



ERII Q2 2025 Letter to Shareholders

Fellow Shareholders,

- We are pleased with our execution during the period, namely:
 - Posted strong revenue, Adjusted EBITDA⁽¹⁾ and Free Cash Flow⁽¹⁾ for the quarter.
 - Booked over \$2 million of China Wastewater revenue in Q2 and continued to ship product subsequent to the quarter.
- We added \$62 million to our 2025 Water contracted projects, which includes revenue recognized in the first half of 2025, which now stands at roughly \$107 million, or 71% of 2025 estimated Water revenue at the midpoint.
- We are reiterating our full year guidance on all prior non-Wastewater metrics and are unpausing our Wastewater revenue guidance, setting an adjusted range of \$8 million to \$11 million as discussed below.
- We have advanced our tariff mitigation strategies by establishing sourcing cost offsets and beginning the execution phase of our new China tariff offset plan, which supports our confidence in our updated Wastewater guidance.
- Today we announced another increase to our share repurchase authorization, adding an additional \$25.0 million given our strong cash position and confidence in our business.
 - We repurchased an additional \$17.1 million of shares in the quarter at an average price of \$13.37 and remained active post-quarter end.
 - We have now authorized a total of \$105 million of share buybacks in the last 12 months.

Message from the CEO

The market forces driving our Water businesses — water scarcity, water quality and resource recovery — remain firmly in place as we march towards our 2029 goals. We made strong progress during the quarter on our critical milestones shared in November.

Our Desalination business remains resilient as we were awarded multiple Megaproject (“MPD”) projects (>50,000 m³/d) in MENA, Europe and India during the quarter totaling ~\$40 million. In fact, given our backlog growth and our visibility to additional projects, we are on track to deliver our 11th consecutive year of growth. In addition to growing our backlog, we launched three new ancillary product partnerships, further strengthening our Original Equipment Manufacturer (“OEM”) business and made tremendous progress on our NextGen PX product. Our outlook for Desalination remains strong and our conviction around the five-year \$550 million MPD project pipeline we presented in November is increasing.

In our Wastewater business, we added key sales positions in North America, SE Asia and China. We also added significant reference cases in China, India, Europe and Brazil. All of this to say we are setting ourselves up for a strong 2026 and beyond.

In our CO₂ business, we continue to see the adoption rate grow for CO₂ in supermarkets. We added seven new installations in the US and Europe, two of which were food processing and storage sites. We are well underway for the summer testing season and will publish an updated white paper by October focused on reliability. By the end of September, we will have accumulated approximately 66,000 hours of PX G run time.

Finally, I would like to thank the Energy Recovery team for being creative and decisive during such a volatile macro environment.

Q2 results

Total revenue of \$28.1 million in Q2 2025 was in-line with our expectations and \$0.9 million better than the second quarter of 2024. We began shipping MPD contracts in the quarter, which accounted for nearly \$15 million of revenue. We were also very pleased to sign and ship over \$2 million of China Wastewater revenue in the quarter, despite the tariff pause coming halfway through the period.

Gross margin in the second quarter of 64% was in-line with the prior year. The margin in the quarter was impacted by product mix and tariffs, some of which we expect to offset with duty drawback in the second half of the year. Our Q400 margins continue to increase on a year over over basis.

Operating expenses for the second quarter totaled \$16.5 million compared with \$19.6 million in the same quarter of 2024. The reduction comes from our cost improvement efforts as well as from lower one-time costs in the same period last year.

Net income for the quarter totaled \$2.1 million and Adjusted EBITDA⁽¹⁾ for the quarter totaled \$4.4 million.

Our net income per share and our adjusted net income per share⁽¹⁾ of \$0.04 and \$0.07, respectively, for the second quarter benefited from a decreased share count.

We repurchased \$17.1 million of the Company's shares in the quarter at an average price of \$13.37 per share.

(1) Refer to the sections "Use of Non-GAAP Financial Measures" and "Reconciliation of Non-GAAP Financial Measures" or definitions of our non-GAAP financial measures and reconciliations of GAAP to non-GAAP amounts, respectively

Water Business

After a strong quarter of revenue and bookings, we remain on track to deliver our 11th consecutive year of growth in Water revenue. This continued growth is driven by the long-term underlying trends of water scarcity, where the water deficit is projected to be 53% by 2050. This untenable trend, along with current years-long droughts in growing population areas across the globe, are driving countries into action. We are beginning to see this increased activity in our Water businesses.

For Desalination, we had a strong quarter and signed ~\$40 million of contracts for large desalination projects, where we remain the go-to supplier. For example, we have contracted to provide Q300s or Q400s to several prominent projects across the Middle East, Northern Africa, India and Southern Europe, including:

- Morocco's 600,000 m³/d Safi project;
- Two projects each >400,000 m³/d in Qatar ;
- Two projects each >300,000 m³/d in UAE ;
- India's 100,000 m³/d Mandvi project;
- India's 70,000 m³/d Bhavnagar project; and
- A 50,000 m³/d project in Europe.

Looking ahead, we see increased activity in the Middle East region, the emergence of North Africa as a major region, as well as promising growth in other regions facing the reality of water deficits. Only 1% of the world's water usage currently comes from desalination, and more and more regions are realizing that desalination is necessary to meet their water needs. This is translating into increased desalination planning activity. Leading industry market research firms track and forecast the total capacity of desalination plants contracted each year. This annual contracted capacity amount is a leading indicator for our business as it represents the total capacity expected to come online in the 1-3 years following contract signature. In 2025, annual contracted capacity is on pace to grow 45% over 2024 levels. For the 2026-2028 period, current forecasts are predicting annual contracted capacities 75-100% higher than the 2024 base. This increased level of desalination contracted capacity is an important leading indicator for our Desalination business and supports the \$550 million pipeline opportunity we shared in November. There is a clear trend in the desalination industry that is setting the foundation for our potential to deliver accelerating growth.

With this momentum, we are on track to meet our Desalination revenue guidance of \$138 million to \$145 million for 2025. This year will be more back-end-loaded than last year based on the current project shipment schedule. We expect to deliver a strong second half in Desalination and continue to capture the upside from the current mega-cycle of desalination growth.

We would also like to take a moment here halfway through the year to provide some updates on the key Desalination milestones we set in our November 2024 investor presentation.

One milestone was to launch new product partnerships in the first half of 2025 as a means to accelerate our OEM channel growth strategy by enabling incremental PX sales and potentially unlocking new markets. We are pleased to announce that we recently executed three such strategic product partnerships in Q2 with major global pump manufacturing companies, including Grundfos, the largest pump manufacturer in the world, and two other global pump companies. These partnerships are geared towards strengthening our OEM desalination channel and Wastewater offerings by adding key pump products that we can offer alongside our PXs in a bundled solution. This strategy should also have positive impacts to our Aftermarket channel while increasing the sustainability of our non-MPD related revenue streams. Our strategy is beginning to unfold as we have sold 30 bundled solutions in conjunction with the Grundfos relationship alone while achieving early stage commercial success across all three partnerships.

We also set a target of launching a NextGen PX by the second half of 2026 and updated the target to the first half of 2026 in our last letter. Here, we would like to give a little more color on the new product. We continue to expand the boundaries of our technology, and we are on track to deliver a new best-in-class PX Pressure Exchanger by the first half of next year. This product is expected to achieve higher capacity and better performance, while also delivering the same benefits of our current PX in terms of 30 year product life, unmatched uptime, and industry-leading performance. We expect this NextGen PX to achieve more than a 500 gallon per minute flow rate, or over 25% more than our current flagship Q400 product. Additionally, as a result of our continued optimization of PX geometry, the NextGen PX will enable our customers to achieve the lowest specific energy consumption to date in their plants. Energy consumption greatly influences the cost of making water with desalination, and lower specific energy consumption makes desalination a more affordable, accessible solution to address the widening gap between freshwater demand and supply.

Now turning our attention to Wastewater.

We generated over \$2 million of revenue from China in the quarter as business opened back up following the U.S.-China trade negotiations. Importantly, we are seeing increased activity across our key verticals and geographies and we have had impressive momentum with adding reference cases.

Last November we set a key milestone for Wastewater to add two additional reference cases in each of our five focus verticals by the end of 2025. We are pleased to announce that we are on track to meet this goal, with all such references cases either in operation already or expected to be in 2025. Specific examples include:

- Large chemical plant in India
- Large chemical plant in Korea
- Two additional mining applications in China
- Municipal reuse plant in Belgium
- Municipal brackish water plants in Switzerland and Italy
- Two additional textile plants in China

Looking ahead, we believe we are at the beginning of a long-term trend of increasing water re-use across industries and geographies. Currently, only 3% of the world's water is reused for potable and industrial applications. According to a recent World Bank report, this percentage is expected to increase to 25% by 2040 as the pace of investment in reuse continues to grow. Despite some tariff setbacks in China, we can see this momentum building in the market. China, India, Europe and the U.S. are all driving re-use in water-heavy industries and planning for increased re-use capabilities at municipal water facilities.

This year we are setting the stage to capture this growth in 2026 and beyond. In addition to the references cases discussed above, we also set a milestone last November to ramp up the sales team this year, targeting 7 to 11 new hires. We are also on track for this milestone, having already hired 6 new positions across the globe and expect to onboard another 2 to 5 by the end of the year.

We generated over \$2 million of China Wastewater revenue in Q2 2025, and as mentioned above, have subsequently shipped additional wastewater product to China. We have unpaused our Wastewater guidance for the year and are setting an adjusted range of \$8 million to \$11 million. We believe that uncertainty around tariffs as well as the abrupt pause in our business during the quarter has had a meaningful impact on the year. But these transient factors do not diminish how strongly we feel about the future growth of Wastewater in 2026 and beyond given the favorable long term trends and the foundation we are establishing this year.

Overall, our current 2025 Water contracted projects, including the revenue recognized in the first half of 2025, total roughly \$107 million, or 71% of the mid-point of our guided range for the year. This compares to \$107 million (74%) and \$118 million (89%) for 2024 and 2023, respectively. Our contracts are being signed at a more back-end-loaded pace than last year, as expected. This is setting up for a large second half and likely a historically-large Q4. We successfully managed a highly back-end loaded year in 2024 as well and believe we are even more prepared operationally to execute again this year.

CO₂ Business

The momentum of our PX G commercialization efforts continued in Q2. From an industry perspective, the trend towards increased adoption of CO₂ continues to grow. A recent report from ATMOSphere estimates the current penetration of CO₂ installations in the Europe and U.S. at 30% and 2%, respectively, each a ~40% increase over the prior year. We also see focused engagement on the CO₂ market from our OEM customers, all of whom are gearing up for strong growth in CO₂ installations.

For us, the full focus of the business is on the current summer testing season, which is critical to driving commercial adoption of the PX G. Last summer we successfully proved the value proposition with key customers. This summer we must prove that the PX G can work reliably in the field and is sufficiently ready for broad deployment. We are working with OEMs, supermarket chains and industrial sites to prove this.

We have more than 50 PX Gs in the field today, either running or ready for installation. In addition to sites discussed previously, we have added the following new installations:

- A food processing facility in Barcelona
- A food processing facility in Belgium
- 2 grocery stores in Europe
- 3 grocery stores in the U.S.

The critical success point of this testing season is proving PX G reliability. Between our testing last year and the increased level of testing this summer, the PX G product will have accumulated ~66,000 hours, or over 7 years, of collective runtime. Still, our OEM and end user customers are cautious when it comes to new technology. The fact that we are running reliability tests proves their interest in the technology, but also indicates that wide adoption of the PX G will not begin until reliability is proven to each customer's standards and the process to integrate the PX G into their systems is completed. We look forward to coming back next quarter with an updated white paper on value proposition and reliability of the PX G.

We are reaffirming our stated revenue guidance of \$1 million to \$3 million for the year, but recognize that the pace of year-to-date revenue suggests the lower end of the range is more likely. We are also reaffirming our primary CO₂ milestone of having the PX specified in four supermarket chains in 1H 2026.

Tariff Discussion

In our Q1 shareholder letter, we laid out the potential impact on our business from the high tariffs then in place between the U.S. and China. Shortly after our earnings report, the tariff levels between the U.S. and China were dramatically reduced from 145% to 55% for goods imported from China and 125% to 10% for goods exported into China. These new tariff rates still have an impact on our business, albeit at a reduced level. Nonetheless, we have implemented several mitigation strategies to offset the impact of tariffs.

During Q2, we established a duty drawback program and have begun receiving cash reimbursements for tariffs already paid. In addition, we have begun the 9-12 month process of establishing a Foreign Trade Zone ("FTZ"). Once fully established, these two initiatives will significantly insulate the company from import tariffs on foreign sourced components.

Importantly, we have made significant progress exploring a near-term solution to move a portion of our manufacturing operations offshore. We believe we can relocate certain manufacturing processes to trade-optimal jurisdictions relatively quickly and without compromising quality. We are confident this solution will be in place this calendar year and will provide additional color once implemented.

The significant reduction of tariffs into China resulted in our Wastewater business generating revenue in Q2 that was better than initially indicated. Strong Wastewater shipment volumes have continued into Q3, further reducing the risk that China tariffs pose to our updated Wastewater revenue guidance.

While we have executed well against tariffs thus far, we continue to be in an environment of high uncertainty. We will continue to execute initiatives to protect our revenue and cash flow against future risks of this nature.

2025 Outlook

We are pleased with our execution towards our 2025 guidance in the face of tariff headwinds and look forward to delivering an even stronger second half. As discussed above, we are maintaining our guidance for all prior metrics and are unpausing our Wastewater guidance.

Our Desalination business continues to be resilient in the face of macro economic challenges. We are confirming our Desalination guidance of \$138 million to \$145 million based on the strong pace of contract signing in the quarter.

Although there is still a lack of full clarity on the U.S./China trade situation, we believe we have sufficient visibility and mitigation plans to set clear revenue guidance. We now believe the impact of tariffs will be less than indicated in our Q1 letter and currently expect 2025 Wastewater revenue of \$8 million to \$11 million. This implies that the impact from tariffs on our Wastewater business has reduced from \$9 million to \$5 million. We're working to further reduce this risk as the China market deals with tariff uncertainty.

We are confirming our CO₂ revenue guidance of \$1 million to \$3 million. As of today, we are trending towards the low end of that range, but are encouraged as customers dig in and validate the reliability of our product.

We remain confident in our resulting full year revenue guidance of \$147 million to \$159 million based on our pipeline and backlog. As we have signaled, our outlook reflects a more back-end-loaded year in 2025 as compared to 2024. This pattern will also likely play out in the second half, as the current shipping schedule indicates Q3 revenue, while expected to show sequential quarterly growth, may be lower than historical trends. We are geared up to have another strong execution performance to close out the year and look forward to delivering record second half revenue.

We are also maintaining our gross margin guidance of 66% to 68%. Despite tariff headwinds, we see the benefits of our manufacturing transformation accelerating in the second half and believe we will see strong margins in Q3 and Q4.

We are carefully managing opex spending to balance growth, efficiency, and tariff impacts. With first half 2025 total operating expenses of \$33.5 million (including \$0.8 million of impairment and restructuring charges), we are on track to achieve the low end of our guided range of \$69 million to \$72 million. As discussed in our Q1 letter, assuming current trade policies we expect to offset tariff impacts on gross profit with dollar-for-dollar reductions in opex.

Our stock-based compensation and depreciation and amortization expenses, key adjustments to calculate our Adjusted EBITDA, are expected to fall in-line with guidance as supported by year-to-date expense. We expect full year capex to fall towards the low end of the guided range as we execute with limited capital spending.

Overall, we are pleased with our trajectory and execution in the face of significant tariff-related volatility pertaining to China.

The table below summarizes our updated 2025 guidance.

| | Low | High |
|-------------------------------|--|-----------------|
| | <i>(in millions, except percentages)</i> | |
| Revenue: | | |
| Desalination | \$ 138.0 | \$ 145.0 |
| Wastewater | 8.0 | 11.0 |
| CO ₂ | 1.0 | 3.0 |
| Total Revenue | \$ 147.0 | \$ 159.0 |
| Gross Margin | 66.0 % | 68.0 % |
| Operating Expenses | \$ 69.0 | \$ 72.0 |
| Stock-based Compensation | \$ 8.0 | \$ 10.0 |
| Depreciation and Amortization | \$ 3.5 | \$ 4.5 |
| Capital Expenditures | \$ 3.0 | \$ 4.0 |

Financial Highlights

| | Quarter-to-Date | | | Year to Date | | |
|-----------------------------|--|----------|-------------|--------------|----------|---------------|
| | Q2'2025 | Q2'2024 | vs. Q2'2024 | 2025 | 2024 | 2025 vs. 2024 |
| | <i>(In millions, except net income (loss) per share, percentages and basis points)</i> | | | | | |
| Revenue | \$28.1 | \$27.2 | up 3% | \$36.1 | \$39.3 | down 8% |
| Gross margin | 64.0% | 64.6% | down 60 bps | 62.1% | 62.9% | down 80 bps |
| Operating margin | 5.3% | (7.4%) | NM | (30.7%) | (33.0%) | up 230 bps |
| Net income (loss) | \$2.1 | (\$0.6) | up 420% | (\$7.8) | (\$8.9) | up 12% |
| Net income (loss) per share | \$0.04 | (\$0.01) | up \$0.05 | (\$0.14) | (\$0.16) | up \$0.02 |
| Effective tax rate | | | | 14.0% | 10.5% | |
| Cash provided by operations | \$4.1 | \$8.1 | | \$14.8 | \$14.6 | |

Non-GAAP Financial Highlights ⁽¹⁾

| | Quarter-to-Date | | | Year to Date | | |
|--------------------------------------|---|---------|--------------|--------------|---------|---------------|
| | Q2'2025 | Q2'2024 | vs. Q2'2024 | 2025 | 2024 | 2025 vs. 2024 |
| | <i>(In millions, except adjusted net income (loss) per share, percentages and basis points)</i> | | | | | |
| Adjusted operating margin | 12.2% | 15.3% | down 310 bps | (17.4%) | (7.7%) | down 970 bps |
| Adjusted net income (loss) | \$3.7 | \$5.0 | down 25% | (\$3.3) | \$0.5 | NM |
| Adjusted net income (loss) per share | \$0.07 | \$0.09 | down \$0.02 | (\$0.06) | \$0.01 | down \$0.07 |
| Adjusted EBITDA | \$4.4 | \$5.2 | | (\$4.4) | (\$1.0) | |
| Free cash flow | \$4.0 | \$7.9 | | \$14.5 | \$13.5 | |

⁽¹⁾ Refer to the sections “Use of Non-GAAP Financial Measures” and “Reconciliation of Non-GAAP Financial Measures” for definitions of our non-GAAP financial measures and reconciliations of GAAP to non-GAAP amounts, respectively.

NM Not Meaningful

Forward-Looking Statements

Certain matters discussed in this document and on the conference call are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including our belief that our Wastewater business is set up for a strong 2026 and beyond; our belief that we are on track for our 11th consecutive year of growth in Water revenue; our belief that we are on track to deliver a new best-in-class PX Pressure Exchanger by the first half of 2026; our belief that the NextGen PX will enable our customers to achieve the lowest specific energy consumption to date in their plants; our belief that we are on track to meet our Wastewater goal to add two additional reference cases in each of our five focus verticals by the end of the year; our belief that there is momentum building in the water re-use market; our belief that the Wastewater business in 2026 and beyond will continue to grow; our belief that the duty drawback program and establishing a FTZ will significantly insulate the Company from import tariffs on foreign sourced components; and our belief in our ability to meet our 2025 guidance. These forward-looking statements are based on information currently available to the Company and on management’s beliefs, assumptions, estimates, or projections and are not guarantees of future events or results. Potential risks and uncertainties include risks relating to the future demand for the Company’s products, risks relating to performance by our customers and third-party partners, risks relating to the timing of revenue, and any other factors that may have been discussed herein regarding the risks and uncertainties of the Company’s business, and the risks discussed under “Risk Factors” in the Company’s Form 10-K filed with the U.S. Securities and Exchange Commission (“SEC”) for the year ended December 31, 2024, as well as other reports filed by the Company with the SEC from time to time. Because such forward-looking statements involve risks and uncertainties, the Company’s actual results may differ materially from the predictions in these forward-looking statements. All forward-looking statements are made as of today, and the Company assumes no obligation to update such statements.

Use of Non-GAAP Financial Measures

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

Notes to the Financial Results

- *Adjusted operating margin* is a non-GAAP financial measure that the Company defines as income (loss) from operations which excludes i) stock-based compensation; ii) executive transition costs, such as executive search costs, retention costs, one-time severance costs and one-time corporate growth strategy costs; and iii) restructuring charges, divided by revenues.
- *Adjusted net income (loss)* is a non-GAAP financial measure that the Company defines as net income which excludes i) stock-based compensation; ii) executive transition costs; iii) restructuring charges; iv) impairment of long-lived assets; and v) the applicable tax effect of the excluded items including the stock-based compensation discrete tax item.
- *Adjusted net income (loss) per share* is a non-GAAP financial measure that the Company defines as net income (loss), which excludes i) stock-based compensation; ii) executive transition costs; iii) restructuring charges; iv) impairment of long-lived assets; and v) the applicable tax effect of the excluded items including the stock-based compensation discrete tax item, divided by basic shares outstanding.
- *Adjusted EBITDA* is a non-GAAP financial measure that the Company defines as net income (loss) which excludes i) depreciation and amortization; ii) stock-based compensation; iii) executive transition costs; iv) restructuring charges; v) impairment of long-lived assets; vi) other income, net, such as interest income and other non-operating expense, net; and vii) provision for (benefit from) income taxes.
- *Free cash flow* is a non-GAAP financial measure that the Company defines as net cash provided by operating activities less capital expenditures.

Disclosure Information

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

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

| | June 30, 2025 | December 31, 2024 |
|--|--------------------------|------------------------------|
| <i>(In thousands)</i> | | |
| ASSETS | | |
| Cash, cash equivalents and investments | \$ 93,650 | \$ 99,851 |
| Accounts receivable and contract assets | 35,548 | 66,842 |
| Inventories, net | 32,660 | 24,906 |
| Prepaid expenses and other assets | 4,421 | 3,889 |
| Property, equipment and operating leases | 22,319 | 25,119 |
| Goodwill | 12,790 | 12,790 |
| Deferred tax assets and other assets | 10,887 | 9,395 |
| TOTAL ASSETS | \$ 212,275 | \$ 242,792 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities | | |
| Accounts payable, accrued expenses, and other liabilities, current | \$ 14,692 | \$ 20,837 |
| Contract liabilities and other liabilities, non-current | 1,818 | 628 |
| Lease liabilities | 10,558 | 11,317 |
| Total liabilities | 27,068 | 32,782 |
| Stockholders' equity | 185,207 | 210,010 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 212,275 | \$ 242,792 |

ENERGY RECOVERY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--|------------------|---------------------------|-------------------|
| | 2025 | 2024 | 2025 | 2024 |
| | <i>(In thousands, except per share data)</i> | | | |
| Revenue | \$ 28,051 | \$ 27,199 | \$ 36,116 | \$ 39,289 |
| Cost of revenue | 10,097 | 9,633 | 13,704 | 14,588 |
| Gross profit | 17,954 | 17,566 | 22,412 | 24,701 |
| Operating expenses | | | | |
| General and administrative | 7,669 | 9,532 | 16,243 | 17,098 |
| Sales and marketing | 5,360 | 6,104 | 10,266 | 12,256 |
| Research and development | 3,451 | 3,944 | 6,452 | 8,295 |
| Restructuring charges | — | — | 539 | — |
| Total operating expenses | 16,480 | 19,580 | 33,500 | 37,649 |
| Income (loss) from operations | 1,474 | (2,014) | (11,088) | (12,948) |
| Other income, net | 914 | 1,614 | 1,993 | 3,003 |
| Income (loss) before income taxes | 2,388 | (400) | (9,095) | (9,945) |
| Provision for (benefit from) income taxes | 334 | 242 | (1,269) | (1,043) |
| Net income (loss) | \$ 2,054 | \$ (642) | \$ (7,826) | \$ (8,902) |
| Net income (loss) per share | | | | |
| Basic | \$ 0.04 | \$ (0.01) | \$ (0.14) | \$ (0.16) |
| Diluted | \$ 0.04 | \$ (0.01) | \$ (0.14) | \$ (0.16) |
| Number of shares used in per share calculations | | | | |
| Basic | 54,257 | 57,366 | 54,578 | 57,234 |
| Diluted | 54,486 | 57,366 | 54,578 | 57,234 |

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

| | Six Months Ended June 30, | |
|--|----------------------------------|--------------------|
| | 2025 | 2024 |
| | <i>(In thousands)</i> | |
| Cash flows from operating activities: | | |
| Net loss | \$ (7,826) | \$ (8,902) |
| Non-cash adjustments | 5,642 | 7,586 |
| Net cash provided by (used in) operating assets and liabilities | 17,008 | 15,886 |
| Net cash provided by operating activities | 14,824 | 14,570 |
| Cash flows from investing activities: | | |
| Net investment in marketable securities | 33,882 | (42,895) |
| Capital expenditures | (326) | (1,025) |
| Proceeds from sales of fixed assets | 10 | 90 |
| Net cash provided by (used in) investing activities | 33,566 | (43,830) |
| Cash flows from financing activities: | | |
| Net proceeds from issuance of common stock | 983 | 1,502 |
| Repurchase of common stock & payment of excise tax | (22,009) | — |
| Net cash (used in) provided by financing activities | (21,026) | 1,502 |
| Effect of exchange rate differences | 60 | (24) |
| Net change in cash, cash equivalents and restricted cash | \$ 27,424 | \$ (27,782) |
| Cash, cash equivalents and restricted cash, end of period | \$ 57,181 | \$ 40,443 |

ENERGY RECOVERY, INC.
RECONCILIATION OF NON-GAAP FINANCIAL MEASURES ⁽¹⁾
(Unaudited)

This document includes certain non-GAAP financial information because we plan and manage our business using such information. The following table reconciles the GAAP financial information to the non-GAAP financial information.

| | Quarter-to-Date | | Year-to-Date | |
|---|--|------------------|------------------|------------------|
| | Q2'2025 | Q2'2024 | Q2'2025 | Q2'2024 |
| | <i>(In millions, except shares, per share and percentages)</i> | | | |
| Operating margin | 5.3 % | (7.4)% | (30.7)% | (33.0)% |
| Stock-based compensation | 6.9 | 10.4 | 10.8 | 15.5 |
| Executive transition costs | — | 12.3 | — | 9.7 |
| Restructuring charges | — | — | 1.5 | — |
| Impairment of long-lived assets | — | — | 1.0 | — |
| Adjusted operating margin | 12.2 % | 15.3 % | (17.4)% | (7.7)% |
| Net income (loss) | \$ 2.1 | \$ (0.6) | \$ (7.8) | \$ (8.9) |
| Stock-based compensation | 1.9 | 2.8 | 3.9 | 6.1 |
| Executive transition costs ⁽²⁾ | — | 2.9 | — | 3.5 |
| Restructuring charges ⁽²⁾ | — | — | 0.5 | — |
| Impairment of long-lived assets ⁽²⁾ | — | — | 0.3 | — |
| Stock-based compensation discrete tax item | (0.3) | (0.1) | (0.2) | (0.2) |
| Adjusted net income (loss) | \$ 3.7 | \$ 5.0 | \$ (3.3) | \$ 0.5 |
| Net income (loss) per share | \$ 0.04 | \$ (0.01) | \$ (0.14) | \$ (0.16) |
| Adjustments to net income (loss) per share ⁽³⁾ | 0.03 | 0.10 | 0.08 | 0.17 |
| Adjusted net income (loss) per share | \$ 0.07 | \$ 0.09 | \$ (0.06) | \$ 0.01 |
| Net income (loss) | \$ 2.1 | \$ (0.6) | \$ (7.8) | \$ (8.9) |
| Stock-based compensation | 1.9 | 2.8 | 3.9 | 6.1 |
| Depreciation and amortization | 0.9 | 1.0 | 1.9 | 2.0 |
| Executive transition costs | — | 3.3 | — | 3.8 |
| Restructuring charges | — | — | 0.5 | — |
| Impairment of long-lived assets | — | — | 0.4 | — |
| Other income, net | (0.9) | (1.6) | (2.0) | (3.0) |
| Provision for (benefit from) income taxes | 0.3 | 0.2 | (1.3) | (1.0) |
| Adjusted EBITDA | \$ 4.4 | \$ 5.2 | \$ (4.4) | \$ (1.0) |
| Free cash flow | | | | |
| Net cash provided by operating activities | \$ 4.1 | \$ 8.1 | \$ 14.8 | \$ 14.6 |
| Capital expenditures | (0.1) | (0.2) | (0.3) | (1.0) |
| Free cash flow | \$ 4.0 | \$ 7.9 | \$ 14.5 | \$ 13.5 |

⁽¹⁾ Amounts may not total due to rounding.

⁽²⁾ Amounts presented are net of tax.

⁽³⁾ Refer to the sections "Use of Non-GAAP Financial Measures" for description of items included in adjustments.