

EAU TECHNOLOGIES, INC. (OTC BB: EAUI)

INDUSTRY: FOOD SAFETY

DISCLOSURES: 1, 10

RATING: BUY

RISK: HIGH

| CLOSING PRICE 08/21/08 | TRAILING P/E (TTM) | SHARES OUT (MILS.) | MARKET CAP (MILS.) | 3-5 YEAR REV. GROWTH | PRICE TARGET |
|---------------------------|-----------------------|-----------------------|-----------------------|-------------------------|--------------|
| \$0.99 | NM | 14.9 | \$14.8 | N/A | \$2.00 |

| ANNUAL DATA – DEC YEAR END | | | |
|----------------------------|-----------|-----------|-----------|
| | 2007A | 2008E | 2009E |
| EPS | \$ (0.79) | \$ (0.30) | \$ (0.20) |
| P/E | N/M | N/M | N/M |
| REVENUE (MIL.) | \$0.9 | \$0.8 | \$2.9 |
| P/S | 16.4 | 18.5 | 5.1 |

| EARNINGS | | | | | |
|----------|-----------|-----------|-----------|-----------|-----------|
| | Q1 | Q2 | Q3 | Q4 | ANNUAL |
| 2009E | \$ (0.06) | \$ (0.05) | \$ (0.05) | \$ (0.05) | \$ (0.20) |
| 2008E | \$ (0.08) | \$ (0.09) | \$ (0.07) | \$ (0.06) | \$ (0.30) |
| 2007A | \$ (0.12) | \$ (0.58) | \$ (0.09) | \$ (0.02) | \$ (0.79) |
| 2006A | \$ (0.23) | \$ (0.21) | \$ (0.12) | \$ (0.24) | \$ (0.81) |

EAUI Meets Second Quarter Expectations

EAUI's Empowered Water acidic disinfectant and alkaline cleaner are **non-toxic** to humans and animals at the levels in which EAUI creates them. Yet the pathogen-killing solution is up to **ten times more effective** than its toxic rivals in tests. This is a **disruptive, market-changing technology**. Recent **regulatory changes are driving a need** for higher cleanliness standards in the poultry and meat processing industries and will, we believe, be a catalyst for immediate growth in EAUI's sales.

Category 1 At Murray's Chicken Is 2Q08 Highlight

As previously reported, during the quarter, privately held Murray's Chicken began using EAUI's technology at its processing facility. Murray's Chicken, a family-run poultry processor focused on natural chicken, is the first poultry processor in the United States to use electrolyzed water for food sanitization on an industrial scale.

During testing for Category 1 status, using EAUI's Empowered Water as part of its sanitation process, Murray's Chicken achieved 100% kill of Salmonella.

We have expected the FDA's new risk-based inspection initiative to drive other processing plants to seek solutions such as EAUI offers. From conversations with management, we believe that **the achievement of Category 1 status with 100% kill at Murray's has opened some doors to EAUI. We expect an announcement soon.**

- U.S. Food and Drug Administration industry standards allow processors to show positive incidents of Salmonella up to 10% and still fall within acceptable Category One requirements.
- EAUI offers a non-toxic solution that can move these plants up from the lower categories to Category 1.

2Q08 Broadly In Line With Expectations, 44% Sequential Revenue Growth

EAUI had total revenues of \$0.1 million for 2Q08, roughly in line with our estimate of \$0.1 million. This represents 44% sequential growth from 1Q08. The prior year quarter's revenues are not comparable because they arose in large part from discontinued operations.

Net loss from continuing operations for 2Q08 was \$1.5 million, or a loss of \$(0.09) per share, compared with net loss from continuing operations of \$7.6 million, or \$(0.56) per share, for 2Q07. The difference largely reflects expense related to the financing agreement entered into with Water Science in May, 2007. During 2Q07, EAUI recognized a net change in the derivative liability of \$2.7 million. We had projected a loss of \$(0.09) in 2Q08.

70% Gross Margin

Gross margin was 70% for 2Q08, down slightly from 73.2% in 1Q08. This small compression likely reflects the costs of the roll-out at Murray's Chicken, EAUI's largest installation to date.

At the operating level, EAUI still operates at a loss. EAUI's general and administrative expenses were \$1.1 million during 2Q08. Again, the prior year quarter is not comparable.

EAUI had \$0.7 million in cash as of June 30, 2008, compared to \$1.4 million at December 31, 2007, for a decrease of \$0.7 million. Net cash used in operating activities in the six-month period ended June 30, 2008 was \$1.8 million.

Inventories were almost flat over the six-month period. At June 30, 2008, net inventory was \$2.9 million, compared to \$2.8 million at December 31, 2007. Equipment on trials is included in inventory until final sale.

Valuation and Recommendation

Since 2Q08 results came in so close to our estimates, and since we are confident that interest in EAUI's technology has picked up, we continue to project revenues forward aggressively. We assume rapid uptake by poultry processors to reach revenue targets of \$0.8 million for 2008 and \$2.9 million for 2009.

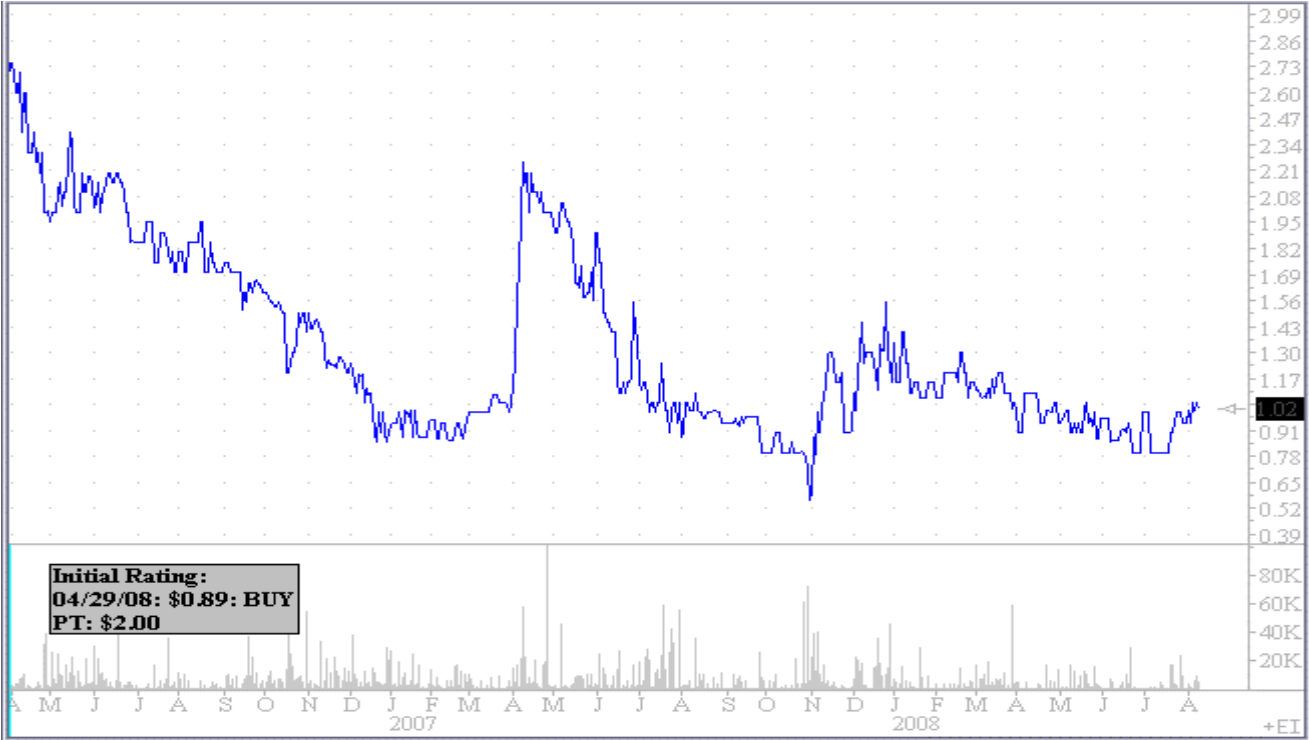
As the company will need a capital raise, we assume that 3 million shares are issued in 3Q08.

This leads us to \$0.16 of sales per share in 2009. Our price target of \$2.00 per share represents 18x 2009 sales, discounted back at 20%, and remains unchanged.

EAUI has been trading recently around the \$1.00 level. Our eighteen-month price target of \$2.00 represents a substantial gain. We continue to regard this as an exciting growth story for an investor prepared to take on high risk, with a compelling catalyst in the regulatory initiatives. We reaffirm our **BUY** rating on EAUI.

Company Description

EAU Technologies, Inc. (EAUI) is a supplier of Electrolyzed Water Technology, marketed as Empowered Water, and other complementary technologies with applications in diverse industries. At application concentration, the solutions are non-toxic to humans and live animals. EAUI's water-based and non-toxic solutions may replace many of the traditional methods now used to clean, disinfect and nourish in large industries such as agriculture and food processing. EAUI has solutions for bacteria, virus and mold proliferation threats. EAUI's innovative and efficacious products offer a systemic approach to pathogen elimination in food processing plants and related industries, producing safer foods while protecting the environment through "Green Technology." EAUI has developed patent-pending systems to process drinking water for dairy herds. Studies and trials are showing promising results at improving animal digestion which shows signs of improved animal health and production. EAUI uses terms like "green", "natural", "non-toxic" and "organic" based on North American Science Associates (NAMSA) studies that show no toxicity or cytotoxicity (cell-specific toxicity) at levels as high as 70 parts per million of Hypochlorous acid. EAUI uses only water, food grade electrolytes and electricity to create all of its solutions. The active ingredients in the solutions EAUI creates through electrolysis are GRAS (generally regarded as safe) approved.



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| EAU Technologies, Inc. | | | | | | | | | | | | |
|----------------------------------|-----------|-----------|-----------|------------|-----------|-----------|-----------|------------|-----------|------------|-----------|-----------|
| Income Statement | | | | | | | | | | | | |
| Values in (000's) | | | | | | | | | | | | |
| Quarter: | 1st | 2nd | 3rd | 4th | 1st | 2nd | 3rd | 4th | Year | Year | Year | Year |
| Quarter Ending: | 3/31/2008 | 6/30/2008 | 9/30/2008 | 12/31/2008 | 3/31/2009 | 6/30/2009 | 9/30/2009 | 12/31/2009 | 2006 | 2007 | 2008 | 2009 |
| Total Revenue | \$96 | \$138 | \$186 | \$372 | \$521 | \$677 | \$813 | \$894 | \$1,950 | \$879 | \$792 | \$2,906 |
| Cost of Revenue | \$26 | \$41 | \$56 | \$112 | \$157 | \$203 | \$244 | \$269 | \$1,260 | \$520 | \$235 | \$873 |
| Gross Profit | \$70 | \$96 | \$130 | \$260 | \$365 | \$474 | \$569 | \$626 | \$691 | \$359 | \$557 | \$2,033 |
| Sales, General and Admin. | \$1,082 | \$1,055 | \$1,082 | \$1,082 | \$1,082 | \$1,082 | \$1,082 | \$1,082 | \$7,879 | \$8,261 | \$4,302 | \$4,330 |
| Research and Development | \$10 | \$20 | \$28 | \$55 | \$77 | \$100 | \$120 | \$132 | \$349 | \$141 | \$113 | \$430 |
| Other Operating Items | \$21 | \$21 | \$21 | \$21 | \$21 | \$21 | \$21 | \$21 | \$225 | \$210 | \$85 | \$84 |
| Operating Income | (\$1,044) | (\$1,000) | (\$1,001) | (\$898) | (\$816) | (\$730) | (\$655) | (\$610) | (\$7,762) | (\$8,253) | (\$3,943) | (\$2,811) |
| Add'l income/expense items | \$86 | (\$257) | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$393 | (\$1,550) | (\$172) | \$0 |
| Earnings Before Interest and Tax | (\$958) | (\$1,258) | (\$1,001) | (\$898) | (\$816) | (\$730) | (\$655) | (\$610) | (\$7,370) | (\$9,803) | (\$4,115) | (\$2,811) |
| Interest Expense | \$269 | \$225 | \$225 | \$225 | \$225 | \$225 | \$225 | \$225 | \$1,174 | \$1,123 | \$944 | \$900 |
| Earnings Before Tax | (\$1,227) | (\$1,483) | (\$1,226) | (\$1,123) | (\$1,041) | (\$955) | (\$880) | (\$835) | (\$8,544) | (\$10,926) | (\$5,059) | (\$3,712) |
| Income Tax Expense | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Net Income-Cont. Operations | | (\$1,483) | (\$1,226) | (\$1,123) | (\$1,041) | (\$955) | (\$880) | (\$835) | (\$8,544) | (\$10,926) | (\$3,832) | (\$3,712) |
| Discontinued Operations | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$28 | \$35 | \$0 | \$0 |
| Net Income | (\$1,227) | (\$1,483) | (\$1,226) | (\$1,123) | (\$1,041) | (\$955) | (\$880) | (\$835) | (\$8,516) | (\$10,891) | (\$5,059) | (\$3,712) |
| Earnings (Loss) per share | (\$0.08) | (\$0.09) | (\$0.07) | (\$0.06) | (\$0.06) | (\$0.05) | (\$0.05) | (\$0.05) | (\$0.81) | (\$0.79) | (\$0.30) | (\$0.20) |
| Shares Outstanding (Millions) | 15.3 | 14.9 | 18.3 | 18.3 | 18.3 | 18.3 | 18.3 | 18.3 | 10.5 | 13.8 | 16.7 | 18.3 |

Note: 2006 and 2007 figures include the Consumer Products division, which was sold in late 2007.

DISCLOSURES:

This report has been commissioned by EAU Technologies, Inc. (the Company) as part of an on-going research and awareness program contracted between Catalyst Financial Resources, LLC (CFR), and the Company. CFR has been paid or promised payment for the production and editorial content of this report. The Company is paying CFR \$2,000 per month for 12 months for services rendered. However, the opinions, forecasts and price targets are based on our examination of company fundamentals, conversations with management, independent analysis of markets, economic conditions, and other publicly available information.

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| | |
|-------------------|---|
| Buy | Immediate purchase is recommended. The security expected to outperform the market over the next 12 to 18 months. |
| Accumulate | Purchase of the stock is recommended for above average appreciation over the next 12 to 18 months, but the buyer may have an opportunity to acquire the stock within a 10% trading range. |
| Hold | Holding the stock is recommended because the share price has moved above the specific "Buy" range and, therefore, appreciation potential is less than or equal to the market. |
| Sell | The stock has reached the target price objective and/or conditions have changed sufficiently to alter the outlook for the stock. |

EQUITY RISK SYSTEM:

| | |
|-----------------|--|
| High | The security is more volatile than the market and/or the company is more leveraged than its peer group. |
| Moderate | The security has about the same volatility as the market and/or the company carries a level of leverage in line with its peer group. |
| Low | The security is less volatile than the market and/or the company is less leveraged than its peer group. |

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