

August 2, 2018



# Energy Recovery Reports Second Quarter 2018 Financial Results

SAN LEANDRO, Calif., Aug. 2, 2018 /PRNewswire/ -- Energy Recovery, Inc. (NASDAQ: ERII) ("Energy Recovery" or the "Company"), the leader in pressure energy technology for industrial fluid flows, today announced its financial results for the second quarter ended on June 30, 2018.



## **Second Quarter Summary:**

- Total revenue of \$20.8 million, an increase of 49% year-over-year
- Product gross margin of 66%
- Total gross margin<sup>(1)</sup> of 71%
- Net Income of \$15.7 million, or \$0.28 per diluted share

## **Year-to-Date Summary:**

- Total revenue of \$34.6 million, an increase of 22% year-over-year
- Product gross margin of 67%
- Total gross margin<sup>(1)</sup> of 73%
- Net Income of \$15.0 million, or \$0.27 per diluted share

President and CEO Chris Gannon remarked, "Energy Recovery posted another strong quarter with 49% year-over-year growth in total revenue, which was driven by 75% growth in our core Water business. In addition, 2018 is off to a great start, with Water revenue up 38% for the first half of 2018, as compared to the first half of 2017. The Water market remains robust, instilling further confidence in the strength of our business through the second half of 2018, and continuing into 2019. This is further supported by our recent awards and project activity in key regions such as the Middle East, North Africa and Asia. Overall, the combination of our industry-leading PX<sup>®</sup> Pressure Exchanger<sup>®</sup> technology and strong sales and distribution channels have allowed us to capture significant market share in both Mega Projects and OEM awards globally."

Mr. Gannon continued, "We continue to make progress toward full-scale commercialization of our VorTeq<sup>™</sup>, the ultimate objective. We continue to amass run-time with the system at scale and are beginning to focus on the reliability & transportability of the system. With each hour of full-scale run-time our transformative and disruptive VorTeq technology advances closer to commercialization."

Mr. Gannon concluded, "We are proud of the company's financial performance during the

first half of the year and are excited about the opportunities in front of us. We remain fully engaged on the critical goals ahead and will continue to execute to drive growth in our Water business and bring our VorTek and MTeq™ technologies to full commercialization."

### Revenues

For the second quarter ended June 30, 2018, the Company generated total revenue of \$20.8 million. Total revenue for the quarter increased by \$6.9 million, or 49%, from \$13.9 million in the second quarter ended June 30, 2017. Of the \$6.9 million increase in total revenue, \$7.4 million was attributable to higher Water segment revenue, offset by \$0.5 million decrease in Oil & Gas segment revenue.

The Water segment generated total product revenue of \$17.1 million for the second quarter ended June 30, 2018, compared to \$9.8 million for the second quarter ended June 30, 2017, an increase of \$7.3 million, or 75%. This increase was due to higher Mega Project Development ("MPD") and Aftermarket ("AM") shipments.

The Oil & Gas segment generated total revenue of \$3.6 million for the second quarter ended June 30, 2018, compared to \$4.1 million for the second quarter ended June 30, 2017, a decrease of \$0.5 million or (12%). This decrease was due to lower cost-to-total cost (previously known as percentage of completion) revenue recognition associated with the sale of multiple IsoBoost® systems, offset by an increase in license and development revenue. The increase in license and development revenue was primarily due to higher costs incurred according to input measures, based on changes required due to the adoption of the new revenue recognition standard in the first quarter of 2018.

### Gross Margin

For the second quarter ended June 30, 2018, product gross margin was 65.7%. Product gross margin decreased by 140 basis points from 67.1% in the second quarter ended June 30, 2017. This decrease was largely driven by unfavorable price and product mix. Including license and development revenue, total gross margin<sup>(1)</sup> was 71.2% for the second quarter ended June 30, 2018. Total gross margin<sup>(1)</sup> decreased by 310 basis points from 74.3% in the second quarter ended June 30, 2017.

The Water segment generated product gross margin of 67.0% for the second quarter ended June 30, 2018. Water segment product gross margin decreased by 530 basis points, compared to 72.3% in the second quarter ended June 30, 2017. This decrease was largely driven by unfavorable price and product mix.

The Oil & Gas segment generated product gross margin of (15.9%) for the second quarter ended June 30, 2018, compared to 21.2% in the second quarter ended June 30, 2017. This decrease was attributable to higher project costs. Including license and development revenue, the Oil & Gas segment total gross margin<sup>(1)</sup> for the second quarter ended June 30, 2018 was 90.8%.

### Operating Expenses

For the second quarter ended June 30, 2018, operating expenses were \$10.5 million, an increase of \$1.2 million from \$9.3 million for the second quarter ended June 30, 2017. This increase in operating expenses was due to increases in Water segment, O&G segment and Corporate expenses.

The Water segment operating expenses for the second quarter ended June 30, 2018 were \$2.4 million, \$0.5 million higher than the second quarter ended June 30, 2017.

The Oil & Gas segment operating expenses for the second quarter ended June 30, 2018 were \$4.1 million, \$0.3 million higher than the second quarter ended June 30, 2017. This increase was driven by the Company's continued investment in research and development activities.

The Corporate operating expenses for the second quarter ended June 30, 2018 were \$4.1 million, \$0.4 million higher than the second quarter ended June 30, 2017. This increase was driven by higher tax planning expenses and non-recurring expenses related to residual recruiting fees associated with the Company's CEO transition in the first quarter of 2018.

### Bottom Line Summary

To summarize the Company's financial performance, on a quarterly basis, the Company reported a net income of \$15.7 million, or \$0.28 per diluted share for the second quarter ended June 30, 2018, compared to a net income of \$0.9 million, or \$0.02 per diluted share for the second quarter ended June 30, 2017. This increase was driven by a one-time tax benefit of \$11.9 million, which is related to simplifying the Company's international tax structure in Ireland in light of the 2017 U.S. Tax Cuts and Jobs Act. On an adjusted basis and excluding the tax benefit, the Company reported an adjusted net income<sup>(1)</sup> of \$4.0 million or \$0.07 per diluted share for the second quarter ended June 30, 2018.

### Cash Flow Highlights

The Company finished the second quarter ended June 30, 2018 with cash and cash equivalents of \$16.4 million, restricted cash of \$0.9 million, and short-term investments of \$72.2 million, all of which represent a combined total of \$89.5 million. As of June 30, 2018, 1,193,102 shares of the Company's common stock were repurchased for \$10.0 million under the stock repurchase program authorized by the Company's Board of Directors on March 7, 2018.

### **Forward-Looking Statements**

Certain matters discussed in this press release and on the conference call are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including the Company's belief that the Company's Water business will remain robust throughout the balance of 2018 and into 2019 and the Company's belief that the Company will be able to bring its VorTeq and MTeq technologies to full commercialization. These forward-looking statements are based on information currently available to us and on management's beliefs, assumptions, estimates, or projections and are not guarantees of future events or results. Potential risks and uncertainties include the Company's ability to achieve the milestones under the VorTeq license agreement, any other factors that may have been discussed herein regarding the risks and uncertainties of the Company's business, and the risks discussed under "Risk Factors" in the Company's Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") for the year ended December 31, 2017 as well as other reports filed by the Company with the SEC from time to time. Because such forward-looking statements involve risks and uncertainties, the Company's actual results may differ materially from the predictions in these forward-looking statements. All forward-looking

statements are made as of today, and the Company assumes no obligation to update such statements.

### **Use of Non-GAAP Financial Measures**

This press release includes certain non-GAAP financial measures, including total gross margin. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position, or cash flows that either exclude or include amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles in the United States of America, or GAAP. These non-GAAP financial measures do not reflect a comprehensive system of accounting, differ from GAAP measures with the same captions, and may differ from non-GAAP financial measures with the same or similar captions that are used by other companies. As such, these non-GAAP measures should be considered as a supplement to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. The Company uses these non-GAAP financial measures to analyze its operating performance and future prospects, develop internal budgets and financial goals, and to facilitate period-to-period comparisons. The Company believes these non-GAAP financial measures reflect an additional way of viewing aspects of its operations that, when viewed with its GAAP results, provide a more complete understanding of factors and trends affecting its business.

(1) "Total gross margin" and "Adjusted net income" are non-GAAP financial measures. Please refer to the discussion under headings "Use of Non-GAAP Financial Measures" and "Reconciliations of Non-GAAP Financial Measures."

### **Conference Call to Discuss second Quarter 2018 Financial Results**

#### LIVE CONFERENCE CALL:

Thursday, August 2, 2018, 2:00 PM PDT / 5:00 PM EDT

Listen-only, US / Canada Toll-free: +1 877-709-8150

Listen-only, Local / International Toll: +1 201-689-8354

Access code: 13681223

#### CONFERENCE CALL REPLAY:

Expiration: Sunday, September 2, 2018

US / Canada Toll-free: +1 877-660-6853

Local / International Toll: +1 201-612-7415

Access code: 13681223

Investors may also access the live call or the replay over the internet at [ir.energyrecovery.com](http://ir.energyrecovery.com). The replay will be available approximately three hours after the live call concludes.

### **Disclosure Information**

Energy Recovery uses the investor relations section on its website as means of complying with its disclosure obligations under Regulation FD. Accordingly, investors should monitor Energy Recovery's investor relations website in addition to following Energy Recovery's press releases, SEC filings, and public conference calls and webcasts.

### **About Energy Recovery, Inc.**

Energy Recovery, Inc. (ERII) is an energy solutions provider to industrial fluid flow markets worldwide. Energy Recovery solutions recycle and convert wasted pressure energy into a

usable asset and preserve pumps that are subject to hostile processing environments. With award-winning technology, Energy Recovery simplifies complex industrial systems while improving productivity, profitability, and efficiency within the oil & gas, chemical processing, and water industries. Energy Recovery products save clients more than \$1.8 billion (USD) annually. Headquartered in the Bay Area, Energy Recovery has offices in Houston, Ireland, Shanghai, and Dubai. For more information about the Company, please visit [www.energyrecovery.com](http://www.energyrecovery.com).

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**ENERGY RECOVERY, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share data and par value)  
(Unaudited)

|                                                                                                                                                                                                                                 | June 30,<br>2018                                | December 31,<br>2017* |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|-----------------------|
|                                                                                                                                                                                                                                 | (In thousands, except share data and par value) |                       |
| ASSETS                                                                                                                                                                                                                          |                                                 |                       |
| Current assets:                                                                                                                                                                                                                 |                                                 |                       |
| Cash and cash equivalents                                                                                                                                                                                                       | \$ 16,378                                       | \$ 27,780             |
| Restricted cash                                                                                                                                                                                                                 | 808                                             | 2,664                 |
| Short-term investments                                                                                                                                                                                                          | 72,207                                          | 70,020                |
| Accounts receivable, net of allowance for doubtful accounts of \$420 and \$103 at June 30, 2018 and December 31, 2017, respectively                                                                                             | 11,304                                          | 12,465                |
| Contract assets                                                                                                                                                                                                                 | 5,984                                           | 6,278                 |
| Inventories                                                                                                                                                                                                                     | 6,375                                           | 5,514                 |
| Income Tax Receivable                                                                                                                                                                                                           | 145                                             | —                     |
| Prepaid expenses and other current assets                                                                                                                                                                                       | 1,720                                           | 1,342                 |
| Total current assets                                                                                                                                                                                                            | 114,921                                         | 126,063               |
| Restricted cash, non-current                                                                                                                                                                                                    | 86                                              | 182                   |
| Contract assets, non-current                                                                                                                                                                                                    | 108                                             | —                     |
| Deferred tax assets, non-current                                                                                                                                                                                                | 19,444                                          | 7,933                 |
| Property and equipment, net                                                                                                                                                                                                     | 12,988                                          | 13,393                |
| Operating lease, right of use asset                                                                                                                                                                                             | 12,669                                          | 2,843                 |
| Goodwill                                                                                                                                                                                                                        | 12,790                                          | 12,790                |
| Other intangible assets, net                                                                                                                                                                                                    | 954                                             | 1,269                 |
| Other assets, non-current                                                                                                                                                                                                       | 285                                             | 12                    |
| Total assets                                                                                                                                                                                                                    | \$ 174,245                                      | \$ 164,485            |
| LIABILITIES AND STOCKHOLDERS' EQUITY                                                                                                                                                                                            |                                                 |                       |
| Current liabilities:                                                                                                                                                                                                            |                                                 |                       |
| Accounts payable                                                                                                                                                                                                                | \$ 1,932                                        | \$ 4,091              |
| Accrued expenses and other current liabilities                                                                                                                                                                                  | 5,157                                           | 7,948                 |
| Lease liabilities                                                                                                                                                                                                               | 336                                             | 1,603                 |
| Income taxes payable                                                                                                                                                                                                            | —                                               | 432                   |
| Accrued warranty reserve                                                                                                                                                                                                        | 389                                             | 366                   |
| Contract liabilities                                                                                                                                                                                                            | 17,651                                          | 15,909                |
| Current portion of long-term debt                                                                                                                                                                                               | 12                                              | 11                    |
| Total current liabilities                                                                                                                                                                                                       | 25,477                                          | 30,360                |
| Long-term debt, less current portion                                                                                                                                                                                            | 10                                              | 16                    |
| Lease liabilities, non-current                                                                                                                                                                                                  | 13,033                                          | 1,698                 |
| Contract liabilities, non-current                                                                                                                                                                                               | 33,124                                          | 40,517                |
| Other non-current liabilities                                                                                                                                                                                                   | 240                                             | —                     |
| Total liabilities                                                                                                                                                                                                               | 71,884                                          | 72,591                |
| Stockholders' equity:                                                                                                                                                                                                           |                                                 |                       |
| Preferred stock, \$0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding at June 30, 2018 and December 31, 2017                                                                                        | —                                               | —                     |
| Common stock, \$0.001 par value; 200,000,000 shares authorized; 58,950,907 shares issued and 53,494,972 shares outstanding at June 30, 2018 and 58,168,433 shares issued and 53,905,600 shares outstanding at December 31, 2017 | 59                                              | 58                    |
| Additional paid-in capital                                                                                                                                                                                                      | 154,524                                         | 149,006               |
| Accumulated comprehensive loss                                                                                                                                                                                                  | (194)                                           | (125)                 |
| Treasury stock, at cost, 5,455,935 shares repurchased at June 30, 2018 and 4,262,833 shares repurchased at December 31, 2017                                                                                                    | (30,486)                                        | (20,486)              |
|                                                                                                                                                                                                                                 | (21,542)                                        | (36,559)              |
| Accumulated deficit                                                                                                                                                                                                             |                                                 |                       |
| Total stockholders' equity                                                                                                                                                                                                      | 102,361                                         | 91,894                |
| Total liabilities and stockholders' equity                                                                                                                                                                                      | \$ 174,245                                      | \$ 164,485            |

\*Prior-period information has been retrospectively adjusted due to our adoption of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU No. 2016-02, *Leases (Topic 842)* on January 1, 2018.

**ENERGY RECOVERY, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

*(In thousands, except per share data)*  
*(Unaudited)*

|                                                  | <b>Three Months Ended June 30,</b>           |              | <b>Six Months Ended June 30,</b> |              |
|--------------------------------------------------|----------------------------------------------|--------------|----------------------------------|--------------|
|                                                  | <b>2018</b>                                  | <b>2017*</b> | <b>2018</b>                      | <b>2017*</b> |
|                                                  | <i>(In thousands, except per share data)</i> |              |                                  |              |
| Product revenue                                  | \$ 17,406                                    | \$ 10,864    | \$ 28,464                        | \$ 23,109    |
| Product cost of revenue                          | 5,976                                        | 3,572        | 9,290                            | 8,184        |
| Product gross profit                             | 11,430                                       | 7,292        | 19,174                           | 14,925       |
| License and development revenue                  | 3,358                                        | 3,050        | 6,107                            | 5,298        |
| Operating expenses:                              |                                              |              |                                  |              |
| General and administrative                       | 4,927                                        | 3,927        | 10,764                           | 8,335        |
| Sales and marketing                              | 1,858                                        | 2,174        | 3,770                            | 4,627        |
| Research and development                         | 3,605                                        | 3,077        | 7,522                            | 5,586        |
| Amortization of intangible assets                | 158                                          | 158          | 316                              | 316          |
| Total operating expenses                         | 10,548                                       | 9,336        | 22,372                           | 18,864       |
| Income from operations                           | 4,240                                        | 1,006        | 2,909                            | 1,359        |
| Other income (expense):                          |                                              |              |                                  |              |
| Interest income                                  | 373                                          | 198          | 674                              | 369          |
| Interest expense                                 | (1)                                          | —            | (1)                              | (1)          |
| Other non-operating (expense) income, net        | 9                                            | (87)         | (44)                             | (140)        |
| Total other income, net                          | 381                                          | 111          | 629                              | 228          |
| Income before income taxes                       | 4,621                                        | 1,117        | 3,538                            | 1,587        |
| (Benefit from) provision for income taxes        | (11,122)                                     | 188          | (11,479)                         | 236          |
| Net income                                       | \$ 15,743                                    | \$ 929       | \$ 15,017                        | \$ 1,351     |
| Income per share:                                |                                              |              |                                  |              |
| Basic                                            | \$ 0.29                                      | \$ 0.02      | \$ 0.28                          | \$ 0.03      |
| Diluted                                          | \$ 0.28                                      | \$ 0.02      | \$ 0.27                          | \$ 0.02      |
| Number of shares used in per share calculations: |                                              |              |                                  |              |
| Basic                                            | 53,747                                       | 53,748       | 53,747                           | 53,786       |
| Diluted                                          | 55,406                                       | 55,565       | 55,437                           | 55,804       |

\*Prior-period information has been retrospectively adjusted due to our adoption of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* on January 1, 2018.

**ENERGY RECOVERY, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(In thousands)*  
*(Unaudited)*

|                                                                                             | <b>Six Months Ended June 30,</b> |                  |
|---------------------------------------------------------------------------------------------|----------------------------------|------------------|
|                                                                                             | <b>2018</b>                      | <b>2017*</b>     |
|                                                                                             | <i>(In thousands)</i>            |                  |
| Cash Flows From Operating Activities:                                                       |                                  |                  |
| Net income                                                                                  | \$ 15,017                        | \$ 1,351         |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                  |                  |
| Stock-based compensation                                                                    | 3,184                            | 2,120            |
| Depreciation and amortization                                                               | 2,040                            | 1,820            |
| Amortization of premiums on investments                                                     | 267                              | 230              |
| Provision for warranty claims                                                               | 135                              | 91               |
| Reversal of accruals related to expired warranties                                          | (84)                             | (123)            |
| Unrealized (gain) loss on foreign currency translation                                      | (51)                             | 16               |
| Provision for doubtful accounts                                                             | 328                              | 10               |
| Adjustments for excess or obsolete inventory                                                | 17                               | (119)            |
| Deferred income taxes                                                                       | (11,512)                         | (233)            |
| Loss on disposal of fixed assets                                                            | 22                               | —                |
| Other non-cash adjustments                                                                  | 2                                | (93)             |
| Changes in operating assets and liabilities:                                                |                                  |                  |
| Accounts receivable                                                                         | 833                              | (536)            |
| Contract assets                                                                             | 186                              | (2,223)          |
| Inventories                                                                                 | (907)                            | (1,657)          |
| Prepaid and other assets                                                                    | (10,477)                         | (522)            |
| Accounts payable                                                                            | (1,976)                          | 1,324            |
| Accrued expenses and other liabilities                                                      | 7,532                            | (3,099)          |
| Income taxes                                                                                | (577)                            | 412              |
| Contract liabilities                                                                        | (5,649)                          | (4,753)          |
| Net cash used in operating activities                                                       | <u>(1,670)</u>                   | <u>(5,984)</u>   |
| Cash Flows From Investing Activities:                                                       |                                  |                  |
| Maturities of marketable securities                                                         | 40,638                           | 12,505           |
| Purchases of marketable securities                                                          | (43,117)                         | (31,146)         |
| Capital expenditures                                                                        | (1,536)                          | (3,777)          |
| Net cash used in investing activities                                                       | <u>(4,015)</u>                   | <u>(22,418)</u>  |
| Cash Flows From Financing Activities:                                                       |                                  |                  |
| Net proceeds from issuance of common stock                                                  | 2,390                            | 3,682            |
| Tax payment for employee shares withheld                                                    | (76)                             | (195)            |
| Repayment of long-term debt                                                                 | (5)                              | (5)              |
| Repurchase of common stock                                                                  | (10,000)                         | (4,276)          |
| Net cash used in financing activities                                                       | <u>(7,691)</u>                   | <u>(794)</u>     |
| Effect of exchange rate differences on cash and cash equivalents                            | 22                               | (15)             |
| Net change in cash, cash equivalents and restricted cash                                    | <u>(13,354)</u>                  | <u>(29,211)</u>  |
| Cash, cash equivalents and restricted cash, beginning of year                               | 30,626                           | 65,748           |
| Cash, cash equivalents and restricted cash, end of period                                   | <u>\$ 17,272</u>                 | <u>\$ 36,537</u> |

\*Prior-period information has been retrospectively adjusted due to our adoption of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU No. 2016-18, *Statement of Cash Flows, Restricted Cash (Topic 230)* on January 1, 2018.



**ENERGY RECOVERY, INC.**  
**FINANCIAL INFORMATION BY SEGMENT**

(In thousands)

(Unaudited)

|                                    | Three Months Ended June 30, 2018  |           |           | Six Months Ended June 30, 2018  |            |           |
|------------------------------------|-----------------------------------|-----------|-----------|---------------------------------|------------|-----------|
|                                    | Water                             | Oil & Gas | Total     | Water                           | Oil & Gas  | Total     |
| Product revenue                    | \$ 17,116                         | \$ 290    | \$ 17,406 | \$ 28,164                       | \$ 300     | \$ 28,464 |
| Product cost of revenue            | 5,640                             | 336       | 5,976     | 8,868                           | 422        | 9,290     |
| Product gross profit               | 11,476                            | (46)      | 11,430    | 19,296                          | (122)      | 19,174    |
| License and development revenue    | —                                 | 3,358     | 3,358     | —                               | 6,107      | 6,107     |
| Operating expenses:                |                                   |           |           |                                 |            |           |
| General and administrative         | 666                               | 371       | 1,037     | 971                             | 1,022      | 1,993     |
| Sales and marketing                | 1,363                             | 318       | 1,681     | 2,808                           | 662        | 3,470     |
| Research and development           | 230                               | 3,375     | 3,605     | 474                             | 7,040      | 7,514     |
| Amortization of intangibles        | 158                               | —         | 158       | 316                             | —          | 316       |
| Operating expenses                 | 2,417                             | 4,064     | 6,481     | 4,569                           | 8,724      | 13,293    |
| Operating income (loss)            | \$ 9,059                          | \$ (752)  | 8,307     | \$ 14,727                       | \$ (2,739) | 11,988    |
| Less: Corporate operating expenses |                                   |           | 4,066     |                                 |            | 9,078     |
| Consolidated operating income      |                                   |           | 4,241     |                                 |            | 2,910     |
| Non-operating income               |                                   |           | 380       |                                 |            | 628       |
| Income before income taxes         |                                   |           | \$ 4,621  |                                 |            | \$ 3,538  |
|                                    |                                   |           |           |                                 |            |           |
|                                    | Three Months Ended June 30, 2017* |           |           | Six Months Ended June 30, 2017* |            |           |
|                                    | Water                             | Oil & Gas | Total     | Water                           | Oil & Gas  | Total     |
| Product revenue                    | \$ 9,764                          | \$ 1,100  | \$ 10,864 | \$ 20,480                       | \$ 2,629   | \$ 23,109 |
| Product cost of revenue            | 2,705                             | 867       | 3,572     | 6,229                           | 1,955      | 8,184     |
| Product gross profit               | 7,059                             | 233       | 7,292     | 14,251                          | 674        | 14,925    |
| License and development revenue    | —                                 | 3,050     | 3,050     | —                               | 5,298      | 5,298     |
| Operating expenses:                |                                   |           |           |                                 |            |           |
| General and administrative         | 313                               | 375       | 688       | 631                             | 724        | 1,355     |
| Sales and marketing                | 1,244                             | 563       | 1,807     | 2,743                           | 1,204      | 3,947     |
| Research and development           | 232                               | 2,819     | 3,051     | 494                             | 5,065      | 5,559     |
| Amortization of intangibles        | 158                               | —         | 158       | 316                             | —          | 316       |
| Operating expenses                 | 1,947                             | 3,757     | 5,704     | 4,184                           | 6,993      | 11,177    |
| Operating income (loss)            | \$ 5,112                          | \$ (474)  | 4,638     | \$ 10,067                       | \$ (1,021) | 9,046     |
| Less: Corporate operating expenses |                                   |           | 3,632     |                                 |            | 7,687     |
| Consolidated operating income      |                                   |           | 1,006     |                                 |            | 1,359     |
| Non-operating income               |                                   |           | 111       |                                 |            | 228       |
| Income before income taxes         |                                   |           | \$ 1,117  |                                 |            | \$ 1,587  |

\*Prior-period information has been retrospectively adjusted due to our adoption of ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) on January 1, 2018.

**ENERGY RECOVERY, INC.**  
**RECONCILIATION OF NON-GAAP FINANCIAL MEASURES**  
(In thousands, except per share data)  
(Unaudited)

This press release includes non-GAAP financial information because we plan and manage our business using such information. Our non-GAAP Total Gross Margin is determined by adding back the license and development revenue associated with the amortization of the VorTek exclusivity fee. Our non-GAAP Adjusted Net Income or Loss is determined by adding back non-recurring operating and tax expenses/(benefits).

|                                                         | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---------------------------------------------------------|--------------------------------|-----------|------------------------------|-----------|
|                                                         | 2018                           | 2017*     | 2018                         | 2017*     |
| Product revenue                                         | \$ 17,406                      | \$ 10,864 | \$ 28,464                    | \$ 23,109 |
| License and development revenue                         | 3,358                          | 3,050     | 6,107                        | 5,298     |
| Total revenue                                           | \$ 20,764                      | \$ 13,914 | \$ 34,571                    | \$ 28,407 |
| Product gross profit                                    | \$ 11,430                      | \$ 7,292  | \$ 19,174                    | \$ 14,925 |
| License and development revenue                         | 3,358                          | 3,050     | 6,107                        | 5,298     |
| Total gross profit (non-GAAP)                           | \$ 14,788                      | \$ 10,342 | \$ 25,281                    | \$ 20,223 |
| Product gross margin                                    | 65.7 %                         | 67.1 %    | 67.4 %                       | 64.6 %    |
| Total gross margin (non-GAAP)                           | 71.2 %                         | 74.3 %    | 73.1 %                       | 71.2 %    |
| Net income                                              | \$ 15,743                      | \$ 929    | \$ 15,017                    | \$ 1,351  |
| Reversal of non-recurring expense (benefit) (non-GAAP)  | (11,774)                       | —         | (10,763)                     | —         |
| Adjusted net income (non-GAAP)                          | \$ 3,969                       | \$ 929    | \$ 4,254                     | \$ 1,351  |
| Income per share:                                       |                                |           |                              |           |
| Diluted                                                 | \$ 0.28                        | \$ 0.02   | \$ 0.27                      | \$ 0.02   |
| Diluted (non-GAAP)                                      | \$ 0.07                        | \$ 0.02   | \$ 0.08                      | \$ 0.02   |
| Number of diluted shares used in per share calculations |                                |           |                              |           |
| Diluted shares                                          | 55,406                         | 55,565    | 55,437                       | 55,804    |

\*Prior-period information has been retrospectively adjusted due to our adoption of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* on January 1, 2018.

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