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, 2021

OR

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

For the transition period from ____________ to __________

Commission File Number: 001-34112

Energy Recovery, Inc.
(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

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

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

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☑ Smaller reporting company ☑ Emerging growth company ☐

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

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

As of July 30, 2021, there were 57,152,300 shares of the registrant's common stock outstanding.

ENERGY RECOVERY, INC.
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Forward-Looking Information

This Quarterly Report on Form 10-Q for the three and six months ended June 30, 2021, including Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (the “MD&A”) and certain information incorporated by reference, contain 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,” 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 statements. 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 statements for any reason.

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

- *our belief that the pressure exchanger is the industry standard for energy recovery in the seawater reverse osmosis (“SWRO”) industry;*
- *our belief that pressure exchanger technology can provide benefits to our customers, including the reduction of capital expenditures and energy use;*
- *our belief that the integration of Environmental, Social and Governance (“ESG”) principles into our corporate and risk management strategies can strengthen our existing business as well as our efforts to develop new applications of pressure exchanger technology for high-pressure fluid-flow environments;*
- *our belief that our enhanced safety measures will allow us to help contain the spread of coronavirus (“COVID-19”);*
- *the development of major public health concerns, including the COVID-19 outbreak or other pandemics arising globally, and the future impact of such major public health concerns, and specifically in the short-term the COVID-19 pandemic, on our business and operations;*
- *our belief that our pressure exchanger technology can address inefficiencies and waste within industrial systems and processes that involve high-pressure and low-pressure fluid flows;*
- *our belief that our PX® Pressure Exchanger® (“PX”) has helped make SWRO desalination an economically viable and more sustainable option in the production of potable water;*
- *our belief that markets not traditionally associated with desalination, including the United States of America (“U.S.”) will inevitably develop and provide further revenue growth opportunities;*
- *our belief that, as the existing thermal technology is replaced with reverse osmosis (“RO”) technology, demand for our products will be created;*
- *our belief that ongoing operating costs rather than capital expenditures is the key factor in the selection of an energy recovery device (“ERD”) solution for megaproject (“MPD”) customers;*
- *our belief that our PX offers market-leading efficiency and reduction of total lifecycle cost to the end client;*
- *our estimate that MPD customer projects represent revenue opportunities from approximately $1 million to $18 million;*
- *our belief that initial capital expenditure rather than future ongoing operating costs is the key factor in selection of an ERD solution for original equipment manufacturer (“OEM”) projects;*
- *our belief that our PX has a competitive advantage, as compared to the Flowserve Corporation’s DWEER product, because our devices are made with highly durable and corrosion-resistant aluminum oxide (“alumina”) ceramic parts that are designed for a life of more than 25 years, are warrantied for high efficiencies, and cause minimal unplanned downtime, resulting in lower lifecycle costs;*

- *our belief that our PX has a distinct competitive advantage over Fluid Equipment Development Company's ("FEDCO") turbochargers and Danfoss Group's iSave ERDs because our devices provide up to 98% efficiency, have lower lifecycle maintenance costs, and are made of highly durable and corrosion-resistant alumina ceramic parts;*
- *our belief that our Turbochargers compete favorably with FEDCO's turbochargers based on efficiency, price, and because our Turbochargers have design advantages that enhance efficiency, operational flexibility and serviceability;*
- *our belief that our existing cash and cash equivalents, our short-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 expectation that we will be able to enforce our intellectual property ("IP") rights;*
- *our expectation that the adoption of new accounting standards will not have a material impact on our financial position or results of operations; and*
- *other factors disclosed under the MD&A and 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, which 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 6, 2021. We assume no obligation to update any such forward-looking statements, certain risks and uncertainties which could cause actual results to differ materially from those projected in the forward-looking statements, as 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, and in our Annual Reports on Form 10-K, and from time-to-time, in our results disclosed on our Current Reports on Form 8-K.

We provide our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements, 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, 2021	December 31, 2020
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 103,302	$ 94,255
Short-term investments	17,394	20,446
Accounts receivable, net	7,599	11,792
Inventories, net	15,289	11,748
Prepaid expenses and other assets, current	4,265	4,950
Total current assets	147,849	143,191
Deferred tax assets, net	12,471	11,030
Property and equipment, net	20,443	20,176
Operating lease, right of use asset	15,383	16,090
Goodwill and other intangible assets	12,833	12,839
Other assets, non-current	365	988
Total assets	$ 209,344	$ 204,314
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,278	$ 1,118
Accrued expenses and other liabilities, current	8,397	11,816
Lease liabilities, current	1,473	1,243
Contract liabilities, current	1,117	1,552
Total current liabilities	13,265	15,729
Lease liabilities, non-current	15,682	16,443
Other liabilities, non-current	571	518
Total liabilities	29,518	32,690
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock	63	62
Additional paid-in capital	191,087	179,161
Accumulated other comprehensive (loss) income	(53)	53
Treasury stock	(42,040)	(30,486)
Retained earnings	30,769	22,834
Total stockholders' equity	179,826	171,624
Total liabilities and stockholders' equity	$ 209,344	$ 204,314

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,	
	2021	2020	2021	2020
	(In thousands, except per share data)			
Product revenue	$ 20,607	$ 19,256	$ 49,547	$ 38,257
Product cost of revenue	7,181	6,549	16,162	12,233
Product gross profit	13,426	12,707	33,385	26,024
License and development revenue	—	24,352	—	26,895
Operating expenses:				
General and administrative	6,175	5,599	12,781	12,480
Sales and marketing	2,537	1,497	5,240	3,635
Research and development	4,424	6,352	8,926	13,061
Amortization of intangible assets	3	4	7	8
Impairment of long-lived assets	—	2,332	—	2,332
Total operating expenses	13,139	15,784	26,954	31,516
Income from operations	287	21,275	6,431	21,403
Other income (expense):				
Interest income	51	255	143	675
Other non-operating expense, net	(12)	(18)	(22)	(30)
Total other income, net	39	237	121	645
Income before income taxes	326	21,512	6,552	22,048
(Benefit from) provision for income taxes	(743)	4,586	(1,383)	4,501
Net income	$ 1,069	$ 16,926	$ 7,935	$ 17,547
Net income per share:				
Basic	$ 0.02	$ 0.30	$ 0.14	$ 0.32
Diluted	$ 0.02	$ 0.30	$ 0.13	$ 0.31
Number of shares used in per share calculations:				
Basic	57,253	55,614	57,066	55,513
Diluted	58,999	56,371	58,822	56,438

See Accompanying Notes to Condensed Consolidated Financial Statements

ENERGY RECOVERY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(In thousands)			
Net income	$ 1,069	$ 16,926	$ 7,935	$ 17,547
Other comprehensive (loss) income, net of tax				
Foreign currency translation adjustments	5	10	(20)	(15)
Unrealized (loss) gain on investments	(38)	441	(86)	171
Total other comprehensive (loss) income, net of tax	(33)	451	(106)	156
Comprehensive income	$ 1,036	$ 17,377	$ 7,829	$ 17,703

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,	
	2021	2020	2021	2020
	(In thousands, except shares)			
Common stock				
Beginning balance	$ 63	$ 61	$ 62	$ 61
Issuance of common stock, net	—	—	1	—
Ending balance	63	61	63	61
Additional paid-in capital				
Beginning balance	187,083	171,954	179,161	170,028
Issuance of common stock, net	2,638	687	8,696	1,105
Stock-based compensation	1,366	1,088	3,230	2,596
Ending balance	191,087	173,729	191,087	173,729
Accumulated other comprehensive (loss) income				
Beginning balance	(20)	(332)	53	(37)
Other comprehensive (loss) income				
Foreign currency translation adjustments	5	10	(20)	(15)
Unrealized (loss) gain on investments	(38)	441	(86)	171
Total other comprehensive (loss) income, net	(33)	451	(106)	156
Ending balance	(53)	119	(53)	119
Treasury stock				
Beginning balance	(30,486)	(30,486)	(30,486)	(30,486)
Common stock repurchased	(11,554)	—	(11,554)	—
Ending balance	(42,040)	(30,486)	(42,040)	(30,486)
Retained earnings				
Beginning balance	29,700	(2,932)	22,834	(3,553)
Net income	1,069	16,926	7,935	17,547
Ending balance	30,769	13,994	30,769	13,994
Total stockholders' equity	$ 179,826	$ 157,417	$ 179,826	$ 157,417
Common stock issued (shares)				
Beginning balance	62,877,567	60,999,233	61,798,004	60,717,702
Issuance of common stock, net	389,726	134,084	1,469,289	415,615
Ending balance	63,267,293	61,133,317	63,267,293	61,133,317
Treasury stock (shares)				
Beginning balance	5,455,935	5,455,935	5,455,935	5,455,935
Common stock repurchased	656,938	—	656,938	—
Ending balance	6,112,873	5,455,935	6,112,873	5,455,935
Total common stock outstanding (shares)	57,154,420	55,677,382	57,154,420	55,677,382

See Accompanying Notes to Condensed Consolidated Financial Statements

ENERGY RECOVERY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2021	2020
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 7,935	$ 17,547
Adjustments to reconcile net income to cash provided by (used in) operating activities		
Stock-based compensation	3,341	2,595
Depreciation and amortization	2,733	2,751
Amortization of premiums and discounts on investments	139	215
Deferred income taxes	(1,441)	4,666
Impairment of long-lived assets	—	2,332
Other non-cash adjustments	149	228
Changes in operating assets and liabilities:		
Accounts receivable, net	4,193	101
Contract assets	1,356	(198)
Inventories, net	(3,621)	260
Prepaid and other assets	(47)	(278)
Accounts payable	1,237	1,285
Accrued expenses and other liabilities	(3,999)	(4,009)
Contract liabilities	(434)	(27,789)
Net cash provided by (used in) operating activities	11,541	(294)
Cash flows from investing activities:		
Sales of marketable securities	—	9,767
Maturities of marketable securities	14,861	43,286
Purchases of marketable securities	(12,034)	(12,855)
Capital expenditures	(2,449)	(4,410)
Other	5	—
Net cash provided by investing activities	383	35,788
Cash flows from financing activities:		
Net proceeds from issuance of common stock	8,697	1,128
Tax payment for employee shares withheld	—	(23)
Repurchase of common stock	(11,554)	—
Net cash (used in) provided by financing activities	(2,857)	1,105
Effect of exchange rate differences on cash and cash equivalents	(20)	(15)
Net change in cash, cash equivalents and restricted cash	9,047	36,584
Cash, cash equivalents and restricted cash, beginning of year	94,358	26,488
Cash, cash equivalents and restricted cash, end of period	$ 103,405	$ 63,072

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") create technologies that solve complex challenges for industrial fluid-flow markets worldwide. Building on the Company's pressure exchanger technology platform, the Company designs and manufactures solutions that improve operational efficiency by reducing waste, energy consumption and costs across a range of industrial processes. What began as a game-changing invention for desalination has grown into a global business advancing the environmental sustainability of the Company's customers' operations in multiple industries. The Company's solutions are marketed, sold in, or developed for, the fluid-flow and gas markets, such as water, industrial waste, oil & gas, chemical processing and refrigeration, under the trademarks ERI®, Ultra PX™, PX®, Pressure Exchanger®, PX Pressure Exchanger® ("PX"), PX PowerTrain™, VorTeq ™, IsoBoost®, AT ™, AquaBold ™, and PX G1300 ™. The Company owns, manufactures and/or develops its solutions, in whole or in part, in the United States of America ("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, 2020 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, 2021 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, 2020 included in the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021 (the "2020 Annual Report").

All adjustments consisting of normal recurring adjustments that are necessary to present fairly the financial position, results of operations and cash flows for the interim periods have been made. 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 the Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Cash Flows, and certain notes to the Condensed Consolidated Financial Statements, to conform to the current period presentation.

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 more 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; valuation of stock options; valuation and impairment of goodwill; inventory; 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.

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

Due to the novel coronavirus ("COVID-19") pandemic, and the impact on the Company's customers, there has been uncertainty and disruption in the global economy and financial markets. 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 6, 2021, 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 update publicly these estimates for any reason after the date of this Quarterly Report on Form 10-Q, except as required by law.

Significant Accounting Policies

Except for adopting new accounting pronouncements, as noted under "Recently Adopted Accounting Pronouncements," there have been no material changes to the Company's significant accounting policies in Note 1, "Description of Business and Significant Accounting Policies," of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data," in the 2020 Annual Report.

Recently Adopted Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. The new standard is effective for interim and annual periods beginning after December 15, 2020. The Company adopted ASU 2019-12 on January 1, 2021. The adoption of ASU 2019-12 did not have a material impact on the Company's consolidated financial condition, results of operations, and cash flows.

Recently Issued Accounting Pronouncements Not Yet Adopted

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848)* ("ASU 2020-04"), which provided optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by the discontinuation of the London Interbank Offered Rate ("LIBOR") or by another reference rate expected to be discontinued. The FASB later issued ASU No. 2021-01, *Reference Rate Reform (Topic 848): Scope, to clarify the scope of Topic 848 so that derivatives affected by the discounting transition are explicitly eligible for certain optional expedients and exceptions in Topic 848* ("ASU 2021-01"). Entities may apply the provisions of the new standards as of the beginning of the reporting period when the election is made (i.e., as early as the first quarter of 2020). Unlike other topics, the provisions of this update are only available until December 31, 2022, when the reference rate replacement activity is expected to have been completed. An entity may elect to apply amendments prospectively through December 31, 2022. The optional expedients were available to be used upon issuance of this guidance but the Company has not yet applied the guidance because the Company has not yet modified its existing contract for reference rate reform. The Company does not expect the provisions of ASU 2020-04 or ASU 2021-01 to have a material impact on its financial condition, results of operation, and cash flows.

Note 2 — Revenue

Disaggregation of Revenue

The following tables present the disaggregated revenues by product and service line, product revenue by geography based on the "shipped to" addresses of the Company's customers, product revenue by channel, and product revenue by segment (Water and Emerging Technologies segment). Sales and usage-based taxes are excluded from revenues. See Note 10, "Segment Reporting," for further discussion related to the Company's segments.

	Three Months Ended June 30, 2021			Six Months Ended June 30, 2021		
	Water	Emerging Technologies	Total	Water	Emerging Technologies	Total
			(In thousands)			
Revenue by product and service line						
PXs, pumps and turbo devices, and other	$ 20,568	$ 39	$ 20,607	$ 49,508	$ 39	$ 49,547
Revenue by primary geographical markets						
Middle East and Africa	$ 16,401	$ 39	$ 16,440	$ 37,361	$ 39	$ 37,400
Asia	2,325	—	2,325	9,503	—	9,503
Americas	945	—	945	1,368	—	1,368
Europe	897	—	897	1,276	—	1,276
Total revenue	$ 20,568	$ 39	$ 20,607	$ 49,508	$ 39	$ 49,547
Product revenue by channel						
Megaproject	$ 13,236	$ 39	$ 13,275	$ 36,993	$ 39	$ 37,032
Original equipment manufacturer	4,274	—	4,274	7,065	—	7,065
Aftermarket	3,058	—	3,058	5,450	—	5,450
Total product revenue	$ 20,568	$ 39	$ 20,607	$ 49,508	$ 39	$ 49,547

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

	Three Months Ended June 30, 2020			Six Months Ended June 30, 2020		
	Water	Emerging Technologies	Total	Water	Emerging Technologies	Total
			(In thousands)			
Revenue by product and service line						
PXs, pumps and turbo devices, and other	$ 19,256	$ —	$ 19,256	$ 38,257	$ —	$ 38,257
License and development	—	24,352	24,352	—	26,895	26,895
Total revenue	$ 19,256	$ 24,352	$ 43,608	$ 38,257	$ 26,895	$ 65,152
Revenue by primary geographical markets						
Middle East and Africa	$ 16,504	$ —	$ 16,504	$ 32,735	$ —	$ 32,735
Asia	617	—	617	1,392	—	1,392
Americas	1,161	24,352	25,513	2,362	26,895	29,257
Europe	974	—	974	1,768	—	1,768
Total product revenue	$ 19,256	$ 24,352	$ 43,608	$ 38,257	$ 26,895	$ 65,152
Product revenue by channel						
Megaproject	$ 11,965	$ —	$ 11,965	$ 26,422	$ —	$ 26,422
Original equipment manufacturer	4,050	—	4,050	7,606	—	7,606
Aftermarket	3,241	—	3,241	4,229	—	4,229
Total product revenue	$ 19,256	$ —	$ 19,256	$ 38,257	$ —	$ 38,257

In June 2020, the Company and Schlumberger Technology Corporation ("Schlumberger") entered into an agreement to terminate the 2015 license agreement between the Company and Schlumberger (the "VorTeq License Agreement") to provide Schlumberger with the exclusive worldwide rights to the VorTeq technology. The termination of the VorTeq License Agreement was effective June 1, 2020. As there were no future performance obligations to be recognized under the VorTeq License Agreement after the effective date, the Company recognized in full the remaining deferred revenue balance of $ 24.4 million in the second quarter of fiscal year 2020. In addition, no future license and development revenue was recognized under the VorTeq License Agreement after the second quarter of fiscal year 2020.

Contract Balances

The following table presents contract balances by category.

	June 30, 2021	December 31, 2020
	(In thousands)	
Accounts receivable, net	$ 7,599	$ 11,792
Contract assets:		
Contract assets, current (included in prepaid expenses and other assets, current)	$ 536	$ 1,309
Contract assets, non-current (included in other assets, non-current)	—	583
Total contract assets	$ 536	$ 1,892
Contract liabilities:		
Contract liabilities, current	$ 1,117	$ 1,552
Contract liabilities, non-current (included in other liabilities, non-current)	89	88
Total contract liabilities	$ 1,206	$ 1,640

The Company records contract liabilities when cash payments are received in advance of the Company's performance. The following table presents significant changes in contract liabilities during the period.

	June 30, 2021	December 31, 2020
	(In thousands)	
Contract liabilities balance, beginning of year	$ 1,640	$ 28,866
Revenue recognized	(1,232)	(28,414)
Cash received, excluding amounts recognized as revenue during the period	798	1,188
Contract liabilities balance, end of period	$ 1,206	$ 1,640

Transaction Price Allocated to the Remaining Performance Obligations

The following table presents the estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied or partially unsatisfied.

	June 30, 2021
	(In thousands)
Future performance obligations by year	
2021 (remaining six months)	$ 4,036
2022	12,191
Total future performance obligations	$ 16,227

Note 3 — Net Income Per Share

Net income for the reported period is divided by the weighted average number of common shares outstanding during the reported period to calculate basic net income per common share. Basic net income per share excludes any dilutive effect of stock options and restricted stock units ("RSU").

Diluted net income per common share reflects the potential dilution that would occur if outstanding stock options to purchase common stock were exercised for shares of common stock, using the treasury stock method, and the shares of common stock underlying each outstanding RSU were issued (outstanding stock options to purchase common stock and RSUs collectively referred to as, “stock awards”).

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(In thousands, except per share amounts)			
Numerator				
Net income	$ 1,069	$ 16,926	$ 7,935	$ 17,547
Denominator (weighted average shares)				
Basic common shares outstanding	57,253	55,614	57,066	55,513
Dilutive stock awards	1,746	757	1,756	925
Diluted common shares outstanding	58,999	56,371	58,822	56,438
Net income per share				
Basic	$ 0.02	$ 0.30	$ 0.14	$ 0.32
Diluted	$ 0.02	$ 0.30	$ 0.13	$ 0.31

Certain shares of common stock issuable under stock awards have been omitted from the diluted net income per share calculations because their inclusion is considered anti-dilutive. The following table presents the weighted potential common shares issuable under stock awards that were excluded from the computation of diluted net income per share.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(In thousands)			
Anti-dilutive stock awards	6	2,893	457	1,989

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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[(1)] reported within the Condensed Consolidated Balance Sheets that sum to the total of such amounts presented.

	June 30, 2021	December 31, 2020	June 30, 2020
		(In thousands)	
Cash and cash equivalents	$ 103,302	$ 94,255	$ 62,970
Restricted cash, non-current (included in other assets, non-current)	103	103	102
Total cash, cash equivalents and restricted cash	$ 103,405	$ 94,358	$ 63,072

(1) The Company pledged and deposited cash amounts into restricted cash accounts in connection with the Company's credit cards.

Accounts Receivable, net

The following table presents the components of accounts receivable, net.

	June 30, 2021	December 31, 2020
	(In thousands)	
Accounts receivable, gross	$ 7,716	$ 12,189
Allowance for doubtful accounts [(1)]	(117)	(397)
Accounts receivable, net	$ 7,599	$ 11,792

(1) The Company wrote-off $0.3 million of uncollectible receivables, which had been previously reserved as of December 31, 2020, during the second quarter of 2021.

Inventories

Inventories are stated at the lower of cost or net realizable value, using the first-in, first-out method. The following table presents inventory by category.

	June 30, 2021	December 31, 2020
	(In thousands)	
Raw materials	$ 5,161	$ 4,260
Work in process	2,740	2,360
Finished goods	7,388	5,128
Inventories, net	$ 15,289	$ 11,748

Valuation adjustments for excess and obsolete inventory reflected as a reduction of inventory was $ 0.6 million and $0.5 million at June 30, 2021 and December 31, 2020, respectively.

Prepaid and Other Current Assets

	June 30, 2021	December 31, 2020
	(In thousands)	
Contract assets, current	$ 536	$ 1,309
Cloud computing arrangement implementation costs	1,095	1,087
Other prepaid expenses and current assets	2,634	2,554
Total prepaid and other current assets	$ 4,265	$ 4,950

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Goodwill and Other Intangible Assets

	June 30, 2021	December 31, 2020
	(In thousands)	
Goodwill	$ 12,790	$ 12,790
Other intangible assets	43	49
Total goodwill and other intangible assets	$ 12,833	$ 12,839

Accrued Expenses and Other Current Liabilities

	June 30, 2021	December 31, 2020
	(In thousands)	
Payroll, incentives and commissions payable	$ 5,614	$ 8,400
Warranty reserve	809	760
Other accrued expenses and current liabilities	1,974	2,656
Total accrued expenses and other current liabilities	$ 8,397	$ 11,816

Note 5 — Investments and Fair Value Measurements

Available-for-Sale Investments

The Company’s investments in investment-grade short-term high-quality marketable debt instruments, such as U.S. treasury securities, and corporate notes and bonds, are classified as available-for-sale. As of June 30, 2021 and December 31, 2020, available-for-sale investments were classified on the Condensed Consolidated Balance Sheet as short-term investments.

The classification of available-for-sale investments on the Condensed Consolidated Balance Sheet and definition of each of these classifications are provided in Note 1, “Description of Business and Significant Accounting Policies - Significant Accounting Policies,” subsections “Cash and Cash Equivalents” and “Short-term and Long-term Investments,” of the Notes to Consolidated Financial Statements included in Item 8, “Financial Statements and Supplementary Data,” in the 2020 Annual Report.

Expected maturities can differ from contractual maturities because borrowers may have the right to prepay obligations without prepayment penalties. The Company generally holds available-for-sale investments until maturity; however, from time-to-time, the Company may elect to sell certain available-for-sale investments prior to contractual maturity.

Fair Value of Financial Instruments

All of the Company’s financial assets and liabilities are remeasured and reported at fair value at each reporting period; and are classified and disclosed in one of the following three pricing category levels:

Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 — Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable; and

Level 3 — Unobservable inputs in which little or no market activity exists, thereby requiring an entity to develop its own assumptions that market participants would use in pricing.

The following table presents the Company’s financial assets measured on a recurring basis by contractual maturity, including their pricing category, amortized cost, gross unrealized holding gains and losses, and fair value.

		June 30, 2021				December 31, 2020			
	Pricing Category	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)							
Cash equivalents									
Money market securities	Level 1	$ 62,224	$ —	$ —	$ 62,224	$ 59,132	$ —	$ —	$ 59,132
Total cash equivalents		62,224	—	—	62,224	59,132	—	—	59,132
Short-term investments									
U.S. treasury securities	Level 2	—	—	—	—	1,614	7	—	1,621
Corporate notes and bonds	Level 2	17,387	21	(14)	17,394	18,708	117	—	18,825
Total short-term investments		17,387	21	(14)	17,394	20,322	124	—	20,446
Total		$ 79,611	$ 21	$ (14)	$ 79,618	$ 79,454	$ 124	$ —	$ 79,578

As of June 30, 2021 and December 31, 2020, the Company had no financial liabilities and no Level 3 financial assets. During the six months ended June 30, 2021, the Company had no transfers of financial assets between any levels.

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The following table presents a summary of the fair value and gross unrealized holding losses on the available-for-sale securities that have been in a continuous unrealized loss position, aggregated by type of investment instrument. The available-for-sale securities that were in an unrealized gain position have been excluded from the table.

	June 30, 2021		December 31, 2020	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)			
Corporate notes and bonds	$ 13,246	$ (14)	$ —	$ —

Sales of Available-for-Sale Investments

The following table presents the sales of available-for-sale investments.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(In thousands)			
Corporate notes and bonds	$ —	$ 4,793	$ —	$ 9,767

Realized gains on sales of securities were immaterial during the three and six months ended June 30, 2020.

Note 6 — Lines of Credit

Stand-By Letters of Credit

The Company entered into a loan and pledge agreement with a financial institution during January 2017, which has been amended multiple times to accommodate the growth of the Company (the original loan and pledge agreement and its subsequent amendments are hereinafter referred to as the “Loan and Pledge Agreement”). Under the Loan and Pledge Agreement, the Company is allowed to issue stand-by letters of credit (“SBLCs”) up to one year past the expiration date of the Loan and Pledge Agreement and to hold SBLCs with other financial institutions up to an aggregate amount of $5.1 million. SBLCs have a term limit of three years, are secured by pledged U.S. investments, and do not have any cash collateral balance requirements. SBLCs are deducted from the total revolving credit line under the Loan and Pledge Agreement and are subject to a non-refundable quarterly fee that is in an amount equal to 0.7% per annum of the face amount of the outstanding SBLCs.

As of June 30, 2021 and December 31, 2020, there were outstanding SBLCs of $ 12.2 million and $13.3 million, respectively.

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Note 7 — Commitments and Contingencies

Operating Lease Obligations

The following table presents a summary of operating lease, right of use assets and lease liabilities.

	June 30, 2021	December 31, 2020
	(In thousands)	
Operating lease, right of use asset	$ 15,383	$ 16,090
Lease liabilities, current	$ 1,473	$ 1,243
Lease liabilities, non-current	15,682	16,443
Total lease liability	$ 17,155	$ 17,686

The Company leases office, warehouse and manufacturing facilities under operating leases that expire on various dates through fiscal year 2030.

The following table presents operating lease activities related to all leased properties.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(In thousands)			
Operating lease expense	$ 642	$ 668	$ 1,285	$ 1,271
Cash payments	647	618	1,136	1,108
Non-cash lease liabilities arising from obtaining right-of-use assets	—	—	—	6,384

The following table presents other information related to outstanding operating leases as of June 30, 2021.

Weighted average remaining lease term	7.9 years
Weighted average discount rate	7.0%

The following table presents the minimum lease payments under noncancelable operating leases, exclusive of executory costs as of June 30, 2021.

	Lease Amounts
	(In thousands)
Future minimum lease payments by year	
2021 (remaining six months)	$ 1,295
2022	2,650
2023	2,580
2024	2,812
2025	2,736
2026 and thereafter	10,461
Total future minimum lease payments	22,534
Less imputed lease interest	(5,379)
Total lease liabilities	$ 17,155

Warranty

The following table presents the changes in the Company's accrued product warranty reserve.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(In thousands)			
Warranty reserve balance, beginning of period	$ 811	$ 665	$ 760	$ 631
Warranty costs charged to cost of revenue	81	75	208	173
Utilization charges against reserve	(13)	(1)	(13)	(2)
Release of accrual related to expired warranties	(70)	(66)	(146)	(129)
Warranty reserve balance, end of period	$ 809	$ 673	$ 809	$ 673

Purchase Obligations

The Company has purchase order arrangements with its vendors for which the Company has not received the related goods or services as of June 30, 2021. These arrangements are subject to change based on the Company's sales demand forecasts. The Company has the right to cancel the arrangements prior to the date of delivery. The purchase order arrangements are related to various raw materials and component parts, as well as capital equipment. As of June 30, 2021, the Company had approximately $6.7 million of such open cancellable purchase order arrangements.

Litigation

The Company is named in and subject to various proceedings and claims in connection with its business. The outcome of matters the Company has been, and currently is, involved in cannot be determined at this time, and the results cannot be predicted with certainty. There can be no assurance that these matters will not have a material effect on the Company's results of operations in any future period, and a significant judgment could have a material impact on the Company's financial condition, results of operations and cash flows. The Company may in the future become involved in additional litigation in the ordinary course of business, including litigation that could be material to its business.

The Company considers all claims 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, 2021, there were no material losses which were probable or reasonably possible.

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Note 8 — Income Taxes

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(In thousands, except percentages)			
(Benefit from) provision for income taxes	$ (743)	$ 4,586	$ (1,383)	$ 4,501
Discrete items	728	(272)	2,355	(82)
Provision for (benefit from) income taxes, excluding discrete items	$ (15)	$ 4,314	$ 972	$ 4,419
Effective tax rate	(227.9 %)	21.3 %	(21.1 %)	20.4 %
Effective tax rate, excluding discrete items	(5.1 %)	20.1 %	14.8 %	20.0 %

The Company’s tax provision for interim periods 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, intercompany transactions, the applicability of special tax regimes, and changes in how the Company does business.

For the three and six months ended June 30, 2021, the recognized income tax benefit included a benefit primarily related to the U.S. federal research and development tax credit and a discrete tax benefit due primarily to stock-based compensation windfalls. For the three and six months ended June 30, 2020, the recognized income tax charge included a discrete tax charge related to the termination of the VorTeq License Agreement, partially offset by a discrete tax benefit due primarily to stock-based compensation windfalls.

Note 9 — Stockholders' Equity

Stock Repurchase Program

On March 9, 2021, the Board of Directors authorized a stock repurchase program under which the Company may repurchase, at the discretion of management, up to $50.0 million in aggregate cost of the Company's outstanding common stock (the "March 2021 Authorization"). Under the March 2021 Authorization, purchases of shares of common stock may be made from time to time in the open market, or in privately negotiated transactions, in compliance with applicable state and federal securities laws. The timing and amounts of any purchases will be based on market conditions and other factors including price, regulatory requirements, and capital availability. The March 2021 Authorization does not obligate the Company to acquire any specific number of shares in any period, and may be expanded, extended, modified or discontinued at any time without prior notice. The Company accounts for stock repurchases using the cost method. The aggregate cost includes fees charged in connection with acquiring the shares. As of June 30, 2021, 656,938 shares at an aggregate cost of $ 11.6 million had been repurchased under the March 2021 Authorization.

Note 10 — Segment Reporting

The Company's chief operating decision-maker ("CODM") is its 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. As a result of the evolution of the Company's products, operations and research and development ("R&D") efforts in new product development, and the way in which the CODM manages and assesses the performance of the business, starting in the first quarter of fiscal year 2021, the Company realigned its segment reporting and has recast the prior year amounts for comparability. In addition, to better align the activities of the segments, the Company has re-allocated certain corporate resources to the segments' operations.

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

Water segment: The continued development, sales and support of the PX, hydraulic turbochargers and pumps used in our seawater desalination and industrial wastewater activities.

Emerging Technologies segment: The continued development, sales and support of activities related to emerging technologies, such as the VorTeq used in the oil and gas market, the ISOBoost used in natural gas processing, the PX G1300 used in industrial and commercial refrigeration applications, and certain other new products.

Corporate operating expenses: Corporate activities outside of the operating segments, such as audit and accounting expenses, general legal costs, board of director fees and expenses, and other separately managed general expenses not related to the identified segments.

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Segment Financial Information

For each of the periods presented in the following tables, operating income (loss) for each segment excludes other income and expenses, and corporate operating expenses not included in how the CODM assesses the performance of the operating segments, such as income taxes and other separately managed general and administrative expenses not attributed to the operating segments. Assets and liabilities are reviewed at the consolidated level by the CODM and are not attributed to the segments. The CODM allocates resources to, and assesses the performance of, each operating segment using information about its revenue and operating income.

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

	Three Months Ended June 30, 2021			Six Months Ended June 30, 2021		
	Water	**Emerging Technologies**	**Total**	**Water**	**Emerging Technologies**	**Total**
			(In thousands)			
Product revenue	$ 20,568	$ 39	$ 20,607	$ 49,508	$ 39	$ 49,547
Product cost of revenue	7,181	—	7,181	16,162	—	16,162
Product gross profit	13,387	39	13,426	33,346	39	33,385
Operating expenses						
General and administrative	1,776	1,315	3,091	3,333	2,481	5,814
Sales and marketing	2,121	229	2,350	4,285	408	4,693
Research and development	595	3,829	4,424	1,096	7,830	8,926
Amortization of intangible assets	3	—	3	7	—	7
Total operating expenses	4,495	5,373	9,868	8,721	10,719	19,440
Operating income (loss)	$ 8,892	$ (5,334)	3,558	$ 24,625	$ (10,680)	13,945
Less: Corporate operating expenses			3,271			7,514
Income from operations			287			6,431
Other income, net			39			121
Income before income taxes			$ 326			$ 6,552

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	Three Months Ended June 30, 2020 (Recast)			Six Months Ended June 30, 2020 (Recast)		
	Water	Emerging Technologies	Total	Water	Emerging Technologies	Total
	(In thousands)					
Product revenue	$ 19,256	$ —	$ 19,256	$ 38,257	$ —	$ 38,257
Product cost of revenue	6,549	—	6,549	12,233	—	12,233
Product gross profit	12,707	—	12,707	26,024	—	26,024
License and development revenue [1]	—	24,352	24,352	—	26,895	26,895
Operating expenses						
General and administrative	1,967	1,150	3,117	4,046	2,642	6,688
Sales and marketing	1,124	262	1,386	2,800	574	3,374
Research and development	960	5,392	6,352	1,862	11,199	13,061
Amortization of intangible assets	4	—	4	8	—	8
Impairment of long-lived assets	—	2,332	2,332	—	2,332	2,332
Total operating expenses	4,055	9,136	13,191	8,716	16,747	25,463
Operating income	$ 8,652	$ 15,216	23,868	$ 17,308	$ 10,148	27,456
Less: Corporate operating expenses			2,593			6,053
Income from operations			21,275			21,403
Other income, net			237			645
Income before income taxes			$ 21,512			$ 22,048

(1) In June 2020, the Company and Schlumberger entered into an agreement to terminate the VorTeq License Agreement. The termination of the VorTeq License Agreement was effective June 1, 2020. As there were no future performance obligations to be recognized under the VorTeq License Agreement after the effective date, the Company recognized in full the remaining deferred revenue balance of $24.4 million in the second quarter of fiscal year 2020. In addition, no future license and development revenue was recognized under the VorTeq License Agreement after the second quarter of fiscal year 2020.

Note 11 — Concentrations

Product Revenue

The following table presents customers accounting for 10% or more of product revenue by segment. Although certain customers might account for greater than 10% of product revenue at any one point in time, the concentration of product revenue between a limited number of customers shifts regularly, depending on contract negotiations. The percentages by customer reflect specific relationships or contracts that would concentrate product revenue for the periods presented and does not indicate a trend specific to any one customer.

		Three Months Ended June 30,		Six Months Ended June 30,	
	Segment	2021	2020	2021	2020
Customer A	Water	30%	22%	22%	15%
Customer B	Water	22%	19%	19%	24%
Customer C	Water	**	**	12%	**
Customer D	Water	**	22%	11%	21%

** Zero or less than 10%.

License and Development Revenue

There was no Emerging Technologies segment customer license and development revenue for the three and six months ended June 30, 2021. The Emerging Technologies segment had one international customer, Schlumberger, which accounted for 100% of the license and development revenue for the three and six months ended June 30, 2020. See Note 2, “Revenue,” for further discussion related to the termination of the VorTeq License Agreement.

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

Overview

We create technologies that solve complex challenges for industrial fluid-flow markets worldwide. Building on our pressure exchanger technology platform, we design and manufacture solutions that improve operational efficiency by reducing waste, energy consumption and costs across a range of industrial processes. What began as a game-changing invention for desalination has grown into a global business advancing the environmental sustainability of our customers' operations in multiple industries. We are a global team with sales and on-site technical support available worldwide, and we maintain international direct sales offices and technical support centers to service the European, Middle Eastern and Asian markets.

Our core technology is the pressure exchanger. Our pressure exchanger technology efficiently transfers energy between high-pressure and low-pressure liquid or gas through continuously rotating ducts. Our PX® Pressure Exchanger® ("PX") can operate in both low-pressure and high-pressure environments between 1,000 pounds per square inch ("psi"), or 70 bar, and up to approximately 10,000 psi, or 700 bar. Our pressure exchanger technology can also handle a variety of relatively clean to dirty liquids, and we are actively developing capabilities to handle gases. When applied to industrial systems with pressure differentials, pressure exchanger technology can provide certain benefits including our customers' ability to reduce capital expenditures and energy use, which leads to lower carbon emissions, as well as lower operating costs.

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 improve productivity by reducing waste and energy consumption in high-pressure industrial fluid-flow systems. This versatile technology powers several of our products, including our flagship PX energy recovery device ("ERD"), which we believe is the industry standard for energy recovery in the seawater reverse osmosis desalination ("SWRO") industry. Today, we continue to push the boundaries of our pressure exchanger technology to handle different operating environments and industrial applications. Leveraging our proven pressure exchanger technology platform, we are identifying new ways to solve, and developing new solutions for solving, challenges for critical industries, such as industrial wastewater treatment, commercial and industrial refrigeration, natural gas processing and hydraulic fracturing.

Quarterly Highlights

Product revenues increased during the quarter and year-to-date, as compared to the same periods in 2020, due primarily to higher sales of PXs, pumps and turbochargers, led by strong sales in the megaproject ("MPD") and original equipment manufacturers ("OEM") channels. Total revenues, which are comprised of both product and license and development revenues, were lower for the quarter and year-to-date, as compared to the same periods in 2020, due primarily to the elimination of license and development revenue of which none was recognized after the termination of the VorTeq License Agreement in the second quarter of 2020. Management anticipates continued growth in product revenues as the need to expand potential water production globally is increasing, as well as the increased purchases of product for plant maintenance in advance of the anticipation of the recovery of the economy.

We continue to invest in R&D activities related to bringing the VorTeq ™ and PX G1300™ to market. In addition, we are exploring additional usage and markets for the pressure exchanger technology and we expect increased S&M expenditures for the balance of 2021 and early 2022 related to these endeavors.

Segments

We continue to monitor and review our segment reporting structure in accordance with authoritative guidance to determine whether any changes have occurred that would impact our reportable segments. As a result of the evolution of our products, operations and R&D efforts in new product development, such as industrial and commercial refrigeration applications, and the way in which our chief operating decision maker ("CODM") manages and assesses the performance of the business, starting in the first quarter of fiscal year 2021, we realigned our segment reporting and have recast the prior year amounts for comparability. In addition, to better align the activities of the segments, we have re-allocated certain corporate resources to the segments' operations.

Water

Our Water segment includes the continued development, sales and support of the PX, hydraulic turbochargers and pumps used in our seawater desalination and industrial wastewater activities. Our Water segment revenue is principally derived from the sale of ERDs and high-pressure and circulation pumps to our MPD, OEM and aftermarket ("AM") channels. MPD sales are typically made to global engineering, procurement and construction ("EPC") firms to build very large desalination plants worldwide. Our typical MPD sale primarily consists of our PX ERD. Each MPD sale represents revenue opportunities generally ranging from $1 million to $18 million. Our packaged solutions to OEMs include our PX, hydraulic turbochargers, high-pressure pumps and circulation "booster" pumps for integration and use in small to medium-sized desalination plants. OEM projects typically represent revenue opportunities of up to $1 million. Our existing and expanding installed base of ERD and pump products in water plants has created a growing customer base comprised of plant operators and service providers who purchase spare parts, replacement parts and service contracts through our AM channel.

During the quarter,

- We announced contract awards totaling over $13.8 million for our PX and PX PowerTrain ™ systems, supporting the construction of the Sorek B Seawater Reverse Osmosis Desalination Plant in Israel ("Sorek B Plant"). This order is expected to ship between Q3 and Q4 of this year. Once completed, the Sorek B Plant will be the largest SWRO plant and one of the largest facilities in the world, producing 200 million cubic meters per year. The Sorek B Plant is expected to be commissioned between late fiscal year 2022 and early fiscal year 2023.
- We were awarded multiple worldwide MPD and OEM contracts totaling over $55.0 million to supply PXs, related equipment and services.

Emerging Technologies

Our Emerging Technologies segment includes the continued development, sales and support of activities related to emerging technologies, such as the VorTeq used in the oil and gas market, the ISOBoost used in natural gas processing, the PX G1300 used in industrial and commercial refrigeration applications, and certain other new products.

Commercial and Industrial Refrigeration. The global refrigeration industry is a leading user and emitter of hydrofluorocarbons ("HFCs"), which are a group of powerful man-made greenhouse gases that can impact global warming thousands of times more than carbon dioxide ("CO_2"). More than 120 countries have signed on to the Kigali Amendment, an amendment to the Montreal Protocol, which states the goal of reducing the production and consumption of HFCs. In 2021, the United States of America ("U.S.") and China have publicly committed to signing the Kigali Amendment. In addition, the U.S. Environmental Protection Agency announced on May 3, 2021 its intention to reduce the production and consumption of HFCs within the timeline indicated in the Montreal Protocol for developed nations. For the refrigeration industry, phasing out HFCs means moving to natural refrigerants such as ammonia or CO_2. CO_2 is stable and more benign, and therefore the safer choice; however CO_2 works at much higher pressures and requires more energy than HFCs, thereby increasing the operating cost of a CO_2 refrigeration system. The challenge today is to make the CO_2 refrigeration systems less costly and more efficient in order to compete economically with incumbent refrigerants.

We believe our PX can significantly help reduce the operating costs of CO_2 refrigeration systems by recycling the pressure energy of CO_2 gas, much as we do with seawater in SWRO, thereby significantly reducing the energy needed to operate these systems. Results from our testing gives us confidence that we will be able to achieve efficiencies across a wider range of temperatures that exceed incumbent CO_2 refrigeration technologies, thereby easing this transition to CO_2 in the coming years. We will continue development of this technology throughout 2021 with the goal of placing our product in a commercial setting as soon as research, development and testing is completed.

Results of Operations

A discussion regarding our financial condition and results of operations for the three and six months ended June 30, 2021, compared to the three and six months ended June 30, 2020, is presented below.

Total Revenue

	Three Months Ended June 30,					
	2021		2020			
	$	% of Total Revenue	$	% of Total Revenue	Change	
	(In thousands, except percentages)					
Product revenue	$ 20,607	100 %	$ 19,256	44 %	$ 1,351	7 %
License and development revenue	—	— %	24,352	56 %	(24,352)	(100 %)
Total revenue	$ 20,607	100 %	$ 43,608	100 %	$ (23,001)	(53 %)

	Six Months Ended June 30,					
	2021		2020			
	$	% of Total Revenue	$	% of Total Revenue	Change	
	(In thousands, except percentages)					
Product revenue	$ 49,547	100 %	$ 38,257	59 %	$ 11,290	30 %
License and development revenue	—	— %	26,895	41 %	(26,895)	(100 %)
Total revenue	$ 49,547	100 %	$ 65,152	100 %	$ (15,605)	(24 %)

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Product Revenue

Variability in product revenue from quarter to quarter is typical, therefore year-on-year quarterly and year-to-date comparisons are not necessarily indicative of the trend for the full year due to these variations. Product revenues by channel customers are presented in the following tables.

	Three Months Ended June 30,					
	2021		2020			
	$	% of Product Revenue	$	% of Product Revenue	Change	
	(In thousands, except percentages)					
Megaproject	$ 13,275	64 %	$ 11,965	62 %	$ 1,310	11 %
Original equipment manufacturer	4,274	21 %	4,050	21 %	224	6 %
Aftermarket	3,058	15 %	3,241	17 %	(183)	(6 %)
Total product revenue	$ 20,607	100 %	$ 19,256	100 %	$ 1,351	7 %

	Six Months Ended June 30,					
	2021		2020			
	$	% of Product Revenue	$	% of Product Revenue	Change	
	(In thousands, except percentages)					
Megaproject	$ 37,032	75 %	$ 26,422	69 %	$ 10,610	40 %
Original equipment manufacturer	7,065	14 %	7,606	20 %	(541)	(7 %)
Aftermarket	5,450	11 %	4,229	11 %	1,221	29 %
Total product revenue	$ 49,547	100 %	$ 38,257	100 %	$ 11,290	30 %

Our MPD channel continues to be the main driver of our revenue growth during the quarter and year as revenue from this channel benefits from the long project cycle. Increase over prior year is subject to timing of delivery of PXs, which is dependent on the MPD project shipment cycle.

Our OEM channel, where we sell into a number of industries, including tourism and hospitality, and which contains projects of shorter duration, saw a significant increase for the first time since the onset of the COVID-19 pandemic. OEM channel revenues increased due primarily to certain new large greenfield plant installations and brownfield retrofits, which include upgrades to existing operations leveraging our pressure exchanger technology and ancillary equipment. We believe, barring any new shutdown measures caused by the COVID-19 pandemic, this trend will continue into the second-half of 2021. OEM channel revenues in the prior year were negatively affected from delayed new plant construction related to COVID-19.

Our AM channel revenues fluctuate depending on support and services rendered to our customers. AM channel revenues decreased during the quarter; however, increased year-to-date, as compared to the same respective period in the prior year. During the quarter and the first half of the year, we experienced a marked increase in AM activity, which we believe is a result of our customers consuming their existing spare parts inventory and strategically increasing their stock of critical components in advance of greater expected water needs in the second half of 2021 and early 2022. In fiscal year 2020, AM channel revenues were affected by COVID-19 as budgets tightened and companies braced for the unknown.

License and Development Revenue

The change in license and development revenue was due to the termination of the 2015 license agreement (the “VorTeq License Agreement”) between us and Schlumberger Technology Corporation (“Schlumberger”), with an effective date of June 1, 2020. As there were no future performance obligations to be recognized under the VorTeq License Agreement after the effective date, we recognized in full the remaining deferred revenue balance of $24.4 million in the second quarter of fiscal year 2020. In addition, no future license and development revenue was recognized under the VorTeq License Agreement after the second quarter of fiscal year 2020.

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Product Gross Profit and Gross Margin

Product gross profit represents our product revenue less our product cost of revenue. Our product cost of revenue consists primarily of raw materials, personnel costs (including share-based compensation), manufacturing overhead, warranty costs, depreciation expense and manufactured components.

	Three Months Ended June 30,				
	2021		2020		
	$	Gross Margin	$	Gross Margin	Change in Product Gross Profit	
	(In thousands, except percentages)					
Product gross profit and gross margin	$ 13,426	65.1 %	$ 12,707	66.0 %	$ 719	5.7 %

	Six Months Ended June 30,					
	2021		2020			
	$	Gross Margin	$	Gross Margin	Change in Product Gross Profit	
	(In thousands, except percentages)					
Product gross profit and gross margin	$ 33,385	67.4 %	$ 26,024	68.0 %	$ 7,361	28.3 %

The increase in product gross profit during the three and six months ended June 30, 2021, as compared to the same periods in the prior year, was due primarily to higher revenues related to increased units of PXs, pumps and turbochargers sold, partially offset by a decrease in product gross margin. The gross margin gains from the reduction of the COVID-19 costs that we expensed in 2020 and the operational efficiencies we implemented in the current year were more than offset by rising labor and overhead costs, lower average PX selling prices and a change in product mix.

Operating Expenses

Total Operating Expenses

Operating expenses as a percentage of total revenue was higher in the three and six months ended June 30, 2021, as compared to the same periods in the prior year, due primarily to the acceleration of license and development revenue related to the termination of the VorTeq License Agreement in the second quarter of fiscal year 2020.

	Three Months Ended June 30,					
	2021		2020			
	$	% of Total Revenue	$	% of Total Revenue	Change	
	(In thousands, except percentages)					
General and administrative	$ 6,175	30 %	$ 5,599	13 %	$ 576	10 %
Sales and marketing	2,537	12 %	1,497	3 %	1,040	69 %
Research and development	4,424	22 %	6,352	15 %	(1,928)	(30 %)
Amortization of intangible assets	3	— %	4	— %	(1)	(25 %)
Impairment of long-lived assets	—	— %	2,332	5 %	(2,332)	(100 %)
Total operating expenses	$ 13,139	64 %	$ 15,784	36 %	$ (2,645)	(17 %)

General and Administrative Expenses. General and administrative ("G&A") expenses increased due primarily to an increase in employee-related costs of $0.6 million and higher consultant costs of $0.1 million. Employee-related costs increased, as compared to the prior year, due primarily to higher employee compensation cost, share-based compensation expense and incentive compensation expense.

Sales and Marketing Expenses. Sales and marketing ("S&M") expenses increased due primarily to an increase in employee-related costs of $0.8 million, marketing costs of $0.1 million and other costs of $0.1 million. Employee-related costs increased, as compared to the prior year, due primarily to higher employee compensation cost, share-based compensation expense, incentive compensation expense and other employee-related expenses, all related to increased headcount.

Research and Development Expenses. R&D expenses decreased due primarily to lower testing supplies expenditures of $1.6 million as we decreased testing activities on VorTeq and shifted testing activities to refrigeration and other new initiatives, and a reduction in equipment depreciation of $0.3 million primarily related to the impairment of certain VorTeq-related assets in 2020.

Amortization of Intangible Assets. Amortization of intangible assets was comparable to the prior year.

Impairment of Long-lived Assets. During the three months ended June 30, 2020, we conducted an analysis on certain VorTeq long-lived assets that were directly related to obligations under the VorTeq License Agreement and determined that certain of those assets were impaired. The net carrying value of the impaired VorTeq-related machinery and equipment of $2.3 million was recognized in the three months ended June 30, 2020.

	Six Months Ended June 30,					
	2021		2020			
	$	% of Total Revenue	$	% of Total Revenue	Change	
			(In thousands, except percentages)			
General and administrative	$ 12,781	26 %	$ 12,480	19 %	$ 301	2 %
Sales and marketing	5,240	11 %	3,635	6 %	1,605	44 %
Research and development	8,926	18 %	13,061	20 %	(4,135)	(32 %)
Amortization of intangible assets	7	— %	8	— %	(1)	(13 %)
Impairment of long-lived assets	—	— %	2,332	4 %	(2,332)	(100 %)
Total operating expenses	$ 26,954	54 %	$ 31,516	48 %	$ (4,562)	(14 %)

General and Administrative Expenses. The increase in G&A expenses was due primarily to higher employee-related costs of $0.2 million and an increase in professional services costs of $0.1 million related to our Environmental, Social and Governance (“ESG”) report costs and legal fees. Employee-related costs increased, as compared to the prior year, due primarily to higher compensation costs incentive compensation expense, and share-based compensation expense, partially offset by lower recruiting costs related to our chief executive officer search in fiscal year 2020, severance costs, and travel costs due primarily to COVID-19.

Sales and Marketing Expenses. The increase in S&M expenses was due primarily to an increase in employee-related costs of $1.2 million and higher marketing costs of $0.2 million, including trade shows and marketing materials, and an increase in other costs of $0.2 million, including commission costs. Employee-related costs increased, as compared to the prior year, due primarily to higher employee compensation costs, share-based compensation expense, incentive compensation expenses, and other employee-related expenses.

Research and Development Expenses. The decrease in R&D expenses was due primarily to lower testing supplies expenditures of $3.5 million related to the reduced development of the VorTeq technology, which fell in the second half of 2020. However, the lower VorTeq-related expenditures in 2021 were partially offset by increased costs to support our incubation initiatives. In addition, R&D expenses in the current year, as compared to the prior year, included a decrease in employee-related costs of $0.3 million, and lower depreciation expenses of $0.3 million primarily related to the impairment of certain VorTeq-related assets in 2020. Employee-related costs decreased, as compared to the prior year, due primarily to lower employee compensation and other employee-related expenses, partially offset by higher incentive compensation expense.

Amortization of Intangible Assets. Amortization of intangible assets was comparable to the prior year.

Impairment of Long-lived Assets. During the three months ended June 30, 2020, we conducted an analysis on certain VorTeq long-lived assets that were directly related to obligations under the VorTeq License Agreement and determined that certain of those assets were impaired. The net carrying value of the impaired VorTeq-related machinery and equipment of $2.3 million was recognized in the three and six months ended June 30, 2020.

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Segment and Corporate Operating Expenses

Expense activities that are included in our Water and Emerging Technologies segments and corporate operating expenses for the three and six months ended June 30, 2021 are presented below. See Note 10, "Segment Reporting" of the Notes to Condensed Consolidated Financial Statements in Part I, Item 1, "Financial Statements (unaudited)," of this Quarterly Report on Form 10-Q for further discussion regarding our segments.

	Three Months Ended June 30, 2021				Three Months Ended June 30, 2020 (Recast)			
	Water	Emerging Technologies	Corporate	Total	Water	Emerging Technologies	Corporate	Total
	(In thousands)							
General and administrative	$ 1,776	$ 1,315	$ 3,084	$ 6,175	$ 1,967	$ 1,150	$ 2,482	$ 5,599
Sales and marketing	2,121	229	187	2,537	1,124	262	111	1,497
Research and development	595	3,829	—	4,424	960	5,392	—	6,352
Amortization of intangible assets	3	—	—	3	4	—	—	4
Impairment of long-lived assets	—	—	—	—	—	2,332	—	2,332
Total operating expenses	$ 4,495	$ 5,373	$ 3,271	$ 13,139	$ 4,055	$ 9,136	$ 2,593	$ 15,784

Water Segment. The increase in the Water segment operating expenses was due primarily to an increase in S&M costs, driven by increased employee-related costs and higher share-based compensation expense, both related to increased headcount. These costs were partially offset by lower overall G&A and R&D costs, both driven primarily by lower employee-related costs, and a shift of certain R&D costs to emerging technology projects.

Emerging Technologies Segment. The decrease of Emerging Technologies segment operating expenses, was due primarily to reduced VorTeq-related expenditures of $2.3 million, which was partially offset by a shift of expenditures for development of industrial and commercial refrigeration of $0.9 million during the three months ended June 30, 2021. Total VorTeq-related expense was $3.2 million, which included R&D expenditures of $2.4 million.

Corporate Operating Expenses. The increase of corporate operating expenses was due primarily to higher employee incentive compensation expense, share-based compensation expense, legal costs, and other costs, partially offset by lower recruiting costs related to our chief executive officer search in fiscal year 2020.

	Six Months Ended June 30, 2021				Six Months Ended June 30, 2020 (Recast)			
	Water	Emerging Technologies	Corporate	Total	Water	Emerging Technologies	Corporate	Total
				(In thousands)				
General and administrative	$ 3,333	$ 2,481	$ 6,967	$ 12,781	$ 4,046	$ 2,642	$ 5,792	$ 12,480
Sales and marketing	4,285	408	547	5,240	2,800	574	261	3,635
Research and development	1,096	7,830	—	8,926	1,862	11,199	—	13,061
Amortization of intangible assets	7	—	—	7	8	—	—	8
Impairment of long-lived assets	—	—	—	—	—	2,332	—	2,332
Total operating expenses	$ 8,721	$ 10,719	$ 7,514	$ 26,954	$ 8,716	$ 16,747	$ 6,053	$ 31,516

Water Segment. The increase in the Water segment operating expenses was due primarily to higher overall S&M costs, driven by increased employee-related costs and share-based compensation. These costs were partially offset by lower overall G&A and R&D costs, both driven primarily by lower employee-related costs, and a shift of certain R&D costs to emerging technology projects.

Emerging Technologies Segment. The increase of Emerging Technologies segment operating expenses, was due primarily to reduced VorTeq-related expense of $5.4 million, which was partially offset by a shift of expenditures for development of industrial and commercial refrigeration of $1.7 million during the six months ended June 30, 2021. Total VorTeq-related expense was $6.7 million which included R&D expenditures of $5.2 million.

Corporate Operating Expenses. The increase of corporate operating expenses was due primarily to higher employee incentive compensation expense, share-based compensation expense, legal costs, and other costs, partially offset by lower recruiting costs related to our chief executive officer search in fiscal year 2020.

Other Income, Net

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(In thousands)			
Interest income	$ 51	$ 255	$ 143	$ 675
Other non-operating expense, net	(12)	(18)	(22)	(30)
Total other income, net	$ 39	$ 237	$ 121	$ 645

Total other income, net decreased in the three and six months ended June 30, 2021, compared to the three and six months ended June 30, 2020, due primarily to lower interest income. Our investment strategy in fiscal year 2020 shifted from debt investments to investments in money market funds due primarily to the uncertainty caused by the COVID-19 pandemic.

Income Taxes

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(In thousands, except percentages)			
(Benefit from) provision for income taxes	$ (743)	$ 4,586	$ (1,383)	$ 4,501
Discrete items	728	(272)	2,355	(82)
Provision for (benefit from) income taxes, excluding discrete items	$ (15)	$ 4,314	$ 972	$ 4,419
Effective tax rate	(227.9 %)	21.3 %	(21.1 %)	20.4 %
Effective tax rate, excluding discrete items	(5.1 %)	20.1 %	14.8 %	20.0 %

The tax provision for interim periods 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, intercompany transactions, the applicability of special tax regimes, and changes in how we do business.

For the three and six months ended June 30, 2021, the recognized income tax benefit included a benefit primarily related to the U.S. federal research and development tax credit and a discrete tax benefit due primarily to stock-based compensation windfalls. For the three and six months ended June 30, 2020, the recognized income tax charge included a discrete tax charge related to the termination of the VorTeq License Agreement, partially offset by a discrete tax benefit due primarily to stock-based compensation windfalls.

Liquidity and Capital Resources

Overview

From time to time, management and our Board of Directors reviews our liquidity and future cash needs and may make a decision on (1) the return of capital to our shareholders through a share repurchase program or dividend payout; or (2) seek additional debt or equity financing. As of June 30, 2021, our principal sources of liquidity consisted of (i) unrestricted cash and cash equivalents of $103.3 million; (ii) investment-grade short-term high-quality marketable debt instruments of $17.4 million that are primarily invested in U.S. treasury securities, and corporate notes and bonds; and (iii) accounts receivable, net of allowances, of $7.6 million. As of June 30, 2021, there were unrestricted cash and cash equivalents of $0.8 million held outside the U.S. We invest cash not needed for current operations predominantly in high-quality, investment-grade, marketable debt instruments with the intent to make such funds available for 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. The risk of this portfolio to us is in the ability of the underlying companies 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.

As of June 30, 2021, we had $0.5 million of short-term contract assets which only represents unbilled trade receivables from certain Water segment contract sales which includes contractual holdback provisions, pursuant to which we will invoice the final retention payment due within the next 12 months. The customer holdbacks represent amounts intended to provide a form of security for the customer; and accordingly, these contract assets have not been discounted to present value. The retention payments with no performance conditions are recorded as trade receivables.

Loan and Pledge Agreement - Stand-By Letters of Credit

We entered into a loan and pledge agreement with a financial institution during January 2017, which has been amended multiple times to accommodate the growth of the Company (the original loan and pledge agreement and its subsequent amendments are hereinafter referred to as the “Loan and Pledge Agreement”). Under the Loan and Pledge Agreement, we are allowed to issue stand-by letters of credit (“SBLCs”) up to one year past the expiration date of the Loan and Pledge Agreement and to hold SBLCs with other financial institutions up to an aggregate amount of $5.1 million. SBLCs have a term limit of three years, are secured by pledged U.S. investments, and do not have any cash collateral balance requirement. SBLCs are deducted from the total revolving credit line under the Loan and Pledge Agreement and are subject to a non-refundable quarterly fee that is in an amount equal to 0.7% per annum of the face amount of the outstanding SBLCs. As of June 30, 2021, outstanding SBLCs totaled $12.2 million.

Share Repurchase Program

On March 9, 2021, our Board of Directors authorized a share repurchase program (the “March 2021 Authorization”) which we may repurchase, under management’s discretion, up to $50.0 million in aggregate cost of our outstanding common stock. As of June 30, 2021, we repurchased 656,938 shares at an aggregate cost of $11.6 million under the March 2021 Authorization. The aggregate cost includes fees charged in connection with acquiring the shares. As of June 30, 2021, under the March 2021 Authorization, we may repurchase, under management’s discretion, additional shares of our outstanding common stock at an aggregate cost of approximately $38.4 million.

Cash Flows

	Six Months Ended June 30,	
	2021	2020
	(In thousands)	
Net cash provided by (used in) operating activities	$ 11,541	$ (294)
Net cash provided by investing activities	383	35,788
Net cash (used in) provided by financing activities	(2,857)	1,105
Effect of exchange rate differences on cash and cash equivalents	(20)	(15)
Net change in cash, cash equivalents and restricted cash	$ 9,047	$ 36,584

Cash Flows from Operating Activities

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

Net cash provided by operating activities for the six months ended June 30, 2021, compared to net cash used in operating activities for the six months ended June 30, 2020, was due primarily to higher product revenues and by the timing of cash collected on accounts receivables, partially offset by increased planned finished goods inventory.

Cash Flows from Investing Activities

Net cash provided by investing activities primarily relates to maturities, sales and purchases of marketable securities, and capital expenditures supporting our growth. Our investments in marketable securities are structured to preserve principal and liquidity while at the same time maximizing yields without significantly increasing risk. The lower cash provided from investing activities for the six months ended June 30, 2021, as compared to cash provided from investing activities in the six months ended June 30, 2020, was due primarily to the movement of our investments in debt securities to cash and cash equivalents in fiscal year 2020 as a result of the COVID-19 pandemic.

Cash Flows from Financing Activities

Net cash (used in) provided by financing activities primarily relates to the issuance of equity from our employee equity incentive plans and offset by share repurchases under our board authorized share repurchase program. Net cash used in financing activities for the six months ended June 30, 2021, was $4.0 million lower than the net cash provided by financing activities for the six months ended June 30, 2020, due primarily to share repurchases of $11.6 million under the March 2021 Authorization, partially offset by higher issuance of equity of $7.6 million related to our employee equity incentive plans.

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, the timing and extent of our expansion into new geographic territories and the amount and timing of cash used for stock repurchases. 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.

Contractual Obligations

Lease Facilities. We lease facilities and equipment under fixed noncancelable operating leases that expire on various dates through fiscal year 2030.

Purchase Order Arrangements. We have purchase order arrangements with our vendors for which we have not received the related goods or services. These arrangements are subject to change based on our sales demand forecasts. We have the right to cancel the arrangements prior to the date of delivery. The purchase order arrangements are related to various raw materials and component parts, as well as capital equipment.

See Note 7, “Commitments and Contingencies,” of the Notes to Condensed Consolidated Financial Statements in Part I, Item 1, “Financial Statements (unaudited),” of this Quarterly Report on Form 10-Q for additional information related to our fixed noncancelable operating leases and our purchase order arrangements.

Off-Balance Sheet Arrangements

During the periods presented, we did not have any relationships with unconsolidated entities or financial partnerships such as entities often referred to as structured finance or special purpose entities which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

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 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 USD. At times, our international customers may have difficulty in obtaining USD to pay our receivables, thus increasing collection risk and potential doubtful account expense. As we expand our international sales, a portion of our revenue could be denominated in foreign currencies. As a result, our cash and operating results could be increasingly affected by changes in exchange rates.

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.

Interest Rate and Credit Risks

We have an investment portfolio of fixed-income marketable debt securities, which are classified as short-term investments on our Condensed Consolidated Balance Sheets. 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 high-quality marketable debt instruments, These investments are subject to counter-party credit risk. To minimize this risk, we invest pursuant to an investment policy approved by our board of directors. The policy mandates high credit rating requirements and restricts our exposure to any single corporate issuer by imposing concentration limits.

As of June 30, 2021, our total debt security investments of $17.4 million are presented in short-term investments on our Condensed Consolidated Balance Sheets. These investments are subject to interest rate fluctuations and will decrease in market value if interest rates increase. To minimize the exposure due to adverse shifts in interest rates, we maintain investments with a weighted average maturity of less than seven months. As of June 30, 2021, a hypothetical 1% increase in interest rates would have resulted in a less than $0.1 million decrease in the fair value of our fixed-income debt securities.

Item 4 — Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Based on that evaluation, our President and Chief Executive Officer and our Chief Financial Officer have concluded that, as of June 30, 2021, our disclosure controls and procedures are 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

Note 8, “Commitments and Contingencies – Litigation,” of the Notes to Consolidated Financial Statements in Part II, Item 8, “Financial Statements and Supplementary Data,” in our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the U.S. Securities and Exchange Commission on March 12, 2021 (“2020 Annual Report”), provides information on certain litigation in which we are involved.

For an update on the litigation matters previously disclosed in the 2020 Annual Report, see the discussion in Note 7, “Commitments and Contingencies – Litigation,” of the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q, which discussion is incorporated by reference into this Item 1.

Item 1A — Risk Factors

Except for the risk factors disclosed in Part II, Item 1A, “Risk Factors,” in the Company’s Quarterly Report on Form 10-Q for the three months ended March 31, 2021 filed with the U.S. Securities and Exchange Commission on May 7, 2021, there have been no material changes in our risk factors from those disclosed in Part I, Item 1A, “Risk Factors,” in the 2020 Annual Report.

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table summarizes the stock repurchase activity during the three months ended June 30, 2021.

Period	Total Number of Shares Purchased	Average Price Paid per Share[(1)]	Total Number of Shares Purchased as Part of Publically Announced Program	Maximum Number of Shares or Approximate Dollar Value That May Yet to be Purchased Under the Program
April 1 – April 30, 2021	1,770	$ 17.90	1,770	$ 49,968,280
May 1 – May 31, 2021	655,168	17.57	656,938	38,446,420
June 1 – June 30, 2021	—	—	656,938	38,446,420

(1) Excluding commissions

On March 9, 2021, our Board of Directors authorized a share repurchase program (the “March 2021 Authorization”) which we may repurchase, under management’s discretion, up to $50.0 million in aggregate cost of our outstanding common stock. As of June 30, 2021, 656,938 shares at an aggregate cost of $11.6 million had been repurchased under the March 2021 Authorization. The aggregate cost includes fees charged in connection with acquiring the shares.

Item 3 — Defaults Upon Senior Securities

None.

Item 4 — Mine Safety Disclosures

Not applicable.

Item 5 — Other Information

None.

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	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
3.1*	Amended and Restated Certificate of Incorporation of Energy Recovery, Inc.				
3.2	Amended and Restated Bylaws of Energy Recovery, Inc.	8-K	001-34112	3.1	4/16/2021
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 certifications furnished in Exhibits 32.1 are deemed to accompany this Form 10-Q and are 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 6, 2021	By:	/s/ ROBERT YU LANG MAO
			Robert Yu Lang Mao
			President and Chief Executive Officer
			(Principal Executive Officer)
Date:	August 6, 2021	By:	/s/ JOSHUA BALLARD
			Joshua Ballard
			Chief Financial Officer
			(Principal Financial and Accounting Officer)

Exhibit 3.1

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION
OF
ENERGY RECOVERY, INC.

Energy Recovery, Inc., a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), hereby certifies as follows:

A. The name of this corporation is Energy Recovery, Inc. The Corporation's original Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on March 8, 2001, under the original name of ERI Acquisition Corp.

B. This Amended and Restated Certificate of Incorporation has been duly approved by the Board of Directors of the Corporation in accordance with Sections 242 and 245 of the General Corporation Law of the State of Delaware (the "DGCL").

C. This Amended and Restated Certificate of Incorporation has been duly approved by written consent of the stockholders of the Corporation in accordance with Sections 228, 242 and 245 of the DGCL.

D. The text of the Certificate of Incorporation of this Corporation is hereby amended and restated to read in its entirety as follows:

ARTICLE I

The name of the corporation is Energy Recovery, Inc. (the "Corporation").

ARTICLE II

The address of the Corporation's registered office in the State of Delaware is 1201 Orange Street, Suite 600, in the City of Wilmington, County of New Castle, Delaware, 19801. The name of its registered agent at such address is Agents and Corporations, Inc.

ARTICLE III

The nature of the business or purposes to be conducted or promoted by the Corporation is to engage in any lawful act or activity for which corporations may be organized under the DGCL.

ARTICLE IV

Section 1. This Corporation is authorized to issue two classes of stock, to be designated, respectively, Common Stock and Preferred Stock. The total number of shares of all classes of stock which this Corporation is authorized to issue is Two Hundred Ten Million (210,000,000) shares, of which Two Hundred Million (200,000,000) shares are Common Stock, $0.001 par value, and Ten Million (10,000,000) shares are Preferred Stock, $0.001 par value (the "Preferred Stock").

Section 2. Each share of Common Stock shall entitle the holder thereof to one (1) vote on any matter submitted to a vote at a meeting of stockholders.

Section 3. The Preferred Stock may be issued from time to time in one or more series pursuant to a resolution or resolutions providing for such issue duly adopted by the Board of Directors (authority to do so being hereby expressly vested in the Board of Directors). The Board of Directors is further authorized, subject to limitations prescribed by law, to fix by resolution or resolutions the designations, powers, preferences and rights, and the qualifications, limitations or restrictions thereof, of any wholly unissued series of Preferred Stock, including without limitation authority to fix by resolution or resolutions the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price or prices, and liquidation preferences of any such series, and the number of shares constituting any such series and the designation thereof, or any of the foregoing. The Board of Directors is further authorized to increase (but not above the total number of authorized shares of the class) or decrease (but not below the number of shares of any such series then outstanding) the number of shares of any series, the number of which was fixed by it, subsequent to the issuance of shares of such series then outstanding, subject to the powers, preferences and rights, and the qualifications, limitations and restrictions thereof stated in this Amended and Restated Certificate of Incorporation or the resolution of the Board of Directors originally fixing the number of shares of such series. If the number of shares of any series is so decreased, then the Corporation shall take all such steps as are necessary to cause the shares constituting such decrease to resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

Section 4. Except as otherwise required by law, holders of Common Stock shall not be entitled to vote on any amendment to this Amended and Restated Certificate of Incorporation (including any certificate of designation filed with respect to any series of Preferred Stock) that relates solely to the terms of one or more outstanding series of Preferred Stock if the holders of such affected series are entitled, either separately or together as a class with the holders of one or more other such series, to vote thereon by law or pursuant to this Amended and Restated Certificate of Incorporation (including any certificate of designation filed with respect to any series of Preferred Stock).

ARTICLE V

Section 1. The number of directors that constitutes the entire Board of Directors shall be determined in the manner set forth in the Bylaws of the Corporation. At each annual meeting of stockholders, directors of the Corporation shall be elected to hold office until the expiration of the term for which they are elected and until their successors have been duly elected and qualified or until their earlier resignation or removal; except that if any such meeting shall not be so held, such election shall take place at a stockholders' meeting called and held in accordance with the DGCL.

Section 2. The directors of the Corporation shall be divided into three classes as nearly equal in size as is practicable, hereby designated Class I, Class II and Class III. Directors shall be assigned to each class in accordance with a resolution or resolutions adopted by the Board of Directors. At the first annual meeting of stockholders following the date hereof, the term of office of the Class I directors shall expire and Class I directors shall be elected for a full term of three years.

At the second annual meeting of stockholders following the date hereof, the term of office of the Class II directors shall expire and Class II directors shall be elected for a full term of three years. At the third annual meeting of stockholders following the date hereof, the term of office of the Class III directors shall expire and Class III directors shall be elected for a full term of three years. At each succeeding annual meeting of stockholders, directors shall be elected for a full term of three years to succeed the directors of the class whose terms expire at such annual meeting. If the number of directors is changed, any newly created directorships or decrease in directorships shall be so apportioned among the classes as to make all classes as nearly equal in number as is practicable, provided that no decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

ARTICLE VI

Section 1. Any director or the entire Board of Directors may be removed from office at any time, but only for cause, and only by the affirmative vote of the holders of at least a majority of the voting power of the issued and outstanding capital stock of the Corporation entitled to vote in the election of directors.

Section 2. Except as otherwise provided for or fixed by or pursuant to the provisions of Article IV hereof in relation to the rights of the holders of Preferred Stock to elect directors under specified circumstances, newly created directorships resulting from any increase in the number of directors, created in accordance with the Bylaws of the Corporation, and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled only by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors, or by a sole remaining director, and not by the stockholders. A person so elected by the Board of Directors to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such director shall have been chosen until his or her successor shall have been duly elected and qualified, or until such director’s earlier death, resignation or removal. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

ARTICLE VII

Section 1. The Corporation is to have perpetual existence.

Section 2. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. In addition to the powers and authority expressly conferred upon them by statute or by this Amended and Restated Certificate of Incorporation or the Bylaws of the Corporation, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation.

Section 3. In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to adopt, alter, amend or repeal the Bylaws of the Corporation. The affirmative vote of at least a majority of the Board of Directors then in office shall be required in order for the Board of Directors to adopt, amend, alter or repeal the Corporation’s Bylaws. The Corporation’s Bylaws may also be adopted, amended, altered or repealed by the stockholders of the Corporation. Notwithstanding the above or any other provision of this Amended and Restated Certificate of Incorporation, the Bylaws of the Corporation may not be amended, altered or repealed except in accordance with Article X of the Bylaws. No Bylaw hereafter legally adopted, amended, altered or repealed shall invalidate any prior act of the directors or officers of the Corporation that would have been valid if such Bylaw had not been adopted, amended, altered or repealed.

Section 4. The election of directors need not be by written ballot unless the Bylaws of the Corporation shall so provide.

Section 5. No stockholder will be permitted to cumulate votes at any election of directors.

ARTICLE VIII

Section 1. Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders.

Section 2. Special meetings of stockholders of the Corporation may be called only by the Non-Executive Chairperson of the Board of Directors, the Chief Executive Officer, the President or the Board of Directors acting pursuant to a resolution adopted by a majority of the Board of Directors, and any power of stockholders to call a special meeting of stockholders is specifically denied. Only such business shall be considered at a special meeting of stockholders as shall have been stated in the notice for such meeting.

Section 3. Advance notice of stockholder nominations for the election of directors and of business to be brought by stockholders before any meeting of the stockholders of the Corporation shall be given in the manner and to the extent provided in the Bylaws of the Corporation.

ARTICLE IX

Section 1. To the fullest extent permitted by the DGCL as the same exists or as may hereafter be amended, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. If the DGCL is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended.

Section 2. The Corporation may indemnify to the fullest extent permitted by law any person made or threatened to be made a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that he, she, his or her testator or intestate is or was a director, officer, employee or agent of the Corporation or any predecessor of the Corporation or serves or served at any other enterprise as a director, officer, employee or agent at the request of the Corporation or any predecessor of the Corporation or serves or served at any other enterprise as a director, officer, employee or agent at the request of the Corporation or any predecessor to the Corporation.

Section 3. Neither any amendment nor repeal of any Section of this Article IX, nor the adoption of any provision of this Amended and Restated Certificate of Incorporation or the Bylaws of the Corporation inconsistent with this Article IX, shall eliminate or reduce the effect of this Article IX in respect of any matter occurring, or any cause of action, suit, claim or proceeding accruing or arising or that, but for this Article IX, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

ARTICLE X

Meetings of stockholders may be held within or outside of the State of Delaware, as the Bylaws may provide. The books of the Corporation may be kept (subject to any provision contained in the statutes) outside of the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Corporation.

ARTICLE XI

The Corporation reserves the right to amend or repeal any provision contained in this Amended and Restated Certificate of Incorporation in the manner prescribed by the laws of the State of Delaware and all rights conferred upon stockholders are granted subject to this reservation; provided, however, that notwithstanding any other provision of this Amended and Restated Certificate of Incorporation, or any provision of law that might otherwise permit a lesser vote or no vote, the Board of Directors acting pursuant to a resolution adopted by a majority of the Board of Directors and the affirmative vote of sixty-six and two-thirds percent (66 2/3%) of the then outstanding voting securities of the Corporation, voting together as a single class, shall be required for the amendment, repeal or modification of the provisions of Section 3 of Article IV, Section 2 of Article V, Article VI, Section 5 of Article VII, Article VIII or Article XI of this Amended and Restated Certificate of Incorporation.

IN WITNESS WHEREOF, Energy Recovery, Inc. has caused this Amended and Restated Certificate of Incorporation to be signed by its President and Chief Executive Officer on this 25th day of June, 2008.

/s/ G.G. Pique

G.G. Pique, President and Chief Executive Officer

CERTIFICATE OF AMENDMENT
TO THE
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION
OF ENERGY RECOVERY, INC.

June 10, 2021

Energy Recovery, Inc. (the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "***DGCL***"), does hereby certify:

FIRST: That the name of the Corporation is Energy Recovery, Inc. The original certificate of incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on March 8, 2001 under the name ERI Acquisition Corp. An amended and restated certificate of incorporation was filed with the Secretary of State of the State of Delaware on July 7, 2008 under the name Energy Recovery, Inc. (the "Amended and Restated Certificate").

SECOND: That this Amendment to the Amended and Restated Certificate (this "Amendment") amends the Amended and Restated Certificate.

THIRD: That a majority of the board of directors of the Corporation has duly adopted resolutions approving this Amendment and declaring this Amendment to be advisable and recommended for approval and adoption by the stockholders of the Corporation.

FOURTH: That this Amendment was duly adopted and approved by the affirmative vote of sixty-six and two-thirds percent ($66^2/_3$%) of the then outstanding voting securities of the Corporation in accordance with the applicable provisions of Section 242 of the DGCL and ARTICLE XI of the Amended and Restated Certificate.

FIFTH: That this Amendment shall become effective on the date of filing with the Secretary of State of the State of Delaware.

SIXTH: That upon the effectiveness of this Amendment, Section 2 of ARTICLE V of the Amended and Restated Certificate is hereby amended and restated to read in its entirety as follows:

> "Section 5.2 The directors of the Corporation shall be divided into three classes as nearly equal in size as is practicable, hereby designated Class I, Class II and Class III. Directors shall be assigned to each class in accordance with a resolution or resolutions adopted by the Board of Directors. Notwithstanding the foregoing, (1) at the 2021 annual meeting of stockholders, the Class I directors whose terms expire at that meeting shall be elected to hold office for a one-year term expiring at the 2022 annual meeting of stockholders; (2) at the 2022 annual meeting of stockholders, the Class I and Class II directors whose terms expire at that meeting shall be elected to hold office for a one-year term expiring at the 2023 annual meeting of stockholders; and (3) at the 2023 annual meeting of stockholders and each annual meeting of stockholders thereafter, all directors shall be elected for a one-year term expiring at the next annual meeting of stockholders. At and after the annual meeting of stockholders to be held in 2023, the directors shall no longer be classified with respect to the time for which they hold office."

SEVENTH: That upon the effectiveness of this Amendment, Section 1 of ARTICLE VI of the Amended and Restated Certificate is hereby amended and restated to read in its entirety as follows:

> "Section 6.1 Any director or the entire Board of Directors may be removed from office at any time, but with respect to any director who has been elected for a term in excess of one year, only for cause, and only by the affirmative vote of the holders of at least a majority of the voting power of the issued and outstanding capital stock of the Corporation entitled to vote in the election of directors."

[*Signature Page Follows*]

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to the Amended and Restated Certificate of Incorporation to be duly executed and acknowledged in its name and on its behalf by an authorized officer as of the date first set forth above.

ENERGY RECOVERY, INC.

By: /s/ Robert Yu Lang Mao

Name: Robert Yu Lang Mao

Title: President and Chief Executive Officer

[Signature Page to Amendment to the Amended and Restated Certificate]

Exhibit 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

I, Robert Yu Lang Mao, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Energy Recovery, Inc. for the period ended June 30, 2021;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2021	/s/ ROBERT YU LANG MAO	
	Name:	Robert Yu Lang Mao
	Title:	President and Chief Executive Officer
		(Principal Executive Officer)

Exhibit 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

I, Joshua Ballard, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Energy Recovery, Inc. for the period ended June 30, 2021;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 6, 2021

/s/ JOSHUA BALLARD

Name:	Joshua Ballard
Title:	Chief Financial Officer
	(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER, PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002*

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code, Robert Yu Lang Mao, President and Chief Executive Officer of Energy Recovery, Inc., and Joshua Ballard, Chief Financial Officer of Energy Recovery, Inc., each hereby certify that, to the best of his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2021, to which this Certification is attached as Exhibit 32.1 (the "Quarterly Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act, and
2. The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition of the Company at the end of the period covered by the Quarterly Report and results of operations of the Company for the period covered by the Quarterly Report.

IN WITNESS WHEREOF, the undersigned has set his hand hereto:

Date: August 6, 2021	/s/ ROBERT YU LANG MAO Robert Yu Lang Mao *President and Chief Executive Officer*
Date: August 6, 2021	/s/ JOSHUA BALLARD Joshua Ballard *Chief Financial Officer*

* This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Energy Recovery, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.