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## **MFRI REPORTS FY 2014 RESULTS; ANNOUNCES \$45.5 MILLION IN NEW PIPING SYSTEMS ORDERS**

- **Net sales of \$195 million for fiscal 2014**
- **Income from continuing operations before tax of \$3.3 million**

**NILES, IL, April 15, 2015** -- MFRI, Inc. (NASDAQ: MFRI) announced today financial results for the year ended January 31, 2015. The Company also announced that since its fiscal year end, its Perma-Pipe Inc. subsidiary has received various orders totaling approximately \$45.5 million to supply engineered and insulated piping products for new construction projects.

CEO Bradley Mautner remarked, "For the most part, fiscal 2014 unfolded as we expected and as we communicated in our prior quarterly releases. We began the second half of the year with a relatively low backlog position, which dampened results. In addition, we incurred higher-than-anticipated product introduction costs in filtration for certain high-efficiency products. Even with all the headwinds from significantly lower revenue from piping projects and increased expenses in filtration, we finished the year with \$3.3 million of pretax earnings from continuing operations. After tax, we were essentially breakeven from continuing operations, as we recorded an extraordinarily high effective tax rate of 97% for the year. This was driven by our decision to declare certain foreign earnings not permanently reinvested outside the U.S.

"Although 2014 was challenging and the beginning of 2015 will be as well, we believe that we are successfully positioned for a much improved 2015. Since the end of the fiscal year, we have secured business and are working on opportunities that will change our trajectory later in 2015 and hopefully beyond. We have focused intensely on capturing new business opportunities that further leverage work we have done since 2006 for the resurgent growth of large-scale infrastructure needs in the Middle East. The result is that we are now able to announce awards for several significant chilled water projects that are included in the \$45.5 million in new orders since January 31, 2015. These awards are a testament to the high-quality products and services Perma-Pipe has been delivering and the reputation for excellence it has established in the region.

"The awards also indicate that the significant drop in oil prices over the past year are not likely to impact demand for the large-scale chilled-water projects in the Middle East that are so critical to the successful development of that region's long-term strategic plans. We are continuing to pursue those projects to further build our backlog and, if won, they will drive additional revenue growth later in the year and beyond."

Fati Elgendy, President of Perma-Pipe, Inc., added, "We are delighted to have been selected to supply insulated chilled water piping systems for the early phases of several marquee, world-class projects in Saudi Arabia and Qatar. Our analyses indicate that Perma-Pipe is now the undisputed market leader in the Middle East and, specifically, in the Gulf Cooperation Council market, and our quotation activities in the region are at our highest historical level ever. All of the projects for which we have been selected offer significant future business opportunities, as their development is planned to continue for many years to come.

"Some of the major projects included in the recent orders are:

- Pilgrim's City is a massive multi-use city being constructed near the Prophet's Mosque in Medina, the second-largest mosque in Saudi Arabia. The city will be located on an area of more than 395 acres (160 hectares) and is planned to accommodate more than six million pilgrims during their pilgrimage procession;
- Jubail City Center is a new state-of-the art city center in Jubail Industrial City in eastern Saudi Arabia. Jubail is the largest industrial city in the Middle East and is being developed to accommodate 1.3 million residents by the year 2040. The city's total development cost is estimated at \$18 billion. Perma Pipe has successfully supplied several previous infrastructure projects for this emerging city;
- Internal Security Forces is a large-scale, mixed-use project on the outskirts of Doha, Qatar. The facilities being developed are for the military and include administrative, recreational and other facilities to support their needs. The project will ultimately encompass in excess of 350 structures, including a police training academy, sports stadium, five star hotel, and hospital, on 1,000 acres (400 hectares);
- Haram Sharif Mosque expansion projects located in Mecca, Saudi Arabia. The mosque, already the largest in the world, covers an area of more than 88 acres (35 hectares) and is projected to continue development for years to come."

Mr. Elgendy continued, "In addition, we are very pleased to have recently received Perma-Pipe's first order for thermally sprayed aluminum pipe coating in the Middle East. We are now offering specialty coatings and contract manufacturing through partnerships with select companies to leverage our channels to market in the region. Our initial order is from a major Oman-based oil company. As part of our strategic plan, we are pursuing approvals from several other major oil companies and, over time, expect this type of business to help balance the inherent variability in project-based activities that currently drive our business."

Mr. Mautner concluded, "In MFRI's filtration segment, sales declined slightly in 2014, reflecting continuing weak demand from coal-fired power and certain international markets. In addition, during the past year we continued to process a large low-margin original equipment manufacturer ('OEM') fabric filter order that negatively impacted results. This project will be complete no later than the third quarter of this year. To mitigate its impact on 2015, we have intensified our focus on pleated filter growth and diversified our geographic presence. As part of that effort, we recently opened a cartridge filter manufacturing facility in the Middle East to expand our presence in the region's growing gas turbine power generation and industrial dust collection markets.

"In summary, even though the nature of the markets we serve make predicting the timing of project awards difficult, I look forward to a much improved 2015, as I believe we are well positioned to win additional orders that will drive our growth and profitability."

## BACKLOG

Between October 31, 2014 and January 31, 2015, the Company's backlog decreased by 10%, or \$5.4 million. The decrease reflected 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. Since January 31, 2015, Perma-Pipe has received various orders totaling approximately \$45.5 million to supply engineered and insulated piping products for new construction projects.

	January 31,	October 31,	January 31,
<b>Consolidated Backlog (\$ in thousands):</b>	<b>2015</b>	<b>2014</b>	<b>2014</b>
Piping Systems	\$30,715	\$35,925	\$60,555
Filtration Products	16,383	16,575	22,938
Total	<u>\$47,098</u>	<u>\$52,500</u>	<u>\$83,493</u>

## YEAR ENDED JANUARY 31, 2015

**SALES** - Net sales were \$194.9 million in 2014, a decrease of 14% from \$226.8 million in 2013. Piping Systems sales decreased 20% or \$31.5 million compared to the prior year 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. The decrease was partially offset by an increase in domestic oil and gas projects.

**GROSS PROFIT** - Gross profit decreased 26% to \$38.5 million in 2014 from \$52.2 million in 2013 due to the sales volume decrease in Piping Systems. Filtration Products gross profit decreased 12.2% to \$7.9 million in 2014 from \$8.9 million in 2013, resulting from costs associated with the introduction of new products as well as overall product mix.

**EXPENSES** - Operating expenses decreased 7.2% to \$36.3 million from \$39.1 million due to lower management incentive and deferred compensation expenses and a decrease in stock compensation expense. These decreases were partially offset by an increase in professional fees related to compliance. Operating expenses as a percent of net sales increased to 18.6% from 17.3%.

**PRETAX INCOME FROM CONTINUING OPERATIONS** - Pretax income from continuing operations was \$3.3 million versus \$12.3 million in the prior year. Factors contributing to the 2014 results were lower volume in the Middle East partially offset by a profitable performance by the Canadian joint venture and lower interest expense.

**TAXES** - The Company's worldwide effective income tax rates on continuing operations for 2014 and 2013 were 97.5% and negative 4.0%, respectively. The 2014 effective income tax rate was affected primarily by the impact of the full valuation allowance maintained against domestic deferred tax assets and repatriation of foreign earnings. No U.S. cash tax payments will be made upon distribution of these foreign earnings as long as the Company is in a net loss operating position.

**NET (LOSS) INCOME** - Net loss was \$0.3 million in 2014 compared to net income of \$21.0 million in 2013. The prior-year's net income included the sale of most of Thermal Care's domestic assets.

**PIPING SYSTEMS** - Net sales of \$126.9 million decreased 20% from \$158.4 million in the prior year. The decrease was attributed 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 margin decreased to 24% of net sales from 27% of net sales in the prior year. Gross profit decreased due to the lower volume produced at the Saudi Arabian and U.A.E. piping facilities, partially offset by the domestic oil and gas projects.

General and administrative expenses decreased to \$12.3 million in 2014 from \$14.0 million in 2013 due to lower management incentive compensation expense due to lower earnings in the period, as well as lower bank fees. Selling expenses increased to \$5.7 million from \$5.1 million due to additional staffing, advertising and travel costs.

Income from the joint venture in 2014 was \$2.0 million, an increase of \$1.4 million over prior year driven by growth in revenues.

**FILTRATION PRODUCTS** - Net sales of \$67.9 million in 2014 decreased 0.7% from \$68.4 million in 2013. Sales declines were the result of generally weaker demand from international markets. Gross margin decreased to 11.6% of net sales in 2014 from 13.1% of net sales in 2013. Gross profit decreased due to product mix and costs associated with the introduction of new products.

General and administrative expenses increased to \$5.0 million in 2014 from \$4.6 million in 2013. The net increase in expenses was the result of the addition of allocated expenses previously carried as corporate expenses. The prior year also included foreign exchange gain. Selling expense increased to \$6.4 million in 2014 from \$5.9 million in 2013. Increased sales staffing was the primary contributor to the net increase in expenses.

#### **FOURTH FISCAL QUARTER ENDED JANUARY 31, 2015**

**SALES** - Net sales decreased 28.5% to \$38.1 million from \$53.4 million in the prior-year quarter. Piping Systems sales decrease was attributed to lower volume related to the aforementioned projects being largely complete in Saudi Arabia and the U.A.E. Filtration Products sales decreased due to reduced international demand.

**GROSS PROFIT** - Gross profit decreased 42.5% to \$5.3 million from \$9.2 million in the prior-year quarter due to the sales volume decrease in Piping Systems. Filtration Products gross profit decrease resulted from costs associated with the introduction of new products as well as overall product mix.

**EXPENSES** - Operating expenses totaled \$9.4 million, or 24.5% of net sales, compared to \$10.2 million, or 19.1%, in the prior-year quarter mainly due to lower incentive compensation expenses.

**TAXES** - The 2014 effective income tax rate was affected primarily by the impact of the full valuation allowance maintained against domestic deferred tax assets and repatriation of foreign earnings. No U.S. cash tax payments will be made upon distribution of these foreign earnings as long as the Company is in a net loss operating position.

**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-K for the period ended January 31, 2015 will be accessible at [www.sec.gov](http://www.sec.gov) and [www.mfri.com](http://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**

*(In thousands, except per share data)*

	<b>Three Months</b>		<b>Year Ended</b>	
	<b>Ended January 31,</b>		<b>January 31,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net sales				
Piping Systems	\$24,240	\$36,597	\$126,923	\$158,422
Filtration Products	13,904	16,778	67,934	68,413
Total	<u>\$38,144</u>	<u>\$53,375</u>	<u>\$194,857</u>	<u>\$226,835</u>
Gross profit				
Piping Systems	\$4,763	\$7,513	\$30,676	\$43,273
Filtration Products	512	1,665	7,854	8,942
Total	<u>\$5,275</u>	<u>\$9,178</u>	<u>\$38,530</u>	<u>\$52,215</u>
(Loss) income from operations				
Piping Systems	(\$231)	\$2,937	\$12,665	\$24,213
Filtration Products	(2,265)	(1,161)	(3,565)	(1,629)
Corporate	(1,566)	(2,786)	(6,894)	(9,501)
Total	<u>(\$4,062)</u>	<u>(\$1,010)</u>	<u>\$2,206</u>	<u>\$13,083</u>
Income from joint venture	846	280	1,960	528
Interest expense, net	50	229	843	1,311
(Loss) income from continuing operations before income taxes	<u>(3,266)</u>	<u>(959)</u>	<u>3,323</u>	<u>12,300</u>
Income tax expense (benefit)	1,688	(394)	3,241	(493)
(Loss) income from continuing operations	<u>(4,954)</u>	<u>(565)</u>	<u>82</u>	<u>12,793</u>
(Loss) income from discontinued operations, net of tax	(121)	(1,276)	(338)	8,234
<b>Net (loss) income</b>	<u><b>(\$5,075)</b></u>	<u><b>(\$1,841)</b></u>	<u><b>(\$256)</b></u>	<u><b>\$21,027</b></u>
Weighted average common shares outstanding				
Basic	7,291	7,129	7,251	7,028
Diluted	7,291	7,129	7,251	7,096
(Loss) earnings per share from continuing operations				
Basic	(\$0.68)	(\$0.08)	\$0.01	\$1.82
Diluted	(\$0.68)	(\$0.08)	\$0.01	\$1.80
(Loss) earnings per share from discontinued operations				
Basic	(\$0.02)	(\$0.18)	(\$0.05)	\$1.17
Diluted	(\$0.02)	(\$0.18)	(\$0.05)	\$1.16
(Loss) earnings per share				
Basic	(\$0.70)	(\$0.26)	(\$0.04)	\$2.99
Diluted	(\$0.70)	(\$0.26)	(\$0.04)	\$2.96

See accompanying notes to consolidated financial statements.

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

**MFRI, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

*(In thousands)*

	<b>January 31, 2015</b>	<b>January 31, 2014</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash, cash equivalents	\$10,508	\$13,395
Restricted cash	428	439
Trade accounts receivable, net	41,847	45,659
Inventories, net	29,770	33,547
Prepaid expenses and other current assets	5,049	8,052
<b>Total current assets</b>	<b>87,602</b>	<b>101,092</b>
Property, plant and equipment, net of accumulated depreciation	42,020	42,541
<b>Long-term assets</b>		
Note receivable	3,931	4,659
Investment in joint venture	8,514	6,550
Other assets	6,471	8,427
<b>Total long-term assets</b>	<b>18,916</b>	<b>19,636</b>
<b>Total assets</b>	<b>\$148,538</b>	<b>\$163,269</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Trade accounts payable	\$11,072	\$15,276
Accrued liabilities, compensation, incentives, and payroll taxes	13,770	16,331
Current maturities of long-term debt	17,033	8,274
Other current liabilities, including customer deposits	9,875	13,603
<b>Total current liabilities</b>	<b>51,750</b>	<b>53,484</b>
<b>Long-term liabilities</b>		
Long-term debt, less current maturities	12,603	23,469
Other long-term liabilities	10,662	9,680
<b>Total long-term liabilities</b>	<b>23,265</b>	<b>33,149</b>
<b>Stockholders' equity</b>		
<b>Total stockholders' equity</b>	<b>73,523</b>	<b>76,636</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$148,538</b>	<b>\$163,269</b>

See accompanying notes to consolidated financial statements.

**MFRI, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(In thousands)*

**Twelve months ended  
January 31,**  
**2015            2014**

<b>Operating activities</b>		
Net (loss) income	(\$256)	\$21,027
<b>Adjustments to reconcile net income to net cash flows provided by operating activities</b>		
Depreciation and amortization	5,897	5,785
Gain on disposal of discontinued operations	(188)	(11,449)
Deferred tax expense	1,439	(3,190)
Other, net	(2,078)	(326)
<b>Changes in operating assets and liabilities</b>		
Accounts receivable	3,314	(18,015)
Costs and estimated earnings in excess of billings on uncompleted contracts	(765)	1,110
Accrued compensation and payroll taxes	(3,055)	6,026
Other assets and liabilities	(202)	5,432
<b>Net cash provided by operating activities</b>	<b>4,106</b>	<b>6,400</b>
<b>Investing activities</b>		
Net proceeds from sale of discontinued operations	109	15,172
Capital expenditures, other investing activities	(5,854)	(2,745)
<b>Net cash (used in) provided by investing activities</b>	<b>(5,745)</b>	<b>12,427</b>
<b>Financing activities</b>		
Proceeds from debt	85,931	107,541
Payments of debt on revolving lines and other	(87,495)	(117,747)
Other financing	1,018	(1,533)
<b>Net cash used in financing activities</b>	<b>(546)</b>	<b>(11,739)</b>
Effect of exchange rate changes on cash and cash equivalents	(702)	(727)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(2,887)</b>	<b>6,361</b>
Cash and cash equivalents - beginning of period	13,395	7,034
<b>Cash and cash equivalents - end of period</b>	<b>\$10,508</b>	<b>\$13,395</b>

See accompanying notes to consolidated financial statements.