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MFRI ANNOUNCES 2Q15 RESULTS; BACKLOG AS OF JULY 31, 2015 RISES TO \$105.1 MILLION

- *2Q15 pre-tax loss of \$2.4 million reflects year over year decline in sales due primarily to timing of processing new Perma-Pipe orders*
- *Execution on record backlog underway in 3Q15, positioning MFRI for positive full year*

NILES, IL, September 18, 2015 -- MFRI, Inc. (NASDAQ: MFRI) announced today financial results for the second fiscal quarter ended July 31, 2015. The Company also announced that its backlog of orders as of July 31, 2015 reached \$105.1 million, an increase of 6% from its level at May 31, 2015, which previously represented MFRI's highest backlog level since July 31, 2013.

CEO Bradley Mautner commented, "As previously disclosed, we expected the first half of fiscal 2015/16 to be challenging due to our relatively low backlog position entering the year. However, with many significant wins captured in recent months by our Perma-Pipe subsidiary, we focused during the second quarter on readying our facilities and production processes to execute on those awards. The new projects we have underway include various large-scale infrastructure projects in the Middle East detailed in our year-end April 15, 2015 press release as well as several significant awards for North American projects described in our 1Q 2015 announcement, including:

- A 36-mile (58 km) onshore oil transportation pipeline to connect two refining facilities in Louisiana;
- A major international airport expansion in New Jersey;
- The insulation and jacketing of 9.5 miles (15 km) of cement-lined steel pipe to transport a potash solution for a mining operation in Canada's Saskatchewan province;
- A new state-of-the-art city center in Jubail Industrial City in eastern Saudi Arabia, the largest industrial city in the Middle East; and

"Accordingly, during the third quarter we have entered the next stage of delivering orders and realizing income from these projects. We have scaled up our facilities in the Middle East with additional shifts to deliver products for these infrastructure projects, and we expect to continue this pace for at least the next two quarters. Moreover, during the past two months, Perma-Pipe captured several additional assignments and our quotation activities in the Middle East have continued to be robust."

Mr. Mautner continued, "In MFRI's filtration segment, sales declined year over year by \$4.5 million, reflecting continued weak demand from the steel and coal-fired power industries. However, as a result of

our margin improvement, we reached approximately break-even in spite of the start-up costs associated with our new pleated manufacturing facility in the Middle East, where we have begun building a backlog of orders. While we expect the softness in end markets for fabric filters to continue through fiscal 2015/16, we believe the performance of our pleated filtration business will continue to improve as we gain further traction in that segment.”

Mr. Mautner concluded, “We are confident that the significant order book we have generated in our project-based piping business and the substantial increase in backlog we have developed will offset the year’s slow start through increased revenue and profitability. In addition, we continue to examine our cost structures and business portfolio in an effort to improve the overall performance of the Company.”

BACKLOG

	July 31,	May 31,	April 30,	Jan. 31,
Consolidated Backlog (\$ in thousands):	2015	2015	2015	2015
Piping Systems	\$91,147	\$85,583	\$66,388	\$30,715
Filtration Products	13,938	13,761	13,671	16,383
Total	<u>\$105,085</u>	<u>\$99,344</u>	<u>\$80,059</u>	<u>\$47,098</u>

SECOND FISCAL QUARTER ENDED JULY 31, 2015

SALES - Net sales decreased 25% to \$40.1 million in the current quarter, from \$53.4 million in the prior-year quarter. Piping Systems sales decreased 26% or \$8.6 million compared to the prior-year quarter due to lower domestic oil and gas projects and due to lower volume in Saudi Arabia and the United Arab Emirates ("U.A.E.").

GROSS PROFIT - Gross profit decreased to \$5.7 million in the current quarter from \$10.5 million in the prior-year quarter, mainly due to the sales volume decrease in Piping Systems. The gross margin decreased to 14.1% of net sales in the current quarter from 19.8% in the prior-year quarter.

EXPENSES – Operating expenses decreased to \$8.1 million in the current quarter from \$8.8 million in the prior-year quarter due to lower management incentive compensation expense, partially offset by higher stock compensation expense and increased professional expenses.

PRETAX INCOME (LOSS) FROM CONTINUING OPERATION – The pretax loss was \$2.8 million in the current quarter versus income of \$1.8 million in the prior-year quarter. The primary factor contributing to the 2015 results was lower volume in Piping Systems.

NET (LOSS) INCOME - Net loss was \$2.4 million compared to net income of \$1.4 million in the prior-year quarter. The decrease was due to lower sales volume and gross profit in Piping Systems.

PIPING SYSTEMS - Net sales decreased 26% to \$25.1 million in the current quarter from \$33.8 million in the prior-year quarter. The decrease was attributed to lower global and domestic volume. Gross margin decreased to 12% of net sales in the current quarter from 23% of net sales in the prior-year quarter. Gross profit decreased due to lower volume.

Operating expenses decreased to \$4.0 million from \$4.1 million due to lower management incentive compensation expense and lower professional costs partially offset by higher selling expenses.

FILTRATION PRODUCTS - Net sales decreased 24% to \$14.9 million in the current quarter from \$19.6 million in the prior-year quarter. Gross profit decreased to \$2.5 million from \$2.7 million. Lower gross profit from volume was almost entirely offset by improved mix. Gross margin increased to 17% in the current quarter from 14% in the prior-year quarter due to customer mix and lower costs related to product development. Startup costs for the new production facility in the U.A.E. offset some of the cost reductions elsewhere.

Operating expenses decreased to \$2.5 million in the current quarter from \$2.7 million in the prior-year quarter. Lower professional costs contributed to the net decrease in expenses.

SIX MONTHS ENDED JULY 31, 2015

SALES – Year to date (“YTD”) net sales decreased 31.1% to \$77.7 million from \$112.9 million for the prior-year YTD. Filtration Products sales decreased 12.1% due to a decrease in domestic sales volume. Piping Systems sales decreased 40.3% or \$30.7 million compared to the prior-year YTD due to lower volume in domestic oil and gas projects and due to lower volume in the Middle East.

GROSS PROFIT - Gross profit decreased to \$9.7 million from \$26.5 million in the prior-year YTD due to lower volume in Piping Systems.

EXPENSES - Operating expenses decreased to \$17.0 million YTD from \$19.0 million for the prior-year YTD due to lower management incentive compensation expense, partially offset by higher stock compensation expense and increased professional expenses. Operating expenses as a percent of net sales increased to 21.8% from 16.9%.

PRETAX INCOME (LOSS) FROM CONTINUING OPERATIONS - Pretax loss from continuing operations was \$7.4 million versus pretax income from continuing operations of \$7.2 million last year. The primary factor contributing to the 2015 results was lower volume in Piping Systems.

TAXES - The Company's worldwide effective income tax rate (“ETR”) from continuing operations was 4.9% and 21.4% for the six months ended July 31, 2015 and 2014, respectively. The change in the ETR for the two periods relates to the mix of income earned in zero rate jurisdictions.

NET (LOSS) INCOME - Net loss was \$7.0 million compared to net income of \$5.2 million in the prior-year's YTD.

PIPING SYSTEMS - YTD net sales decreased 40% to \$45.4 million from \$76.1 million in the prior-year YTD. The decrease was attributed to lower volume in the Middle East and in domestic oil and gas projects.

Gross margin decreased to 12% of net sales YTD from 28% of net sales in the prior-year YTD. Gross profit decreased due to the lower volume in sales.

Operating expense decreased to \$7.7 million from \$9.5 million in the prior-year YTD. Operating expenses as a percent of net sales increased to 17.0% from 12.5%. The dollar decrease was due to lower management incentive compensation expense due to lower earnings in the period.

FILTRATION PRODUCTS - YTD net sales decreased 12% to \$32.3 million from \$37 million in the prior-year YTD. Sales decreased due to a large domestic original equipment manufacturer order that was delayed to the third quarter. Gross profit decreased to \$4.2 million from \$5.2 million. The business continues to widen its geographic market coverage, expand its sales activities to increase revenue and improve its operating margin through expense controls.

YTD operating expenses decreased to \$5.4 million from \$5.8 million in the prior-year YTD. Decreased selling expense and lower professional costs contributed to the net decrease in expenses.

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 July 31, 2015 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 July 31,		Six Months Ended July 31,	
	2015	2014	2015	2014
Net sales	\$40,061	\$53,370	\$77,735	\$112,894
Cost of sales	34,401	42,825	68,034	86,360
Gross profit	5,660	10,545	9,701	26,534
Operating expenses				
General and administrative expenses	5,185	6,713	11,325	14,130
Selling expenses	2,950	2,037	5,651	4,900
Total operating expenses	8,135	8,750	16,976	19,030
(Loss) income from operations	(2,475)	1,795	(7,275)	7,504
(Loss) income from joint venture	(49)	219	116	211
Interest expense, net	252	263	246	500
(Loss) income from continuing operations before income taxes	(2,776)	1,751	(7,405)	7,215
Income tax (benefit) expense	(385)	276	(359)	1,542
(Loss) income from continuing operations	(2,391)	1,475	(7,046)	5,673
Loss from discontinued operations, net of tax	—	(111)	—	(482)
Net (loss) income	(\$2,391)	\$1,364	(\$7,046)	\$5,191
Weighted average common shares outstanding				
Basic	7,277	7,248	7,264	7,212
Diluted	7,277	7,386	7,264	7,350
(Loss) earnings per share from continuing operations				
Basic	(\$0.33)	\$0.20	(\$0.97)	\$0.79
Diluted	(\$0.33)	\$0.20	(\$0.97)	\$0.77
Loss per share from discontinued operations				
Basic and diluted	\$—	(\$0.02)	\$—	(\$0.07)
(Loss) earnings per share				
Basic	(\$0.33)	\$0.19	(\$0.97)	\$0.72
Diluted	(\$0.33)	\$0.18	(\$0.97)	\$0.71

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

MFRI, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands except per share data)

	July 31, 2015	January 31, 2015
ASSETS	Unaudited	
Current assets		
Cash and cash equivalents	\$10,008	\$10,508
Restricted cash	430	428
Trade accounts receivable, less allowance for doubtful accounts of \$301 at July 31, 2015 and \$110 at January 31, 2015	43,860	41,847
Inventories, net	34,952	29,770
Prepaid expenses and other current assets	3,132	4,349
Costs and estimated earnings in excess of billings on uncompleted contracts	2,200	700
Total current assets	94,582	87,602
Property, plant and equipment, net of accumulated depreciation	43,589	41,486
Other assets		
Note receivable from joint venture	2,051	3,931
Investment in joint venture	8,629	8,514
Cash surrender value on life insurance policies, net	3,320	3,256
Other assets	3,503	3,215
Assets held for sale long-term	472	534
Total other assets	17,975	19,450
Total assets	\$156,146	\$148,538
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	\$19,646	\$11,072
Accrued compensation and payroll taxes	12,525	5,551
Commissions and management incentives payable	3,378	5,734
Revolving line domestic	14,361	11,353
Current maturities of long-term debt	4,773	5,679
Customers' deposits	10,351	7,341
Billings in excess of costs and estimated earnings on uncompleted contracts	4,506	681
Other accrued liabilities	2,302	2,486
Deferred tax liabilities - current	166	165
Income taxes payable	551	1,688
Total current liabilities	72,559	51,750
Long-term liabilities		
Long-term debt, less current maturities	12,582	12,603
Deferred compensation liabilities	434	6,560
Deferred tax liabilities - long-term	315	309
Other long-term liabilities	3,749	3,793
Total long-term liabilities	17,080	23,265
Stockholders' equity		
Common stock, \$.01 par value, authorized 50,000 shares; 7,291 issued and outstanding at July 31, 2015 and 7,291 issued and outstanding at January 31, 2015	73	73
Additional paid-in capital	52,604	52,655
Treasury Stock 45 shares at July 31, 2015 and none at January 31, 2015	(290)	—
Retained earnings	18,280	25,324
Accumulated other comprehensive loss	(4,160)	(4,529)
Total stockholders' equity	66,507	73,523
Total liabilities and stockholders' equity	\$156,146	\$148,538

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

(In thousands)

Six Months Ended July
31,
2015 **2014**

Operating activities		
Net (loss) income	(\$7,046)	\$5,191
Adjustments to reconcile net (loss) income to net cash flows provided by (used in) operating activities		
Depreciation and amortization	2,903	2,899
Loss on disposal of discontinued operations	—	12
Deferred tax expense	31	669
Stock-based compensation benefit	(26)	(210)
Income from joint venture	(116)	(211)
Cash surrender value on life insurance policies	(65)	(104)
Gain on disposal of fixed assets	—	(3)
Provision on uncollectible accounts	192	17
Changes in operating assets and liabilities		
Accounts receivable	(2,352)	1,244
Inventories	(5,267)	1,303
Costs and estimated earnings in excess of billings on uncompleted contracts	2,325	(3,115)
Accounts payable	8,250	(5,049)
Accrued compensation and payroll taxes	4,642	(5,036)
Customers' deposits	3,007	(200)
Income taxes receivable and payable	(1,115)	(702)
Prepaid expenses and other current assets	1,178	151
Other assets and liabilities	(6,468)	380
Net cash provided by (used in) operating activities	<u>73</u>	<u>(2,764)</u>
Investing activities		
Capital expenditures	(4,997)	(2,354)
Payments on loan from joint venture	1,890	—
Proceeds from sales of property and equipment	—	3
Net cash used in investing activities	<u>(3,107)</u>	<u>(2,351)</u>
Financing activities		
Proceeds from revolving lines	48,585	35,262
Proceeds from debt	668	47
Proceeds from borrowing against life insurance policies	1,916	—
Payments of debt on revolving lines of credit	(45,546)	(28,375)
Payments of other debt	(1,109)	(1,479)
Payments of borrowing against life insurance policies	(1,916)	—
Increase in drafts payable	359	1,105
Payments on capitalized lease obligations	(434)	(290)
Payments for repurchase of common stock	(290)	—
Stock options exercised and restricted shares issued	(25)	329
Net cash provided by financing activities	<u>2,208</u>	<u>6,599</u>
Effect of exchange rate changes on cash and cash equivalents	<u>326</u>	<u>93</u>
Net (decrease) increase in cash and cash equivalents	<u>(500)</u>	<u>1,577</u>
Cash and cash equivalents - beginning of period	10,508	13,395
Cash and cash equivalents - end of period	<u>\$10,008</u>	<u>\$14,972</u>
Supplemental cash flow information		
Interest paid	\$564	\$730
Income taxes paid	846	2,366
Fixed assets acquired under capital leases	732	—
Funds held in escrow related to the sale of Thermal Care, Inc. assets	—	191