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MFRI REPORTS 3Q 2014 RESULTS

- **Net sales of \$43.8 million**
- **Net loss from continuing operations of \$0.6 million**
- **Development of large project opportunities for Piping Systems continues**

NILES, IL, December 9, 2014 – MFRI, Inc. (NASDAQ: MFRI) announced today financial results for the third quarter ended October 31, 2014.

President and CEO Bradley Mautner commented, “Having entered the period with a relatively low backlog position, our third-quarter results were in line with our expectations as outlined in our second-quarter release. Consistent with the second quarter, the year-over-year comparisons for the quarterly and year-to-date results illustrate the variability inherent in our project-based Piping Systems business.

“During the quarter, we continued to devote engineering resources to developing new business opportunities, supporting complex project development processes for a variety of applications, and bidding on new large-scale infrastructure projects in many different locations around the world. These initiatives, combined with the reduction in revenue, caused us to post a modest loss from continuing operations for the quarter. On the other hand, our efforts have given us greater confidence that we should be able to add a number of projects, each worth \$10 million and above in revenues, to our backlog over the next several quarters while continuing to pursue the many target opportunities that we expect to unfold over the next three years.”

Mr. Mautner added, “We remain focused on executing our strategy of building a backlog of diverse opportunities that will support growth over the long term by leveraging our proven engineering and manufacturing expertise in above and below ground insulated piping systems. In the short term, with the backlog still relatively low, we expect the Company’s results for the second half of fiscal 2014, ending January 31, 2015, to be much lower than the first half of the year. Nevertheless, having generated net income of \$4.8 million for the first nine months of the fiscal year, we believe it is reasonable to expect the Company to post positive net income for the full year.”

Mr. Mautner continued, “Net sales for our Filtration Products segment increased 10% for the third quarter to \$17.3 million due to the delivery of another portion of a large, outstanding order from an original equipment manufacturer (“OEM”). The segment’s results this quarter reflect the lower gross margin of

OEM orders as well as the effects from new product implementation costs as we work with our customers on the change-over to high-efficiency filtration solutions. We remain focused on the direct end user markets and faster-growing pleated products that we believe will enable us to deliver profitable growth. To that end, we are continuing to execute our strategy of expanding our presence in the gas turbine power generation and industrial dust collection markets in the Middle East, two sectors that offer us attractive growth opportunities, as we commission our new manufacturing facility and begin production.”

Mr. Mautner concluded, “Our balance sheet and liquidity remain strong, giving us ample flexibility and resources to pursue the many opportunities we have identified that we believe will drive shareholder value over the long term.”

BACKLOG

The Company’s backlog decreased by 37%, or \$31.0 million, from January 31, 2014. This decrease reflects the completion of certain large-scale Piping Systems projects in the Middle East and the shipment of filtration products for OEM orders. MFRI’s Piping Systems business is impacted by large, discrete projects so revenues can vary significantly in both geographies and reporting periods. Fiscal 2013 and the first six months of fiscal 2014 were very active periods. The Company is pursuing a wide variety of new Piping Systems and also Filtration opportunities worldwide, but there can be no assurance regarding the Company’s success in winning such projects and any projects won will not likely result in revenue until mid-2015 and beyond.

Backlog (\$ in thousands):	10/31/2014	1/31/2014	10/31/2013
Piping Systems	\$35,925	\$60,555	\$70,042
Filtration Products	16,575	22,938	23,955
Total	\$52,500	\$83,493	\$93,997

THREE MONTHS ENDED OCTOBER 31, 2014

SALES - Net sales decreased 24% to \$43.8 million in the current quarter, from \$58.0 million in the prior-year quarter. Filtration Products sales increased 10% or by \$1.6 million, due to a large domestic OEM order. Piping Systems sales decreased 37% or \$15.7 million compared to the prior-year quarter due to lower volume in Saudi Arabia and the United Arab Emirates ("U.A.E."). The first phases of major projects expanding the Grand Mosque in Mecca and the King Abdul-Aziz International Airport in Jeddah are largely complete.

GROSS PROFIT - Gross profit decreased to \$6.7 million in the current quarter from \$16.9 million in the prior-year quarter, mainly due to the sales volume decrease in Piping Systems. The gross margin decrease to 15.3% of net sales in the current quarter from 29.1% in the prior-year quarter was also impacted by Filtration Products customer mix and costs associated with the introduction of new products.

EXPENSES - Operating expenses decreased to \$8.0 million in the current quarter from \$10.1 million in the prior-year quarter due to lower management incentive compensation expense, professional expenses and bank fee expenses. Operating expenses as a percent of net sales increased to 18.2% from 17.4%.

NET INCOME - Third quarter net loss was \$0.4 million compared to net income of \$7.4 million in the comparable prior-year quarter. The decrease was due to the lower sales volume and gross profit in Piping Systems.

PIPING SYSTEMS - Net sales decreased 37% to \$26.5 million in the current quarter from \$42.3 million in the prior-year quarter. The decrease was attributed to lower global and domestic volume. Gross margin decreased to 17% of net sales in the current quarter from 35% of net sales in the prior-year quarter. Gross profit decreased due to the lower volume related to the aforementioned projects being largely complete in the Middle East. Operating expenses decreased to \$3.5 million from \$5.3 million due to lower management incentive compensation expense and bank fee expense.

FILTRATION PRODUCTS - Net sales increased 10% to \$17.3 million in the current quarter from \$15.7 million in the prior-year quarter. Sales rose due to a large domestic OEM order. Gross profit decreased to \$2.1 million from \$2.2 million. Gross margin decreased to 12% in the current quarter from 14% in the prior-year quarter due to customer mix and costs associated with the introduction of new products. The Company continues to expand its geographic market coverage and improve its margin through expense controls to strengthen this segment. Operating expenses increased to \$2.8 million in the current quarter from \$2.6 million in the prior-year quarter. Increased sales staffing, promotional activities and the addition of allocated expenses previously carried as corporate expenses contributed to the net increase in expenses. At the end of the third quarter actions were taken to reduce selling costs in the fabric filter bag business.

NINE MONTHS ENDED OCTOBER 31, 2014

SALES - Year to date (“YTD”) net sales decreased 10% to \$156.7 million from \$173.5 million for the prior-year YTD. Filtration Products sales increased 5% due to a large domestic OEM order. Piping Systems sales decreased 16% or \$19.1 million compared to the prior-year YTD due to lower volume related to the aforementioned projects being largely complete in Saudi Arabia and the U.A.E. offset by an increase in domestic oil and gas projects.

GROSS PROFIT - Gross profit decreased to \$33.3 million from \$43.0 million in the prior-year YTD. The gross margin decreased to 21.2% of net sales YTD from 24.8% in the prior-year YTD.

EXPENSES - Operating expenses decreased to \$27.0 million from \$28.9 million in the prior-year YTD mainly due to lower management incentive and deferred compensation expenses and a decrease in stock compensation expense that resulted in a benefit in the current year. Operating expenses as a percent of net sales increased to 17.2% from 16.7%.

PRE TAX INCOME FROM CONTINUING OPERATIONS - Pretax income from continuing operations was \$6.6 million versus \$13.3 million in the prior-year YTD. Factors contributing to the results were a profitable performance by the Canadian joint venture and lower interest expense.

TAXES - The Company's consolidated effective tax rate from continuing operations was 23.6% for the nine months ended October 31, 2014, which was affected by income earned overseas in lower tax jurisdictions and the impact of the full valuation allowance maintained against domestic deferred tax assets.

AFTER TAX INCOME FROM CONTINUING OPERATIONS AND INCOME - Income from continuing operations was \$5.0 million compared to \$13.4 million in the prior-year's period. Net Income was lower than the prior year by \$18.0 million due to the prior-year gain from the sale of most of Thermal Care's domestic assets and the effects from other discontinued operations.

MFRI, Inc.

MFRI, Inc. manufactures pre-insulated specialty piping systems for oil and gas gathering, district heating and cooling as well as other applications. The Company also manufactures custom-designed industrial filtration products to remove particulates from air and other gas streams. In total, MFRI has operations at 10 locations in six countries.

Forward-Looking Statements

Statements and other information contained in this announcement that can be identified by the use of forward-looking terminology constitute "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 and are subject to the safe harbors created thereby, including, without limitation, statements regarding the expected future performance and operations of the Company. These statements should be considered as subject to the many risks and uncertainties that exist in the Company's operations and business environment. Such risks and uncertainties include, but are not limited to, the project nature of the business, the increasing international nature of the business, economic conditions, market demand and pricing, competitive and cost factors, raw material availability and prices, global interest rates, currency exchange rates, labor relations and other risk factors.

MFRI's Form 10-Q for the period ended October 31, 2014 will be accessible at www.sec.gov and www.mfri.com. For more information, visit the Company's website or contact its investor relations representative, LHA.

MFRI, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In thousands, except per share data)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2014	2013	2014	2013
Net sales				
Piping Systems	\$26,540	\$42,289	\$102,683	\$121,825
Filtration Products	17,279	15,678	54,030	51,635
Total	<u>\$43,819</u>	<u>\$57,967</u>	<u>\$156,713</u>	<u>\$173,460</u>
Gross profit				
Piping Systems	\$4,609	\$14,726	\$25,913	\$35,760
Filtration Products	2,112	2,161	7,342	7,277
Total	<u>\$6,721</u>	<u>\$16,887</u>	<u>\$33,255</u>	<u>\$43,037</u>
Income (loss) from operations				
Piping Systems	\$1,096	\$9,403	\$12,896	\$21,276
Filtration Products	(726)	(486)	(1,300)	(468)
Corporate	(1,606)	(2,130)	(5,328)	(6,715)
Total	<u>(\$1,236)</u>	<u>\$6,787</u>	<u>\$6,268</u>	<u>\$14,093</u>
Income from joint venture	903	715	1,114	248
Interest expense, net	293	276	793	1,082
(Loss) income from continuing operations before income taxes	<u>(626)</u>	<u>7,226</u>	<u>6,589</u>	<u>13,259</u>
Income tax expense (benefit)	11	64	1,553	(99)
(Loss) income from continuing operations	<u>(637)</u>	<u>7,162</u>	<u>5,036</u>	<u>13,358</u>
Income (loss) from discontinued operations, net of tax	265	226	(217)	9,510
Net (loss) income	<u>(\$372)</u>	<u>\$7,388</u>	<u>\$4,819</u>	<u>\$22,868</u>
Weighted average common shares outstanding				
Basic	7,290	7,068	7,238	6,995
Diluted	7,290	7,163	7,337	7,041
(Loss) earnings per share from continuing operations				
Basic	(\$0.09)	\$1.01	\$0.70	\$1.91
Diluted	(\$0.09)	\$1.00	\$0.69	\$1.90
Earnings (loss) per share from discontinued operations				
Basic	\$0.04	\$0.03	(\$0.03)	\$1.36
Diluted	\$0.04	\$0.03	(\$0.03)	\$1.35
(Loss) earnings per share				
Basic	(\$0.05)	\$1.05	\$0.67	\$3.27
Diluted	(\$0.05)	\$1.03	\$0.66	\$3.25

See accompanying notes to consolidated financial statements.

Note: Earnings per share calculations could be impacted by rounding.

MFRI, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<i>(In thousands)</i>	October 31, 2014	January 31, 2014
ASSETS	Unaudited	
Current assets		
Cash, cash equivalents and restricted cash	14,845	13,834
Trade accounts receivable, net	40,975	45,659
Inventories, net	30,957	33,547
Prepaid expenses and other current assets	7,368	8,052
Total current assets	94,145	101,092
Property, plant and equipment, net of accumulated depreciation	42,279	42,541
Long-term assets		
Note receivable	4,442	4,659
Investment in joint venture	7,669	6,550
Other assets	7,468	8,427
Total long-term assets	19,579	19,636
Total assets	\$156,003	\$163,269
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	11,425	15,276
Accrued liabilities, compensation, incentives, and payroll taxes	13,239	16,329
Current maturities of long-term debt	4,539	8,274
Other current liabilities, including customer deposits	10,662	13,603
Total current liabilities	39,865	53,482
Long-term liabilities		
Long-term debt, less current maturities	26,102	23,469
Other long-term liabilities	8,933	9,680
Total long-term liabilities	35,035	33,149
Stockholders' equity		
Total stockholders' equity	81,103	76,638
Total liabilities and stockholders' equity	\$156,003	\$163,269

See accompanying notes to consolidated financial statements.

MFRI, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

**Nine Months Ended
October 31,**

(In thousands)

Operating activities

	2014	2013
Net income	\$4,819	\$22,868
Adjustments to reconcile net income to net cash flows used in operating activities		
Depreciation and amortization	4,299	4,465
Loss (gain) on disposal of discontinued operations	283	(10,111)
Deferred tax expense	420	93
Other, net	(1,912)	(93)
Changes in operating assets and liabilities		
Accounts receivable	5,108	(24,049)
Costs and estimated earnings in excess of billings on uncompleted contracts	(2,598)	1,227
Accrued compensation and payroll taxes	(3,309)	4,329
Other assets and liabilities	(2,043)	(10,059)
Net cash provided by (used in) operating activities	<u>5,067</u>	<u>(11,330)</u>
Investing activities		
Net proceeds from sale of discontinued operations	—	16,378
Capital expenditures, other investing activities	(4,200)	(1,809)
Net cash (used in) provided by investing activities	<u>(4,200)</u>	<u>14,569</u>
Financing activities		
Proceeds from debt	62,876	76,633
Payments of debt on revolving lines of credit, other	(61,053)	(70,446)
Other financing	(1,522)	(6,477)
Net cash provided by (used in) financing activities	<u>301</u>	<u>(290)</u>
Effect of exchange rate changes on cash and cash equivalents	(147)	538
Net increase in cash and cash equivalents	<u>1,021</u>	<u>3,487</u>
Cash and cash equivalents - beginning of period	13,395	7,035
Cash and cash equivalents - end of period	<u>\$14,416</u>	<u>\$10,522</u>

See accompanying notes to consolidated financial statements.