
**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): February 24, 2022



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 of 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))

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u> | <u>Trading Symbol</u> | <u>Name of each exchange on which registered</u> |
|-------------------------------------------|-----------------------|--------------------------------------------------|
| Common Stock, \$0.001 par value per share | ERII | The Nasdaq Stock Market LLC |

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 or Rule 12b-2 of the Securities Exchange Act of 1934.

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02 Results of Operations and Financial Condition

On February 24, 2022, Energy Recovery, Inc. issued an earnings press release announcing its financial results for the fourth quarter and year ended December 31, 2021. A copy of the press release is attached as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated herein by reference in its entirety.

The information in this report (including Exhibit 99.1) is being furnished pursuant to Item 2.02 and shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) or otherwise subject to the liabilities of that section, nor shall it be deemed to be incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

| <u>Exhibit Number</u> | <u>Description</u> |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| 99.1 | Press release of Energy Recovery, Inc. dated February 24, 2022 to report its financial results for its fourth quarter and year ended December 31, 2021. |

SIGNATURE

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 hereunto duly authorized.

Date: February 24, 2022

Energy Recovery, Inc.

By: /s/ William Yeung
William Yeung
Chief Legal Officer



Energy Recovery Achieves Record-Breaking Fourth Quarter and Fiscal Year 2021 Product Revenue

SAN LEANDRO, Calif. - February 24, 2022 - Energy Recovery, Inc. (Nasdaq:ERII) today announced its financial results for the fourth quarter and fiscal year ended December 31, 2021. The Company achieved 13% product revenue growth for the fiscal year 2021 across all business segments.

“We are pleased to report another year of record revenue in 2021. This achievement reflects the important role our products play in reliably delivering energy and cost savings, as well as emissions reduction for critical industries. Additionally, our performance highlights the ability of our team to adapt and perform at the highest level, despite the many challenges presented by the global pandemic,” said Robert Mao, Chairman, President and Chief Executive Officer of Energy Recovery.

“We are well down the clear and disciplined path we defined two years ago for our industrial wastewater treatment and refrigeration businesses. We have announced multiple contracts for the Ultra PX™ for use in multiple industrial wastewater treatment applications. Furthermore, we are in discussions with several refrigeration rack manufacturers in North America and Europe and have signed our first agreement with one of these manufacturers for the joint development of a PX-centric next generation CO₂ system utilizing our PX G1300,” Mr. Mao continued.

“Energy Recovery’s core strategy remains focused on accelerating the achievement of greater sustainability in critical industries with our PX technology. We are delivering on this promise, and through continuing innovation and dedication to delivering results, we are poised to continue our growth in the years to come.”

Financial Results

| | Three Months Ended December 31, | | | Years Ended December 31, | | |
|------------------------------------------------|---------------------------------------------------------------------------------|----------------|------------|--------------------------|-----------------|--------------|
| | 2021 | 2020 | Variance | 2021 | 2020 | Variance |
| | <i>(In millions, except net income per share, percentages and basis points)</i> | | | | | |
| Product revenue | \$ 33.6 | \$ 26.4 | 27% | \$ 103.9 | \$ 92.1 | 13% |
| License and development revenue ⁽¹⁾ | — | — | —% | — | 26.9 | (100%) |
| Total revenue | \$ 33.6 | \$ 26.4 | 27% | \$ 103.9 | \$ 119.0 | (13%) |
| Product gross profit | \$ 23.2 | \$ 18.2 | 27% | \$ 71.2 | \$ 63.8 | 12% |
| Product gross margin | 68.9 % | 69.0 % | (10) bps | 68.6 % | 69.3 % | (70) bps |
| Operating expense | \$ 17.2 | \$ 14.4 | 19% | \$ 57.4 | \$ 59.4 | (3%) |
| Operating income | \$ 6.0 | \$ 3.8 | 57% | \$ 13.8 | \$ 31.3 | (56%) |
| Net income | \$ 5.3 | \$ 3.5 | 52% | \$ 14.3 | \$ 26.4 | (46%) |
| Diluted net income per share | \$ 0.09 | \$ 0.06 | \$ 0.03 | \$ 0.24 | \$ 0.47 | \$ (0.23) |
| Operating cash flow | \$ 6.2 | \$ 6.5 | \$ (0.3) | \$ 13.5 | \$ 16.9 | \$ (3.3) |
| Cash and investments | \$ 108.0 | \$ 114.7 | (6%) | \$ 108.0 | \$ 114.7 | (6%) |

⁽¹⁾ In June 2020, the Company terminated the VorTeq License Agreement with Schlumberger Technology Corporation. As there were no future performance obligations to be recognized under the VorTeq License Agreement after the effective date, the Company recognized in full the remaining deferred revenue balance of \$24.4 million in the second quarter of fiscal year 2020. In addition, no future license and development revenue was recognized under the VorTeq License Agreement after the second quarter of fiscal year 2020.

Product Channel Revenue

| | Three Months Ended December 31, | | | Years Ended December 31, | | |
|---------------------------------|------------------------------------------|----------------|----------|--------------------------|----------------|----------|
| | 2021 | 2020 | Variance | 2021 | 2020 | Variance |
| | <i>(In millions, except percentages)</i> | | | | | |
| Megaproject | \$ 25.1 | \$ 19.6 | 28% | \$ 75.4 | \$ 66.8 | 13% |
| Original equipment manufacturer | 5.7 | 4.1 | 37% | 17.6 | 15.8 | 11% |
| Aftermarket | 2.8 | 2.7 | 5% | 10.9 | 9.5 | 15% |
| Total product revenue | <u>\$ 33.6</u> | <u>\$ 26.4</u> | 27% | <u>\$ 103.9</u> | <u>\$ 92.1</u> | 13% |

“We comfortably exceeded our guidance for the year by 3% following historic high fourth quarter revenue. In addition, operating expenditures were only 55% of product revenue, which is a significant decrease from 2020 and within guidance,” said Joshua Ballard, Chief Financial Officer of Energy Recovery. “Operating cash flow remained largely in line with 2020 even after making significant investments in inventories to protect against supply chain disruptions and growing inflation. We continue to show improvement in our base operations, increasing profitability and cash flows as we follow through on our strategy of disciplined growth. Overall, a very strong financial year for Energy Recovery.”

Fourth Quarter 2021 Business Highlights

Water Segment

1. We successfully balanced supply chain challenges to deliver record-breaking product revenue of \$33.6 million.
2. Product gross margin came within guidance and in-line with recent quarters. We continue to invest in improving our PX devices and modernizing our manufacturing to ensure continued high-quality production with even greater efficiency.
3. Operating expenses in this segment increased quarter-over-quarter due primarily to an increase in employee-related costs and R&D expenses.

Emerging Technologies Segment

1. We continued our efforts to advance our overall PX and CO₂ commercial refrigeration technology as well as to prepare and enhance our production, safety and testing measures for successful deployment of our first CO₂ commercial installation.
2. Operating expenses in this segment increased quarter-over-quarter, due primarily to an increase in expenditures for development of industrial and commercial refrigeration, including higher employee-related costs, partially offset by lower VorTeq-related expenses.

Fiscal Year 2021 Business Highlights

1. New large greenfield plant installations and brownfield retrofits, and plant level resupply of critical components drove product revenues to exceed \$100 million.
2. Announced the first contract of our PX G1300 to a U.S. supermarket chain.
3. Announced contracts to supply the Ultra PX to support the IWW treatment operations of two Chinese lithium-ion battery manufacturing facilities, as well as contracts with chemical manufacturing, landfill leachate and natural gas plants in China.
4. Announced our joint-marketing effort with a global leader in purification and specialty-separation technologies, to spread the knowledge of advanced solutions improving the efficiency of many industrial wastewater treatment systems and the benefits of pairing our Ultra PX with third-party membranes in industrial wastewater treatment systems.
5. Entered into a new \$50 million credit agreement with JPMorgan Chase Bank, N.A. in December 2021 to replace our existing \$16 million loan and pledge agreement with Citibank, N.A. This new credit agreement will provide us with additional capital for growth and expansion into emerging markets utilizing our pressure exchanger technology.

Bottom Line Summary

On a quarterly basis, we reported a net income of \$5.3 million, or \$0.09 per diluted share, for the fourth quarter ended December 31, 2021, compared to a net income of \$3.5 million, or \$0.06 per diluted share, for the fourth quarter ended December 31, 2020.

On an annual basis, we reported a net income of \$14.3 million, or \$0.24 per diluted share, for the year ended December 31, 2021, compared to a net income of \$26.4 million, or \$0.47 per diluted share, for the year ended December 31, 2020, which included license and development revenue of \$26.9 million related to the VorTeq License Agreement which was terminated in 2020.

Cash Flow Highlights

The Company finished the fourth quarter ended December 31, 2021 with cash and cash equivalents of \$74.4 million, and short-term and long-term investments of \$33.6 million, which represents a combined total of \$108.0 million. In the third quarter of 2021, we began shifting our investment strategy from holding cash in money market funds to investing in debt securities due to the strengthening of the economic environment.

Forward-Looking Statements

Certain matters discussed in this press release and on the conference call are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including the Company’s belief that the Company’s products play an important role in reliably delivering energy, emissions and cost savings for critical industries; that the Company is well down the clear and disciplined path for our industrial wastewater treatment and refrigeration business; and that we are poised to continue our growth in the years to come. These forward-looking statements are based on information currently available to us and on management’s beliefs, assumptions, estimates, or projections and are not guarantees of future events or results. Potential risks and uncertainties include any other factors that may have been discussed herein regarding the risks and uncertainties of the Company’s business, and the risks discussed under “Risk Factors” in the Company’s Form 10-K filed with the U.S. Securities and Exchange Commission (“SEC”) for the year ended December 31, 2020, as well as other reports filed by the Company with the SEC from time to time. Because such forward-looking statements involve risks and uncertainties, the Company’s actual results may differ materially from the predictions in these forward-looking statements. All forward-looking statements are made as of today, and the Company assumes no obligation to update such statements.

Use of Non-GAAP Financial Measures

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

Conference Call to Discuss Fourth Quarter and Year End 2021 Financial Results

LIVE CONFERENCE CALL:

Thursday, February 24, 2022, 2:00 PM PT / 5:00 PM ET

Listen-only, US / Canada Toll-Free: +1 (877) 709-8150

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

Access code: 13726065

CONFERENCE CALL REPLAY:

Expiration: Thursday, March 24, 2022

US / Canada Toll-Free: +1 (877) 660-6853

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

Access code: 13726065

Investors may also access the live call or the replay over the internet at ir.energyrecovery.com/websites/energyrecover/English/2200/calendar.html. The replay will be available approximately three hours after the live call concludes.

Disclosure Information

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

About Energy Recovery

Energy Recovery creates technologies that solve complex challenges for industrial fluid-flow markets worldwide. Building on our pressure exchanger technology platform, we design and manufacture solutions that make industrial processes more efficient and sustainable. What began as a game-changing invention for desalination has grown into a global business accelerating the environmental sustainability of customers' operations in multiple industries. Headquartered in the San Francisco Bay Area, Energy Recovery has manufacturing, research and development facilities across California and Texas with sales and on-site technical support available globally. For more information, please visit www.energyrecovery.com.

Contact

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ENERGY RECOVERY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | December 31, 2021 | December 31, 2020 |
|-----------------------------------------------|------------------------------|------------------------------|
| <i>(In thousands)</i> | | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 74,358 | \$ 94,255 |
| Short-term investments | 31,332 | 20,446 |
| Accounts receivable, net | 20,615 | 11,792 |
| Inventories, net | 20,383 | 11,748 |
| Prepaid expenses and other assets | 5,075 | 4,950 |
| Total current assets | 151,763 | 143,191 |
| Long-term investments | 2,298 | — |
| Deferred tax assets, net | 11,421 | 11,030 |
| Property and equipment, net | 20,361 | 20,176 |
| Operating lease, right of use asset | 14,653 | 16,090 |
| Goodwill and other intangible assets | 12,827 | 12,839 |
| Other assets, non-current | 367 | 988 |
| Total assets | \$ 213,690 | \$ 204,314 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 909 | \$ 1,118 |
| Accrued expenses and other liabilities | 13,994 | 11,816 |
| Lease liabilities | 1,564 | 1,243 |
| Contract liabilities | 3,318 | 1,552 |
| Total current liabilities | 19,785 | 15,729 |
| Lease liabilities, non-current | 14,879 | 16,443 |
| Other liabilities, non-current | 247 | 518 |
| Total liabilities | 34,911 | 32,690 |
| Stockholders' equity: | | |
| Common stock | 64 | 62 |
| Additional paid-in capital | 195,593 | 179,161 |
| Accumulated other comprehensive (loss) income | (149) | 53 |
| Treasury stock | (53,832) | (30,486) |
| Retained earnings | 37,103 | 22,834 |
| Total stockholders' equity | 178,779 | 171,624 |
| Total liabilities and stockholders' equity | \$ 213,690 | \$ 204,314 |

ENERGY RECOVERY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended December 31, | | Years Ended December 31, | |
|--------------------------------------------------|----------------------------------------------|-----------------|--------------------------|------------------|
| | 2021 | 2020 | 2021 | 2020 |
| | <i>(In thousands, except per share data)</i> | | | |
| Product revenue | \$ 33,576 | \$ 26,426 | \$ 103,904 | \$ 92,091 |
| Product cost of revenue | 10,419 | 8,200 | 32,670 | 28,249 |
| Product gross profit | <u>23,157</u> | <u>18,226</u> | <u>71,234</u> | <u>63,842</u> |
| License and development revenue | — | — | — | 26,895 |
| Operating expenses: | | | | |
| General and administrative | 6,530 | 6,768 | 25,162 | 25,519 |
| Sales and marketing | 3,924 | 2,351 | 12,160 | 8,127 |
| Research and development | 6,727 | 5,290 | 20,069 | 23,449 |
| Amortization of intangible assets | 3 | 4 | 12 | 16 |
| Impairment of long-lived assets | — | — | — | 2,332 |
| Total operating expenses | <u>17,184</u> | <u>14,413</u> | <u>57,403</u> | <u>59,443</u> |
| Income from operations | <u>5,973</u> | <u>3,813</u> | <u>13,831</u> | <u>31,294</u> |
| Other income (expense): | | | | |
| Interest income | 25 | 104 | 204 | 913 |
| Other non-operating expense, net | (10) | (15) | (31) | (74) |
| Total other income, net | <u>15</u> | <u>89</u> | <u>173</u> | <u>839</u> |
| Income before income taxes | 5,988 | 3,902 | 14,004 | 32,133 |
| (Benefit from) provision for income taxes | 725 | 449 | (265) | 5,746 |
| Net income | <u>\$ 5,263</u> | <u>\$ 3,453</u> | <u>\$ 14,269</u> | <u>\$ 26,387</u> |
| Net income per share: | | | | |
| Basic | \$ 0.09 | \$ 0.06 | \$ 0.25 | \$ 0.47 |
| Diluted | \$ 0.09 | \$ 0.06 | \$ 0.24 | \$ 0.47 |
| Number of shares used in per share calculations: | | | | |
| Basic | 56,818 | 56,113 | 56,993 | 55,709 |
| Diluted | 58,502 | 57,261 | 58,723 | 56,637 |

ENERGY RECOVERY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Years Ended December 31, | |
|------------------------------------------------------------------------------|--------------------------|------------------|
| | 2021 | 2020 |
| | <i>(In thousands)</i> | |
| Cash flows from operating activities: | | |
| Net income | \$ 14,269 | \$ 26,387 |
| Adjustments to reconcile net income to cash provided by operating activities | | |
| Stock-based compensation | 6,053 | 4,787 |
| Depreciation and amortization | 5,939 | 5,299 |
| Amortization of premiums and discounts on investments | 570 | 390 |
| Deferred income taxes | (391) | 5,867 |
| Impairment of long-lived assets | — | 2,332 |
| Other non-cash adjustments | 955 | 395 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (8,823) | 1,098 |
| Contract assets | 1,399 | (1,200) |
| Inventories, net | (8,766) | (1,622) |
| Prepaid and other assets | 314 | 415 |
| Accounts payable | (155) | (205) |
| Accrued expenses and other liabilities | 396 | 153 |
| Contract liabilities | 1,766 | (27,226) |
| Net cash provided by operating activities | <u>13,526</u> | <u>16,870</u> |
| Cash flows from investing activities: | | |
| Sales of marketable securities | — | 10,573 |
| Maturities of marketable securities | 35,019 | 55,667 |
| Purchases of marketable securities | (48,903) | (12,855) |
| Capital expenditures | (6,679) | (6,785) |
| Net cash (used in) provided by investing activities | <u>(20,563)</u> | <u>46,600</u> |
| Cash flows from financing activities: | | |
| Net proceeds from issuance of common stock | 10,554 | 4,397 |
| Tax payment for employee shares withheld | — | (23) |
| Repurchase of common stock | (23,346) | — |
| Net cash (used in) provided by financing activities | <u>(12,792)</u> | <u>4,374</u> |
| Effect of exchange rate differences on cash and cash equivalents | (68) | 26 |
| Net change in cash, cash equivalents and restricted cash | <u>(19,897)</u> | <u>67,870</u> |
| Cash, cash equivalents and restricted cash, beginning of year | 94,358 | 26,488 |
| Cash, cash equivalents and restricted cash, end of year | <u>\$ 74,461</u> | <u>\$ 94,358</u> |

ENERGY RECOVERY, INC.
SUPPLEMENTAL FINANCIAL INFORMATION
(Unaudited)

Three Months Ended December 31, 2021 **Three Months Ended December 31, 2020 (Recast)**

| | Three Months Ended December 31, 2021 | | | | Three Months Ended December 31, 2020 (Recast) | | | |
|-----------------------------------|---------------------------------------------|------------------------------|------------------|--------------|------------------------------------------------------|------------------------------|------------------|--------------|
| | Water | Emerging Technologies | Corporate | Total | Water | Emerging Technologies | Corporate | Total |
| | <i>(In thousands)</i> | | | | | | | |
| Product revenue | \$ 33,576 | \$ — | \$ — | \$ 33,576 | \$ 26,396 | \$ 30 | \$ — | \$ 26,426 |
| Product cost of revenue | 10,419 | — | — | 10,419 | 8,190 | 10 | — | 8,200 |
| Product gross profit | 23,157 | — | — | 23,157 | 18,206 | 20 | — | 18,226 |
| Operating expenses | | | | | | | | |
| General and administrative | 1,562 | 1,308 | 3,660 | 6,530 | 2,755 | 1,409 | 2,604 | 6,768 |
| Sales and marketing | 3,024 | 202 | 698 | 3,924 | 1,651 | 291 | 409 | 2,351 |
| Research and development | 731 | 5,996 | — | 6,727 | 388 | 4,902 | — | 5,290 |
| Amortization of intangible assets | 3 | — | — | 3 | 4 | — | — | 4 |
| Total operating expenses | 5,320 | 7,506 | 4,358 | 17,184 | 4,798 | 6,602 | 3,013 | 14,413 |
| Operating income (loss) | \$ 17,837 | \$ (7,506) | \$ (4,358) | 5,973 | \$ 13,408 | \$ (6,582) | \$ (3,013) | 3,813 |
| Other income, net | | | | 15 | | | | 89 |
| Income before income taxes | | | | \$ 5,988 | | | | \$ 3,902 |

Year Ended December 31, 2021

Year Ended December 31, 2020 (Recast)

| | Year Ended December 31, 2021 | | | | Year Ended December 31, 2020 (Recast) | | | |
|-----------------------------------|-------------------------------------|------------------------------|------------------|--------------|----------------------------------------------|------------------------------|------------------|--------------|
| | Water | Emerging Technologies | Corporate | Total | Water | Emerging Technologies | Corporate | Total |
| | <i>(In thousands)</i> | | | | | | | |
| Product revenue | \$ 103,851 | \$ 53 | \$ — | \$ 103,904 | \$ 92,061 | \$ 30 | \$ — | \$ 92,091 |
| Product cost of revenue | 32,670 | — | — | 32,670 | 28,239 | 10 | — | 28,249 |
| Product gross profit | 71,181 | 53 | — | 71,234 | 63,822 | 20 | — | 63,842 |
| License and development revenue | — | — | — | — | — | 26,895 | — | 26,895 |
| Operating expenses | | | | | | | | |
| General and administrative | 6,330 | 5,162 | 13,670 | 25,162 | 9,172 | 5,410 | 10,937 | 25,519 |
| Sales and marketing | 9,559 | 937 | 1,664 | 12,160 | 5,958 | 1,192 | 977 | 8,127 |
| Research and development | 2,589 | 17,480 | — | 20,069 | 2,973 | 20,476 | — | 23,449 |
| Amortization of intangible assets | 12 | — | — | 12 | 16 | — | — | 16 |
| Impairment of long-lived assets | — | — | — | — | — | 2,332 | — | 2,332 |
| Total operating expenses | 18,490 | 23,579 | 15,334 | 57,403 | 18,119 | 29,410 | 11,914 | 59,443 |
| Operating income (loss) | \$ 52,691 | \$ (23,526) | \$ (15,334) | 13,831 | \$ 45,703 | \$ (2,495) | \$ (11,914) | 31,294 |
| Other income, net | | | | 173 | | | | 839 |
| Income before income taxes | | | | \$ 14,004 | | | | \$ 32,133 |

ENERGY RECOVERY, INC.
RECONCILIATION OF NON-GAAP FINANCIAL MEASURES
(Unaudited)

This press release includes certain non-GAAP financial information because we plan and manage our business using such information. Our Non-GAAP income (loss) from operations is determined by subtracting the license and development revenue and adding back the impairment of long-lived assets, both related to the VorTeq License Agreement activities.

| | Years Ended December 31, | | |
|----------------------------------------|--------------------------|-----------------|-------------------|
| | 2021 | 2020 | 2019 |
| | <i>(In thousands)</i> | | |
| GAAP income from operations | \$ 13,831 | \$ 31,294 | \$ 10,364 |
| Adjustments: | | | |
| License and development revenue | — | (26,895) | (14,108) |
| Impairment of long-lived assets | — | 2,332 | — |
| Non-GAAP income (loss) from operations | <u>\$ 13,831</u> | <u>\$ 6,731</u> | <u>\$ (3,744)</u> |