

Energy Recovery, Inc.
Form DEF 14A
April 23, 2010

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SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Filed by the Registrant

Filed by a party other than the Registrant

Check the appropriate box:

- Preliminary proxy statement
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive proxy statement
- Definitive additional materials
- Soliciting material under Rule 14a-12

Energy Recovery, Inc.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant) Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transactions applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction.

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Fee paid previously with preliminary materials:

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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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Energy Recovery, Inc.

**Notice of Annual Meeting of Stockholders
To Be Held June 4, 2010**

Dear Stockholders,

The 2010 Annual Meeting of Stockholders of Energy Recovery, Inc., a Delaware corporation (the Company or ERI) will be held on Friday, June 4, 2010, at 10:00 a.m. Pacific Daylight Time. The Annual Meeting will take place at the Company s headquarters, located at 1717 Doolittle Drive, San Leandro, CA 94577.

Only stockholders who owned stock at the close of business on April 15, 2010, can attend, and vote at, the meeting or any postponement or adjournment of the meeting. The purpose of the meeting is:

1. To elect two directors of the Company to serve until the 2013 annual meeting of stockholders or until their successors are elected and qualified.
2. To ratify the appointment of BDO Seidman, LLP as the Company s independent registered public accounting firm for the year ending December 31, 2010.
3. To transact such other business as may properly come before the annual meeting of stockholders and any adjournment or postponement thereof.

These items of business are more fully described in the attached Proxy Statement which is part of this Notice.

At the meeting, we will also report on our 2009 business results and other matters of potential interest to our shareholders.

By Order of the Board of Directors,

G. G. Pique
President and Chief Executive Officer

San Leandro, California
April 28, 2010

Whether or not you expect to attend the annual meeting of stockholders in person, you are urged to vote as promptly as possible to ensure your representation and the presence of a quorum at the annual meeting.

Stockholders of record can vote their shares by using the internet or the telephone. Instructions for using these convenient services are set forth on the enclosed proxy card. Stockholders may also vote their shares by marking, signing, dating and returning the proxy card in the enclosed postage-prepaid envelope.

If you send in your proxy card and then decide to attend the annual meeting to vote your shares in person, you may still do so. Your proxy is revocable in accordance with the procedures set forth in the proxy statement.

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**ENERGY RECOVERY, INC.
1717 Doolittle Drive,
San Leandro, California 94577**

PROXY STATEMENT

Why am I receiving these materials?

We are inviting you to attend an Annual Meeting of the stockholders of Energy Recovery, Inc. and vote on:

the election of two directors to serve until our 2013 annual meeting (or until their successors are elected and qualified),

the ratification of the appointment of BDO Seidman, LLP as our independent registered public accounting firm for the year ending December 31, 2010, and

other business that may properly come before the meeting and any adjournment or postponement.

This year's Annual Meeting will take place on Friday, June 4, 2010, at 10:00 a.m. local time. The meeting will be held at the Company's main office at 1717 Doolittle Drive, San Leandro, California, U.S.A.

This Proxy Statement, the accompanying proxy and our Form 10-K for the fiscal year ended December 31, 2009 (the 2009 Annual Report) were first sent by mail to stockholders on or about April 30, 2010.

How do I vote?

If you are a record holder of our common shares, you can vote either in person at the Annual Meeting or by proxy whether or not you attend the Annual Meeting. If you plan to vote in person, you must bring the enclosed proxy card or proof of identification to the meeting.

To vote by proxy, you must either:

fill out the enclosed proxy card, date and sign it, and return it in the enclosed postage-paid envelope,

vote by telephone (instructions for this are on the proxy card), or

vote by Internet (instructions for this are on the proxy card).

To ensure your vote is counted, please submit your vote by June 3, 2010.

If your shares are held for you in an account with a broker or other nominee, you will receive voting instructions from your nominee rather than a proxy card. To vote, please follow the voting instructions sent by your broker or other nominee. If you return your voting instructions timely, your broker or other nominee will then include your vote in the appropriate proxy card held by the record holder. If your shares are held in the name of a broker or other nominee, you

cannot vote in person at the Annual Meeting unless you first obtain a legal proxy from your nominee and present it at the Annual Meeting.

How many votes do I have?

On each matter to be voted upon, you have one (1) vote for each share of common stock you own as of April 15, 2010, the record date.

Can I change my vote after submitting my proxy?

If you are the record holder of your shares, you can withdraw or revoke your proxy at any time before the final vote at our Annual Meeting by:

delivering to the Company (to the attention of Carolyn F. Bostick, the Company's Secretary) a written notice of revocation or a duly executed proxy bearing a later date,

submitting a new proxy via the Internet or telephone in accordance with the instructions on your original form of proxy, or

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attending the Annual Meeting and voting in person, in which case you must specifically revoke any previously returned proxy before you vote in person. Attending the Annual Meeting in person will not by itself revoke any prior proxy.

What if I return a proxy card but do not make specific choices?

If you return a signed and dated proxy card without marking any voting selections, your shares will be voted FOR our two director nominees and FOR the other proposal made in this Proxy Statement. If any other matter is properly presented at the meeting, the Company representative authorized to vote on your behalf as your proxy will vote your shares using his best judgment.

Who pays for the expenses related the preparation and mailing of the Proxy Statement?

The Company will bear the costs of soliciting proxies, including the costs for the preparation, assembly, printing and mailing of the Proxy Statement and related proxy materials. In addition, the Company will reimburse brokerage firms and other nominees representing beneficial owners of shares for their expenses in forwarding solicitation materials to beneficial owners of those shares. Proxies may be solicited by certain of the Company's directors, officers and regular employees, without additional compensation, either personally, by telephone, facsimile, or telegram.

Who can vote at the Annual Meeting?

Only stockholders of record at the close of business on April 15, 2010 (the Record Date) will be entitled to notice of, and to vote at, our Annual Meeting. On the Record Date, the Company had 51,312,647 shares of common stock outstanding.

Will there be any other items of business on the agenda?

We do not know of any business to be considered at the meeting other than the proposals described in this Proxy Statement. However, the proxy holders (who are management representatives named in the proxy card) may vote in their discretion with respect to any other matters properly presented for a vote at the meeting.

How many votes are required for the approval of each item?

For the election of two directors in Proposal No. 1, the candidates who receive the greatest number of votes cast at the Annual Meeting will be elected, provided a quorum is present; and

The affirmative vote of a majority of the shares of the Company's common stock present and entitled to vote is required to approve Proposal No. 2, ratification of the appointment of our independent registered public accounting firm, provided a quorum is present.

What is the quorum requirement?

A quorum of stockholders must be present for us to hold a valid meeting of stockholders. Stockholders representing a majority (more than 50%) of the voting power of our outstanding common stock as of the Record Date, present in person or represented by proxy, constitute a quorum for the transaction of business at the Annual Meeting.

Your shares will be counted towards the quorum only if you submit a valid proxy or if you vote in person at the meeting. Shareholders who submit signed and dated proxies without specifying their votes and broker non-votes

described below will be counted towards the quorum requirement. If there is no quorum, the chairperson of the meeting or a majority of the votes present at the meeting may adjourn the meeting to another date.

What is a record holder?

If your shares are registered directly in your name with our transfer agent, American Stock Transfer & Trust Company, you are considered a record holder of those shares. In this case, you will receive a form of proxy card for record holders along with the other proxy materials being sent to you.

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What is a beneficial owner?

If your shares are held in a stock brokerage account or by a bank or other nominee, those shares are registered with American Stock Transfer & Trust Co. in the street name of the brokerage account, bank or other nominee, and you are considered the beneficial owner of those shares. If you are a beneficial owner, your broker or other nominee will send you a form of voting instructions (rather than a proxy card) along with the other proxy materials.

As a beneficial owner, you have the right to direct your broker, bank or other entity on how to vote your shares by using the voting instruction form included in the mailing or by following the instructions on the voting instruction card for voting via the Internet or telephone.

If there are multiple beneficial owners in the same household, your broker or other nominee may send only one copy of the proxy materials to your household. If you would like a separate copy of either document, please contact Thomas D. Willardson at (510) 483-7370 or at 1717 Doolittle Drive, San Leandro, California 94577.

If you are receiving multiple copies of these materials and would like to receive a single copy in the future, please contact your broker, bank or other nominee, or the Company's investor relations department to request a single copy only in the future.

How are votes counted?

All shares of common stock represented by valid proxies will be voted in accordance with their instructions. In the absence of instructions, proxies will be voted FOR Proposals 1 and 2.

Brokers, banks and other nominees may submit a proxy card for shares of common stock which they hold for a beneficial owner, but decline to vote on certain items because they have not received instructions from the beneficial owner. These are called Broker Non-Votes and are not included in the tabulation of the voting results for the election of directors or for purposes of determining the number of votes cast with respect to a particular proposal. Therefore, Broker Non-Votes do not have an effect on the vote.

Brokers have the discretion to vote such shares for which they have not received voting instructions from the beneficial owners on routine matters, but not on non-routine matters. Routine matters include ratification of the independent registered public accounting firm (Proposal No. 2).

A broker is prohibited from voting on a non-routine matter unless the broker receives specific voting instructions from the beneficial owner of the shares. The election of directors (Proposal No. 1) is not a routine matter, and your broker cannot vote your shares in the election of directors unless you have timely returned voting instructions on that proposal to your broker.

For the purpose of determining whether the stockholders have approved matters other than the election of directors, abstentions are treated as shares present or represented and voting and so abstentions have the same effect as negative votes.

Who counts or tabulates the votes?

The votes of stockholders attending the Annual Meeting and voting in person will be counted or tabulated by an independent inspector of election. For our meeting, a representative of Georgeson Inc. will tabulate votes cast by

proxy.

How do I access the proxy material and annual report via the Internet?

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be Held on June 4, 2010.

This proxy statement and the 2009 Annual Report are available electronically at <http://proxy.georgeson.com>.

We are mailing physical copies of our proxy statement, proxy and 2009 Annual Report to our stockholders. However, you may also access these materials at the web site noted above.

If you have previously chosen to receive the Proxy Statement and the 2009 Annual Report over the Internet, you will be receiving an e-mail on or about April 30, 2010 with information on how to access stockholder

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information and instructions for voting over the Internet. Stockholders of record may vote via the Internet until 11:59 p.m. Eastern Daylight Time, June 3, 2010.

If a stockholder's shares are registered in the name of a brokerage firm and the stockholder has not elected to receive the Proxy Statement and Annual Report over the Internet, the stockholder may still be eligible to vote shares electronically over the Internet. Many brokerage firms participate in programs, which provide eligible stockholders who receive a paper copy of the Proxy Statement and Annual Report, the opportunity to vote via the Internet. If a stockholder's brokerage firm participates in a program, a form from the broker will provide voting instructions.

Stockholders can elect to view future proxy statements and annual reports over the Internet instead of receiving paper copies. Stockholders of record wishing to receive future stockholder materials electronically can elect this option by following the instructions provided when voting over the Internet at <http://proxy.georgeson.com>.

Upon electing to view future proxy statements and annual reports over the Internet, stockholders will receive an e-mail notification next year with instructions containing the Internet address of those materials. The choice to view future proxy statements and annual reports over the Internet will remain in effect until the stockholder contacts their broker or the Company to rescind the instructions. Internet access does not have to be elected each year.

Stockholders who elected to receive this Proxy Statement electronically over the Internet and who would now like to receive a paper copy of this Proxy Statement so that they may submit a paper proxy in lieu of an electronic proxy, should contact either their broker or the Company.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

As set by the Board of Directors under the Bylaws of the Company, the authorized number of directors of the Company is currently set at seven.

The Corporate Governance and Nominating Committee of the Board of Directors has recommended, and the Board of Directors has nominated, the two nominees listed below for election as Class II directors at the Annual Meeting. If elected, each of the newly elected directors will serve until the 2013 annual meeting of stockholders, and until each director's successor is duly elected and qualified, or until the earlier resignation or removal of the director.

All of the nominees are currently directors of the Company, and each of the nominees named below has consented, if elected as a director of the Company, to serve until his or her term expires.

In the event that any nominee of the Company is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee who shall be designated by the present Board of Directors to fill the vacancy. In the event that additional persons are nominated for election as directors, the proxy holders intend to vote all proxies received by them in such a manner as will assure the election of as many of the nominees listed below as possible. In such event, the specific nominees to be voted for will be determined by the proxy holders. The Board has no reason to believe that any of the persons named below will be unable or unwilling to serve as a director, if elected. Each of the two nominees for director who receives the greatest number of votes will be elected.

Set forth below are the names, ages and certain biographical information relating to the Class II director nominees as of April 15, 2010.

Name of Nominee	Age	Position with Company	Director Since
Arve Hanstveit(1)	55	Director	1995
Hans Peter Michelet	50	Executive Chairman and Director	1995

(1) Chairman of the Compensation Committee; member of the Audit Committee and Corporate Governance and Nominating Committee

Arve Hanstveit joined our Board of Directors in August 1995. Since August 1997, Mr. Hanstveit has served as partner and vice president of ABG Sundal Collier, a Scandinavian investment bank, where he is responsible for advising U.S. institutional investors on equity investments in Nordic companies. Prior to joining ABG Sundal

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Collier, Mr. Hanstveit worked as a securities analyst and as portfolio manager for a U.S. institutional investor. Since February 2007, Mr. Hanstveit has served on the board of directors of Kezzler AS, a privately held Norwegian company, which delivers secure track and trace solutions to the pharmaceutical and consumer goods industry. He is also a member of the Norwegian American Chamber of Commerce and the New York Angels, an independent consortium of individual accredited angel investors that provides equity capital for early-stage companies in the New York City area. Mr. Hanstveit holds a B.A. in Business from the Norwegian School of Management and an M.B.A. from the University of Wisconsin, Madison. The Board selected Mr. Hanstveit to as a director because of his early investment in the Company, his years of experience as a portfolio manager and securities analyst, his detailed understanding of global financial markets and his extensive knowledge of the company, its products and markets.

Hans Peter Michelet joined our Board of Directors in August 1995 and was appointed chairman of the board in September 2004. Before joining our board, Mr. Michelet was an executive with Delphi Asset Management, an asset management firm based in Norway, and served as chief executive officer of Fiba Nordic Securities, a Scandinavian investment bank. He also had management positions with Finanshuset and Storebrand Insurance Corporation. From January 2005 to November 2007, Mr. Michelet served as our interim chief financial officer and he became our executive chairman in March 2008. Mr. Michelet has been on the board of directors of SynchroNet Logistics Inc., a maritime technology service provider since June 2000 and a director of Profunda AS, a commercial cod farm. Mr. Michelet holds a B.A. in Finance from the University of Oregon. The Board selected Mr. Michelet as a director and its chairman because of his experience as an investor and entrepreneur, his senior management experience in multi-cultural financial institutions, his strong organizational and leadership skills, and his knowledge of company operations and markets.

**THE BOARD RECOMMENDS A VOTE FOR
THE ELECTION OF THE NOMINEES NAMED ABOVE**

* * *

PROPOSAL NO. 2

**RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

BDO Seidman, LLP has been appointed by the Audit Committee to continue as the Company's independent registered public accounting firm for the year ending December 31, 2010. Although the Company is not required to seek stockholder approval of its selection of independent registered public accounting firm, the Board believes it to be sound corporate governance to do so. If the appointment is not ratified, the Audit Committee will investigate the reasons for stockholder rejection and will reconsider its selection of its independent registered public accounting firm.

A representative of BDO Seidman, LLP is expected to be present at the Annual Meeting. The representative will have an opportunity to make a statement and to respond to appropriate questions.

Principal Accountant Fees and Services

The following table summarizes total fees that BDO Seidman, LLP, our independent registered public accounting firm, billed to us for its work in fiscal years ended December 31, 2009 and 2008.

2009

2008

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Audit Fees(1)(2)	\$ 508,370	\$ 1,251,792
Audit-Related Fees		
Tax Fees(3)	30,616	48,505
All Other Fees		
Total	\$ 538,986	\$ 1,300,297

(1) Audit fees represent fees for professional services related to the performance of the audit of our annual financial statements, review of our quarterly financial statements and consents on SEC filings.

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- (2) Audit fees also included professional services in 2008 related to the preparation of our S-1 registration in the amount of \$899,385.
- (3) Tax fees include professional services related to the preparation of tax returns and for related compliance and consulting services.

Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

The Audit Committee pre-approves audit, audit-related, tax and non-audit services provided by our independent registered public accounting firm, BDO Seidman, LLP, and will not approve services that are impermissible under applicable laws and regulations. The pre-approval of services may be delegated to one or more of the Audit Committee's members, but the decision of that member to pre-approve specific services must be reported to the full Audit Committee at its next scheduled meeting.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR RATIFICATION OF THE APPOINTMENT OF BDO SEIDMAN, LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2010

* * *

BOARD AND CORPORATE GOVERNANCE MATTERS

Board of Directors

The Board of Directors is divided into three classes, with each class serving for a staggered three-year term. The board of directors consists of three Class I directors, Mr. Paul Cook, Dr. Marie Elisabeth Paté-Cornell and Mr. Fred Olav Johannessen; two Class II directors, Mr. Arve Hanstveit and Mr. Hans Peter Michelet, and two Class III directors, Mr. G.G. Pique and Mr. Dominique Trempont. At each annual meeting of stockholders, a class of directors will be elected for a three-year term to succeed the directors of the same class whose terms are then expiring. The term of the Class I directors ends at the annual meeting in June 2012. The term of Class II directors will end at the annual meeting in 2010, and the term of Class III directors will end at the annual meeting in 2011. The term of Class II directors, who are elected at the upcoming 2010 Annual Meeting of Stockholders, will end at the annual meeting in 2013.

Director Independence

Our Board of Directors has determined that Mr. Cook, Mr. Hanstveit, Mr. Johannessen, Dr. Paté-Cornell, and Mr. Trempont, representing a majority of our directors, are independent directors as defined in the listing rules of the NASDAQ Global Market LLC. Consistent with the principles of the NASDAQ listing rules, the Board also determined that ownership of the Company's stock by a director is not inconsistent with a determination of independence.

Relationships Among Directors or Executive Officers

There are no family relationships among any of the directors or executive officers of the Company.

Committees and Meetings of the Board of Directors

During the year ended December 31, 2009, the Board of Directors met 14 times. The Board has three committees: the Audit Committee, the Compensation Committee and the Nominating and Governance Committee. During the year ended December 31, 2009, no director attended fewer than 75% of all the meetings of the Board or its committees on which he or she served after becoming a member. The Company encourages, but does not require, its Board members to attend the annual meeting of stockholders.

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The Audit Committee

The Audit Committee held 9 meetings in the year ended December 31, 2009. During most of 2009, the committee consisted of Mr. Hanstveit, Mr. Johannessen and Mr. Trempont, with Mr. Trempont serving as its chairman. Ms. Jackalyne Pfannenstiel, who joined our board on February 23, 2009, was appointed to the Audit Committee on September 4, 2009 and resigned from the Board and the Audit Committee on March 7, 2010 as part of her acceptance of a position with the United States Navy as Assistant Secretary of the Navy for Installations and Environment.

The Audit Committee is responsible for assisting the full Board of Directors in fulfilling its oversight responsibilities relating to:

- overseeing the accounting and financial reporting processes and audits of our financial statements;

- selecting and hiring our independent registered public accounting firm, and approving the audit and non-audit services to be performed by our independent registered public accounting firm;

- assisting the board of directors in monitoring the integrity of our financial statements, our internal accounting and financial controls, our compliance with legal and regulatory requirements, the performance of our internal audit function and the qualifications, independence and performance of our independent registered public accounting firm;

- providing to the board of directors information and materials to make the board of directors aware of significant financial and audit-related matters that require the attention of the board of directors; and

- reviewing and discussing with management and our independent registered public accounting firm our annual and quarterly financial statements and annual and quarterly reports on Form 10-K and 10-Q.

The Board has determined that all members of the Audit Committee are independent directors as defined in the listing rules of NASDAQ. The Board has further determined that Mr. Trempont is an audit committee financial expert as defined by SEC rules. The Board of Directors has adopted and approved a charter for the Audit Committee, a copy of which can be viewed at the Company's website at www.energyrecovery.com.

The Compensation Committee

The Compensation Committee held 10 meetings in the year ended December 31, 2009. As of December 31, 2009, the members of the Compensation Committee included: Mr. Cook, Mr. Hanstveit, Mr. Johannessen, Dr. Paté-Cornell and Mr. Trempont, with Mr. Hanstveit serving as its chairman. Dr. Paté-Cornell, who joined our board on February 23, 2009, was appointed to the Compensation Committee on September 4, 2009. The Compensation Committee is responsible for, among other things:

- reviewing and approving, with respect to our chief executive officer and other executive officers, annual base salaries, annual incentive bonuses, including the specific goals and amounts, equity compensation, employment agreements, severance arrangements and change of control agreements/provisions, and any other benefits, compensation or arrangements; and

- administering our equity compensation plans.

The Board has determined that all members of the Compensation Committee are independent directors as defined in the listing rules of NASDAQ. The Board of Directors has adopted and approved a charter for the Compensation Committee, a copy of which can be viewed at the Company's website at www.energyrecovery.com.

The Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee, which held 2 meeting in the year ended December 31, 2009, consists of Mr. Hanstveit and Mr. Trempont, who serves as chairman. The Corporate Governance and Nominating Committee is responsible for:

assisting our board of directors in identifying prospective director nominees and recommending to our board of directors the director nominees for each annual meeting of stockholders;

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evaluating the performance of current members of our board of directors;

developing principles of corporate governance and recommending them to our board of directors;

recommending to our board of directors persons to be members of each board committee; and

overseeing the evaluation of our board of directors and management.

The Corporate Governance and Nominating Committee operated under a written charter setting forth the functions and responsibilities of the committee. A copy of the charter can be viewed at the Company's website on www.energyrecovery.com.

The Corporate Governance and Nominating Committee considers and makes recommendations to the Board of Directors regarding any stockholder recommendations for candidates to serve on the Board of Directors. Stockholders wishing to recommend candidates for consideration by the Corporate Governance and Nominating Committee may do so by writing to the Secretary of the Company at 1717 Doolittle Drive, San Leandro, California 94577 and providing: (a) the candidate's name, biographical data and qualifications, (b) a document indicating the candidate's willingness to act if elected and (c) evidence of the nominating stockholder's ownership of the Company's common stock, at least 120 days prior to the next annual meeting to assure time for meaningful consideration by the Corporate Governance and Nominating Committee.

The Corporate Governance and Nominating Committee does not have a policy of considering diversity specifically or formally in identifying nominees for directors. In the past, when new directors have been added to our Board of Directors, the Board or Corporate Governance and Nominating Committee has endeavored to select director candidates who have business, scientific or regulatory specializations, technical skills or other backgrounds that increased the range of experience and diversity of perspectives within our Board of Directors in ways that would relate to our existing and future business goals. The Committee also considers diversity in terms of gender, ethnic background and national origin.

There are no differences in the manner in which the Corporate Governance and Nominating Committee evaluates nominees for director based on whether the nominee is recommended by a stockholder or the Corporate Governance and Nominating Committee. The Company does not pay any third party to identify or assist in identifying or evaluating potential nominees.

In reviewing potential candidates for the Board, the Corporate Governance and Nominating Committee considers numerous factors including:

whether or not the person has any relationships that might impair his or her independence, such as any business, financial or family relationships with the Company, its management, its stockholders or their affiliates;

whether or not the person serves on boards of, or is otherwise affiliated with, competing companies;

whether or not the person is willing to serve as, and willing and able to commit the time necessary for the performance of the duties of, a director of the Company; and

the contribution which the person can make to the Board and the Company, with consideration being given to the person's experience in the fields of energy, technology and clean-tech and leadership or entrepreneurial

experience in business or education.

Of greatest importance is the individual's integrity and ability to bring to the Company experience and knowledge in areas related to the Company's current and future business. The Board intends to continue using these criteria to evaluate candidates for election to the Board. The Board has determined that all members of the Nominating Committee are independent directors as defined in the listing rules of NASDAQ.

Board Leadership Structure and Role in Risk Management

The offices of chairman and chief executive officer at our company are held by different individuals. Mr. Michelet has served as our board chairman since September 2004, and became executive chairman in March 2008. Mr. Pique has served as our president and chief executive officer since August 2002 and joined our Board of

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Directors after the completion of our initial public offering in July 2008. ERI believes that having the roles of chief executive officer and chairman of the board filled by different individuals enhances our internal system of checks and balances and the board's oversight role. The practice also enables the chief executive officer to focus on the company's strategic objectives and operations.

The board's role in risk oversight includes approving material expenditures and significant changes in company business practices. The board also approves and receives reports on key product development projects and other strategic initiatives. In addition, the audit committee periodically considers and approves the company's corporate investment policy and practices. The audit committee also oversees and reviews related person transactions.

Compensation Committee Interlocks and Insider Participation

None of our current executive officers serves on our Compensation Committee, or the Board of Directors of another entity whose executive officer(s) serves on the Company's Compensation Committee or Board.

Communication between Stockholders and Directors

Our Board of Directors currently does not have a formal process for stockholders to send communications to the Board of Directors. The Company, however, makes every effort to ensure that the views of stockholders are heard by the Board or individual directors and that the Company responds to stockholders on a timely basis. The Board of Directors does not recommend that formal communication procedures be adopted at this time because it believes that informal communications are sufficient to communicate questions, comments and observations that could be useful to the Board. However, stockholders wishing to formally communicate with the Board of Directors may send communications directly to Thomas D. Willardson, Chief Financial Officer, c/o Energy Recovery, Inc., 1717 Doolittle Drive, San Leandro, California 94577.

Director Compensation

In 2009, each non-employee member of our Board of Directors was entitled to receive an annual retainer of \$50,000, paid in quarterly installments. Each chairman of our three committees was entitled to receive an additional annual retainer of \$5,000, paid in quarterly installments. In 2010, each non-employee member of our Board is entitled to receive an annual retainer of \$40,000, paid in quarterly installments. The chairmen of our committees are each entitled to an additional \$4,000, also paid in quarterly installments.

We have granted our non-employee directors the following equity awards. Mr. Cook and Mr. Trempont, upon joining our Board of Directors as non-employee directors in 2008, received options to purchase 100,000 shares of our common stock. Dr. Paté-Cornell and Ms. Pfannenstiel also received options to purchase 100,000 shares of our common stock shortly after joining our Board of Directors in 2009. In 2009, the Board also awarded Mr. Hanstveit and Mr. Johannessen options to purchase 100,000 shares of our common stock as part of their compensation for continuing to serve as non-employee directors. All of the options to purchase shares of common stock granted to our directors have a four year vesting period with 25% of the shares vesting on the anniversary of the vesting commencement date. After that anniversary date, 1/48 of the shares vest every month. All of the options to directors were granted at the fair market value on the date of the award. We do not have a policy of granting options to members of the Board on an annual basis.

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Director Compensation for Year Ended December 31, 2009

The table below summarizes the compensation paid to non-employee directors for the year ended December 31, 2009. While Mr. Michelet, executive chairman, and Mr. Pique, chief executive officer, also serve as directors, they are not included in the table below because they receive compensation as employees and do not receive additional compensation for services provided as directors.