UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2026

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____________ to __________

Commission File Number: 001-34112

Energy Recovery, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**01-0616867**
(State or Other Jurisdiction of Incorporation)	*(I.R.S. Employer Identification No.)*

1717 Doolittle Drive, San Leandro, California 94577
(Address of Principal Executive Offices) (Zip Code)

(510) 483-7370
(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.001 par value	**ERII**	**The Nasdaq Stock Market LLC**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d)` of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ 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. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes ☐ No ☑

As of April 30, 2026, there were 51,545,259 shares of the registrant's common stock outstanding.

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Forward-Looking Information

This Quarterly Report on Form 10-Q for the three months ended March 31, 2026, including Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" (the "MD&A"), contains forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements in this report include, but are not limited to, statements about our expectations, objectives, anticipations, plans, hopes, beliefs, intentions or strategies regarding the future.

Forward-looking statements represent our current expectations about future events, are based on assumptions, and involve risks and uncertainties. If the risks or uncertainties occur or the assumptions prove incorrect, then our results may differ materially from those set forth or implied by the forward-looking statements. Our forward-looking statements are not guarantees of future performance or events.

Words such as "expects," "anticipates," "aims," "projects," "intends," "plans," "believes," "estimates," "seeks," "continue," "could," "may," "potential," "should," "will," "would," and variations of such words and similar expressions are also intended to identify such forward-looking statements. These forward-looking statements are subject to risks, uncertainties and assumptions that are difficult to predict; therefore, actual results may differ materially and adversely from those expressed in any forward-looking statement. Readers are directed to risks and uncertainties identified under Part II, Item 1A, "Risk Factors," and elsewhere in this report for factors that may cause actual results to be different from those expressed in these forward-looking statements. Except as required by law, we undertake no obligation to revise or update publicly any forward-looking statement for any reason.

Forward-looking statements in this report include, without limitation, statements about the following:

- our belief that our PX offers market-leading value with the highest technological and economic benefit;
- our belief that leveraging our pressure exchanger technology will unlock new commercial opportunities in the future;
- our belief that our technology helps our customer achieve environmentally sustainable operations;
- our expectation that sales outside of the U.S. will remain a significant portion of our revenue;
- the scale of the environmental impact from the use of our solutions;
- the timing of our receipt of payment for products or services from our customers;
- our belief that our existing cash and cash equivalents, our short and/or long-term investments, and the ongoing cash generated from our operations, will be sufficient to meet our anticipated liquidity needs for the foreseeable future, with the exception of a decision to enter into an acquisition and/or fund investments in our latest technology arising from rapid market adoption that could require us to seek additional equity or debt financing;
- our expectations relating to the amount and timing of recognized revenue from our projects;
- our expectation that we will continue to receive a tax benefit related to U.S. federal foreign-derived intangible income and research and development tax credit;
- the outcome of proceedings, lawsuits, disputes and claims;
- the impact of losses due to indemnification obligations;
- other factors disclosed under the MD&A and Part I, Item 3, "Quantitative and Qualitative Disclosures about Market Risk," and elsewhere in this Form 10-Q.

You should not place undue reliance on these forward-looking statements. These forward-looking statements reflect management's opinions only as of the date of the filing of this Quarterly Report on Form 10-Q. All forward-looking statements included in this document are subject to additional risks and uncertainties further discussed under Part II, Item 1A, "Risk Factors," and are based on information available to us as of May 6, 2026. We assume no obligation to update any such forward-looking statements. Certain risks and uncertainties could cause actual results to differ materially from those projected in the forward-looking statements. These forward-looking statements are disclosed from time to time in our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed with, or furnished to, the Securities and Exchange Commission (the "SEC"), as well as in Part II, Item 1A, "Risk Factors," within this Quarterly Report on Form 10-Q.

It is important to note that our actual results could differ materially from the results set forth or implied by our forward-looking statements. The factors that could cause our actual results to differ from those included in such forward-looking statements are set forth under the heading Item 1A, "Risk Factors," in our Quarterly Reports on Form 10-Q, in our Annual Reports on Form 10-K, and from time-to-time, in our results disclosed in our Current Reports on Form 8-K. In addition, when preparing the MD&A below, we presume the readers have access to and have read the MD&A in our Annual Report on Form 10-K, pursuant to Instruction 2 to paragraph (b) of Item 303 of Regulation S-K.

We provide our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements on Schedule 14A, Forms 3, 4 and 5 filed by, or on behalf of, directors, executive officers and certain large shareholders, and any amendments to those documents filed or furnished pursuant to the Securities Exchange Act of 1934, free of charge on the Investor Relations section of our website, www.energyrecovery.com. These filings will become available as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. From time to time, we may use our website as a channel of distribution of material company information.

We also make available in the Investor Relations section of our website our corporate governance documents including our code of business conduct and ethics and the charters of the audit, compensation and nominating and governance committees. These documents, as well as the information on the website, are not intended to be part of this Quarterly Report on Form 10-Q. We use the Investor Relations section of our website as a means of complying with our disclosure obligations under Regulation FD. Accordingly, you should monitor the Investor Relations section of our website in addition to following our press releases, SEC filings and public conference calls and webcasts.

PART I — FINANCIAL INFORMATION

Item 1 — Financial Statements (unaudited)

ENERGY RECOVERY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2026	December 31, 2025
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 50,116	$ 48,076
Short-term investments	36,035	27,173
Accounts receivable, net	38,941	76,639
Inventories, net	30,886	24,260
Prepaid expenses and other assets	5,084	5,063
Total current assets	161,062	181,211
Long-term investments	5,991	8,034
Deferred tax assets, net	10,115	8,267
Property and equipment, net	12,761	12,934
Operating lease, right of use asset	7,194	7,701
Goodwill	11,128	12,790
Other assets, non-current	737	577
Total assets	$ 208,988	$ 231,514
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,790	$ 2,114
Accrued expenses and other liabilities	10,890	11,670
Lease liabilities	2,591	2,531
Contract liabilities	1,080	1,039
Total current liabilities	17,351	17,354
Lease liabilities, non-current	6,254	6,898
Other liabilities, non-current	1,098	1,070
Total liabilities	24,703	25,322
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock	67	67
Additional paid-in capital	245,663	244,397
Accumulated other comprehensive loss	(285)	(94)
Treasury stock	(177,577)	(166,846)
Retained earnings	116,417	128,668
Total stockholders' equity	184,285	206,192
Total liabilities and stockholders' equity	$ 208,988	$ 231,514

See Accompanying Notes to Condensed Consolidated Financial Statements

ENERGY RECOVERY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
	2026	2025
	(In thousands, except per share data)	
Revenue	$ 9,706	$ 8,065
Cost of revenue	5,372	3,607
Restructuring - inventory reserve	1,632	—
Gross profit	2,702	4,458
Operating expenses:		
General and administrative	6,455	8,574
Sales and marketing	5,119	4,906
Research and development	2,789	3,001
Restructuring charges	1,536	539
Impairment of goodwill	1,662	—
Total operating expenses	17,561	17,020
Loss from operations	(14,859)	(12,562)
Other income:		
Interest income	725	1,073
Other non-operating income, net	108	6
Total other income, net	833	1,079
Loss before income taxes	(14,026)	(11,483)
Benefit from income taxes	(1,775)	(1,603)
Net loss	$ (12,251)	$ (9,880)
Net loss per share:		
Basic and diluted	$ (0.23)	$ (0.18)
Number of shares used in per share calculations:		
Basic and diluted	52,660	54,902

See Accompanying Notes to Condensed Consolidated Financial Statements

ENERGY RECOVERY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended March 31,	
	2026	2025
	(In thousands)	
Net loss	$ (12,251)	$ (9,880)
Other comprehensive loss, net of tax		
Foreign currency translation adjustments	(123)	(16)
Unrealized loss on investments	(68)	(7)
Total other comprehensive loss, net of tax	(191)	(23)
Comprehensive loss	$ (12,442)	$ (9,903)

See Accompanying Notes to Condensed Consolidated Financial Statements

ENERGY RECOVERY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Three Months Ended March 31, 2026	2025
	(In thousands, except shares)	
Common stock		
Beginning balance	$ 67	$ 66
Issuance of common stock	—	1
Ending balance	67	67
Additional paid-in capital		
Beginning balance	244,397	235,010
Issuance of common stock	—	1,091
Shares held for tax withholdings	(682)	(476)
Stock-based compensation	1,948	1,925
Ending balance	245,663	237,550
Accumulated other comprehensive (loss) income		
Beginning balance	(94)	98
Other comprehensive loss		
Foreign currency translation adjustments	(123)	(16)
Unrealized loss on investments	(68)	(7)
Total other comprehensive loss, net	(191)	(23)
Ending balance	(285)	75
Treasury stock		
Beginning balance	(166,846)	(130,870)
Common stock repurchased	(10,731)	(4,535)
Ending balance	(177,577)	(135,405)
Retained earnings		
Beginning balance	128,668	105,706
Net loss	(12,251)	(9,880)
Ending balance	116,417	95,826
Total stockholders' equity	$ 184,285	$ 198,113
Common stock issued (shares)		
Beginning balance	66,774,081	66,182,906
Issuance of common stock	236,340	350,146
Ending balance	67,010,421	66,533,052
Treasury stock (shares)		
Beginning balance	13,967,259	11,397,045
Common stock repurchased	960,303	279,295
Ending balance	14,927,562	11,676,340
Total common stock outstanding (shares)		
Beginning Balance	52,806,822	54,785,861
Issuance of common stock	236,340	350,146
Common stock repurchased	(960,303)	(279,295)
Ending Balance	52,082,859	54,856,712

See Accompanying Notes to Condensed Consolidated Financial Statements

ENERGY RECOVERY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2026	2025
	(In thousands)	
Cash flows from operating activities:		
Net loss	$ (12,251)	$ (9,880)
Adjustments to reconcile net loss to cash provided by operating activities		
Stock-based compensation	1,963	1,963
Depreciation and amortization	978	962
Accretion (amortization) of discounts (premiums) on investments	(82)	(231)
Deferred income taxes	(1,848)	(1,641)
Impairment of long-lived assets	—	353
Impairment of goodwill	1,662	—
Restructuring - inventory reserve	1,632	—
Other non-cash adjustments	(36)	21
Changes in operating assets and liabilities:		
Accounts receivable, net	37,698	31,677
Contract assets	(54)	378
Inventories, net	(8,400)	(7,645)
Prepaid and other assets	38	(37)
Accounts payable	561	176
Accrued expenses and other liabilities	(865)	(6,248)
Contract liabilities	41	830
Net cash provided by operating activities	21,037	10,678
Cash flows from investing activities:		
Maturities of marketable securities	10,950	27,224
Purchases of marketable securities	(17,755)	(14,369)
Capital expenditures	(814)	(191)
Proceeds from sales of fixed assets	13	10
Net cash (used in) provided by investing activities	(7,606)	12,674
Cash flows from financing activities:		
Net proceeds from issuance of common stock	—	1,092
Tax payment for employee shares withheld	(682)	(476)
Repurchase of common stock	(10,660)	(4,490)
Payment of excise tax associated with repurchase of common stock	(34)	—
Net cash used in financing activities	(11,376)	(3,874)
Effect of exchange rate differences on cash and cash equivalents	(15)	33
Net change in cash, cash equivalents and restricted cash	2,040	19,511
Cash, cash equivalents and restricted cash, beginning of year	48,076	29,757
Cash, cash equivalents and restricted cash, end of period	$ 50,116	$ 49,268

See Accompanying Notes to Condensed Consolidated Financial Statements

ENERGY RECOVERY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 — Description of Business and Significant Accounting Policies

Energy Recovery, Inc. and its wholly-owned subsidiaries (the "Company" or "Energy Recovery") designs and manufactures world-class energy-saving technology for critical infrastructure that communities rely on every day, driving a more resilient and sustainable future. Leveraging the Company's pressure exchanger technology, which generates little to no emissions when operating, the Company believes its solutions lower costs, save energy, reduce waste, and minimize emissions for companies across a variety of commercial and industrial processes. As the world coalesces around the urgent need to address climate change and its impacts, the Company is helping companies reduce their energy consumption in their industrial processes, which in turn, reduces their carbon footprint. The Company believes that its customers do not have to sacrifice quality and cost savings for sustainability and the Company is committed to developing solutions that drive long-term value – both financial and environmental. The Company's solutions are marketed, sold in, and developed for, the fluid-flow and gas markets, such as seawater and wastewater desalination, natural gas, chemical processing and CO_2-based refrigeration systems, under the trademarks ERI®, PX®, Pressure Exchanger®, PX® Pressure Exchanger® ("PX"), Ultra High-Pressure PX, PX G™, PX G1300®, PX PowerTrain™, AT™, and Aquabold™. The Company owns, manufactures and/or develops its solutions, in whole or in part, in the United States of America (the "U.S.").

Basis of Presentation

The Condensed Consolidated Financial Statements include the accounts of Energy Recovery, Inc. and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

The accompanying Condensed Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to such rules and regulations. The December 31, 2025 Condensed Consolidated Balance Sheet was derived from audited financial statements and may not include all disclosures required by GAAP; however, the Company believes that the disclosures are adequate to make the information presented not misleading.

The March 31, 2026 unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and the notes thereto for the fiscal year ended December 31, 2025 included in the Company's Annual Report on Form 10-K filed with the SEC on February 25, 2026 (the "2025 Annual Report").

The results of operations for the interim periods are not necessarily indicative of the operating results for the full fiscal year or any future periods.

Reclassifications

Certain prior period amounts have been reclassified in certain notes to the Condensed Consolidated Financial Statements to conform to the current period presentation.

ENERGY RECOVERY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Use of Estimates

The preparation of Condensed Consolidated Financial Statements, in conformity with GAAP, requires the Company's management to make judgments, assumptions and estimates that affect the amounts reported in the Condensed Consolidated Financial Statements and accompanying notes.

The accounting policies that reflect the Company's significant estimates and judgments and that the Company believes are the most critical to aid in fully understanding and evaluating its reported financial results are revenue recognition; stock-based compensation expense; equipment useful life and valuation; goodwill valuation and impairment; inventory valuation and allowances, deferred taxes and valuation allowances on deferred tax assets; and evaluation and measurement of contingencies. Those estimates could change, and as a result, actual results could differ materially from those estimates.

The Company is not aware of any specific event or circumstance that would require an update to its estimates or judgments or a revision of the carrying value of its assets or liabilities as of May 6, 2026, the date of issuance of this Quarterly Report on Form 10-Q. These estimates may change, as new events occur and additional information is obtained. Actual results could differ materially from these estimates under different assumptions or conditions. The Company undertakes no obligation to publicly update these estimates for any reason after the date of this Quarterly Report on Form 10-Q, except as required by law.

Significant Accounting Policies

There have been no material changes to the Company's significant accounting policies in Note 1, "Description of Business and Significant Accounting Policies - Significant Accounting Policies," of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data," of the 2025 Annual Report.

Recently Adopted Accounting Pronouncement

In July 2025, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update *2025-05*, *Measurement of Credit Losses for Accounts Receivable and Contract Assets* ("ASU 2025-05"). ASU 2025-05 provides a practical expedient for measuring expected credit losses on current accounts receivables and contract assets by assuming that conditions at the balance sheet date remain unchanged over the life of the asset. The Company adopted ASU 2025-05 on January 1, 2026 and the adoption did not have a material impact on results of operations, cash flows, or financial condition.

Recently Issued Accounting Pronouncements Not Yet Adopted

There have been no issued accounting pronouncements that have not yet been adopted during the three months ended March 31, 2026 that apply to the Company other than the pronouncements disclosed in Note 1, "Description of Business and Significant Accounting Policies - Recently Issued Accounting Pronouncements Not Yet Adopted," of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data," of the 2025 Annual Report.

ENERGY RECOVERY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2 — Revenue

Disaggregation of Revenue

The following table presents the disaggregated revenues by segment, and within each segment, by geographical market based on the customer "shipped to" address, and by channel customers. Sales and usage-based taxes are excluded from revenues. See Note 9, "Segment Reporting," for further discussion related to the Company's segments.

	Three Months Ended March 31, 2026				Three Months Ended March 31, 2025			
	Desalination	Wastewater	Emerging Technologies	Total	Desalination	Wastewater	Emerging Technologies	Total
	(In thousands)							
Geographical market								
Middle East	$ 2,506	$ —	$ 77	$ 2,583	$ 2,014	$ —	$ 1	$ 2,015
Africa	196	—	—	196	866	—	—	$ 866
Other	6,205	601	121	6,927	4,879	305	—	$ 5,184
Total revenue	$ 8,907	$ 601	$ 198	$ 9,706	$ 7,759	$ 305	$ 1	$ 8,065
Channel								
Original equipment manufacturer	$ 5,866	$ 601	$ 121	$ 6,588	$ 3,813	$ 188	$ —	$ 4,001
Aftermarket	2,677	—	77	2,754	3,910	117	1	$ 4,028
Megaproject	364	—	—	364	36	—	—	$ 36
Total revenue	$ 8,907	$ 601	$ 198	$ 9,706	$ 7,759	$ 305	$ 1	$ 8,065

Contract Balances

The following table presents contract balances by category.

	March 31, 2026	December 31, 2025
	(In thousands)	
Accounts receivable, net	$ 38,941	$ 76,639
Contract assets, current (included in prepaid expenses and other assets)	$ 1,701	$ 1,647
Contract liabilities:		
Contract liabilities, current	$ 1,080	$ 1,039
Total contract liabilities	$ 1,080	$ 1,039

Contract Liabilities

The Company records contract liabilities, which consist of customer deposits and deferred revenue, when cash payments are received in advance of the Company's performance. The following table presents the change in contract liability balances during the reported periods.

	March 31, 2026	December 31, 2025
	(In thousands)	
Contract liabilities, beginning of year	$ 1,039	$ 571
Revenue recognized	(462)	(297)
Cash received, excluding amounts recognized as revenue during the period	503	765
Contract liabilities, end of period	$ 1,080	$ 1,039

ENERGY RECOVERY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Remaining Performance Obligations

As of March 31, 2026, the following table presents the revenue that is expected to be recognized related to performance obligations that are unsatisfied or partially unsatisfied.

Period	Remaining Performance Obligations
	(In thousands)
2026 (remaining nine months)	$ 10,461
2027	6,587
Total	$ 17,048

Note 3 — Loss Per Share

Net loss for the reported period is divided by the weighted average number of basic and diluted common shares outstanding during the reported period to calculate the basic and diluted loss per share, respectively. Outstanding stock options to purchase common shares, unvested restricted stock units ("RSUs"), and unvested performance restricted stock units ("PRSUs") are collectively referred to as "equity awards."

- *Basic loss per share* is computed using the weighted average number of common shares outstanding during the period.
- *Diluted loss per share* is computed using the weighted average number of common and potentially dilutive shares outstanding during the period, using the treasury stock method. Any anti-dilutive effect of equity awards outstanding is not included in the computation of diluted loss per share.

The following table presents the computation of basic and diluted loss per share.

	Three Months Ended March 31,	
	2026	2025
	(In thousands, except per share amounts)	
Numerator		
Net loss	$ (12,251)	$ (9,880)
Denominator (weighted average shares)		
Basic and dilutive common shares outstanding	52,660	54,902
Diluted common shares outstanding	52,660	54,902
Loss Per Share		
Basic and dilutive	$ (0.23)	$ (0.18)

The following table presents the equity awards that are excluded from diluted loss per share because (i) their effect would have been anti-dilutive, or (ii) the equity awards were contingent upon conditions for issuance which were not satisfied as of March 31, 2026.

	Three Months Ended March 31,	
	2026	2025
	(In thousands)	
Anti-dilutive equity award shares	3,305	2,806

ENERGY RECOVERY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 4 — Other Financial Information

Cash, Cash Equivalents and Restricted Cash

The Condensed Consolidated Statements of Cash Flows explain the changes in the total of cash, cash equivalents and restricted cash. The following table presents a reconciliation of cash, cash equivalents and restricted cash, such as cash amounts deposited in restricted cash accounts in connection with the Company's credit cards, reported for each period within the Condensed Consolidated Balance Sheets and the Condensed Consolidated Statements of Cash Flows that sum to the total of such amounts.

	March 31, 2026	December 31, 2025	March 31, 2025
		(In thousands)	
Cash and cash equivalents	$ 50,116	$ 48,076	$ 49,137
Restricted cash, non-current (included in other assets, non-current)	—	—	131
Total cash, cash equivalents and restricted cash	$ 50,116	$ 48,076	$ 49,268

Inventories, net

Inventory amounts are stated at the lower of cost or net realizable value, using the first-in, first-out method.

	March 31, 2026	December 31, 2025
	(In thousands)	
Raw materials	$ 9,688	$ 8,289
Work in process	6,879	6,270
Finished goods	17,035	10,768
Inventories, gross	33,602	25,327
Valuation adjustments for excess and obsolete inventory	(2,716)	(1,067)
Inventories, net	$ 30,886	$ 24,260

Goodwill

Goodwill is tested for impairment annually in the third quarter of the Company's fiscal year or more frequently if indicators of potential impairment exist. The Company monitors the industries in which it operates and reviews its business performance for indicators of potential impairment. The recoverability of goodwill is measured at the reporting unit level, which represents the operating segment.

In February 2026, the Company wound down operations of the CO_2 retail grocery business within its Emerging Technologies segment due to a fundamental change in the outlook of the business. The Company considered the wind down to be an indicator of impairment and performed a quantitative impairment test using the discounted cash flow approach and market approach. Based on the results of the analysis, the Company determined that the carrying value of the reporting unit exceeded its fair value and recorded an impairment charge of $1.7 million during the three months ended March 31, 2026.

ENERGY RECOVERY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Accrued Expenses and Other Liabilities

	March 31, 2026	December 31, 2025
	(In thousands)	
Accrued expenses and other liabilities, current		
Payroll, benefits, incentives and commissions payable	$ 5,033	$ 6,683
Warranty reserve	189	205
Restructuring accrual	961	—
Income taxes payable	2,382	2,401
Other accrued expenses and other liabilities	2,325	2,381
Total accrued expenses and other liabilities	10,890	11,670
Other liabilities, non-current	1,098	1,070
Total accrued expenses, and current and non-current other liabilities	$ 11,988	$ 12,740

Restructuring

2024 Restructuring Plan

During the fourth quarter of fiscal year 2024, the Company implemented a restructuring plan which included reductions primarily within the G&A function, in order to lower the Company's operating cost structure, and to position the Company for profitable growth. The Company recorded a restructuring charge of approximately $2.8 million in total, of which $0.5 million was recorded during the three months ended March 31, 2025. The total restructuring charge recorded relates to severance and benefits, including reemployment assistance, for 38 terminated employees, which was approximately 15% of the Company's workforce. The restructuring plan was complete as of December 31, 2025. All expenses associated with the Company's restructuring plan are included in "Restructuring charges" in the Condensed Consolidated Statements of Operations.

2026 Restructuring Plan

During the first quarter of fiscal year 2026, the Company wound down operations of the CO_2 retail grocery business within its Emerging Technologies segment due to a fundamental change in the outlook of the business. The Company recorded a restructuring charge of approximately $1.5 million during the three months ended March 31, 2026. The restructuring charge recorded relates to severance and benefits, including reemployment assistance, for 23 terminated employees. In addition, the Company incurred other related charges associated with the wind down of the CO_2 retail grocery business, including excess and obsolescence reserves taken on CO_2 inventory of approximately $1.6 million and impairment of goodwill of approximately $1.7 million, which are included in "Restructuring - inventory reserve" and "Impairment of goodwill" in the Condensed Consolidated Statements of Operations, respectively. Refer to section Goodwill within this footnote for additional information. The restructuring plan was substantially complete by the end of the first quarter of fiscal year 2026 and the Company does not expect to incur significant additional expenses related to the restructuring.

ENERGY RECOVERY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table presents the change in the Company’s restructuring accrual balances, which is included within Accrued expenses and other liabilities on the Condensed Consolidated Balance Sheets, during the three months ended March 31, 2026:

	Severance and Benefits
	(In thousands)
Balance, as of December 31, 2024	$ 2,476
Restructuring provision, net of adjustments	313
Cash paid	(2,789)
Balance, as of December 31, 2025	$ —
Restructuring provision	1,536
Cash paid	(575)
Balance, as of March 31, 2026	$ 961

ENERGY RECOVERY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 5 — Investments and Fair Value Measurements

Fair Value of Financial Instruments

The following table presents the Company's financial assets measured on a recurring basis by contractual maturity, including pricing category, amortized cost and fair value. Gross unrealized gains and losses were not material for the periods presented. As of March 31, 2026 and December 31, 2025, the Company had no financial liabilities and no Level 3 financial assets.

		March 31, 2026		December 31, 2025	
	Pricing Category	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(In thousands)			
Cash equivalents					
Money market securities	Level 1	$ 17,892	$ 17,892	$ 11,225	$ 11,225
U.S. treasury securities	Level 2	—	—	12,952	12,955
Total cash equivalents		17,892	17,892	24,177	24,180
Short-term investments					
U.S. treasury securities	Level 2	26,535	26,539	13,618	13,640
Corporate notes and bonds	Level 2	9,507	9,496	13,505	13,533
Total short-term investments		36,042	36,035	27,123	27,173
Long-term investments					
U.S. treasury securities	Level 2	955	957	1,959	1,971
Corporate notes and bonds	Level 2	5,026	5,034	6,038	6,063
Total long-term investments		5,981	5,991	7,997	8,034
Total short and long-term investments		42,023	42,026	35,120	35,207
Total		$ 59,915	$ 59,918	$ 59,297	$ 59,387

Note 6 — Lines of Credit

Credit Agreement

The Company entered into a credit agreement with JPMorgan Chase Bank, N.A. on December 22, 2021 (as amended, the "Credit Agreement"). The Credit Agreement was amended on January 21, 2026 to extend the expiration date from December 21, 2026 to January 21, 2031. The Credit Agreement provides a committed revolving credit line of $50.0 million and includes both a revolving loan and a letters of credit ("LCs") component.

Under the Credit Agreement, as of March 31, 2026, there were no revolving loans outstanding. In addition, under the LCs component, as of March 31, 2026 and December 31, 2025, the Company utilized $20.4 million of the maximum allowable credit line of $30.0 million, which includes newly issued LCs and previously issued and unexpired stand-by letters of credit ("SBLCs").

Note 7 — Commitments and Contingencies

Sublease

On March 10, 2025, the Company entered into an agreement to sublease its Katy, Texas operating lease. The sublease commenced on March 10, 2025 and will expire on December 31, 2029. The sublease is classified as an operating lease and has a remaining lease term of 3.8 years as of March 31, 2026. Sublease income was immaterial during the three months ended March 31, 2026 and 2025, and is recorded as a reduction of lease expense in general and administrative within the Company's Condensed Consolidated Statements of Operations.

The Company considered the sublease to be an indicator of impairment of the original lease. The Company compared the undiscounted cash flows from the sublease to the carrying value of the Katy, Texas operating lease, which included the associated right-of-use asset and leasehold improvements. The Company concluded that the carrying value was not recoverable as it exceeded the estimated undiscounted cash flows.

The Company calculated the impairment charge by comparing the carrying value of the Katy, Texas operating lease to its fair value, which was calculated based on the net discounted cash flows associated with the sublease. The Company recorded a total impairment charge of $0.4 million during the three months ended March 31, 2025, of which $0.2 million and $0.2 million was recorded against the right-of-use asset and the associated leasehold improvements, respectively. The allocation of the impairment charge was based on the relative carrying value of the assets. The impairment charge was recorded in general and administrative within the Company's Condensed Consolidated Statements of Operations.

Litigation

From time-to-time, the Company has been named in and subject to various proceedings and claims in connection with its business. The Company may in the future become involved in litigation in the ordinary course of business, including litigation that could be material to its business. The Company considers all claims, if any, on a quarterly basis and, based on known facts, assesses whether potential losses are considered reasonably possible, probable and estimable. Based upon this assessment, the Company then evaluates disclosure requirements and whether to accrue for such claims in its consolidated financial statements. The Company records a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and are adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. As of March 31, 2026, the Company was not involved in any lawsuits, legal proceedings or claims that would have a material effect on the Company's financial position, results of operations, or cash flows. Therefore, there were no material losses which were probable or reasonably estimable and accordingly, the Company did not record a provision for litigation as of March 31, 2026 and December 31, 2025.

ENERGY RECOVERY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 8 — Income Taxes

	Three Months Ended March 31,	
	2026	2025
	(In thousands, except percentages)	
Benefit from income taxes	$ (1,775)	$ (1,603)
Discrete items	(132)	52
Benefit from income taxes, excluding discrete items	$ (1,907)	$ (1,551)
Effective tax rate	12.7%	14.0%
Effective tax rate, excluding discrete items	13.6%	13.5%

The Company's interim period tax benefit from income taxes is determined using an estimate of its annual effective tax rate, adjusted for discrete items, if any, that arise during the period. Each quarter, the Company updates its estimate of the annual effective tax rate, and if the estimated annual effective tax rate changes, the Company makes a cumulative adjustment in such period. The Company's quarterly tax provision and estimate of its annual effective tax rate are subject to variation due to several factors, including variability in accurately predicting its pre-tax income or loss and the mix of jurisdictions to which they relate, the applicability of special tax regimes, and changes in how the Company does business.

For the three months ended March 31, 2026, the recognized benefit from income taxes resulted from the tax projection based on the full year forecasted profit and included benefits related to the U.S. federal foreign income and foreign-derived deduction eligible income ("FDDEI") federal research and development ("R&D") tax credit, reduced by certain permanent differences, such as non-deductible stock-based compensation.

For the three months ended March 31, 2025, the recognized benefit from income taxes resulted from the tax projection based on the full year forecasted profit and included benefits related to the U.S. federal foreign-derived intangible income ("FDII"), federal R&D tax credit, certain permanent differences, such as stock-based compensation shortfalls, and partial release of California valuation allowance.

The effective tax rate excluding discrete items for the three months ended March 31, 2026, as compared to the prior year, differed primarily due to lower projected federal R&D tax credits, increased non-deductible officer stock-based compensation, largely offset by projected higher U.S. FDDEI benefits.

On July 4, 2025, the One Big Beautiful Bill ("OBBBA") Act, which includes a broad range of tax reform provisions, was signed into law in the United States. During the three months ended March 31, 2026, the Company recorded its best estimate of the impact of the OBBBA on the income tax provision. The Company will continue to evaluate the elections available within the OBBBA, which may impact the timing of permanent and temporary differences within the Company's tax provision.

ENERGY RECOVERY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 9 — Segment Reporting

The Company's Chief Operating Decision-Maker ("CODM") is its President and Chief Executive Officer. The Company continues to monitor and review its segment reporting structure in accordance with authoritative guidance to determine whether any changes have occurred that would impact its reportable segments.

During the three months ended March 31, 2026, the Company changed the composition of its reportable segments to better reflect how the CODM manages the business. As a part of this change, the Water segment was separated into two segments, the Desalination segment and the Wastewater segment, as both met the criteria of a reportable segment. Prior periods have been recast to conform to the current year presentation. The recast of prior year information had no impact on the Company's Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Operations, Condensed Consolidated Statements of Comprehensive Loss or Condensed Consolidated Statements of Cash Flows.

Segment Definition

Income and type of expense activities that are included in the Desalination, Wastewater and Emerging Technologies segments and corporate operating expenses are as follows:

Desalination segment: The continued development, sales and support of the PX, hydraulic turbochargers and pumps used in seawater desalination treatment facilities.

Wastewater segment: The continued development, sales and support of the PX, hydraulic turbochargers and pumps used in wastewater treatment facilities.

Emerging Technologies segment: The continued development, sales and support of activities related to emerging technologies, such as the PX G1300 used in industrial and commercial refrigeration applications. In February 2026, the Company wound down operations of the CO_2 retail grocery business within its Emerging Technologies segment due to a fundamental change in the outlook of the business. As of the first quarter of fiscal year 2026, the Company has substantially completed the wind down of the business.

Corporate operating expenses: The corporate expenses include certain unallocated expenses outside of the operating segments, such as audit and accounting services, legal services, board of director fees and expenses, human resources activities, information systems activities and other separately managed general expenses not related to the identified segments.

ENERGY RECOVERY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table presents a summary of the Company's financial information by segment, including significant segment expenses, and corporate operating expenses.

	Three Months Ended March 31, 2026					Three Months Ended March 31, 2025				
	Desalination	Wastewater	Emerging Technologies	Corporate	Total	Desalination	Wastewater	Emerging Technologies	Corporate	Total
					(In thousands)					
Revenue	$ 8,907	$ 601	$ 198	$ —	$ 9,706	$ 7,759	$ 305	$ 1	$ —	$ 8,065
Cost of revenue	4,942	370	60	—	5,372	3,382	179	46	—	3,607
Restructuring - inventory reserve	—	—	1,632	—	1,632	—	—	—	—	—
Gross profit (loss)	3,965	231	(1,494)	—	2,702	4,377	126	(45)	—	4,458
Operating expenses										
General and administrative	756	981	348	4,370	6,455	845	728	755	6,246	8,574
Sales and marketing	2,485	1,163	858	613	5,119	2,108	1,037	1,270	491	4,906
Research and development	1,616	136	1,037	—	2,789	849	329	1,823	—	3,001
Restructuring charges	335	18	1,140	43	1,536	107	103	123	206	539
Impairment of goodwill	—	—	1,662	—	1,662	—	—	—	—	—
Total operating expenses	5,192	2,298	5,045	5,026	17,561	3,909	2,197	3,971	6,943	17,020
Operating income (loss)	$ (1,227)	$ (2,067)	$ (6,539)	$ (5,026)	$ (14,859)	$ 468	$ (2,071)	$ (4,016)	$ (6,943)	$ (12,562)

ENERGY RECOVERY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 10 — Concentrations

Revenue by Country

The following table presents the Company's product revenue by country.

	Three Months Ended March 31,	
	2026	2025
Product revenue by country:(1)		
Cyprus	12%	**
Egypt	12%	**
India	**	18%
Others(2)	76%	82%
Total	100%	100%

** Zero or less than 10%.
(1) Countries representing more than 10% of product revenues for the periods presented.
(2) Countries in the aggregate, individually representing less than 10% of product revenues for the periods presented.

Customer Revenue Concentration

The following table presents the customers that account for 10% or more of the Company's revenue and their related segment for each of the periods presented. Although certain customers might account for greater than 10% of the Company's revenue at any one point in time, the concentration of revenue between a limited number of customers shifts regularly, depending on when revenue is recognized. The percentages by customer reflect specific relationships or contracts that would concentrate revenue for the periods presented and do not indicate a trend specific to any one customer.

		Three Months Ended March 31,	
	Segment	2026	2025
Customer A	Desalination	13%	**
Customer B	Desalination	**	12%

** Zero or less than 10%.

ENERGY RECOVERY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 11 — Stockholders' Equity

Share Repurchase Programs

The Company's Board, from time-to-time, has authorized share repurchase programs under which the Company may, at the discretion of management, repurchase its outstanding common stock in the open market, or in privately negotiated transactions, in compliance with applicable state and federal securities laws. The timing and amounts of any purchase under the Company's share repurchase programs is based on market conditions and other factors including price, regulatory requirements, and capital availability. The Company accounts for stock repurchases under these programs using the cost method. As of March 31, 2026, the Company has repurchased 14,927,562 shares of its common stock at an aggregate cost of $176.8 million under all share repurchase programs.

February 2025 Authorization

On February 26, 2025, the Company announced that the Board authorized a share repurchase program under which the Company may repurchase its outstanding common stock, at the discretion of management, for up to $30.0 million in aggregate cost, which includes both the share value of the acquired common stock and the fees charged in connection with acquiring the common stock (the "February 2025 Authorization"). On August 19, 2025, the Company concluded all share repurchases under the February 2025 Authorization. Under the February 2025 Authorization, the Company repurchased 2,183,648 shares at an aggregate cost of $30.0 million.

August 2025 Authorization

On August 6, 2025, the Board announced a share repurchase program under which the Company may repurchase its outstanding common stock, at the discretion of management, for up to $25.0 million in aggregate cost, which includes both the share value of the acquired common stock and the fees charged in connection with acquiring the common stock (the "August 2025 Authorization"). The August 2025 Authorization will expire in May 2026. The Company began to purchase under the August 2025 Authorization in August 2025.

The following table presents the share repurchase activities under the August 2025 Authorization as of March 31, 2026.

	Number of Shares Purchased	Average Price Paid per Share[(1)]	Plan Activity
			(In millions)
August 2025 Authorization			25.0
Repurchases under August 2025 Authorization	1,346,869	$12.07	(16.3)
Remaining amount under August 2025 Authorization			$ 8.7

(1) Excluding commissions

May 2026 Authorization

On May 6, 2026, the Company announced that the Board authorized a share repurchase program under which the Company may repurchase its outstanding common stock, at the discretion of management, for up to $25.0 million in aggregate cost, which includes both the share value of the acquired common stock and the fees charged in connection with acquiring the common stock (the "May 2026 Authorization"). The May 2026 Authorization will expire in April 2027. The Company expects to begin purchasing under the May 2026 Authorization in May 2026.

Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Energy Recovery, Inc. (the "Company", "Energy Recovery", "we", "our" and "us") designs and manufactures solutions that make industrial processes more efficient and sustainable. Leveraging our pressure exchanger technology, which generates little to no emissions when operating, we believe our solutions lower costs, save energy, reduce waste, and minimize emissions for companies across a variety of commercial and industrial processes. As the world coalesces around the urgent need to address climate change and its impacts, we are helping companies reduce their energy consumption in their industrial processes, which in turn, reduces their carbon footprint. We believe that our customers do not have to sacrifice quality and cost savings for sustainability and we are committed to developing solutions that drive long-term value – both financial and environmental.

The original product application of our technology, the PX® Pressure Exchanger® ("PX") energy recovery device, was a major contributor to the advancement of seawater reverse osmosis desalination ("SWRO"), significantly lowering the energy intensity and cost of water production globally from SWRO. Our pressure exchanger technology is being applied to the wastewater filtration market, such as battery manufacturers, mining operations, municipalities, and other manufacturing plants that discharge wastewater with significant levels of metals and pollutants.

Engineering, and research and development ("R&D"), have been, and remain, an essential part of our history, culture and corporate strategy. Since our formation, we have developed leading technology and engineering expertise through the continual evolution of our pressure exchanger technology, which can enhance environmental sustainability and improve productivity by reducing waste and energy consumption in high-pressure industrial fluid-flow systems. This versatile technology works as a platform to build product applications and is at the heart of many of our products. In addition, we have engineered and developed ancillary devices, such as our hydraulic turbochargers and circulation "booster" pumps, that complement our energy recovery devices.

Segments

Our reportable operating segments consist of the desalination, wastewater and emerging technologies segments. These segments are based on the industries in which the technology solutions are sold, the type of energy recovery device or other technology sold and the related solution and service or, in the case of emerging technologies, where revenues from new and/or potential devices utilizing our pressure exchanger technology can be brought to market. Other factors for determining the reportable operating segments include the manner in which our Chief Operating Decision Maker ("CODM"), our President and Chief Executive Officer, evaluates our performance combined with the nature of the individual business activities. In addition, our corporate operating expenses include expenditures in support of the desalination, wastewater and emerging technologies segments. We continue to monitor and review our segment reporting structure in accordance with authoritative guidance to determine whether any changes have occurred that would impact our reportable segments.

During the three months ended March 31, 2026, we changed the composition of our reportable segments to better reflect how the CODM manages the business. As a part of this change, the Water segment was separated into two segments, the Desalination segment and the Wastewater segment. Prior periods have been recast to conform to the current year presentation.

Results of Operations

A discussion regarding our financial condition and results of operations for the three months ended March 31, 2026, compared to the three months ended March 31, 2025, is presented below.

Revenue

As a significant portion of our revenue is derived from large project contract deliveries that are up to 36 months from contract date, variability in revenue from quarter to quarter is typical, therefore year-on-year comparisons are not necessarily indicative of the trend for the full year due to these variations. There is no specific seasonality in our revenues to highlight.

Revenue by Channel Customers

	Three Months Ended March 31,					
	2026		2025			
	Revenue	% of Revenue	Revenue	% of Revenue	Change	
	(In thousands, except percentages)					
Original equipment manufacturer	$ 6,588	68%	$ 4,001	50%	$ 2,587	65%
Aftermarket	2,754	28%	4,028	50%	(1,274)	(32%)
Megaproject	364	4%	36	—%	328	911%
Total revenue	$ 9,706	100%	$ 8,065	100%	$ 1,641	20%

Revenue Attributable to Primary Geographical Markets by Segments

	Three Months Ended March 31,							
	2026				2025			
	Desalination	Wastewater	Emerging Technologies	Total	Desalination	Wastewater	Emerging Technologies	Total
	(In thousands)							
Middle East	$ 2,506	$ —	$ 77	$ 2,583	$ 2,014	$ —	$ 1	$ 2,015
Africa	196	—	—	196	866	—	—	866
Other	6,205	601	121	6,927	4,879	305	—	5,184
Total revenue	$ 8,907	$ 601	$ 198	$ 9,706	$ 7,759	$ 305	$ 1	$ 8,065

Three months ended March 31, 2026, as compared to the three months ended March 31, 2025

The increase in original equipment manufacturer revenue of $2.6 million was due primarily to:

- *Desalination*: The increase in revenue of $2.1 million was due primarily to higher shipments of products to the Europe market and the Middle East market, partially offset by lower shipments of products to the Africa market.
- *Wastewater*: The increase in revenue of $0.4 million was due primarily to higher shipments of products to the Asia market.
- *Emerging Tech*: The increase in revenue of $0.1 million was due primarily to higher shipments of products to the Americas market.

The decrease in aftermarket revenue of $1.3 million was primarily due to lower shipments to the Asia and Middle East markets.

The increase in megaproject revenue of $0.3 million was due primarily to higher shipments to the Middle East market.

Concentration of Revenue

See Note 10, "Concentrations," of the Notes to Condensed Consolidated Financial Statements in Part I, Item 1, "Financial Statements (unaudited)," of this Quarterly Report on Form 10-Q (the "Notes") for further discussion regarding our concentration of revenue.

Gross Profit and Gross Margin

Gross profit represents revenue less cost of revenue. Cost of revenue consists primarily of raw materials, personnel costs (including stock-based compensation), manufacturing overhead, warranty costs, and depreciation expense.

	Three Months Ended March 31,		
	2026	2025	Change
	(In thousands, except percentage and basis point)		
Gross profit	$ 2,702	$ 4,458	$ (1,756)
Gross margin	27.8 %	55.3 %	(2,750) bps

The decrease in gross profit and gross margin for the three months ended March 31, 2026, as compared to the prior year, was due primarily to $1.6 million of restructuring charges booked to inventory associated with the wind down of the CO_2 retail grocery business, as well as increased costs related to product and channel mix, pricing, tariffs, and indirect manufacturing costs during the three months ended March 31, 2026.

Operating Expenses

The total material changes of general and administrative ("G&A"), sales and marketing ("S&M") and R&D operating expenses for the three months ended March 31, 2026, as compared to the comparable period in the prior year, are discussed within the following overall operating expenditures, and the segment and corporate operating expenses discussions below.

	Three Months Ended March 31,									
	2026					2025				
	Desalination	Wastewater	Emerging Technologies	Corporate	Total	Desalination	Wastewater	Emerging Technologies	Corporate	Total
	(In thousands)									
General and administrative	$ 756	$ 981	$ 348	$ 4,370	$ 6,455	$ 845	$ 728	$ 755	$ 6,246	$ 8,574
Sales and marketing	2,485	1,163	858	613	5,119	2,108	1,037	1,270	491	4,906
Research and development	1,616	136	1,037	—	2,789	849	329	1,823	—	3,001
Restructuring charges	335	18	1,140	43	1,536	107	103	123	206	539
Impairment of goodwill	—	—	1,662	—	1,662	—	—	—	—	—
Total operating expenses	$ 5,192	$ 2,298	$ 5,045	$ 5,026	$ 17,561	$ 3,909	$ 2,197	$ 3,971	$ 6,943	$ 17,020

Three months ended March 31, 2026, as compared to the three months ended March 31, 2025

Overall Operating Expenditures. Overall operating expenditures increased by $0.5 million, or 3.2%. This increase was due primarily to impairment of goodwill and restructuring charges incurred as part of the wind down of the CO_2 retail grocery business, partially offset by a decrease in employee costs, as well as consulting costs and impairment costs associated with the sublease of the Katy, Texas lease incurred during the three months ended March 31, 2025.

Desalination Segment. Desalination segment related operating expenses increased by $1.3 million, or 32.8%. This increase was due primarily to higher employee costs, including stock-based compensation costs, and higher restructuring charges.

Wastewater *Segment.* Wastewater segment related operating expenses increased by $0.1 million, or 4.6%. This increase was due primarily to higher consulting costs, partially offset by lower employee costs.

Emerging Technologies Segment. Emerging Technologies segment related operating expenses increased by $1.1 million, or 27.0%. This increase was due primarily to impairment of goodwill and restructuring charges incurred as part of the wind down of the CO_2 retail grocery business, partially offset by lower employee costs, including stock-based compensation costs.

Corporate Operating Expenses. Corporate operating expenses decreased by $1.9 million, or (27.6%). This decrease was primarily due to lower employee costs, consulting costs and impairment costs associated with the sublease of the Katy, Texas lease incurred during the three months ended March 31, 2025.

Restructuring Charges. During the first quarter of fiscal year 2026, we wound down operations of the CO_2 retail grocery business within our Emerging Technologies segment due to a fundamental change in the outlook of the business. We recorded a restructuring charge of approximately $1.5 million during the three months ended March 31, 2026. The total restructuring charge recorded relates to severance and benefits, including reemployment assistance, for 23 terminated employees. In addition to the restructuring charges, the Company incurred other related charges associated with the wind down of the CO_2 retail grocery business, including excess and obsolescence reserves taken on CO_2 inventory of approximately $1.6 million and impairment of goodwill of approximately $1.7 million, which are included in "Restructuring - inventory reserve" and "Impairment of goodwill" in the Condensed Consolidated Statements of Operations, respectively. The restructuring plan was substantially complete by the end of the first quarter of fiscal year 2026 and the Company does not expect to incur significant additional expenses related to the restructuring.

During the fourth quarter of fiscal year 2024, we implemented a restructuring plan which included reductions in our workforce in all functions of the organization, primarily within the G&A function, in order to lower our operating cost structure, and to position the Company for profitable growth. We recorded total restructuring charges of approximately $2.8 million, of which $0.5 million was recorded during the three months ended March 31, 2025. The total restructuring charge relates to severance and benefits, including reemployment assistance, for 38 terminated employees, which was approximately 15% of our workforce. The implementation of the restructuring plan was complete as of December 31, 2025. See Note 4, "Other Financial Information – Restructuring," of the Notes for further discussion and disclosure on our restructuring program.

Other Income, Net

	Three Months Ended March 31,	
	2026	2025
	(In thousands)	
Interest income	$ 725	$ 1,073
Other non-operating income, net	108	6
Total other income, net	$ 833	$ 1,079

The decrease in "Total other income, net" in the three months ended March 31, 2026, as compared to the comparable period in the prior year, was primarily due to a decrease in short- and long-term investments.

Income Taxes

	Three Months Ended March 31,	
	2026	2025
	(In thousands, except percentages)	
Benefit from income taxes	$ (1,775)	$ (1,603)
Discrete items	(132)	52
Benefit from income taxes, excluding discrete items	$ (1,907)	$ (1,551)
Effective tax rate	12.7%	14.0%
Effective tax rate, excluding discrete items	13.6%	13.5%

The interim period tax benefit from income taxes is determined using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that arise during the period. Each quarter, we update our estimate of the annual effective tax rate, and if the estimated annual effective tax rate changes, we make a cumulative adjustment in such period. The quarterly tax provision and estimate of our annual effective tax rate are subject to variation due to several factors, including variability in accurately predicting our pre-tax income or loss and the mix of jurisdictions to which they relate, the applicability of special tax regimes, and changes in how we do business.

For the three months ended March 31, 2026, the recognized benefit from income taxes resulted from the tax projection based on the full year forecasted profit and included benefits related to the U.S. federal foreign-derived deduction eligible income (“FDDEI”) federal research and development (“R&D”) tax credit, and certain permanent differences, such as non-deductible stock-based compensation.

For the three months ended March 31, 2025, the recognized benefit from income taxes resulted from the tax projection based on the full year forecasted profit and included benefits related to the U.S. federal foreign-derived intangible income (“FDII”), federal R&D tax credit, certain permanent differences, such as stock-based compensation shortfalls, and partial release of California valuation allowance.

The effective tax rate excluding discrete items for the three months ended March 31, 2026, as compared to the prior year, differed primarily due to lower projected federal R&D tax credits, increased non-deductible officer stock-based compensation, largely offset by projected higher U.S. FDDEI benefits.

Liquidity and Capital Resources

Overview

From time-to-time, management and our Board of Directors (the "Board") review our liquidity and future cash needs and may make a decision to (1) return capital to our shareholders through a share repurchase program or dividend payout; or (2) seek additional debt or equity financing. As of March 31, 2026, our principal sources of liquidity consisted of (i) unrestricted cash and cash equivalents of $50.1 million that are held in cash accounts and invested in money market funds and U.S. treasury securities; (ii) investment-grade short-term and long-term marketable debt instruments of $42.0 million that are primarily invested in U.S. treasury securities and corporate notes and bonds; and (iii) accounts receivable, net of allowances, of $38.9 million. As of March 31, 2026, there was unrestricted cash of $0.9 million held outside the U.S. We invest cash not needed for current operations predominantly in investment-grade, marketable debt instruments with the intent to make such funds available for future operating purposes, as needed. Although these securities are available for sale, we generally hold these securities to maturity, and therefore, do not currently see a need to trade these securities in order to support our liquidity needs in the foreseeable future. We believe the risk of this portfolio to us is in the ability of the underlying companies or government agencies to cover their obligations at maturity, not in our ability to trade these securities at a profit. Based on current projections, we believe existing cash balances and future cash inflows from this portfolio will meet our liquidity needs for at least the next 12 months.

Credit Agreement

We entered into a credit agreement with JPMorgan Chase Bank, N.A. on December 22, 2021 (as amended, the "Credit Agreement"). The Credit Agreement provides a committed revolving credit line of $50.0 million and includes both a revolving loan and a letters of credit ("LCs") component. The Credit Agreement was amended on January 21, 2026 to extend the expiration date from December 21, 2026 to January 21, 2031. The maximum allowable LCs under the credit line component of the Credit Agreement is $30.0 million. As of March 31, 2026, the Company was in compliance with all covenants under the Credit Agreement.

See Note 6, "Lines of Credit," of the Notes for further discussion related to the Credit Agreement.

Share Repurchase Programs

The Board, from time-to-time, has authorized share repurchase programs under which we may, at our discretion, repurchase the Company's outstanding common stock in the open market, or in privately negotiated transactions, in compliance with applicable state and federal securities laws. The timing and amounts of any purchase under the share repurchase programs are based on market conditions and other factors including price, regulatory requirements, and capital availability. We account for stock repurchases under these programs using the cost method. As of March 31, 2026, we have cumulatively repurchased 14.9 million shares of the Company's common stock at an aggregate cost of $176.8 million under all share repurchase programs. The following is a discussion of the current share repurchase program during the three months ended March 31, 2026. See Note 11, "Stockholders' Equity – Share Repurchase Programs," of the Notes for further discussion related to share repurchase programs and a reconciliation of the latest share repurchase plan balance.

On August 6, 2025, we announced that the Board authorized a share repurchase program under which we may repurchase our outstanding common stock, at the discretion of management, up to $25.0 million in aggregate cost, which includes both the share value of the acquired common stock and the fees charged in connection with acquiring the common stock (the "August 2025 Authorization"). We began repurchasing our outstanding common stock under the August 2025 Authorization in August 2025. The August 2025 Authorization will expire in May 2026. As of March 31, 2026, we have repurchased 1,346,869 shares of our common stock at an aggregate cost of approximately $16.3 million of which 960,303 were purchased during the three months ended March 31, 2026 at an aggregate cost of approximately $10.7 million.

On May 6, 2026, we announced that the Board authorized a share repurchase program under which we may repurchase our outstanding common stock, at the discretion of management, for up to $25.0 million in aggregate cost, which includes both the share value of the acquired common stock and the fees charged in connection with acquiring the common stock (the "May 2026 Authorization"). We expect to commence repurchasing our outstanding common stock under the May 2026 Authorization in May 2026. The May 2026 Authorization will expire in April 2027.

Cash Flows

	Three Months Ended March 31,		
	2026	2025	Change
		(In thousands)	
Net cash provided by operating activities	$ 21,037	$ 10,678	$ 10,359
Net cash (used in) provided by investing activities	(7,606)	12,674	(20,280)
Net cash used in financing activities	(11,376)	(3,874)	(7,502)
Effect of exchange rate differences on cash and cash equivalents	(15)	33	(48)
Net change in cash, cash equivalents and restricted cash	$ 2,040	$ 19,511	$ (17,471)

Cash Flows from Operating Activities

Net cash provided by operating activities is subject to the project driven, non-cyclical nature of our business. Operating cash flow can fluctuate significantly from reporting period to reporting period, due to the timing of receipts of large project orders. Operating cash flow may be negative in one reporting period and significantly positive in the next. Consequently, individual reporting period results and comparisons may not necessarily indicate a significant trend, either positive or negative.

The higher net cash provided by operating assets and liabilities for the three months ended March 31, 2026, as compared to the prior year, was due primarily to the following factors:

- *Accounts receivable:* an increase in cash provided due to an increase in collections related to revenues earned late in the fourth quarter of 2025;
- *Accrued liabilities:* an increase in cash provided due to incentives and restructuring expenses paid out in 2025, partially offset by,
- *Inventories:* a decrease in cash provided due to cash used to build finished goods inventory in the first quarter of 2026.

Cash Flows from Investing Activities

Net cash (used in) provided by investing activities primarily relates to maturities and purchases of investment-grade marketable debt instruments, and capital expenditures supporting our growth. The decrease in cash provided during the three months ended March 31, 2026, as compared to the prior year, is primarily due to fewer maturities of marketable securities. We believe our investments in marketable debt instruments are structured to preserve principal and liquidity while at the same time maximizing yields without significantly increasing risk.

Cash Flows from Financing Activities

Net cash used in financing activities for the three months ended March 31, 2026 was higher as compared to the cash used in financing activities in the prior year, due to higher repurchases of our common stock partially offset by lower net proceeds from the issuance of common stock as compared to the prior year.

Liquidity and Capital Resource Requirements

We believe that our existing resources and cash generated from our operations will be sufficient to meet our anticipated capital requirements for at least the next 12 months. However, we may need to raise additional capital or incur additional indebtedness to continue to fund our operations or to support acquisitions in the future and/or to fund investments in our latest technology arising from rapid market adoption. These needs could require us to seek additional equity or debt financing. Our future capital requirements will depend on many factors including the continuing market acceptance of our products, our rate of revenue growth, the timing of new product introductions, the expansion of our R&D, manufacturing and S&M activities, and the timing and extent of our expansion into new geographic territories. In addition, we may enter into potential material investments in, or acquisitions of, complementary businesses, services or technologies in the future which could also require us to seek additional equity or debt financing. Should we need additional liquidity or capital funds, these funds may not be available to us on favorable terms, or at all.

Recent Accounting Pronouncements

Refer to Note 1, "Description of Business and Significant Accounting Policies – Significant Accounting Policies," of the Notes to Condensed Consolidated Financial Statements in Part I, Item 1, "Financial Statements (unaudited)," of this Quarterly Report on Form 10-Q.

Item 3 — Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk may be found primarily in two areas: foreign currency and interest rates.

Foreign Currency Risk

Our foreign currency exposures are due to fluctuations in exchange rates for the U.S. dollar ("USD") versus the British pound, Saudi riyal, Emirati dirham, European euro, Chinese yuan, Indian rupee and Canadian dollar. Changes in currency exchange rates could adversely affect our consolidated operating results or financial position.

Our revenue contracts have been denominated in the USD. At times, our international customers may have difficulty obtaining the USD to pay our receivables, thus increasing collection risk and potential bad debt expense.

In addition, we pay many vendors in foreign currency and, therefore, are subject to changes in foreign currency exchange rates. Our international sales and service operations incur expense that is denominated in foreign currencies. This expense could be materially affected by currency fluctuations. Our international sales and services operations also maintain cash balances denominated in foreign currencies. To decrease the inherent risk associated with translation of foreign cash balances into our reporting currency, we do not maintain excess cash balances in foreign currencies.

We have not hedged our exposure to changes in foreign currency exchange rates because expenses in foreign currencies have been insignificant to date and exchange rate fluctuations have had little impact on our operating results and cash flows. In addition, we do not have any exposure to the Russian ruble.

Interest Rate and Credit Risks

The primary objective of our investment activities is to preserve principal and liquidity while at the same time maximizing yields without significantly increasing risk. We invest primarily in investment-grade short-term and long-term marketable debt instruments that are subject to counter-party credit risk. To minimize this risk, we invest pursuant to an investment policy approved by the Board. The policy mandates high credit rating requirements and restricts our exposure to any single corporate issuer by imposing concentration limits.

As of March 31, 2026, our investment portfolio of $42.0 million, in investment-grade marketable debt instruments, such as U.S. treasury securities, and corporate notes and bonds, are classified as either short-term and/or long-term investments on our Condensed Consolidated Balance Sheets. These investments are subject to interest rate fluctuations and a decrease in market value to the extent interest rates increase. To minimize the exposure due to adverse shifts in interest rates, we maintain investments with a weighted average maturity of approximately six months. As of March 31, 2026, a hypothetical 1% increase in interest rates would have resulted in a less than $0.2 million decrease in the fair value of our investments in marketable debt instruments as of such date.

Item 4 — Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our President and Chief Executive Officer and our Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 as of the end of the period covered by this report.

Based on that evaluation, our President and Chief Executive Officer and our Chief Financial Officer have concluded that, as of March 31, 2026, our disclosure controls and procedures were effective.

Changes in Internal Controls

There were no changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1 — Legal Proceedings

We have been, and may be from time to time, involved in legal proceedings or subject to claims incident to the ordinary course of business. We are not presently a party to any legal proceedings that we believe are likely to have a material adverse effect on our business, financial condition, or operating results. Regardless of the outcome, such proceedings or claims can have an adverse impact on us because of defense and settlement costs, diversion of resources and other factors, and there can be no assurances that favorable outcomes will be obtained.

Item 1A — Risk Factors

Except as noted below, there have been no material changes in our risk factors from those disclosed in Part I, Item 1A, "Risk Factors," in the 2025 Annual Report.

Our Water segment revenues largely depend on the construction of new large-scale desalination plants and the retrofit of existing desalination plants, and as a result, our operating results have historically experienced, and may continue to experience, significant variability due to volatility in capital spending, availability of project financing, project timing, execution, war or other hostilities and other factors affecting the broader water desalination industry.

We currently derive the majority of our Water segment revenues from sales of energy recovery products and services used in newly constructed, large-scale desalination plants and the retrofit of existing desalination plants, particularly in dry or drought-ridden regions of the world. The demand for our products used in the Water segment may decrease if the construction of these large-scale desalination plants or the retrofit of existing plants declines for any reason, including, any global or regional economic downturns, worsening global or regional political conflicts, war or other hostilities, such as the 2026 conflict in Iran and escalating tensions in the Middle East, worsening regional conditions, changing government priorities, or the impact of any global or regional conflicts.

Other factors that could affect the number and capacity of large-scale desalination plants built or the timing of their completion, include the availability of required engineering and design resources; availability of credit and other forms of financing; the health of the global economy; inflation rates; changes in government regulation, permitting requirements, or priorities; and reduced capital spending for water desalination solutions. Each of these factors could result in reduced or uneven demand for our products. Pronounced variability, complete cancellations or delays in the construction of such plants or reductions in spending for desalination in general could negatively impact our Water segment sales, which in turn could have an adverse effect on our entire business, financial condition, or results of operations, and make it difficult for us to accurately forecast our future sales.

A sustained downturn in the economy or global unrest could impact the future of new, and the retrofit of existing, desalination plants, and the treatment of various wastewater verticals, which could result in decreased demand for our water products and services.

The demand for our water products and services depends primarily on the continued construction of new large-scale desalination plants, the retrofit of existing plants, and the construction of wastewater treatment facilities, particularly in the countries that are part of the Gulf Cooperation Council, China, Taiwan and India. Weak economic conditions, global uncertainty including the continuing conflicts in Ukraine, the 2026 conflict in Iran and escalating conflicts in the Middle East, as well as the impact of increased inflation resulting from such conflicts may have a negative economic impact on these and other countries, which may impact the levels of spending on, timing of, delays to, and availability of, project financing for new desalination and retrofit plant projects. The inability of our customers to secure credit or financing for these projects, may result in the postponement or cancellation of these projects. In addition, the change in government priorities and/or their reduction in spending for water treatment projects could result in decreased demand for our products and services, which could have an adverse effect on our business, financial condition or results of operations.

Uncertainty in the global geopolitical landscape and macro-economic environment may impact our operations outside the U.S., including in the Middle East where many of our water megaprojects are planned.

We conduct our business on a global basis. Our products are sold in numerous countries worldwide, with a large percentage of our sales generated outside the U.S., specifically in the Middle East and Africa, and Asian markets which provide a significant portion of our total revenue. Therefore, we are exposed to, and impacted by, global macroeconomic factors, U.S. and foreign government policies, and foreign exchange fluctuations. There is uncertainty surrounding macroeconomic factors in the U.S. and globally characterized by the supply chain environment, inflationary pressure, rising interest rates, and labor shortages. These global macroeconomic factors, coupled with the U.S. political climate, political unrest internationally, and conflicts in Europe and the Middle East, such as the 2026 conflict in Iran and Iran's response to attacks by the United States and Israel, have created global economic and political uncertainty, and have impacted demand for certain of our products. While the impact and longevity of these factors remain uncertain, we are constantly evaluating the extent to which these factors will impact our business, financial condition, or results of operations. Over the long-term, demand for our energy recovery devices could correlate to global macroeconomic and geopolitical factors. Any disruption to the economic factors and regulations in these regions, which remain uncertain, may adversely affect our results of operations and financial condition.

In addition, there is uncertainty as to the position the U.S. will take with respect to world affairs. This uncertainty may include such issues as the U.S. support for existing treaty and trade relationships with other countries, including, notably, China, Mexico and Canada. This uncertainty, together with other recent key global events, such as currency control regulations and tariff regimes, ongoing terrorist activity, and hostilities in the Middle East, may adversely impact (i) the ability or willingness of non-U.S. companies to transact business with U.S. companies, including with us; (ii) our ability to transact business in other countries, including the Middle East, where many of the water megaprojects are planned; (iii) regulation and trade agreements affecting U.S. companies; (iv) global stock markets (including The NASDAQ Global Select Market Composite on which our common shares are traded); and (v) general global economic conditions. Furthermore, the conflicts in Europe and the Middle East have resulted in worldwide geopolitical and macroeconomic uncertainty, and we cannot predict how these conflicts will evolve or their timing. If these conflicts continue for a significant time or further expand to other countries or regions, they could have additional adverse effects on macroeconomic conditions that may have a direct adverse impact on our business and/or our supply chain, business partners or customers in the broader region. All of these factors are outside of our control, but may nonetheless cause us to adjust our strategy in order to compete effectively in global markets.

Item 2 — Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On August 6, 2025, we announced a share repurchase program (the "August 2025 Authorization"). The following table summarizes the stock repurchase activity under the August 2025 Authorization during the three months ended March 31, 2026.

Period	Total Number of Shares Purchased	Average Price Paid per Share[(1)]	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares or Approximate Dollar Value[(1)] That May Yet to be Purchased Under the Program
				(In thousands)
January 1 – January 31, 2026	109,300	$14.28	109,300	$ 17,820
February 1 – February 28, 2026	76,153	$14.66	76,153	$ 16,703
March 1 – March 31, 2026	774,850	$10.30	774,850	$ 8,721

(1) Including commissions

Item 3 — Defaults Upon Senior Securities

None.

Item 4 — Mine Safety Disclosures

Not applicable.

Item 5 — Other Information

10b5-1 Plans

During the three months ended March 31, 2026, no director or officer (within the meaning of Rule 16a-1(f) under the Securities Exchange Act of 1934, as amended) has adopted or terminated a Rule 10b5-1 trading arrangement (as defined in Item 408 of Regulation S-K).

Item 6 — Exhibits

A list of exhibits filed or furnished with this report or incorporated herein by reference is found in the Exhibit Index below.

Exhibit Number	Exhibit Description
10.1	Third Amendment to the Credit Agreement by and between Energy Recovery, Inc. as Borrower, and JPMorgan Chase Bank N.A. as Lender dated January 21, 2026
31.1*	Certification of Principal Executive Officer, pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer, pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer and Principal Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Inline XBRL Document Set for the consolidated financial statements and accompanying notes in Part I, “Financial Information” of this Quarterly Report on Form 10-Q.
104	Inline XBRL for the cover page of this Quarterly Report on Form 10-Q, included in the Exhibit 101 Inline XBRL Document Set.

* Filed herewith.

** The certification furnished in Exhibit 32.1 is not deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall they be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

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 thereunto duly authorized.

ENERGY RECOVERY, INC.

Date: May 6, 2026	By: /s/ DAVID W. MOON
	David W. Moon
	President and Chief Executive Officer
	(Principal Executive Officer)
Date: May 6, 2026	By: /s/ MICHAEL S. MANCINI
	Michael S. Mancini
	Chief Financial Officer
	(Principal Financial Officer)