to related party	-	-	86,046	-	86,046
Net loss for the year ended December 31, 2011	-	-	-	(3,045,429)	(3,045,429)
Balance, December 31, 2011	28,567,460	$2,857	$ 45,242,947	$(49,498,500)	$(4,252,696)

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, 2011	For the Year ended December 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$(3,045,429)	$2,352,988
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	62,573	70,948
Warrants and options vested or issued for services	134,963	189,094
Discount of note payable	633,801	134,199
Changes in operating assets and liabilities:		
Decrease in restricted cash	-	240,000
(Increase) decrease in accounts receivable	(58,259)	17,876
Decrease in accounts receivable – related party	611	137
Decrease in pre-paid expense	10,592	2,567
Decrease in inventory	634,171	214,378
Decrease in deposits	-	1,658
Increase (decrease) in accounts payable	(3,013)	131,406
Increase (decrease) in accrued expenses	173,656	(9,502)
Increase in accrued interest	532,155	405,730
Increase (decrease) in warranty reserve	47,204	(19,364)
Increase (decrease) in advance deposits on machine orders – related party	433,763	(20,356)
Increase (decrease) in advance deposits on machine orders	(432,536)	446,606
(Decrease) in deferred revenue	-	(141,667)
(Decrease) in derivative liability	-	(5,333,401)
Net cash used in operating activities	(875,748)	(1,316,703)
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposal of assets	-	28,283
Intellectual property additions	(22,916)	(6,925)
Net cash provided by investing activities	(22,916)	21,358
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	-	(57,344)
Proceeds from issuance of common stock – related party	50,000	100,200
Proceeds from issuance of notes payable – related party	754,000	1,250,000
Net cash provided by financing activities	804,000	1,292,856
NET DECREASE IN CASH	(94,664)	(2,489)
CASH, beginning of period	178,992	181,481
CASH, end of period	$84,328	$178,992

The accompanying footnotes are an integral part of these financial statements

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EAU TECHNOLOGIES, INC.

STATEMENTS OF CASH FLOWS
(Continued)

	Year ended December 31, 2011	2010
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for:		
Interest	$3,202	$5,762
Income Taxes	$-	$-
Supplemental Disclosures of Non-cash Flow Investing and Financing Activities		
Common stock issued for notes payable advances	$804,000	$-
Extinguishment of notes payable with the issuance of common stock due to a warrant exercise	$1,800,000	$-

The accompanying footnotes are an integral part of these financial statements

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, 2011 and 2010 was $8,043 and $14,181, 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. In December 2011, the Senior Convertible Note was extended to November 2013.

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.

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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 collectability 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.

Sales Taxes - In accordance with FASB ASC 605-45, formerly EITF Issue No. 06-3, How Taxes Collected From Customers and Remitted to Government Authorities Should be Presented in the Income Statement, the Company accounts for sales taxes imposed on its good and services on a gross basis in the statements of operations. For the years ended December 31, 2011 and 2010, respectively, $10,825 and $10,990 of sales taxes has been reported in revenues.

Warranties – The Company warrants its products against defects in materials and workmanship for a period of up to 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, 2011 and 2010 were approximately $37,500 and $1,852, respectively.

EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

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

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.

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. The Company has modified the price of stock options to employees and directors. The Company accounts for the incremental value of the modified options based on the excess of the fair value of the modified award based on current circumstances. The modifications made to the Company’s equity awards did not result in significant incremental compensation costs, either individually or in the aggregate.

Recently Enacted Accounting Standards - In June 2011, the FASB issued ASU No. 2011-05, “Comprehensive Income Topic 220” – “Presentation of Comprehensive Income” (ASU 2011-05). ASU 2011-05 requires that all nonowner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Under either method, adjustments must be displayed for items that are reclassified from other comprehensive income to net income, in both net income and other comprehensive income. The standard does not change the current option for presenting components of other comprehensive income (“OCI”) gross or net of the effect of income taxes, provided that such tax effects are presented in the statement in which OCI is presented or disclosed in the notes to the financial statements. Additionally, the standard does not affect the calculation or reporting of earnings per share. In December 2011, the FASB issued ASU 2011-12 Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 (“ASU 2011-12”). ASU 2011-12 defers those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. The FASB has deferred those changes in order to reconsider whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. ASU 2011-12 does not impact the requirement of ASU 2011-05 to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. For public entities, ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and is to be applied retrospectively, with early adoption permitted. The Company will adopt these updates in the first quarter 2012 and does not expect that the adoption will have any impact on its financial position, results of operations or cash flows.

In May 2011, the FASB issued ASU No. 2011-04, “Fair Value Measurement (Topic 820)” – “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS” (ASU 2011-04). The amendments in this ASU result in common fair value measurement disclosure requirements between U.S. GAAP and International Financial Reporting Standards. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and disclosing information about fair value measurements.

EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

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

The amendments include a clarification of the FASB's intent about the application of existing fair value measurement requirements and change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this guidance are effective prospectively for interim and annual periods beginning after December 15, 2011, with no early adoption permitted. The Company will adopt the update in the first quarter of 2012 and does not expect the adoption to have a material impact on its financial position, results of operations or cash flows.

Effective January 1, 2011, the Company adopted ASU No. 2009-13, "Revenue Recognition (Topic 605)" – "Multiple-deliverables revenue arrangements" (ASU 2009-13). This update provides that, when vendor-specific objective evidence or third party evidence of selling price is not available, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration based on the relative selling prices of the separate deliverables (the "relative selling price method"). The relative selling price method allocates any discount in the arrangement proportionately to each deliverable on the basis of each deliverable's selling price. The Company concluded that the adoption of ASU 2009-13 did not have a material impact on its financial position, results of operations or cash flows, as the guidance applied to revenue arrangements with multiple deliverables, which were not significant.

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.

NOTE 3 - TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable consist of the following at December 31:

	2011	2010
Trade accounts receivable	$83,378	$52,619
Trade accounts receivable – related party	5,500	6,111
Less allowance for doubtful accounts	-	(27,500)
	$88,878	$31,230

During 2011, sales to three customers represented 34%, 31% and 22% of our revenues, for a total of 87% of total revenues. During 2010, sales to two customers represented approximately 59% of our revenues. Bad debt expense for the years ended December 31, 2011 and 2010 was $0 and $0, respectively.

NOTE 4 - INVENTORIES

The composition of inventories is as follows at December 31:

	2011	2010
Finished goods	$550,197	$1,012,994
Raw materials	1,023,716	1,195,090
Allowance for obsolete inventory	(400,000)	(400,000)
	$1,173,913	$1,808,084

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EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2011	2010
Machinery and equipment	$41,301	$41,301
Furniture and fixtures	47,284	47,284
Leasehold improvements	32,136	32,136
Total property and equipment	120,721	120,721
Less: accumulated depreciation	(119,712)	(111,669)
Property and equipment, net	$1,009	$9,052

Depreciation expense for the year ended December 31, 2011 and 2010 was $8,043 and $14,180, respectively.

NOTE 6 – LEASED EQUIPMENT

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 $168,000 and $168,000 in revenues from the lease of these systems for the year ended December 31, 2011 and 2010, respectively.

In December 2009, the Company received notice from one of the lease customers of its intent to cancel the lease. At that time the Company recognized impairment in the value of those related leased assets in the amount of $248,478. The Company is currently involved in legal action with that lease customer (see Note 13).

In January 2012, we received notice that the other customer, who had been leasing our system, completed their bankruptcy proceedings. The new owner informed us that they would not be renewing the lease and has discontinued the use of our system. It was determined that no additional impairment of the related leased equipment would be necessary beyond depreciation already recognized.

The amount of leased equipment at December 31 was:

	2011	2010
Leased equipment	$1,105,809	$1,105,809
Less: accumulated depreciation	(254,383)	(201,210)
Less: accumulated impairment of equipment	(248,478)	(248,478)
Leased equipment, net	$602,948	$656,121

Depreciation expense for the year ended December 31, 2011 and 2010 was $53,173 and $55,410, respectively.

NOTE 7 – 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, 2011 and 2010 is as follows:

	2011	2010
Gross amount of patents	$126,106	$103,191
Less amount of accumulated amortization	(3,357)	(2,001)
Net value of patents	$122,749	101,190

Amortization expense for the fiscal years ended December 31, 2011 and 2010 was $1,357 and $1,357, respectively.

EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – INTANGIBLE ASSETS – (Continued)

The estimated amortization expense, based on current intangible balances, for the next fiscal years beginning January 1, 2012 is as follows:

2012	$1,357
2013	$1,357
2014	$1,357
2015	$1,357
2016	$1,357

NOTE 8 – 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 $0 and $141,667 in each of the periods ended December 31, 2011 and 2010. This agreement also gives Water Science the rights to purchase machinery from the Company at cost plus 25 percent. The Company had sales of $3,192 and $24,854 during the years ended December 31, 2011 and 2010, respectively. The Company has received and recorded $763,393 and $329,630 in advance deposits from Water Science on machine orders at December 31, 2011 and 2010, respectively.

Convertible Note Payable – See Note 10 for disclosure of related party Convertible Notes Payable.

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, 2011 and 2010, 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 Binomial 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 exercise price per option was adjusted to $0.31 by the Company in September 2010. The Company recognized $74,709 and $69,517 in expenses related to the vesting of these options during the years ended December 31, 2011 and 2010, respectively.

EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – RELATED PARTY TRANSACTIONS – (Continued)

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 Binomial model with the following assumptions: risk free rate of 4.28%, volatility at 85.99% and the stock price at $1.01. The exercise price per option was adjusted to $0.31 by the Company in September 2010. The Company recognized $44,690 and $59,392 in expenses related to the vesting of these options during the years ended December 31, 2011 and 2010.

Director Options – See Note 11 for disclosure about grants of director stock options.

NOTE 9 – 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,	
	2011	2010
Warranty reserve at beginning of period	72,796	$ 92,160
Costs accrued for additional warranties	51,193	-
Service obligations honored	(3,989)	(19,364)
Warranty reserve at end of period	$ 120,000	72,796

NOTE 10 - CONVERTIBLE NOTES PAYABLE – RELATED PARTY

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 and October 2010, the Company entered into a agreements with Water Science, a related party, to extend the maturity dates of the Promissory Note from September 16, 2009 to November 1, 2010 and to December 1, 2011, respectively.

In December 2011, the Company and Water Science agreed to again extend the maturity date of the Promissory Note this time to November 30, 2013.

EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - CONVERTIBLE NOTES PAYABLE – RELATED PARTY – (Continued)

In December 2011, the Company entered into an agreement to convert $358,527 of accrued interest into a new convertible note. Simple interest will accrue at a rate of 10% per annum on the unpaid principal amount outstanding and the loan will mature on November 30, 2013, 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. In connection with the issuance of the convertible note, the Company granted a five year warrant to purchase up to 358,527 shares of the Company's $0.0001 par value common stock with an exercise price of $0.31 per share.

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. The principle of the loan was extinguished with the exercise of warrants as agreed to in December 2011.

In October, 2010, the Company entered into a loan agreement with Peter Ullrich, a related party. The principal amount of the Note was for $1,200,000 ("$1.2 Million Note"). The principle of the loan was extinguished with the exercise of warrants as agreed to in December 2011.

Also, in conjunction with the $1.2 Million Note, the Company issued a warrant to Peter Ullrich to purchase 6,969,231 shares of the Company's common stock at $0.31 per share. The warrant has a term of five years. In December 2011, Mr. Ullrich agreed to exercise 5,806,452 of these warrants. The consideration for the exercise of these warrants was extinguishment of $1,200,000 and $600,000 in notes payable to Mr. Ullrich.

In October 2010 all anti-dilution protections for subsequent equity offerings contained in the convertible notes and the registration rights agreement contained in all the agreements were terminated. Due to this change the "round down" provisions where eliminated. This has resulted in the Company no longer recording a derivative liability. The Company recorded a gain of $5,333,401 in the change of the derivative liability to fair market value for the year ended December 31, 2010.

NOTE 11 – COMMON STOCK

In December 2011, the Compensation Committee of the Board of Directors of the Company authorized the Company to grant to each board member 96,775 options to purchase shares of the Company's common stock at an exercise price of $0.31 per share for each director for the years of service 2010, 2011 and 2012 for a total of 290,325 options each, effective on January 1, 2012. A portion of the options will vest immediately while some will vest over a period of two years from the date of grant as follows: 145,163 immediately, 96,775 on January 1, 2013 and 48,387 on January 1, 2014. The grants were made in March 2012 and were granted pursuant to the annual directors' compensation program approved by the Board in December 2007. The Board also granted 48,388 options to Karl Hellman for his year of service in 2009.

In December 2011, Theodore Jacoby, a director of the Company, purchased 161,291 shares of common stock of the Company for $50,000 at a price of $0.31 per share.

In December 2011, Peter Ullrich, a director of the Company, agreed to exercise 5,806,452 shares of common stock of the Company for $1,800,000, or $0.31 per share. The principle amount of two loans with total value of $1,800,000 was used as consideration for the exercise price. Mr. Ullrich also agreed to purchase 2,593,549 shares of the Company's common stock for $804,000, or $0.31 per share, which Mr. Ullrich had advanced to the Company during 2011.

EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 11 – COMMON STOCK – (Continued)

In December 2011, the Compensation Committee of the Board of Directors of the Company authorized the Company to grant each director 96,775 warrants for the purchase of common stock at $0.31 per share for each year of service the director has been a member of the Board, covering the years 2010, 2011 and 2012, pursuant to the Company's Board of Directors compensation plan. The option will vest ratably over a period of two years from the date of when the option was earned. These grants were made pursuant to the annual directors' compensation program approved by the Board in December 2007.

In March 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 January 2010, a consultant exercised 20,000 warrants for $200, or $0.01 per share. The warrants were granted in 2005 for services.

In September, 2010, the Board of Directors of the Company approved the amendment of all outstanding options for all current officers, directors and employees of the Company so that the new exercise price for each such option is $0.31 per share, effective immediately. The new exercise price is based on a recent valuation of the Company. The additional expense was not significant.

A summary of the status of common stock options and warrants outstanding at December 31, 2011 and 2010, and changes during the years then ended is presented below.

	For the years ended December 31,			
	2011		2010	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	9,185,991	$0.32	7,817,291	$1.46
Granted	358,527	0.31	6,969,231	0.31
Exercised	(5,806,452)	0.31	(20,000)	0.01
Expired or cancelled	(50,000)	1.88	(5,580,531)	1.34
Outstanding at end of period	3,688,066	$0.31	9,185,991	$0.32
Weighted average fair value of options and warrants exercisable	3,688,066	$0.31	8,940,426	$0.32

A summary of the status of the options and warrants outstanding at December 31, 2011 is presented below:

Range of	Warrants Outstanding			Warrants Exercisable	
	Weighted-Average	Weighted-Average Remaining		Weighted-Average	
Exercise Prices	Number Outstanding	Contractual Life	Exercise Price	Number Exercisable	Exercise Price

$	.01-.50	3,688,066	4.7 years	$ 0.31	3,688,066	$ 0.31

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EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 11 – COMMON STOCK – (Continued)

The fair value of each option and warrant granted is estimated on the date granted using the Binomial pricing model, with the following assumptions used for the grants: risk-free interest rate of 1.15%, expected dividend yield of zero, expected lives of five years and expected volatility of 246%.

NOTE 12 – 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, 2011 and 2010, the total of all deferred tax assets was approximately $15,247,000 and $13,524,000, 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 $15,247,000 and $13,524,000 as of December 31, 2011 and 2010, respectively, which has been offset against the deferred tax assets. The net change in the valuation allowance during the year ended December 31, 2011, was approximately $1,723,000.

The Company has available at December 31, 2011, unused tax operating loss carryforwards of approximately $39,200,000, which may be applied against future taxable income and expire in various years through 2031.

The components of income tax expense from continuing operations for the years ended December 31, 2010 and 2009 consist of the following:

	Year Ended December 31, 2011	2010
Current income tax expense:		
Federal	$ -	$ -
State	-	-
Net current tax expense	$ -	$ -
Deferred tax expense (benefit) arising from:		
Net operating income (loss)	$ (1,135,900)	$ 877,665
Excess of tax over financial accounting depreciation	(25,400)	(17,686)
Stock for services	116,400	-
Accrued interest	63,900	151,337
Reserve for bad debts	(10,300)	(22,442)
Warranty reserve	17,600	(7,223)
Impairment of fixed assets	-	(92,783)
Amortization of debt discounts	236,400	-

Section 263(A)	11,800	-
Other	1,900	1,656
Valuation allowance	723,600	(890,524)
Net deferred tax expense	$ -	$ -

EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 12 – INCOME TAXES – (Continued)

The temporary differences gave rise to the following deferred tax asset (liability) at December 31, 2011 and 2010:

	December 31, 2011	2010
Excess of book accounting depreciation over tax	$54,100	$(25,682)
Obsolete inventory	149,200	149,200
Accrued interest – related party	341,300	365,026
Warranty reserve	44,800	27,153
Contribution carryover	7,100	22,400
Reserve for bad debt	-	10,257
263A capitalization	29,400	41,181
NOL carryforwards	14,621,500	12,934,252
Valuation allowance	(15,247,400)	(13,523,787)
	$-	$-

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 2004. The statute of limitations remains open on all years from 2004 going forward.

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, 2011, 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.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

On February 11, 2011, the Company filed a Verified Complaint for Damages ("Complaint") in the Superior Court of Cobb County State of Georgia against Fieldale Farms Corporation ("Fieldale"). The lawsuit seeks approximately $1,100,000 plus interest, which is the amount due under the agreement and an additional amount not less than $100,000 for the costs of EAU's replacement of Fieldale equipment. Pursuant to the agreement the Company leased and installed certain equipment to Fieldale. In exchange, Fieldale agreed to pay the Company a monthly rental fee for a guaranteed term of four (4) years. Although the Company and the Company's technology performed in accordance with the agreement, Fieldale Farms cancelled the agreement in the fourth quarter of 2009. While we are unable at this time to estimate the likelihood of a favorable outcome in this matter, we intend to prosecute vigorously our claims against Fieldale. In March 2011, the Company received an Answer and Counterclaim, wherein Fieldale alleges that the Company caused damage to other equipment and property of Fieldale and seeks to recover its actual damages estimated at $400,000. The Company disputes the claim and will vigorously defend against the claim. In October 2011, the case was moved from Cobb County to Habersham County. The outcome of this legal action and potential impact on the Company's financial statements is not readily determinable.

In December 2010, the Company entered into a Second Amended and Restated License Agreement with Zerorez Franchising Systems, Inc. ("Zerorez"). The agreement amended the previous agreements with Zerorez by expanding the license granted to Zerorez by allowing Zerorez to acquire and use commercial Electrolyzed Water Generators in connection with their performance of franchise services other than the Primacide Generators manufactured or sold by the Company. The term of the agreement is for five (5) years. In exchange for the expanded license agreement, Zerorez paid to the Company cash consideration of $100,000. Further, Zerorez released the Company from any liability in connection with the promissory note obligations with Zerorez and a disputed lease deposit. Zerorez also agreed to pay to the Company the sum of $7,500 per calendar quarter, commencing with the first payment on October 1, 2011 and continuing on the first day of each calendar quarter thereafter for a period of five (5) years. In addition to the expanded license agreement the Company released and discharges Zerorez from any liability in connection with the EAU accounts receivable due from Zerorez Franchisees as of December 30, 2010.

EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 13 – COMMITMENTS AND CONTINGENCIES – (Continued)

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. This agreement also gives Water Science the rights to purchase machinery from the Company at cost plus 25 percent.

The Company has incurred significant losses and has had negative cash flows from operations. As a result, at December 31, 2011, 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 second quarter of 2012. 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.

NOTE 14 – GOING CONCERN

At December 31, 2011 the Company had deficit working capital, deficit equity and has sustained recurring losses from operations, all of which raise substantial doubt about 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.

The Company estimates that it will need up to $1,500,000 for the upcoming twelve months to execute our business plan. Management plans to mitigate its losses in the near term through the further development and marketing of its trademarks, brand and product offerings.

NOTE 15 – 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, 2011 and 2010, the Company had outstanding warrants and notes payable convertible into shares of common stock, which were not used in the computation of income (loss) per share because their effect would be anti-dilutive either due to the net loss or due to the exercise price of the warrants and options or conversion rate of the convertible notes relative to the current stock price.

EAU TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 15 – LOSS PER SHARE – (Continued)

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

	For the Year Ended December 31, 2011	2010
Net Income (loss) (numerator)	$(3,045,429)	$2,352,988
Shares (denominator)		
Basic	20,007,494	19,986,606
Diluted	20,007,494	19,986,606
Per share amount		
Basic	$(0.15)	$0.12
Dilutive	$(0.15)	$0.12

NOTE 16 – SUBSEQUENT EVENTS

In January 2012, we received notice that one of our customers, who had been leasing our system, completed their bankruptcy proceedings. The new owner informed us that they would not be renewing the lease and has discontinued the use of our system.

In January, February and March, 2012, the Company obtained unsecured short term loans of $50,000, $100,000 and $175,000, respectively, from Peter Ullrich a member of the Board of Directors of the Company. The final agreements to document the loans have not been signed, and the material terms are not final. It is anticipated that the final loan will be at 10% simple interest 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.

In accordance with ASC 855, management evaluated events subsequent to December 31, 2011 and concluded there were no other events or transactions during this period that required recognition or disclosure in its financial statements.