

May 11, 2011



# **Ecosphere Technologies Announces First Quarter 2011 Results With an Increase in Revenues Compared to the First Quarter of 2010**

## **Continued Improvements in the Balance Sheet Pave the Way for Business Expansion**

STUART, Fla., May 11, 2011 (GLOBE NEWSWIRE) -- Ecosphere Technologies, Inc. (OTCBB:ESPH), a diversified water engineering and environmental services company, announced financial improvements in its Form 10-Q that was filed yesterday. The company reported revenues of \$2.2 million for the first quarter of 2011 as well as improvements in gross margin. Notably, the balance sheet continues to reflect ongoing improvements including a \$2.6 million increase in current assets and an \$850K reduction in accounts payable and accrued liabilities. The increase in current assets includes \$2.1 million in restricted cash that is reserved for the construction of Ecosphere's new Ozonix EF60 water treatment systems for the recently announced licensing agreement with Hydrozonix, LLC.

Adrian Goldfarb, Chief Financial Officer, stated, "The balance sheet improvements illustrate the first benefits of the agreement signed with Hydrozonix in Q1 for the manufacture and license of the Ozonix EF60 mobile, high volume water treatment units for U.S. oil and gas exploration and production. The agreement provides for significant deposits to build the units and these amounts are reflected in the cash now present on our balance sheet. The cash will be used to construct EF60 systems and will fund ongoing manufacturing operations. Additionally, our majority owned subsidiary, Ecosphere Energy Services, recorded net income for Q1 and was cash flow positive for the quarter."

Ecosphere is currently constructing two Ozonix EF60 systems at its Stuart, Florida based manufacturing facility.

Make sure you are first to receive timely information on Ecosphere Technologies when it hits the newswire. Sign up for Ecosphere's email news alert system today at:

<http://www.ESPH-IR.com>.

### *About Ecosphere Technologies:*

Ecosphere Technologies, Inc. (OTCBB:ESPH) is a diversified water engineering, technology licensing and environmental services company that designs, develops and manufactures wastewater treatment solutions for industrial markets. The Company provides environmental services and technologies for use in large-scale and sustainable applications across industries, nations and ecosystems. Ecosphere is driving clean water innovation with its patented Ozonix advanced oxidation technologies and its mobile, low maintenance water treatment systems. Ecosphere, through its majority-owned subsidiary Ecosphere Energy Services, LLC ("EES"), provides energy exploration companies with an onsite, chemical free method to kill bacteria and reduce scaling during fracturing and flowback operations. For more information, please visit: [www.EcosphereTech.com](http://www.EcosphereTech.com)

### *ECOSPHERE TECHNOLOGIES, INC. AND SUBSIDIARIES*

#### *CONDENSED CONSOLIDATED BALANCE SHEETS*

	<i>March 31,</i>	<i>December</i>
	<i>2011</i>	<i>31,</i>
	<i>(Unaudited)</i>	<i>2010</i>
<i>Current Assets</i>		
Cash	\$ 365,218	\$ 46,387
Restricted cash	2,140,000	--
Accounts receivable	689,891	703,475
Prepaid expenses and other current assets	238,550	46,151
<i>Total current assets</i>	<i>3,433,659</i>	<i>796,013</i>
Property and equipment, net	7,293,358	7,729,721
Construction in progress	521,386	389,558
Patents, net	45,150	46,145
Deposits	27,645	22,205
<i>Total assets</i>	<i>\$ 11,321,198</i>	<i>\$ 8,983,642</i>
<i>Liabilities, Redeemable Convertible Cumulative Preferred Stock and</i>		
<i>Stockholders' Deficit</i>		
<i>Current Liabilities</i>		
Accounts payable	\$ 1,228,772	\$ 1,953,798
Accounts payable - related parties	--	15,093

Accrued liabilities	803,702	917,872
Vehicle financing	66,001	69,566
Insurance premium financing contract	117,998	--
Due to affiliate	2,000	2,000
Customer deposit	2,140,000	--
Notes payable – related parties (net of discount) – current portion	2,291,311	2,636,093
Notes payable – third parties (net of discount) – current portion	--	50,000
Fair value of liability for warrant derivative instruments	809,403	610,642
<i>Total current liabilities</i>	7,459,187	6,255,064
Restructuring reserve	157,934	181,119
Notes payable - related parties - less current portion	136,676	136,676
Notes payable - third parties – less current portion	1,519,153	313,722
<i>Total Liabilities</i>	9,272,950	6,886,581
<i>Redeemable convertible cumulative preferred stock series A</i>		
11 shares authorized; 6 shares issued and outstanding at March 31, 2011 and December 31, 2010, \$25,000 per share redemption amount plus dividends in arrears (\$1,141,619 at March 31, 2011)	1,141,619	1,135,994
<i>Redeemable convertible cumulative preferred stock series B</i>		
484 shares authorized; 322 shares issued and outstanding at March 31, 2011 and December 31, 2010, \$2,500 per share redemption amount plus dividends in arrears (\$2,761,926 at March 31, 2011)	2,761,926	2,741,802

*Commitments and Contingencies (Note 13)*

*Ecosphere Technologies, Inc. Stockholders' Deficit*

<i>Common stock</i> , \$0.01 par value; 300,000,000 shares authorized; 141,967,359 and 137,430,786 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	1,420,772	1,374,307
<i>Common stock issuable</i> , \$0.01 par value, 453,733 and 1,347,915 issuable at March 31, 2011 and December 31,	4,538	13,480

2010, respectively

<i>Additional paid-in capital</i>	100,412,209	96,778,394
<i>Accumulated deficit</i>	(113,799,134)	(110,025,222)
<i>Total Ecosphere Technologies, Inc. stockholders' deficit</i>	(11,961,615)	(11,859,041)
<i>Noncontrolling interest in consolidated subsidiary</i>	10,106,318	10,078,306
<i>Total stockholders' deficit</i>	(1,855,297)	(1,780,735)
<i>Total liabilities, redeemable convertible cumulative preferred stock, and stockholders' deficit</i>	\$ 11,321,198	\$ 8,983,642

The accompanying unaudited notes are an integral part of these condensed consolidated financial statements.

*ECOSPHERE TECHNOLOGIES, INC. AND SUBSIDIARIES*  
*CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS*  
*(UNAUDITED)*

	<i>For the Three Months Ended</i> <i>March 31,</i>	
	<i>2011</i>	<i>2010</i>
<i>Revenues</i>	\$ 2,227,641	\$ 2,100,867
<i>Cost of revenues</i>	621,699	746,534
<i>Gross profit</i>	1,605,942	1,354,333
<i>Operating expenses</i>		
<i>Selling, general and administrative</i>	4,936,150	2,805,046
<i>Total operating expenses</i>	4,936,150	2,805,046
<i>Loss from operations</i>	(3,330,208)	(1,450,713)
<i>Other income (expense):</i>		
<i>Other income</i>	143	90
<i>Gain (loss) on settlement, net</i>	--	18,099

Gain (loss) on conversion, net	(94,662)	--
Interest expense	(122,412)	(517,936)
Change in fair value of derivative instruments	(198,761)	(21,044,851)
<i>Total other income (expense)</i>	(415,692)	(21,544,598)
<i>Net loss</i>	(3,745,900)	(22,995,311)
<i>Preferred stock dividends</i>	(25,750)	(27,500)
<i>Net loss applicable to common stock</i>	(3,771,650)	(23,022,811)
<i>Less: Net (income) applicable to noncontrolling interest in consolidated subsidiary</i>	(28,012)	(109,395)
<i>Net (loss) applicable to Ecosphere Technologies, Inc. common stock</i>	\$ (3,799,662)	\$ (23,132,206)
<i>Net income (loss) per common share applicable to common stock</i>		
<i>Basic and diluted</i>	\$ (0.03)	\$ (0.19)
<i>Weighted average number of common shares outstanding</i>		
<i>Basic and diluted</i>	141,672,563	119,544,476

The accompanying unaudited notes are an integral part of these condensed consolidated unaudited financial statements.

*ECOSPHERE TECHNOLOGIES, INC. AND SUBSIDIARIES*  
*CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS*  
*(UNAUDITED)*

*For the Three Months Ended*  
*March 31,*  
*2011*                      *2010*

*OPERATING ACTIVITIES:*

Net (loss) applicable to Ecosphere Technologies, Inc.	\$ (3,799,662)	\$ (23,132,206)
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common stock	¥ (3,199,002)	¥ (23,132,200)
Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:		
Accrued preferred stock dividends	25,750	27,500
Depreciation and amortization	528,045	443,196
Accretion of discount on notes payable	46,182	143,142
Loss on settlement of note and accrued interest for common stock	93,762	--
Stock-based compensation expense	2,398,474	1,005,212
Stock options issued for services	97,450	--
Increase in fair value of warrant derivative liability	198,761	16,391,765
Increase in fair value of embedded conversion option derivative liability	--	4,653,085
Restricted stock vesting expense	53,748	--
<i>Changes in operating assets and liabilities</i>	--	--
Decrease in accounts receivable	13,584	96,167
(Increase ) in prepaid expenses and other current assets	(41,347)	(22,772)
(Increase) in deposits	(5,440)	(5,085)
(Increase) in restricted cash	(2,140,000)	--
Increase in accounts payable	(725,026)	(357,129)
Increase (decrease) in accounts payable - related parties	(15,093)	--
(Decrease) in restructuring reserve	(23,185)	(17,535)
Increase in customer deposits	2,140,000	--
Increase (decrease) in deferred revenue	--	(288,000)
Increase (decrease) in accrued liabilities	(97,932)	7,969
Noncontrolling interest in income (loss) of consolidated subsidiary	28,012	109,395
Net cash provided by (used in) operating activities	(1,223,917)	(945,296)
 <i>INVESTING ACTIVITIES:</i>		
Redemption of restricted cash	--	350,000
Construction in process purchases	(131,828)	(40,080)
Purchase of property and equipment	(90,687)	(1,106,502)
Net cash (used in) investing activities	(222,515)	(796,582)

### *FINANCING ACTIVITIES:*

Proceeds from issuance of convertible notes payable and warrants	1,575,000	--
Proceeds from modifications of warrants for cash	--	617,168
Proceeds from warrant and option exercises	571,664	367,773
Proceeds from vehicle financing	--	42,000
Repayments of notes payable and insurance financing	(33,054)	(58,596)
Repayments of notes payable to related parties	(344,782)	--
Repayments of vehicle financing	(3,565)	(2,754)
Principal payments on capital leases	--	(10,677)
Net cash provided by financing activities	1,765,263	954,914
Net increase (decrease) in cash	318,831	(786,964)
<i>Cash, beginning of period</i>	46,387	1,089,238
<i>Cash, end of period</i>	\$ 365,218	\$ 302,274

The accompanying unaudited notes are an integral part of these condensed consolidated unaudited financial statements.

CONTACT: Investor Relations Contact:

Gerald Kieft

The WSR Group

772-219-7525

EcosphereIR@wallstreetresources.net

<http://www.WallstreetResources.net/Ecosphere.asp>

Press and Media Relations Contact:

Corey McGuire

Ecosphere Technologies, Inc.

772-287-4846

[cmcguire@EcosphereTech.com](mailto:cmcguire@EcosphereTech.com)



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