

March 8, 2012



Energy Recovery Reports Unaudited Financial Results for the Fourth Quarter and Fiscal Year-End Of 2011

FULL YEAR HIGHLIGHTS:

- Net revenue of \$28.0 million
- Gross profit margin of 28%
- Restructuring charges of \$3.3 million
- Net loss of \$26.4 million
- Loss per share of \$0.50

FOURTH QUARTER HIGHLIGHTS:

- Net revenue of \$6.1 million
- Gross profit margin of 1%
- Restructuring charges of \$2.8 million
- Net loss of \$10.0 million
- Loss per share of \$0.19

SAN LEANDRO, Calif., March 8, 2012 (GLOBE NEWSWIRE) -- Energy Recovery Inc (Nasdaq:ERII), a global leader in the design and development of energy recovery devices for desalination and other industrial processes, announced today the unaudited results of its fourth quarter and fiscal year ended December 31, 2011. In the fourth quarter of 2011, the Company achieved net revenue of \$6.1 million, representing a 53% decrease over the same period of 2010 and a 24% increase over the third quarter of 2011. While revenue from mega-project activity remained non-existent in the fourth quarter as anticipated, OEM sales with respect to PX devices and related products and services demonstrated an improvement when compared to the third quarter of 2011 and the fourth quarter of 2010. Importantly, with several mega-project awards announced recently, the Company finds itself with a strong backlog position, which management believes will result in increased revenue in the current year of 2012.

Precipitated by the closure of the manufacturing facility in Michigan and the consolidation of production operations in California, the Company recorded gross profit margin in the fourth quarter of 1%, largely a manifestation of negative operating leverage along with certain plant disruption and facility integration costs that were recognized in cost of revenue. Specifically, these costs included significant unabsorbed overhead caused by uniquely low production volume, inventory write-downs, valuation adjustments for excess or obsolete inventory, severance costs associated with changes in corporate manufacturing leadership, and other costs for the qualification of new ceramics material. While the integration is substantially complete, the Company has increased production activity methodically in the first quarter of 2012 and expects to attain targeted production levels and yields starting in the second quarter of 2012.

In the fourth quarter of 2011, the Company had total operating expenses of \$10.6 million as compared to \$5.4 million in the same period of the prior year. This variance is attributable principally to the \$2.8 million in restructuring charges recorded in the fourth quarter of 2011 and a gain on fair value remeasurement of \$2.1 million in the same period of 2010, the latter of which related to contingent consideration for the Company's acquisition of Pump Engineering LLC.

Including restructuring charges of \$2.8 million, the Company reported a net loss of \$10.0 million, or (\$0.19) per share, for the three months ended December 31, 2011 compared to net income of \$0.5 million, or \$0.01 per share, for the same period of last year. For the fiscal year of 2011, including restructuring charges of \$3.3 million, the Company reported a net loss of \$26.4 million, or (\$0.50) per share, compared to a net loss of \$3.6 million, or (\$0.07) per share for the fiscal year of 2010.

Specific to full-year results, the Company recognized net revenue of \$28.0 million in 2011 as compared to \$45.9 million in 2010. The decrease of 39% reflects no shipments for new construction of mega-projects over the last three consecutive quarters in 2011. Exacerbating the absence of mega-project activity was the unanticipated slow-down in the OEM market, caused by the sovereign debt crisis in the Euro zone and political turmoil in the Middle East.

In the context of diminished revenue, the Company achieved a gross profit margin of 28% in the full year of 2011 as compared to 48% in 2010, primarily a result of negative operating leverage caused by low production levels during fiscal year 2011. Not unlike those items described above that caused notable margin erosion in the fourth quarter of 2011, gross profit margin for the full year was also impacted by plant disruption and facility integration costs. Moreover, total operating expenses increased from \$27.1 million in the full year of 2010 to \$33.1 million in the full year of 2011. The increase of \$6.0 million, or 22%, was caused primarily by restructuring charges in 2011, increased G&A expenses to facilitate the changeover of the senior management team, and a gain on fair value remeasurement in 2010.

Tom Rooney, President and Chief Executive Officer, commented, "The annual results reflect what we consider to be the nadir in the desalination market, with both MPD and OEM revenue significantly affected by macroeconomic and geopolitical events around the world. In this challenging market environment, the Company took decisive steps to dramatically alter its cost structure through restructuring and other cost-savings initiatives. As we look forward, with a healthy backlog position that speaks to relative strength in both MPD and OEM markets, and in the presence of a much improved cost structure, a new management team, a newly integrated manufacturing facility capable of producing all ceramic components along with machining and assembling all products, and ongoing implementation of strategic initiatives that should result in market diversification, I am extremely hopeful and excited about our prospects in 2012 and beyond. In summary, while we experienced extraordinarily difficult market conditions in 2011 and recognized substantial non-recurring expenses to better structure and align our organization, I believe that ERI sits at a seminal turning point, well-positioned for growth and margin expansion now and in the future."

Forward-Looking Statements

This press release includes "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. These forward-looking statements include our belief that we reached the nadir in the desalination market in 2011 and our expectations for enhanced revenue in 2012, anticipated cost savings, penetration of new markets, strategic direction, future growth, margin expansion, earnings potential, and other future prospects. Because such forward-looking statements involve risks and uncertainties, the Company's actual results may differ materially from the predictions in those forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, delays in, or cancellation of, the construction of desalination plants; risks that our market diversification and other strategic efforts will not yield intended benefits; political unrest; the inability of our customers to obtain project financing; delays in governmental approvals; changes in end users' budgets for desalination plants or the timing of their purchasing decisions; our ability to ship new products to meet scheduled delivery times; the global economic crisis; our ability to develop other energy recovery solutions for markets outside of desalination; and other risks detailed in the Company's filings with the Securities and Exchange Commission ("SEC"). All forward-looking statements are made as of today, and the Company assumes no obligation to update such statements. For more details relating to the risks and uncertainties that could cause actual results to differ materially from those anticipated in our forward-looking statements, please refer to the Company's SEC filings.

Conference Call to Discuss Fourth Quarter and Fiscal Year-End Results for 2011

The conference call scheduled today at 1:30 p.m. PST will be in a "listen-only" mode for all participants other than the sell-side investment professionals who regularly follow the Company. The toll-free phone number for the call is 877-941-8609 or local 480-629-9692, and the access code is 4507700. Callers should dial in approximately 15 minutes prior to the scheduled start time. A telephonic replay will be available at 800-406-7325 or 303-590-3030 (access code: 4507700) until March 22, 2012. Investors may also access the live call or the replay over the internet at www.streetevents.com or tinyurl.com/earningscall-Mar2012. The replay will be available approximately three hours after the live call concludes.

About Energy Recovery Inc

Energy Recovery Inc (Nasdaq:ERII) designs and develops energy recovery devices and pumps that significantly reduce energy consumption for desalination and other industrial processes. In total, Energy Recovery has more than 12,000 devices installed worldwide, which are estimated to save our clients in excess of one billion dollars in energy costs every year. The company is headquartered in the San Francisco Bay Area with offices in key centers worldwide, including Madrid, Shanghai, and Dubai. For more information about Energy Recovery Inc, please visit www.energyrecovery.com.

Unaudited Consolidated Financial Results

ENERGY RECOVERY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

| | Three Months Ended | | Year Ended | |
|---|---------------------------|---------------------|--------------------------|-------------------------|
| | December 31, | | December 31, | |
| | 2011 | 2010 | 2011 | 2010 |
| Net revenue | \$6,115 | \$13,013 | \$28,047 | \$45,853 |
| Cost of revenue | 6,027 | 7,311 | 20,248 | 23,781 |
| Gross profit | 88 | 5,702 | 7,799 | 22,072 |
| Operating expenses: | | | | |
| General and administrative | 4,792 | 3,747 | 16,745 | 14,471 |
| Sales and marketing | 1,627 | 2,243 | 7,997 | 8,205 |
| Research and development | 900 | 1,000 | 3,526 | 3,943 |
| Amortization of intangible assets | 323 | 575 | 1,360 | 2,624 |
| Loss (gain) on fair value remeasurement | 171 | (2,147) | 171 | (2,147) |
| Restructuring charges | 2,824 | — | 3,294 | — |
| Total operating expenses | 10,637 | 5,418 | 33,093 | 27,096 |
| Income (loss) from operations | (10,549) | 284 | (25,294) | (5,024) |
| Interest expense | (4) | (20) | (34) | (73) |
| Other non-operating income (expense), net | 56 | (116) | 184 | (137) |
| Income (loss) before income taxes | (10,497) | 148 | (25,144) | (5,234) |
| Provision for (benefit from) income taxes | (476) | (348) | 1,299 | (1,626) |
| Net income (loss) | <u><u>\$(10,021)</u></u> | <u><u>\$496</u></u> | <u><u>\$(26,443)</u></u> | <u><u>\$(3,608)</u></u> |

Earnings (loss) per share:

| | | | | |
|---------|------------------------|----------------------|------------------------|------------------------|
| Basic | <u><u>\$(0.19)</u></u> | <u><u>\$0.01</u></u> | <u><u>\$(0.50)</u></u> | <u><u>\$(0.07)</u></u> |
| Diluted | <u><u>\$(0.19)</u></u> | <u><u>\$0.01</u></u> | <u><u>\$(0.50)</u></u> | <u><u>\$(0.07)</u></u> |

Number of shares used in per share calculations:

| | | | | |
|---------|----------------------|----------------------|----------------------|----------------------|
| Basic | <u><u>52,645</u></u> | <u><u>52,501</u></u> | <u><u>52,612</u></u> | <u><u>52,072</u></u> |
| Diluted | <u><u>52,645</u></u> | <u><u>53,482</u></u> | <u><u>52,612</u></u> | <u><u>52,072</u></u> |

ENERGY RECOVERY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data and par value)
(unaudited)

| | December 31, | December 31, |
|---------------------------|---------------------|---------------------|
| | 2011 | 2010 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$18,507 | \$55,338 |

| | | |
|---|------------------|------------------|
| Restricted cash | 5,687 | 4,636 |
| Short-term investments | 11,706 | — |
| Accounts receivable, net of allowance for doubtful accounts of \$248 and \$44 at December 31, 2011 and 2010, respectively | 6,498 | 9,649 |
| Unbilled receivables, current | 1,059 | 2,278 |
| Inventories | 7,824 | 9,772 |
| Deferred tax assets, net | 460 | 2,097 |
| Prepaid expenses and other current assets | 4,929 | 4,428 |
| Total current assets | 56,670 | 88,198 |
| Restricted cash, non-current | 5,232 | 2,244 |
| Long-term investments | 11,198 | — |
| Land and building held for sale | 1,660 | — |
| Property and equipment, net | 16,170 | 22,314 |
| Goodwill | 12,790 | 12,790 |
| Other intangible assets, net | 6,991 | 8,352 |
| Other assets, non-current | 2 | 19 |
| Total assets | \$110,713 | \$133,917 |

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

| | | |
|--|---------------|---------------|
| Accounts payable | \$1,506 | \$1,429 |
| Accrued expenses and other current liabilities | 6,474 | 5,248 |
| Income taxes payable | 21 | 13 |
| Accrued warranty reserve | 852 | 1,028 |
| Deferred revenue, current | 859 | 2,341 |
| Current portion of long-term debt | 85 | 128 |
| Current portion of capital lease obligations | 82 | 160 |
| Total current liabilities | 9,879 | 10,347 |
| Long-term debt | — | 85 |
| Capital lease obligations, non-current | 18 | 144 |
| Deferred tax liabilities, non-current, net | 1,516 | 317 |
| Deferred revenue, non-current | 261 | 157 |
| Other non-current liabilities | 2,085 | 2,067 |
| Total liabilities | 13,759 | 13,117 |

Commitments and Contingencies

Stockholders' equity:

| | | |
|---|------------------|------------------|
| Preferred stock, \$0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding | — | — |
| Common stock, \$0.001 par value; 200,000,000 shares authorized; 52,645,129 and 52,596,170 shares issued and outstanding at December 31, 2011 and 2010, respectively | 53 | 53 |
| Additional paid-in capital | 114,619 | 112,025 |
| Notes receivable from stockholders | (23) | (38) |
| Accumulated other comprehensive loss | (92) | (80) |
| (Accumulated deficit) retained earnings | (17,603) | 8,840 |
| Total stockholders' equity | 96,954 | 120,800 |
| Total liabilities and stockholders' equity | \$110,713 | \$133,917 |

CONTACT: Alexander J. Buehler
Chief Financial Officer
(510) 483-7370

Source: Energy Recovery, Inc.