

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

FORM 8-K

CURRENT REPORT  
Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): April 29, 2015 (April 24, 2015)

**Energy Recovery, Inc.**

(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or Other Jurisdiction of Incorporation)

001-34112  
(Commission File Number)

01-0616867  
(I.R.S. Employer Identification No.)

1717 Doolittle Dr. San Leandro, CA 94577  
(Address if Principal Executive Offices)(Zip Code)

510-483-7370  
(Registrant's telephone number, including area code)

Not applicable  
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.**

(b) On April 24, 2015 Class I directors Paul Cook, Fred Olav Johannessen and Marie-Elisabeth Paté-Cornell informed the Board of Directors (the “Board”) of Energy Recovery, Inc. (the “Company”) of their intent not to stand for re-election at the Company’s next meeting of stockholders. Their decision not to stand for re-election is not the result of a disagreement with the Company, known to an executive officer of the Company, on any matter relating to the Company’s operations, policies or practices.

(c) On April 24, 2015, the Company announced the appointment of Mr. Joel Gay as President and Chief Executive Officer and a member of the Board of Directors, effective as of that date. A copy of the press release announcing Mr. Gay’s appointment is attached to this Form 8-K as Exhibit 99.1.

Mr. Gay has signed an offer letter which sets forth the terms of his appointment as President and Chief Executive Officer. The letter is attached to this Form 8-K as Exhibit 99.2 and is incorporated into this Form 8-K by reference. As more fully set forth in the offer letter, he will receive an annual base salary of \$400,000, standard company benefits, and will be eligible for up to 100% of his annual base salary under the Company’s executive bonus plan.

Mr. Gay joined the Company in April of 2012 as Vice President of Finance and was promoted to Chief Financial Officer on June 27, 2014. From April 2007 through December 2011, Mr. Gay was Chief Financial Officer North America, Insituform (now Aegion). Mr. Gay holds a Bachelor of Arts from St. Thomas University, and a Master of Business Administration from the University of Chicago, Booth School of Business.

(e) On April 24, 2015, the Independent members of the Board of Directors, upon the recommendation of the Compensation Committee of the Board of Directors of the Company, approved the Annual Incentive Plan (the “Plan”) for 2015. The Plan formulated for 2015 is intended to incentivize short-term performance (i) consistent with the Company’s refocused strategy in oil and gas and (ii) achieving key financial metrics. The Plan includes the following performance characteristics:

- Full funding of the Targeted Annual Bonus Pool (the “Bonus Pool”) requires the Company to achieve its approved budget, referred to as the “Performance Target”;
- For performance below the Minimum Performance Threshold, the Company will fund a Bonus Pool in a fixed amount established by the Compensation Committee for allocation among certain limited participants who exhibit extraordinary performance;
- For performance between the Minimum Performance Threshold and the Performance Target, the Company will apply a linear function to determine funding of the Bonus Pool; and
- Under the Plan, the amount that would be paid to the executives if the Objectives are met based on a percentage of their annual base salaries earned for the plan year. The percentage of annual base salary payable at maximum for each of the executives included as named executives in the Company’s 2015 Proxy Statement to be filed on or about April 29, 2015 is stated in the table below:

Name	Percent of Annual Base Salary at Minimum Payout (1)	Percent of Annual Base Salary at Target Payout	Percent of Annual Base Salary at Maximum Payout (2)
Joel Gay	–	100%	100%
David Barnes	–	100%	100%
Juan Otero	–	40%	40%
Nocair Bensalah	–	40%	40%
Andrew Stroud	–	40%	40%

(1) Amounts not determinable as payout would be allocated among certain limited participants who exhibit extraordinary performance and who may or may not be one of these participants.

(2) Amount could be higher if the Compensation Committee, in its sole discretion, approves a greater amount in recognition of extraordinary performance.

**Item 9.01**

**Financial Statements and Exhibits**

<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
10.1	Energy Recovery, Inc. 2015 Annual Incentive Plan
99.1	Press Release announcing appointment of Joel Gay as President, Chief Executive Officer, and a member of the Board of Directors
99.2	Offer Letter to Mr. Joel Gay

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned here unto duly authorized.

**ENERGY RECOVERY, INC.**  
(Registrant)

Date: **April 29, 2015**

/s/ Juan Otero  
Juan Otero  
(Corporate Counsel and Secretary)

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## INDEX TO EXHIBITS

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**ENERGY RECOVERY INC  
ANNUAL INCENTIVE PLAN (AIP)**

**A. SCOPE**

This Annual Incentive Plan (the "Plan") of Energy Recovery, Inc. (the "Company") and its subsidiaries is effective as of January 1, 2015 and covers eligible employees designated by the Company and approved by the Compensation Committee ("Compensation Committee") of the Board of Directors (the "Board"). The Plan shall continue until terminated in accordance with paragraph J. This Plan replaces and supersedes any and all other agreements for participants in this Plan, representations, or understandings (either written or oral) with respect to incentive compensation.

**B. PURPOSE**

The purpose of the Plan is to encourage the performance and retention of eligible employees in recognition of individual achievement that contributes to the strategic and financial success of the Company.

**C. ELIGIBLE EMPLOYEES**

Full-time and in certain cases part-time, regular employees, unless otherwise required by applicable law and who are employed as of October 1 of the applicable Plan Year (as defined below) are eligible to be selected as participants in the Plan ("Participants"). A committee comprised of the Company's Chief Executive Officer, Chief Financial Officer, and Human Resources Vice President ("Plan Committee"), as administrator of the Plan, shall designate among the eligible employees of the Company and its subsidiaries described in the preceding sentence who are to be participants (the "Participants") in the Plan for the applicable fiscal year (the "Plan Year"). Participation in the Plan in one Plan Year is not a guarantee of participation in a future Plan Year.

**D. INDIVIDUAL TARGETS**

The Plan Committee will establish an incentive award target ("Individual Target") for each Participant that shall be expressed as a percentage of such Participant's annual base compensation. For exempt employees, the percentage will be of the Participant's annual base compensation for the Plan Year, prorated as necessary, to adjust for date of hire, changes in salary, working hours, status, target percentage, and / or transfers. For non-exempt employees, the percentage will be of the Participant's wages for the Plan Year, inclusive of regular wages, prorated as necessary, to adjust for date of hire, changes in salary, working hours, status, target percentage, and / or transfers. Individual Targets will be reviewed and approved by the Plan Committee on an annual basis, and the Compensation Committee will approve Individual Targets for all executive officers of the Company.

## **E. ANNUAL BONUS POOL**

Except as may otherwise be set forth herein or as determined by the Plan Committee under certain circumstances, the aggregate amount allocated for payment of bonuses under the Plan is based on Company performance as measured by the actual attainment level of the Adjusted Operating Income (Loss) for the associated Plan Year (the "Annual Bonus Pool"). Through the annual budgeting process, the Board will approve the Company target for Adjusted Operating Income (Loss) (the "Profitability Target"), and the Annual Bonus Pool will be determined by comparing the actual Adjusted Operating Income (Loss) achieved during the Plan Year to the Profitability Target approved by the Board. The "Target Annual Bonus Pool", which shall be equal to the aggregate amount of the Individual Targets for the entire population of Participants designated to participate with respect to a Plan Year, will become payable upon 100% achievement of the Profitability Target specified in the approved budget for the associated Plan Year. For actual performance below the Profitability Target, the Annual Bonus Pool will be calculated based on the formula described in Paragraph G below. The Company shall accrue for accounting purposes for payment of awards under the Plan on a monthly basis in accordance with the Plan Committee's assessment of interim results as compared to the comparable Profitability Target.

## **F. ADJUSTED OPERATING INCOME (LOSS)**

For purposes of this Plan, "Adjusted Operating Income (Loss)" shall be defined as "operating income (loss) before bonus expense and non-recurring items" of the Company for the Plan Year. Specifically, Adjusted Operating Income (Loss) shall reflect the consolidated operating income of the Company during the fiscal year, as determined by the Plan Committee in conformity with accounting principles generally accepted in the United States of America and contained in financial statements that are subject to an audit report of the Company's independent public accounting firm, but excluding:

- (i) the accrued bonus expense under the provisions of this Plan;
- (ii) transaction and financing costs associated with an acquisition or in anticipation thereof;
- (iii) restructuring costs for an initiative approved by the Board;
- (iv) losses associated with the write-down of assets of a subsidiary, business unit, or division that has been designated by the Board as a discontinued business operation or to be liquidated;
- (v) gains or losses on the sale of any subsidiary, business unit or division, or the assets or business thereof;
- (vi) gains or losses from the disposition of material capital assets (other than in a transaction described in subsection (iii) through (v) above);
- (vii) the refinancing of indebtedness, including, among other things, any make-whole payments and prepayment fees;
- (viii) losses associated with the write-down of goodwill or other intangible assets of the Company due to the determination under applicable accounting standards that the assets have been impaired;

(ix) any income statement effect resulting from a change in generally accepted accounting principles, except to the extent that the effect of such a change is already reflected in the Profitability Target;

(x) any other material income or loss item, the realization of which is not directly attributable to the actions of current senior management of the Company; and

(xi) other non-recurring or unpredicted items proposed by the Plan Committee and accepted by the Compensation Committee.

The Compensation Committee shall have final authority with respect to any determination by the Plan Committee regarding the definition of “Adjusted Operating Income (Loss)” and, in exercising such authority, may consult with the Company’s independent auditor and/or Audit Committee as it deems necessary and advisable.

#### **G. ANNUAL BONUS POOL DETERMINATION**

At the onset of each Plan Year, the Compensation Committee shall determine the Profitability Target and Target Annual Bonus Pool. The actual amount that becomes payable under the Plan shall be determined upon calculation of Adjusted Operating Income (Loss) at the end of the Plan Year, subject to any adjustments required pursuant to Section F herein.

- If Adjusted Operating Income (Loss) equals the Profitability Target, 100% of the Annual Bonus Pool will become payable.
- If Adjusted Operating Income (Loss) exceeds the Profitability Target, the Annual Bonus Pool will be calculated based on the allocation curve as illustrated in Exhibit A, capped at 100%.
- If Adjusted Operating Income (Loss) exceeds the Minimum Performance Threshold, but is less than 100%, of the Profitability Target, the Annual Bonus Pool will be calculated based on the allocation curve as illustrated in Exhibit A.
- If Adjusted Operating Income (Loss) is less than The Minimum Performance Threshold of the Profitability Target, the Annual Bonus Pool will be equal to minimum discretionary funding established and approved by the Compensation Committee; provided, however, that such minimum amount shall only be awarded to individual Participants for extraordinary performance as determined by the Plan Committee and approved by the Compensation Committee.

The “Allocation Ratio,” which is defined as the Annual Bonus Pool divided by the Target Annual Bonus Pool, will be applied for computation of individual bonus payments made to Participants. To derive the Allocation Ratio for the purposes of calculating individual bonus payments, the Company will use the allocation curve depicted in Exhibit A. The Compensation Committee, subject to any required approval of the Board, shall have the ability and authority to increase or decrease the amount of the Annual Bonus Pool calculated in accordance with the provisions of this Plan to reflect any extraordinary or unforeseen events or occurrences during the Plan Year. In addition, amounts payable are subject to adjustment at the sole discretion of the Plan Committee, and any amounts payable may be increased or reduced, including to zero.

## H. BONUS CALCULATION

A Participant's bonus payment under this Plan shall be calculated using the following formula:

$$\text{BONUS} = .5 \times \text{BASE} \times \text{IND TARGET} \times \text{IND ACH} \times \text{PRORATION}$$

Plus

$$.5 \times \text{BASE} \times \text{IND TARGET} \times \text{CORP PERF} \times \text{PRORATION}$$

Where:

- BASE represents the Participant's base compensation as defined in Paragraph D;
- CORP PERF represents Adjusted Operating Income versus budget and/or other metric as defined by Management and approved by the Compensation Committee
- IND TARGET represents the Participant's Individual Target as defined in Paragraph D;
- ALLOCATION RATIO equals the Annual Bonus Pool divided by the Target Annual Bonus Pool and derived from the allocation curve in Exhibit A;
- IND ACH represents the individual achievement for the Participant in question and is calculated from the supervisor's assessment of the Participant's performance against Measurable Business Objectives ("MBOs") as documented in the Plan Year and approved by the Plan Committee; and
- PRORATION represents the amount of time (in months) that the Participant worked for the Company during the Plan Year in an eligible position divided by twelve months.

For example, consider a Participant, hired on January 1st, 2015 with a base salary of \$100,000 and an Individual Target of 10%. During the Plan Year, the Company achieves 75% Corporate Performance based on Adjusted Operating Income (Loss). Moreover, the Participant's supervisor determines that the Participant achieved 90% of the targeted performance specified in his/her MBOs for the respective Plan Year. The bonus payment is calculated as follows:

### BONUS CALCULATION

- a) MBO:  $50\% \times \$100,000 \times 0.10 \times [\text{IND ACH of } 90\%] = \$4,500$ , plus
- b) Adj. IO:  $50\% \times \$100,000 \times 0.10 \times [\text{CORP PERF of } 75\%] = \$3,750$

Total Bonus = \$8,250

To the extent permitted by applicable law, rules, and regulations, the Company reserves the right to prorate the bonus award of any Participant who was not in an eligible position for the entire applicable Plan Year, or was not actively working full-time throughout the applicable Plan Year. Plan bonus awards, if any, will generally be prorated based on the number of full months (rounded to the nearest full month) that a Participant is working in an eligible position; however, the Company reserves the right, in its sole discretion, to prorate bonuses based on hours of service, days, or on any other basis. For example, the proration factor for a Participant who is eligible for the entire applicable Plan Year will be 1.00; for a Participant who is eligible to participate in the Plan for one-half of the Plan Year, the proration factor will be 0.50. In summary, Participants in the following situations may have a proration factor that is less than 1.00, to the extent permissible by applicable law: (a) new hires and individuals who transfer into an eligible position during the applicable Plan Year; (b) individuals who transfer between an eligible position and a non-eligible position within the Company; (c) Participants who work less than the applicable full-time standard work week; (d) Participants who take a leave of absence, as described more fully below; (e) Participants who experience a change in salary during the applicable Plan Year; and (f) Participants who experience a change in target percentage during the applicable Plan Year.



To the extent permitted by applicable law, rules, and regulations, Participants who take unpaid days off or leaves of absence that are not protected by statute or other applicable law will have their bonus awards, if any, prorated based by the number of full months that such Participant is actively working in an eligible position.

**I. TIMING OF AWARDS**

Eligible Employees must be designated as Participants as of October 1 in a Plan Year to be eligible to participate in, and receive payment of an award, under the Plan for that same year, unless otherwise required by applicable law. A Participant who is employed after January 1 but prior to October 1 of a Plan Year shall only be eligible to receive an award prorated for the amount of time the Participant was employed by the Company in an eligible position during the Plan Year. Awards for a Plan Year are payable annually in cash and shall be earned and paid in the first quarter of the calendar year following the end of the corresponding Plan Year. Participants must be an employee in good standing at the time of the bonus payment to earn or receive the same; except where prohibited by applicable law, participants who involuntarily or voluntarily resign or otherwise terminate employment for any reason before the time the awards are paid will not be eligible to earn or receive payment of the bonus, prorated or otherwise.

**J. NATURE OF PLAN**

This Plan is a statement of intent and is not a contract. There is no guarantee of an actual payout. Moreover, it is not a guarantee of employment. U.S. Participants' employment with the Company remains "at will." This Plan may be modified, suspended, or terminated at any time, and all awards are at the discretion of the Board or the Compensation Committee, subject to applicable law. This Plan may be changed during a Plan Year or prior to bonus payments without any obligation of the Company to pay for the elapsed part of the Plan Year in the manner described in the Plan, subject to applicable law. The decisions of Company management, the Plan Committee, the Compensation Committee, and/or the Board in administering and interpreting the Plan are final and binding on all Participants. Information regarding an employee's annual incentive payment will be part of the employee's personnel record.

**K. WITHHOLDING TAXES**

Whenever the payment of an award is made, such payment shall be net of an amount sufficient to satisfy federal, state, and local income and employment tax withholding requirements and authorized deductions as determined by the Plan Committee in its sole discretion.

**L. NONASSIGNMENT; PARTICIPANTS ARE GENERAL CREDITORS**

Except as otherwise provided by the Plan Committee in its sole discretion, the interest of any Participant under the Plan shall not be assignable or transferable either by voluntary or involuntary assignment or by operation of law, and any attempted assignment shall be null, void, and of no effect.

Amounts paid under the Plan shall be paid from the general funds of the Company, and each Participant shall be no more than an unsecured general creditor of the Company with no special or prior right to any assets of the Company for payment of any obligations hereunder. Nothing contained in the Plan shall be deemed to create a trust of any kind for the benefit of any Participant or create any fiduciary relationship between the Company and any Participant with respect to any assets of the Company.

**M. SUCCESSORS AND ASSIGNS**

This Plan shall be binding on the Company and Participant and their respective successors, permitted assigns, executors, administrators, and legal representatives.

**N. CODE SECTION 409A**

The Plan and all Awards made hereunder shall be interpreted, construed, and operated to reflect the intent of the Company that all aspects of the Plan and the Awards shall be interpreted to be exempt from the provisions of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and any regulations and other guidance thereunder. This Plan may be amended at any time, without the consent of any party, to avoid the application of Section 409A of the Code in a particular circumstance or that is necessary or desirable to satisfy any of the requirements under Section 409A of the Code, but the Company shall not be under any obligation to make any such amendment. Nothing in the Plan shall provide a basis for any person to take action against the Company or any affiliate based on matters covered by Section 409A of the Code, including the tax treatment of any amount paid or Award made under the Plan, and neither the Company nor any of its affiliates shall under any circumstances have any liability to any Participant or his estate or any other party for any taxes, penalties, or interest due on amounts paid or payable under the Plan, including taxes, penalties, or interest imposed under Section 409A of the Code.

**O. INTERPRETATION AND SEVERABILITY**

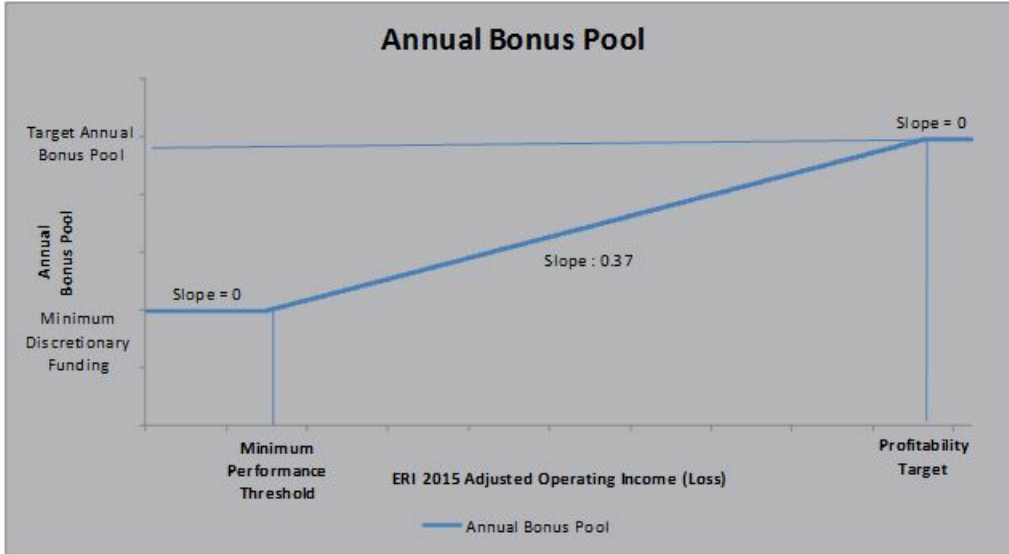
In case any one or more of the provisions contained in the Plan shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision of the Plan, but the Plan shall be construed as if such invalid, illegal, or unenforceable provisions had never been contained herein.

**P. GOVERNING LAW**

This Plan and all awards made and actions taken hereunder shall be governed by and construed in accordance with the laws of California excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction. Participants are deemed to submit to the exclusive jurisdiction and venue of the Federal or state courts of California to resolve any and all issues that may arise out of or relate to the Plan or any related award.

**Exhibit A**

AIP Funding Curve



- Profitability Target = 2015 Budgeted Adjusted Operating Income (Loss) + Budget Annual Bonus Pool
- Minimum Performance Threshold = Determined by the Board
- Minimum Discretionary Funding = Determined by the Compensation Committee
- Target Annual Bonus Pool = Dollar sum of the aggregate target percentage of base salaries for all budgeted Participants as of January 31, 2015
- If Adjusted Operating Income (Loss)  $\leq$  Minimum Performance Threshold, then Annual Bonus Pool = Minimum Discretionary Funding
- If Adjusted Operating Income (Loss)  $>$  Minimum Performance Threshold, then Annual Bonus Pool =  $0.37 * (\text{Adjusted Operating Income (Loss)} - \text{Minimum Performance Threshold}) + \text{Minimum Discretionary Funding}$
- If Adjusted Operating Income (Loss)  $\geq$  Profitability Target, then Annual Bonus Pool = Target Annual Bonus Pool



**Energy Recovery Announces Appointment of  
Joel Gay as Chief Executive Officer**

**Experienced Industrial Executive has Led Execution of  
Company's Strategic Plan Throughout 2015**

**SAN LEANDRO, Calif.—April 24, 2015—**Energy Recovery Inc. (NASDAQ:ERII), the leader in pressure energy technology for industrial fluid flows, today announced that it has appointed Mr. Joel Gay as Chief Executive Officer and as a member of its Board of Directors, effective immediately. Mr. Gay previously served as the Company's Chief Financial Officer and joined Energy Recovery in 2012.

Mr. Gay brings substantial experience in leading multiple corporate disciplines in global small-cap and large-cap companies. He has been overseeing and directing the day-to-day affairs of Energy Recovery with direct oversight from the Board of Directors since the announcement of the Company's Chief Executive Officer transition. The appointment is part of Energy Recovery's continued focus on maintaining a disciplined approach to targeting its select markets within the oil & gas, chemical processing, and sea water reverse osmosis seawater desalination industries.

Mr. Hans Peter Michelet, Chairman of the Board of Directors, stated, "We are very pleased to have Joel continue his leadership role as CEO. As we continue to refine our go-to-market strategy, we understand that Energy Recovery is not simply a supplier or services provider to various industrial markets. Energy Recovery is synonymous with innovation, and we will leverage our core expertise to take advantage of appropriate variations in our business model, including licensing. We conducted a comprehensive search for the Company's next leader and concluded that Joel is the right individual with the right experience, vision and acumen."

Mr. Michelet continued, "During the transition period, Joel has successfully led the Company and created stability. He has implemented a number of key operating and strategic initiatives, including rationalizing our cost structure and re-focusing the Company's sales strategy. Importantly, Joel has led the development and process behind Energy Recovery's paradigm-shifting technology—the VorTeq™. For the last year and a half, he has directly managed and led the VorTeq initiative, including the execution of our strategic alliance with Liberty Oilfield Services. In fact, his involvement extends to the creation of intellectual property as he is identified as an inventor in several VorTeq patent applications. Our Board of Directors and management are aligned in our vision and plan for execution. We are confident that Joel is the best person to lead the Company in this next phase of its development. We believe that our current management team will execute on these re-focused strategic initiatives, which also include market expansion into the oil and gas industry and a continued strengthening of Energy Recovery's leading position in reverse osmosis sea water desalination."

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Mr. Ole Peter Lorentzen, the Company's largest shareholder and a member of the Board of Directors, added, "Joel's appointment as Chief Executive Officer is the right decision. Ludvig Lorentzen AS has significantly invested in Energy Recovery, and we feel Joel is the right individual to lead us through our new initiatives, expand our technology portfolio and markets, and increase long-term shareholder value."

Mr. Gay stated, "I look forward to continuing my work with the talented team here at Energy Recovery as we move forward with our strategic market expansion and product commercialization. We have made some significant and necessary changes to our operating structure since the beginning of 2015, which, I believe, will enable the Company to better capitalize and execute on its business opportunities. From the successful launch of the VorTeq solution to the re-focusing of our strategic execution, our executive team is fully committed to creating long-term shareholder value. I also will provide shareholders with an accurate depiction of the progress Energy Recovery is making in the various markets we are pursuing and intend to provide them with regular and meaningful updates going forward. I very much appreciate the Board's support over the past few months, their vote of confidence through my appointment as Chief Executive Officer, and am optimistic about the road ahead."

Mr. Gay has served as Energy Recovery's Chief Financial Officer since June 2014. He joined Energy Recovery in January 2012 and has held several positions at the Company. Prior to this, Mr. Gay held various roles at the Aegion Corporation (NASDAQ:AEGN), most notably as the CFO of its largest division (North America). Mr. Gay has also held several positions within the Service Master Corporation and began his career in entrepreneurial finance.

Mr. Gay also serves on the board of GDG Constructors as an Executive Director and Chair of the Audit Committee. Mr. Gay holds an MBA from the University of Chicago's Booth School of Business and a B.A. from St. Thomas University.

#### **Company to Conduct Search for Chief Financial Officer**

The Company's Board of Directors will conduct a search for a new Chief Financial Officer to replace Mr. Gay in the coming weeks and will keep investors apprised of its progress.

#### **About Energy Recovery**

Energy Recovery (NASDAQ:ERII) develops award-winning solutions to improve productivity, profitability, and energy efficiency within the oil & gas, chemical, and water industries. Our products simplify complex systems and protect vulnerable equipment. By recycling fluid pressure that would otherwise be lost in critical processes, we save clients more than \$1.4 billion (USD) annually. Headquartered in the San Francisco Bay Area, Energy Recovery has offices in Shanghai and Dubai.

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**Forward-Looking Statements**

This press release contains forward-looking statements that reflect management's current expectations, assumptions and estimates of future performance and economic conditions. Such statements are made in reliance upon the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The company cautions investors that any forward-looking statements are subject to risks and uncertainties that may cause actual results and future trends to differ materially from those matters expressed in or implied by such forward-looking statements. Statements about future expectations about technology introduction and adoption, as well as shareholder value are forward-looking and involve risks and uncertainties. Energy Recovery disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

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April 22, 2015

Mr. Joel Gay  
5 Mahogany Lane  
San Ramon, CA 94583

Re: Offer of Promotion to President and Chief Executive Officer, Energy Recovery, Inc.

Dear Joel,

On behalf of the Board of Directors of Energy Recovery Inc. (“ERI”) or (“Company”), I am pleased to offer you the position of President and Chief Executive Officer, reporting to the Board of Directors, subject to the following terms and conditions.

**Salary and Effective Date.** We would like your promotion to begin on April 24, 2015. You will receive an annual base salary of \$400,000.00, less deductions authorized or required by law, which will be paid bi-weekly in accordance with our standard payroll practices.

**Executive Bonus Plan.** You will also be eligible to participate in the Company’s annual Executive Bonus Plan, under which you will be eligible to receive from 0% - to 100% of your base salary based on your achievement toward Company annual financial targets and/or other performance goals that were reviewed at the April 17, 2015 meeting of the Compensation Committee.

**Benefits.** As a full-time employee, you will continue to be eligible to receive employee benefits which include paid time off that accrues each pay period at the annual rate of three (3) weeks per year, medical, dental and vision insurance for you and your dependents, as well as long-term disability and life insurance.

**Change of Control Plan.** Under this offer, you will continue to participate in the Company’s Change in Control Severance Plan.

**Employment Status** Although your status may change, your employment with the Company remains “at will”, meaning that either you or the Company will be entitled to terminate your employment at any time and for any reason, with or without cause. Any contrary representations which may have been made to you are superseded by this offer letter. In addition, although your job duties, title, compensation, benefits, as well as the Company’s personnel policies and procedures, may change in the future, the “at will” nature of your employment may not be changed.







**Termination for Convenience.** In the event that you are terminated without Cause (as defined in the CIC Plan, as amended) and not as part of an Anticipatory Termination, you will be entitled to receive the greater of the severance benefits provided in any then-existing and applicable Company severance plan, or as defined in this section, specifically: all payments required by applicable local law, including all earned and unpaid salary, any accrued and unused vacation pay and all earned but unpaid and un-deferred bonus attributable to the year that ends immediately before the year in which the termination occurs, less deductions required or permitted by law; and (without altering the “at will” nature of your employment), the following additional benefits (“Additional Benefits”), in exchange for a mutually agreeable form of release of all claims known or unknown, and satisfying any other conditions or restrictive covenants set forth in any Company severance plan, provided that ERI receives the signed, unrevoked agreement within forty five (45) days of your termination date:

(A) a severance amount payable in a lump sum equal to:

(i) If termination of your employment occurs within the first eighteen (18) months of appointment as CEO, eighteen (18) months’ salary based on your annual base salary in effect as of the date of the employment termination less deductions required or permitted by applicable law, or

(ii) If the termination of your employment occurs after the first eighteen (18) months of appointment as CEO, twelve (12) months’ salary based on your annual base salary in effect as of the date of the employment termination, less deductions required or permitted by applicable law; and

(B) the immediate vesting of twenty five (25%) of all unvested equity compensation held by you as of the date of termination, including unvested equity compensation where the amount payable is based on the satisfaction of performance criteria to the extent such vesting acceleration would not cause any award intended to constitute “qualified performance-based compensation,” within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”) to fail to so qualify, less deductions required or permitted by applicable law, with the vesting acceleration to occur in the following order: stock options and similar equity awards would vest before “full” value equity awards and, within each category of awards, equity awards would vest in the order that they were granted. All other provisions of the option will continue in effect in accordance with the original terms of the agreement evidencing the option.





To the extent the Additional Benefits compensation is subject to Section 409A of the Code, the severance payment or the distribution of the equity compensation shall be paid or made, as applicable, on the 45th day following "separation from service" (within the meaning of Code Section 409A and any the regulations or other guidance thereunder ("Section 409A")). In addition, no such payment or distribution will be made to you prior to the earlier of (a) the expiration of the six-month period measured from the date of your separation from service or (b) the date of your death, if you are deemed at the time of such separation from service to be a "specified employee" (within the meaning of Section 409A) and to the extent such delayed commencement is otherwise required in order to avoid a prohibited distribution under Section 409A. All payments which had been delayed pursuant to the immediately preceding sentence will be paid to you in a lump sum upon expiration of such six-month period (or, if earlier, upon your death).

In the event that you voluntarily resign (other than under the circumstances described in the Change in Control Severance Plan) or are terminated by ERI for Cause, you will only be entitled to payment required by applicable local law, including all earned and unpaid salary, any accrued and unused vacation pay and all earned but unpaid and un-deferred bonus attributable to the year that ends immediately before the year in which the termination occurs, less deductions required or permitted by law.

Please accept this offer of promotion as of the start date set forth below by signing your name and setting forth the agreed start date below. Then return this letter to me by email or fax by April 28, 2015. If your acceptance is not received by this date, we shall assume that you have declined the offer and the offer shall be null and void.

Please call me if you have any questions regarding the information outlined below.

Very truly yours,

/s/ Hans Peter Michelet

Hans Peter Michelet  
Executive Chairman

Signed Acceptance: /s/ Joel Gay

Start Date: 4/24/15

