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 June 30, 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®

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 July 31, 2026, there were 51,044,875 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 and six months ended June 30, 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 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 August 5, 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

	June 30, 2026	December 31, 2025
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 61,438	$ 48,076
Short-term investments	31,618	27,173
Accounts receivable, net	14,237	76,639
Inventories, net	38,242	24,260
Prepaid expenses and other assets	3,888	5,063
Total current assets	149,423	181,211
Long-term investments	5,018	8,034
Deferred tax assets, net	12,065	8,267
Property and equipment, net	12,619	12,934
Operating lease, right of use asset	6,679	7,701
Goodwill	11,128	12,790
Other assets, non-current	804	577
Total assets	$ 197,736	$ 231,514
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,001	$ 2,114
Accrued expenses and other liabilities	9,790	11,670
Lease liabilities	2,653	2,531
Contract liabilities	1,114	1,039
Total current liabilities	18,558	17,354
Lease liabilities, non-current	5,580	6,898
Other liabilities, non-current	1,120	1,070
Total liabilities	25,258	25,322
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock	67	67
Additional paid-in capital	247,317	244,397
Accumulated other comprehensive loss	(435)	(94)
Treasury stock	(187,690)	(166,846)
Retained earnings	113,219	128,668
Total stockholders' equity	172,478	206,192
Total liabilities and stockholders' equity	$ 197,736	$ 231,514

See Accompanying Notes to Condensed Consolidated Financial Statements

ENERGY RECOVERY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	2026	2025
	(In thousands, except per share data)			
Revenue	$ 11,996	$ 28,051	$ 21,702	$ 36,116
Cost of revenue	3,039	10,097	8,411	13,704
Restructuring - inventory reserve	—	—	1,632	—
Gross profit	8,957	17,954	11,659	22,412
Operating expenses:				
General and administrative	6,801	7,669	13,256	16,243
Sales and marketing	4,336	5,360	9,455	10,266
Research and development	2,849	3,451	5,638	6,452
Restructuring charges	855	—	2,391	539
Impairment of goodwill	—	—	1,662	—
Total operating expenses	14,841	16,480	32,402	33,500
Income (loss) from operations	(5,884)	1,474	(20,743)	(11,088)
Other income (expense):				
Interest income	680	940	1,405	2,013
Other non-operating income (expense), net	122	(26)	230	(20)
Total other income, net	802	914	1,635	1,993
Income (loss) before income taxes	(5,082)	2,388	(19,108)	(9,095)
Provision for (benefit from) income taxes	(1,884)	334	(3,659)	(1,269)
Net income (loss)	$ (3,198)	$ 2,054	$ (15,449)	$ (7,826)
Net income (loss) per share:				
Basic	$ (0.06)	$ 0.04	$ (0.30)	$ (0.14)
Diluted	$ (0.06)	$ 0.04	$ (0.30)	$ (0.14)
Number of shares used in per share calculations:				
Basic	51,463	54,257	52,058	54,578
Diluted	51,463	54,486	52,058	54,578

See Accompanying Notes to Condensed Consolidated Financial Statements

ENERGY RECOVERY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	2026	2025
		(In thousands)		
Net income (loss)	$ (3,198)	$ 2,054	$ (15,449)	$ (7,826)
Other comprehensive loss, net of tax				
Foreign currency translation adjustments	(136)	53	(259)	37
Unrealized loss on investments	(14)	(91)	(82)	(98)
Total other comprehensive loss, net of tax	(150)	(38)	(341)	(61)
Comprehensive income (loss)	$ (3,348)	$ 2,016	$ (15,790)	$ (7,887)

See Accompanying Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	2026	2025
	(In thousands, except shares)			
Common stock				
Beginning balance	$ 67	$ 67	$ 67	$ 66
Issuance of common stock	—	—	—	1
Ending balance	67	67	67	67
Additional paid-in capital				
Beginning balance	245,663	237,550	244,397	235,010
Issuance of common stock	132	368	132	1,459
Shares held for tax withholdings	—	—	(682)	(476)
Stock-based compensation	1,522	1,965	3,470	3,890
Ending balance	247,317	239,883	247,317	239,883
Accumulated other comprehensive (loss) income				
Beginning balance	(285)	75	(94)	98
Other comprehensive loss				
Foreign currency translation adjustments	(136)	53	(259)	37
Unrealized loss on investments	(14)	(91)	(82)	(98)
Total other comprehensive loss, net	(150)	(38)	(341)	(61)
Ending balance	(435)	37	(435)	37
Treasury stock				
Beginning balance	(177,577)	(135,405)	(166,846)	(130,870)
Common stock repurchased	(10,113)	(17,255)	(20,844)	(21,790)
Ending balance	(187,690)	(152,660)	(187,690)	(152,660)
Retained earnings				
Beginning balance	116,417	95,826	128,668	105,706
Net (loss) income	(3,198)	2,054	(15,449)	(7,826)
Ending balance	113,219	97,880	113,219	97,880
Total stockholders' equity	$ 172,478	$ 185,207	$ 172,478	$ 185,207
Common stock issued (shares)				
Beginning balance	67,010,421	66,533,052	66,774,081	66,182,906
Issuance of common stock	81,365	104,736	317,705	454,882
Ending balance	67,091,786	66,637,788	67,091,786	66,637,788
Treasury stock (shares)				
Beginning balance	14,927,562	11,676,340	13,967,259	11,397,045
Common stock repurchased	989,450	1,277,913	1,949,753	1,557,208
Ending balance	15,917,012	12,954,253	15,917,012	12,954,253
Total common stock outstanding (shares)				
Beginning Balance	52,082,859	54,856,712	52,806,822	54,785,861
Issuance of common stock	81,365	104,736	317,705	454,882
Common stock repurchased	(989,450)	(1,277,913)	(1,949,753)	(1,557,208)
Ending Balance	51,174,774	53,683,535	51,174,774	53,683,535

See Accompanying Notes to Condensed Consolidated Financial Statements

ENERGY RECOVERY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2026	2025
	(In thousands)	
Cash flows from operating activities:		
Net loss	$ (15,449)	$ (7,826)
Adjustments to reconcile net loss to cash provided by operating activities		
Stock-based compensation	3,349	3,899
Depreciation and amortization	1,979	1,906
Accretion (amortization) of discounts (premiums) on investments	(207)	(350)
Deferred income taxes	(3,798)	(1,337)
Impairment of long-lived assets	—	353
Impairment of goodwill	1,662	—
Restructuring - inventory reserve	1,632	—
Other non-cash adjustments	362	235
Changes in operating assets and liabilities:		
Accounts receivable, net	62,402	31,479
Contract assets	1,647	(185)
Inventories, net	(16,138)	(8,027)
Prepaid and other assets	(538)	(707)
Accounts payable	2,631	272
Income taxes	(2,391)	(905)
Accrued expenses and other liabilities	125	(5,145)
Contract liabilities	75	1,162
Net cash provided by operating activities	37,343	14,824
Cash flows from investing activities:		
Maturities of marketable securities	21,850	51,125
Purchases of marketable securities	(23,153)	(17,243)
Capital expenditures	(1,689)	(326)
Proceeds from sales of fixed assets	13	10
Net cash (used in) provided by investing activities	(2,979)	33,566
Cash flows from financing activities:		
Net proceeds from issuance of common stock	132	1,459
Tax payment for employee shares withheld	(682)	(476)
Repurchase of common stock	(20,679)	(21,577)
Refund (payment) of excise tax associated with repurchase of common stock	247	(432)
Net cash used in financing activities	(20,982)	(21,026)
Effect of exchange rate differences on cash and cash equivalents	(20)	60
Net change in cash, cash equivalents and restricted cash	13,362	27,424
Cash, cash equivalents and restricted cash, beginning of year	48,076	29,757
Cash, cash equivalents and restricted cash, end of period	$ 61,438	$ 57,181

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 June 30, 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 August 5, 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 the Company's 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 six months ended June 30, 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 tables present 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 June 30, 2026				Six Months Ended June 30, 2026			
	Desalination	Wastewater	Corporate and Other[(1)]	Total	Desalination	Wastewater	Corporate and Other[(1)]	Total
	(In thousands)							
Geographical market								
Middle East	$ 6,081	$ —	$ —	$ 6,081	$ 8,587	$ —	$ 77	$ 8,664
Africa	475	—	—	475	671	—	—	671
Other	$ 4,927	$ 513	$ —	$ 5,440	11,132	1,114	121	12,367
Total revenue	$ 11,483	$ 513	$ —	$ 11,996	$ 20,390	$ 1,114	$ 198	$ 21,702
Channel								
Original equipment manufacturer	$ 4,665	$ 513	$ —	$ 5,178	$ 10,531	$ 1,114	$ 121	$ 11,766
Aftermarket	4,112	—	—	4,112	6,789	—	77	6,866
Megaproject	2,706	—	—	2,706	3,070	—	—	3,070
Total revenue	$ 11,483	$ 513	$ —	$ 11,996	$ 20,390	$ 1,114	$ 198	$ 21,702

[1]Corporate and Other includes amounts not allocated to segments, which includes revenue associated with what was previously the Emerging Technologies segment.

	Three Months Ended June 30, 2025				Six Months Ended June 30, 2025			
	Desalination	Wastewater	Corporate and Other[(1)]	Total	Desalination	Wastewater	Corporate and Other[(1)]	Total
	(In thousands)							
Geographical market[1]								
Middle East	$ 8,275	$ —	$ 92	$ 8,367	$ 10,289	$ —	$ 93	$ 10,382
Africa	1,049	—	—	1,049	1,915	—	—	1,915
Other	16,176	2,339	120	18,635	21,055	2,644	120	23,819
Total revenue	$ 25,500	$ 2,339	$ 212	$ 28,051	$ 33,259	$ 2,644	$ 213	$ 36,116
Channel								
Original equipment manufacturer	$ 5,926	$ 2,312	$ 119	$ 8,357	$ 9,739	$ 2,500	$ 119	$ 12,358
Aftermarket	4,772	27	93	4,892	8,682	144	94	8,920
Megaproject	14,802	—	—	14,802	14,838	—	—	14,838
Total revenue	$ 25,500	$ 2,339	$ 212	$ 28,051	$ 33,259	$ 2,644	$ 213	$ 36,116

[1]Corporate and Other includes amounts not allocated to segments, which includes revenue associated with what was previously the Emerging Technologies segment.

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

Contract Balances

The following table presents contract balances by category.

	June 30, 2026	December 31, 2025
	(In thousands)	
Accounts receivable, net	$ 14,237	$ 76,639
Contract assets, current (included in prepaid expenses and other assets)	$ —	$ 1,647
Contract liabilities:		
Contract liabilities, current	$ 1,114	$ 1,039
Total contract liabilities	$ 1,114	$ 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.

	June 30, 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	537	765
Contract liabilities, end of period	$ 1,114	$ 1,039

Remaining Performance Obligations

As of June 30, 2026, the following table presents the revenue that is expected to be recognized related to performance obligations that are unsatisfied or partially unsatisfied. These amounts exclude the value of remaining performance obligations for contracts with an original expected delivery date of one year or less.

Period	Remaining Performance Obligations
	(In thousands)
2026 (remaining six months)	$ 8,781
2027	—
2028	—
2029	1,680
Total	$ 10,461

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

Note 3 — Income (Loss) Per Share

Net income (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 income (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 income (loss) per share* is computed using the weighted average number of common shares outstanding during the period.
- *Diluted income (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 income (loss) per share.

The following tables present the computation of basic and diluted income (loss) per share.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	2026	2025
	(In thousands, except per share amounts)			
Numerator				
Net income (loss)	$ (3,198)	$ 2,054	$ (15,449)	$ (7,826)
Denominator (weighted average shares)				
Basic common shares outstanding	51,463	54,257	52,058	54,578
Stock options	—	173	—	—
RSUs	—	56	—	—
Diluted common shares outstanding	51,463	54,486	52,058	54,578
Income (Loss) Per Share				
Basic	$ (0.06)	$ 0.04	$ (0.30)	$ (0.14)
Diluted	$ (0.06)	$ 0.04	$ (0.30)	$ (0.14)

The following tables present the equity awards that are excluded from diluted income (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 June 30, 2026.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	2026	2025
	(In thousands)			
Anti-dilutive equity award shares	2,492	1,992	2,492	3,038

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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.

	June 30, 2026	December 31, 2025	June 30, 2025
		(In thousands)	
Cash and cash equivalents	$ 61,438	$ 48,076	$ 57,050
Restricted cash, non-current (included in other assets, non-current)	—	—	131
Total cash, cash equivalents and restricted cash	$ 61,438	$ 48,076	$ 57,181

Inventories, net

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

	June 30, 2026	December 31, 2025
	(In thousands)	
Raw materials	$ 10,144	$ 8,289
Work in process	9,095	6,270
Finished goods	21,831	10,768
Inventories, gross	41,070	25,327
Valuation adjustments for excess and obsolete inventory	(2,828)	(1,067)
Inventories, net	$ 38,242	$ 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 CO2 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 six months ended June 30, 2026. No impairment charges were recorded during the three months ended June 30, 2026.

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Accrued Expenses and Other Liabilities

	June 30, 2026	December 31, 2025
	(In thousands)	
Accrued expenses and other liabilities, current		
Payroll, benefits, incentives and commissions payable	$ 5,579	$ 6,683
Warranty reserve	175	205
Restructuring accrual	1,098	—
Income taxes payable	10	2,401
Other accrued expenses and other liabilities	2,928	2,381
Total accrued expenses and other liabilities	9,790	11,670
Other liabilities, non-current	1,120	1,070
Total accrued expenses, and current and non-current other liabilities	$ 10,910	$ 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 six months ended June 30, 2025. No restructuring charges were recorded during the three months ended June 30, 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 $2.4 million during the six months ended June 30, 2026, of which $0.9 million was recorded during the three months ended June 30, 2026. The restructuring charge recorded relates to severance and benefits, including reemployment assistance, for 23 terminated employees. In addition, during the six months ended June 30, 2026, 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 Company did not incur any excess and obsolescence reserves or impairments of goodwill during the three months ended June 30, 2026. Refer to section Goodwill within this footnote for additional information. The restructuring plan was substantially complete by the end of the second quarter of fiscal year 2026 and the Company does not expect to incur significant additional expenses related to the restructuring.

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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 six months ended June 30, 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	2,391
Cash paid	(1,236)
Balance, as of June 30, 2026	$ 1,155

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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 June 30, 2026 and December 31, 2025, the Company had no financial liabilities and no Level 3 financial assets.

	June 30, 2026		December 31, 2025	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Cash equivalents				
Money market securities	$ 22,842	$ 22,842	$ 11,225	$ 11,225
U.S. treasury securities	997	997	12,952	12,955
Total cash equivalents	23,839	23,839	24,177	24,180
Short-term investments				
U.S. treasury securities	23,637	23,629	13,618	13,640
Corporate notes and bonds	8,001	7,989	13,505	13,533
Total short-term investments	31,638	31,618	27,123	27,173
Long-term investments				
U.S. treasury securities	—	—	1,959	1,971
Corporate notes and bonds	5,014	5,018	6,038	6,063
Total long-term investments	5,014	5,018	7,997	8,034
Total short and long-term investments	36,652	36,636	35,120	35,207
Total	$ 60,491	$ 60,475	$ 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 June 30, 2026, there were no revolving loans outstanding. In addition, under the LCs component, as of June 30, 2026 and December 31, 2025, the Company utilized $20.0 million and $20.4 million, respectively, 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 3.5 years as of June 30, 2026. Sublease income was immaterial during the six months ended June 30, 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 six months ended June 30, 2025, of which $0.2 million and $0.2 million was recorded against the right-of-use asset and the associated leasehold improvements, respectively. No impairment charges were incurred during the three months ended June 30, 2025. 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 June 30, 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 June 30, 2026 and December 31, 2025.

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Note 8 — Income Taxes

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	2026	2025
	(In thousands, except percentages)			
Provision for (benefit from) income taxes	$ (1,884)	$ 334	$ (3,659)	$ (1,269)
Discrete items	(185)	(22)	(317)	30
Provision for (benefit from) income taxes, excluding discrete items	$ (2,069)	$ 312	$ (3,976)	$ (1,239)
Effective tax rate	37.1%	14.0%	19.1%	14.0%
Effective tax rate, excluding discrete items	40.7%	13.0%	20.8%	13.7%

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 and six months ended June 30, 2026, the recognized benefit from income taxes resulted from the tax projection based on the full year forecast and included benefits related to the U.S. federal research and development ("R&D") tax credit, reduced by certain permanent differences, such as non-deductible stock-based compensation as well as an increase in the California valuation allowance for California R&D tax credits.

For the three and six months ended June 30, 2025, the recognized provision for and (benefit from) income taxes, respectively, 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 June 30, 2026, as compared to the prior year, differed primarily due to a change in the full year forecast for 2026, with the projection that the Company will not generate any tax incentives from the U.S. federal foreign-derived intangible income ("FDDEI"), previously called "FDII", in 2026, combined with non-deductible expenses, most of which relates to non-deductible stock-based compensation and an increase in the state valuation allowance as a result of the change in forecast.

The effective tax rate excluding discrete items for the six months ended June 30, 2026, as compared to the prior year, differed primarily due to the projection that the Company will not generate the FDDEI deduction in 2026 due to the Company's forecasted loss in 2026.

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 and six months ended June 30, 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.

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Note 9 — Segment Reporting

The Company's Chief Operating Decision-Maker ("CODM") is its Interim 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 six months ended June 30, 2026, the Company changed the composition of its reportable segments to better reflect how the CODM manages the business. During the first quarter of fiscal 2026, the Water segment was separated into two segments, the Desalination segment and the Wastewater segment, as both met the criteria of a reportable segment. During the first quarter of fiscal 2026, the CO_2 retail grocery business within the Emerging Technologies segment was wound-down, which resulted in the Emerging Technologies segment no longer meeting the criteria of a reportable segment as of the second quarter of fiscal 2026. As a result, revenue and expenses associated with the former Emerging Technologies segment have been included within Corporate and Other. 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 Income (Loss) and Condensed Consolidated Statements of Cash Flows.

Segment Definition

Income and type of expense activities that are included in the Desalination, Wastewater and Corporate and Other 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.

Corporate and Other: The Corporate and Other 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. In addition, Corporate and Other includes the development costs, sales and support of activities related to Emerging Technologies as this segment no longer met the criteria of a reportable segment as of June 30, 2026.

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

	Three Months Ended June 30, 2026				Six Months Ended June 30, 2026			
	Desalination	Wastewater	Corporate and Other	Total	Desalination	Wastewater	Corporate and Other	Total
	(In thousands)							
Revenue	$ 11,483	$ 513	$ —	$ 11,996	$ 20,390	$ 1,114	$ 198	$ 21,702
Cost of revenue	2,781	258	—	3,039	7,723	628	60	8,411
Restructuring - inventory reserve	—	—	—	—	—	—	1,632	1,632
Gross profit (loss)	8,702	255	—	8,957	12,667	486	(1,494)	11,659
Operating expenses								
General and administrative	1,025	872	4,904	6,801	1,781	1,853	9,622	13,256
Sales and marketing	2,453	1,209	674	4,336	4,938	2,372	2,145	9,455
Research and development	2,391	262	196	2,849	4,007	398	1,233	5,638
Restructuring charges	—	—	855	855	335	18	2,038	2,391
Impairment of goodwill	—	—	—	—	—	—	1,662	1,662
Total operating expenses	5,869	2,343	6,629	14,841	11,061	4,641	16,700	32,402
Operating income (loss)	$ 2,833	$ (2,088)	$ (6,629)	$ (5,884)	$ 1,606	$ (4,155)	$ (18,194)	$ (20,743)

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	Three Months Ended June 30, 2025				Six Months Ended June 30, 2025			
	Desalination	Wastewater	Corporate and Other	Total	Desalination	Wastewater	Corporate and Other	Total
	(In thousands)							
Revenue	$ 25,500	$ 2,339	$ 212	$ 28,051	$ 33,259	$ 2,644	$ 213	$ 36,116
Cost of revenue	9,259	667	171	10,097	12,641	846	217	13,704
Gross profit (loss)	16,241	1,672	41	17,954	20,618	1,798	(4)	22,412
Operating expenses								
General and administrative	788	535	6,346	7,669	1,633	1,263	13,347	16,243
Sales and marketing	2,183	1,097	2,080	5,360	4,291	2,134	3,841	10,266
Research and development	1,370	234	1,847	3,451	2,219	563	3,670	6,452
Restructuring charges	—	—	—	—	107	103	329	539
Total operating expenses	4,341	1,866	10,273	16,480	8,250	4,063	21,187	33,500
Operating income (loss)	$ 11,900	$ (194)	$ (10,232)	$ 1,474	$ 12,368	$ (2,265)	$ (21,191)	$ (11,088)

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Note 10 — Concentrations

Revenue by Country

The following tables present the Company's product revenue by country.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	2026	2025
Product revenue by country:(1)				
Egypt	25%	**	19%	**
Spain	**	29%	**	24%
Oman	**	21%	**	17%
China	**	12%	**	11%
Saudi Arabia	11%	**	**	**
Others(2)	64%	38%	81%	48%
Total	100%	100%	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 tables present 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 June 30,		Six Months Ended June 30,	
	Segment	2026	2025	2026	2025
Customer A	Desalination	**	21%	**	17%
Customer B	Desalination	**	16%	**	13%
Customer C	Desalination	15%	**	**	**

** Zero or less than 10%.

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 June 30, 2026, the Company has repurchased 15,917,012 shares of its common stock at an aggregate cost of $186.8 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 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 "August 2025 Authorization"). The August 2025 Authorization expired in May 2026. Under the August 2025 Authorization, the Company repurchased 2,179,419 shares at an aggregate cost of $25.0 million.

The following table presents the share repurchase activities under the August 2025 Authorization as of June 30, 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	2,179,419	$11.43	(25.0)
Remaining amount under August 2025 Authorization			$ —

(1) Excluding commissions

Of the 2,179,419 shares purchased, 832,550 and 1,792,853 were purchased during the three and six months ended June 30, 2026 for $8.7 million and $19.3 million, respectively.

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 began to purchase under the May 2026 Authorization in May 2026.

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The following table presents the share repurchase activities under the May 2026 Authorization as of June 30, 2026.

	Number of Shares Purchased	Average Price Paid per Share[(1)]	Plan Activity
			(In millions)
May 2026 Authorization			$ 25.0
Repurchases under May 2026 Authorization	156,900	$8.50	(1.3)
Remaining amount under May 2026 Authorization			$ 23.7

(1) Excluding commissions

All 156,900 shares were purchased during the three and six months ended June 30, 2026 for $1.3 million.

Note 12 — Subsequent Events

In July 2026, the Company entered into a lease agreement for a manufacturing facility in Saudi Arabia with a noncancellable lease term of approximately five years. The lease commenced in July 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 and Wastewater 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. Other factors for determining the reportable operating segments include the manner in which our Chief Operating Decision Maker ("CODM"), our Interim President and Chief Executive Officer, evaluates our performance combined with the nature of the individual business activities. In addition, our Corporate and Other include expenditures in support of the Desalination and Wastewater segments, as well as revenue and expenditures associated with the former Emerging Technologies segment. 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 six months ended June 30, 2026, we changed the composition of our reportable segments to better reflect how the CODM manages the business. During the fist quarter of fiscal 2026, the Water segment was separated into two segments, the Desalination segment and the Wastewater segment. During the first quarter of fiscal 2026, the CO_2 retail grocery business within the Emerging Technologies segment was wound-down, which resulted in the Emerging Technologies segment no longer meeting the criteria of a reportable segment as of the second quarter of fiscal 2026. As a result, revenue and expenses associated with the former Emerging Technologies segment have been included within Corporate and Other. 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 and six months ended June 30, 2026, compared to the three and six months ended June 30, 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 June 30,					
	2026		2025			
	Revenue	% of Revenue	Revenue	% of Revenue	Change	
			(In thousands, except percentages)			
Original equipment manufacturer	$ 5,178	43%	$ 8,357	30%	$ (3,179)	(38%)
Aftermarket	4,112	34%	4,892	17%	(780)	(16%)
Megaproject	2,706	23%	14,802	53%	(12,096)	(82%)
Total revenue	$ 11,996	100%	$ 28,051	100%	$ (16,055)	(57%)

	Six Months Ended June 30,					
	2026		2025			
	Revenue	% of Revenue	Revenue	% of Revenue	Change	
			(In thousands, except percentages)			
Original equipment manufacturer	$ 11,766	54%	$ 12,358	34%	$ (592)	(5%)
Aftermarket	6,866	32%	8,920	25%	(2,054)	(23%)
Megaproject	3,070	14%	14,838	41%	(11,768)	(79%)
Total revenue	$ 21,702	100%	$ 36,116	100%	$ (14,414)	(40%)

Revenue Attributable to Primary Geographical Markets by Segments

	Three Months Ended June 30,							
	2026				2025			
	Desalination	Wastewater	Corporate and Other	Total	Desalination	Wastewater	Corporate and Other	Total
				(In thousands)				
Middle East	$ 6,081	$ —	$ —	$ 6,081	$ 8,275	$ —	$ 92	$ 8,367
Africa	475	—	—	475	1,049	—	—	1,049
Other	4,927	513	—	5,440	16,176	2,339	120	18,635
Total revenue	$ 11,483	$ 513	$ —	$ 11,996	$ 25,500	$ 2,339	$ 212	$ 28,051

	Six Months Ended June 30,							
	2026				2025			
	Desalination	Wastewater	Corporate and Other	Total	Desalination	Wastewater	Corporate and Other	Total
	(In thousands)							
Middle East	$ 8,587	$ —	$ 77	$ 8,664	$ 10,289	$ —	$ 93	$ 10,382
Africa	671	—	—	671	1,915	—	—	1,915
Other	11,132	1,114	121	12,367	21,055	2,644	120	23,819
Total revenue	$ 20,390	$ 1,114	$ 198	$ 21,702	$ 33,259	$ 2,644	$ 213	$ 36,116

Three months ended June 30, 2026, as compared to the three months ended June 30, 2025

The decrease in Original Equipment Manufacturer ("OEM") revenue of $3.2 million was due primarily to:

- *Desalination:* The decrease in revenue of $1.3 million was due primarily to lower shipments of products to the Asia and Africa markets, partially offset by higher shipments of products to the America, Europe and Middle East markets.
- *Wastewater:* The decrease in revenue of $1.9 million was due primarily to lower shipments of products to the Asia markets.

The decrease in After Market ("AM") revenue of $0.8 million was due primarily to lower shipment of products to the Europe and Asia markets, partially offset by higher shipments of products to the Middle East market.

The decrease in Megaproject ("MPD") revenue of $12.1 million was primarily due to lower shipments of products to the Europe, Middle East and Asia markets.

Six months ended June 30, 2026, as compared to the six months ended June 30, 2025

The decrease in OEM revenue of $0.6 million was due primarily to:

- *Desalination*: The increase in revenue of $0.8 million was due primarily to higher shipments of products to the Europe, Middle East and Africa markets, partially offset by lower shipments of products to the Asia market.
- *Wastewater*: The decrease in revenue of $1.4 million was due primarily to lower shipments of products to the Asia market.

The decrease in AM revenue of $2.1 million was primarily due to lower shipments to the Asia and Europe markets.

The decrease in MPD revenue of $11.8 million was due primarily to lower shipments to the Europe, Asia and Middle East markets.

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 June 30,			Six Months Ended June 30,		
	2026	2025	Change	2026	2025	Change
	(In thousands, except percentage and basis point)					
Gross profit	$ 8,957	$ 17,954	$ (8,997)	$ 11,659	$ 22,412	$ (10,753)
Gross margin	74.7%	64.0%	1,070 bps	53.7 %	62.1 %	(840) bps

The decrease in gross profit for the three months ended June 30, 2026, as compared to the prior year, was due primarily to lower volume as compared to the prior year, partially offset by decreases to indirect manufacturing costs and channel mix.

The increase in gross margin for the three months ended June 30, 2026, as compared to the prior year, was due primarily to indirect manufacturing costs and channel mix, partially offset by lower volume.

The decrease in gross profit and gross margin for the six months ended June 30, 2026, as compared to the prior year, was due primarily to lower volume as compared to the prior year as well as $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, and tariffs, partially offset by improvements to indirect manufacturing costs during the six months ended June 30, 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 June 30, 2026, as compared to the comparable periods in the prior year, are discussed within the following overall operating expenditures, and the segment and corporate operating expenses discussions below.

	Three Months Ended June 30,							
	2026				2025			
	Desalination	Wastewater	Corporate and Other	Total	Desalination	Wastewater	Corporate and Other	Total
	(In thousands)							
Operating expenses								
General and administrative	$ 1,025	$ 872	$ 4,904	$ 6,801	$ 788	$ 535	$ 6,346	$ 7,669
Sales and marketing	2,453	1,209	674	4,336	2,183	1,097	2,080	5,360
Research and development	2,391	262	196	2,849	1,370	234	1,847	3,451
Restructuring charges	—	—	855	855	—	—	—	—
Total operating expenses	$ 5,869	$ 2,343	$ 6,629	$ 14,841	$ 4,341	$ 1,866	$ 10,273	$ 16,480

Three months ended June 30, 2026, as compared to the three months ended June 30, 2025

Overall Operating Expenditures. Overall operating expenditures decreased $1.6 million, or (10.0%). This decrease was primarily due to lower employee compensation costs, including stock-based compensation expense, and lower consulting costs, partially offset by restructuring charges incurred in the three months ended June 30, 2026.

Desalination Segment. Desalination segment operating expenses increased by $1.5 million, or 35.2%. This increase was primarily due to higher employee costs, including stock-based compensation expense.

Wastewater Segment. Wastewater segment operating expenses increased by $0.5 million, or 26%. This increase was primarily due to higher employee costs and higher consulting costs.

Corporate and Other. Corporate and Other decreased by $3.6 million, or (35.5)%. This decrease was primarily due to lower employee compensation costs, including stock-based compensation expense, lower consulting costs, and lower emerging technology development costs, partially offset by restructuring charges incurred in the three months ended June 30, 2026.

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 $0.9 million during the three months ended June 30, 2026. The total restructuring charge recorded relates to severance and benefits, including reemployment assistance, for 23 terminated employees. The restructuring plan was substantially complete by the end of the second quarter of fiscal year 2026 and we do not expect to incur significant additional expenses related to the restructuring.

	Six Months Ended June 30,							
	2026				2025			
	Desalination	Wastewater	Corporate and Other	Total	Desalination	Wastewater	Corporate and Other	Total
	(In thousands)							
General and administrative	$ 1,781	$ 1,853	$ 9,622	$ 13,256	$ 1,633	$ 1,263	$ 13,347	$ 16,243
Sales and marketing	4,938	2,372	2,145	$ 9,455	4,291	2,134	3,841	$ 10,266
Research and development	4,007	398	1,233	$ 5,638	2,219	563	3,670	$ 6,452
Restructuring charges	335	18	2,038	$ 2,391	107	103	329	$ 539
Impairment of goodwill	—	—	1,662	$ 1,662	—	—	—	$ —
Total operating expenses	$ 11,061	$ 4,641	$ 16,700	$ 32,402	$ 8,250	$ 4,063	$ 21,187	$ 33,500

Six months ended June 30, 2026, as compared to the six months ended June 30, 2025

Overall Operating Expenditures. Overall operating expenditures decreased by $1.1 million, or (3.3%). This decrease was primarily due to to lower employee compensation costs, including stock-based compensation expense, and lower consulting costs, and was partially offset by impairment of goodwill and restructuring charges incurred as part of the wind down of the CO2 retail grocery business.

Desalination Segment. Desalination segment related operating expenses increased by $2.8 million, or 34.1%. This increase was primarily due to to higher employee costs, including stock-based compensation costs, and higher restructuring charges.

Wastewater *Segment.* Wastewater segment related operating expenses increased by $0.6 million, or 14.2%. This increase was primarily due to to higher employee costs and higher consulting costs.

Corporate and Other. Corporate and Other decreased by $4.5 million, or (21.2)%. This decrease was primarily due to lower employee costs, including stock-based compensation expense, lower consulting costs and lower emerging technology development costs, partially offset by impairment of goodwill and restructuring charges incurred as part of the wind down of the CO_2 retail grocery business.

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 $2.4 million during the six months ended June 30, 2026. The total restructuring charge recorded relates to severance and benefits, including reemployment assistance, for 23 terminated employees. In addition to the restructuring charges, we 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 second quarter of fiscal year 2026 and we do 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 six months ended June 30, 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 June 30, 2026	Three Months Ended June 30, 2025	Six Months Ended June 30, 2026	Six Months Ended June 30, 2025
	(In thousands)			
Interest income	$ 680	$ 940	$ 1,405	$ 2,013
Other non-operating income (expense), net	122	(26)	230	(20)
Total other income, net	$ 802	$ 914	$ 1,635	$ 1,993

The decrease in “Total other income, net” in the three and six months ended June 30, 2026, as compared to the comparable period in the prior year, was primarily due to a decrease in the interest rate for short- and long-term investments.

Income Taxes

	Three Months Ended June 30, 2026	Three Months Ended June 30, 2025	Six Months Ended June 30, 2026	Six Months Ended June 30, 2025
	(In thousands, except percentages)			
(Benefit from) provision for income taxes	$ (1,884)	$ 334	$ (3,659)	$ (1,269)
Discrete items	(185)	(22)	(317)	30
(Benefit from) provision for income taxes, excluding discrete items	$ (2,069)	$ 312	$ (3,976)	$ (1,239)
Effective tax rate	37.1%	14.0%	19.1%	14.0%
Effective tax rate, excluding discrete items	40.7%	13.0%	20.8%	13.7%

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 and six months ended June 30, 2026, the recognized benefit from income taxes resulted from the tax projection based on the full year forecast and included benefits related to the U.S. federal research and development (“R&D”) tax credit, and certain permanent differences, such as non-deductible stock-based compensation as well as an increase in the California valuation allowance for California R&D tax credits.

For the three and six months ended June 30, 2025, the recognized provision for and (benefit from) income taxes, respectively, 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 six months ended June 30, 2026, as compared to the prior year, differed primarily due to the projection that the Company will not generate the U.S. federal foreign-derived intangible income deduction in 2026 due to the Company’s forecasted loss in 2026.

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 June 30, 2026, our principal sources of liquidity consisted of (i) unrestricted cash and cash equivalents of $61.4 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 $36.6 million that are primarily invested in U.S. treasury securities and corporate notes and bonds; and (iii) accounts receivable, net of allowances, of $14.2 million. As of June 30, 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 June 30, 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 June 30, 2026, we have cumulatively repurchased 15.9 million shares of the Company's common stock at an aggregate cost of $186.8 million under all share repurchase programs. The following is a discussion of the current share repurchase program during the three and six months ended June 30, 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 expired in May 2026. As of June 30, 2026, we have repurchased 2,179,419 shares of our common stock at an aggregate cost of approximately $25.0 million of which 832,550 and 1,792,853 were purchased during the three and six months ended June 30, 2026 at an aggregate cost of approximately $8.7 million and $19.3 million, respectively.

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 began repurchasing our outstanding common stock under the May 2026 Authorization in May 2026. The May 2026 Authorization will expire in April 2027. As of June 30, 2026, we have repurchased 156,900 shares of our common stock at an aggregate cost of approximately $1.3 million. All 156,900 shares were purchased during the three and six months ended June 30, 2026.

Cash Flows

	Six Months Ended June 30, 2026	2025	Change
		(In thousands)	
Net cash provided by operating activities	$ 37,343	$ 14,824	$ 22,519
Net cash (used in) provided by investing activities	(2,979)	33,566	(36,545)
Net cash used in financing activities	(20,982)	(21,026)	44
Effect of exchange rate differences on cash and cash equivalents	(20)	60	(80)
Net change in cash, cash equivalents and restricted cash	$ 13,362	$ 27,424	$ (14,062)

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 six months ended June 30, 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 half 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 six months ended June 30, 2026, as compared to the prior year, is primarily due to fewer maturities as well as higher purchases 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 six months ended June 30, 2026 was lower as compared to the cash used in financing activities in the prior year, due to lower repurchases of our common stock as well as a $0.4 million refund received for excise tax payments made during the previous fiscal 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 June 30, 2026, our investment portfolio of $37.6 million, in investment-grade marketable debt instruments, such as U.S. treasury securities, and corporate notes and bonds, are classified as either cash equivalents or 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 five months. As of June 30, 2026, a hypothetical 1% increase in interest rates would have resulted in approximately $0.1 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 Interim President and Chief Executive Officer and our Interim 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 Interim President and Chief Executive Officer and our Interim Chief Financial Officer have concluded that, as of June 30, 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 continuing 2026 conflict in Iran and escalating conflicts in the Middle East, as well as the impact of increased inflation and a potential stagflation 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 continuing 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. Further escalation of the conflict could heighten inflationary pressures on our input costs, adversely affect global financial markets, increase currency exchange rate volatility, and elevate interest rates, which could increase the cost of future financing. 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, economic sanctions and export controls, trade restrictions, 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 where we have existing or prospective customer relationships, 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, further expand to other countries or regions or cannot be stabilized by any diplomatic efforts, 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.

We face risks associated with our first international manufacturing facility in Saudi Arabia.

We are investing significant resources to establish and operate our first manufacturing facility outside the United States, located in Saudi Arabia. The successful construction, commissioning, and operation of this facility are subject to a variety of risks and uncertainties that could materially and adversely affect our business, financial condition, results of operations, and cash flows.

The facility is currently under development and is expected to begin operations in 2027. Establishing a new manufacturing operation in a foreign jurisdiction presents challenges that we have not previously encountered at this scale, including obtaining and maintaining licenses, permits, and regulatory approvals; complying with local labor, tax, environmental, health and safety, customs, and other legal requirements; hiring, training, and retaining a skilled local workforce; and implementing our manufacturing processes, quality systems, and internal controls in a new operating environment. Any delays, cost overruns, construction deficiencies, supply chain disruptions, labor shortages, or difficulties in commissioning equipment could postpone the facility's operational readiness, increase our costs, and delay anticipated benefits.

Our operations in Saudi Arabia also expose us to additional geopolitical, economic, and operational risks. These risks include changes in government policies, trade regulations, local content requirements, taxation, foreign investment rules, import and export controls, sanctions regimes, currency restrictions, and political or security conditions in the region. Any deterioration in regional stability, changes in regulatory frameworks, or actions by governmental authorities could adversely affect the facility, our employees, our suppliers, or our customers and could result in increased costs, operational disruptions, or limitations on our ability to conduct business in the region.

Further, the transfer of manufacturing knowledge, proprietary processes, and technology to a new foreign operation may increase the risk of unauthorized disclosure, misuse, or infringement of our intellectual property. We may also face challenges in maintaining consistent oversight, cybersecurity protections, internal controls, and compliance programs across geographically dispersed operations.

If we are unable to successfully construct, commission, ramp, and operate the Saudi Arabian facility on the timeline we expect, or if the facility fails to achieve its anticipated operational, financial, or strategic objectives, our growth prospects, competitive position, operating results, and long-term business strategy could be materially and adversely affected.

Because the facility is not yet operational, there is substantial uncertainty regarding the timing and effectiveness of the commissioning and ramp-up process. Initial production volumes, labor productivity, manufacturing yields, quality metrics, and operating efficiencies may fall short of expectations. We may also encounter unforeseen technical, engineering, infrastructure, equipment integration, or supply chain issues during startup. Any such challenges could require additional capital expenditures, delay customer deliveries, increase operating costs, and adversely affect our ability to achieve expected returns on our investment.

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

August 2025 Authorization

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 June 30, 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)
April 1 – April 30, 2026	537,600	$ 10.72	537,600	$ 2,956
May 1 – May 31, 2026	294,950	$ 9.89	294,950	$ —
June 1 – June 30, 2026	—	$ —	—	$ —

(1) Including commissions

May 2026 Authorization

On May 6, 2026, we announced a share repurchase program (the "May 2026 Authorization"). The following table summarizes the stock repurchase activity under the August 2025 Authorization during the three months ended June 30, 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)
May 1 – May 31, 2026	—	$ —	—	$ 25,000
June 1 – June 30, 2026	156,900	$ 8.52	156,900	$ 23,663

(1) Including commissions

Item 3 — Defaults Upon Senior Securities

None.

Item 4 — Mine Safety Disclosures

Not applicable.

Item 5 — Other Information

10b5-1 Plans

As set forth below, during the three months ended June 30, 2026, one officer (within the meaning of Rule 16a-1(f) under the Securities Exchange Act of 1934, as amended) has terminated and no officers have adopted a Rule 10b5-1 trading arrangement (as defined in Item 408 of Regulation S-K). There has been no non-Rule 10b5-1 trading arrangements (as defined in Item 408 of Regulation S-K).

Name	Title	Date of Adoption or Termination [(1)]	Status [(2)]	Plan Type
Ram Ramanan	Chief Technology Officer	June 8, 2026	Termination	Rule 10b5-1 trading arrangement

(1) Effective (a) date of adoption; or (b) date of termination, of registrant's Rule 10b5-1 trading arrangement.

(2) Activity related to registrant's Rule 10b5-1 trading arrangement.

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	Offer of Employment with Energy Recovery, Inc as Interim Chief Financial Officer
10.2	Offer of Employment with Energy Recovery, Inc as Interim President and Chief Executive
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: August 5, 2026	By: /s/ ALEXANDER J. BUEHLER
	Alexander J. Buehler
	Interim President and Chief Executive Officer
	(Principal Executive Officer)
Date: August 5, 2026	By: /s/ AIDAN RYAN
	Aidan Ryan
	Interim Chief Financial Officer
	(Principal Financial Officer)