



COMPANY: MFRI, INC.
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MFRI ANNOUNCES 3Q15 RESULTS; EPS OF \$0.83

- *Net sales increase 51% over Q3 2014; up 66% over Q2 2015*
- *Continued execution on substantial backlog positions MFRI to deliver a positive full year*
- *New pleated filter facility in Middle East shipping products*

NILES, IL, December 8, 2015 -- MFRI, Inc. (NASDAQ: MFRI) announced today financial results for the fiscal quarter ended October 31, 2015.

CEO Bradley Mautner commented, "During the third quarter, we began delivering orders and generating income from the many significant wins secured by Perma-Pipe during the first half of the year. The piping contracts we have been executing include both large-scale infrastructure projects in the Middle East and significant mining and oil & gas projects in North America. The successful scale-up of our facilities and production processes for these projects enabled us to achieve a strong increase in net sales during the third quarter. Our pre-tax income of approximately \$7.6 million, the Company's highest in two years, fully offset the operating losses incurred in the first six months of the year, when we were rebuilding our backlog.

"As we continue to process backlog during the fourth quarter, we expect net sales and operating profit levels to deliver the positive fiscal 2015/16 results we mentioned in our September earnings announcement. We continue to actively quote in the Middle East and look forward to participating further in the multi-phase chilled-water projects that are essential to the region's long-term infrastructure development plans, although their timing is difficult to predict. The substantial decline in global oil prices that has taken place over the last 18 months is impacting project timing and new bidding activity worldwide, adding uncertainty to the size and timing of new business opportunities."

Mr. Mautner continued, "In MFRI's Filtration segment, third-quarter sales rose by 12% over the prior-year period. Our new pleated manufacturing facility in the Middle East has been well received and we are leveraging our reputation as an international high-quality supplier in the region. Two recent awards – a two-year contract valued at approximately \$1.5 million from a petroleum development corporation in the Middle East and a sizable order for a gas turbine project in Africa – illustrate the traction we are gaining in the region and the competitive structure we have obtained as a result of our Middle East operations. Even with the start-up expenses we have been incurring for this facility, Filtration reached essentially breakeven on an operating basis in the third quarter."

Mr. Mautner concluded, “We are pleased that our plans to offset the year’s slow start and reap the benefits of the strong backlog we announced in September 2015 are materializing as anticipated. As shown in the table below, the backlog entering the fourth quarter was 45% higher than at the same time last year, positioning us to end fiscal 2015/16 on a stronger note. Given the current uncertain economic climate, however, we continue to examine MFRI’s cost structures and business portfolio to adjust to changes in the Company’s business environment and bidding activity as needed.”

BACKLOG

	Oct. 31,	July 31,	Oct. 31,
Consolidated Backlog (\$ in thousands):	2015	2015	2014
Piping Systems	\$65,254	\$91,147	\$35,925
Filtration Products	11,059	13,938	16,575
Total	\$76,313	\$105,085	\$52,500

THIRD FISCAL QUARTER ENDED OCTOBER 31, 2015

SALES - Net sales increased 51% to \$66.3 million in the current quarter, from \$43.8 million in the prior-year quarter. Piping Systems sales increased 77% or \$20.4 million compared to the prior-year quarter due to higher domestic oil and gas projects and higher volume in Saudi Arabia and the United Arab Emirates (“U.A.E.”). Filtration Product sales increased 12% to \$19.4 million in the current quarter from \$17.3 million in the prior-year quarter due to increased domestic volume and sales from the newly established factory in the Middle East.

GROSS PROFIT - Gross profit increased to \$17.0 million in the current quarter from \$6.7 million in the prior-year quarter, mainly due to the sales volume increase in Piping Systems. The gross margin increased to 25.6% of net sales in the current quarter from 15.3% in the prior-year quarter.

EXPENSES - Operating expenses increased to \$9.6 million in the current quarter from \$8.0 million in the prior-year quarter due to higher management incentive compensation expense, increased professional service expenses and temporary staffing partially offset by a decrease in deferred compensation expense.

PRETAX INCOME - Pretax income from continuing operations was \$7.6 million in the current quarter versus a loss of \$0.6 million in the prior-year quarter. The primary factor contributing to the 2015 results was higher volume in Piping Systems.

NET INCOME - The current quarter net income was \$6.1 million compared to net loss of \$0.4 million in the prior-year quarter. The increase was due to higher sales volume and gross profit in Piping Systems and improved Filtration Products performance.

PIPING SYSTEMS - Net sales increased 77% to \$47.0 million in the current quarter from \$26.5 million in the prior-year quarter. The increase was due to higher global volume.

Gross margin increased to 30% of net sales in the current quarter from 17% of net sales in the prior-year quarter. Gross margin and gross profit increased due to higher volume. Operating expenses increased to \$4.6 million from \$3.5 million due to higher management incentive compensation expense and lower professional costs partially offset by higher selling expenses.

FILTRATION PRODUCTS - Net sales increased 12% to \$19.4 million in the current quarter from \$17.3 million in the prior-year quarter due to increased domestic volume and sales from the newly established factory in the Middle East. Gross profit increased to \$2.7 million from \$2.1 million. Gross

profit rose due to higher volume and by improved mix. Gross margin increased to 14% in the current quarter from 12% in the prior-year quarter due to customer mix and lower costs related to product development.

Operating expenses remained consistent with the prior-year period.

NINE MONTHS ENDED OCTOBER 31, 2015

SALES - Year to date net sales decreased 8.1% to \$144.1 million from \$156.7 million for the prior-year period. Filtration Products sales decreased 4.4% and were negatively impacted by foreign currency fluctuations of approximately \$2.0 million in addition to lower domestic filter bags sales volume. Piping Systems sales decreased 10.0% or \$10.3 million compared to the prior-year period due to lower volume in domestic oil and gas projects and lower volume in the Middle East.

GROSS PROFIT - Gross profit decreased to \$26.7 million from \$33.3 million in the prior-year period due to lower volume in Piping Systems.

EXPENSES - Operating expenses decreased to \$26.6 million year to date from \$27.0 million for the prior-year period 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 18.5% from 17.2%.

PRETAX INCOME - Pretax income from continuing operations was \$0.2 million versus \$6.6 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 from continuing operations was 713.2% and 23.6% for the nine months ended October 31, 2015 and 2014, respectively. The change in the ETR from the prior year to the current year is due to several factors. First, the domestic income is a year to date loss in 2015 while it was income in 2014, which increases the rate because the valuation allowance on the domestic deferred tax assets eliminates any tax benefit for the current period. Secondly, the favorable impact of the U.A.E. zero tax rate is diminished this year due to more of the total foreign income being earned elsewhere and taxed at a rate of 25%. The modest pre-tax profit realized year to date exaggerates the percentage impact of the Company's tax expense.

NET LOSS - Net loss was \$0.9 million compared to net income of \$4.8 million in the prior-year's period.

PIPING SYSTEMS - Year to date net sales decreased 10% to \$92.4 million from \$102.7 million in the prior-year period. The decrease was attributed to the timing of discrete projects in the Middle East and in domestic oil and gas projects.

Gross margin decreased to 21% of net sales year to date from 25% of net sales in the prior-year period. Gross profit decreased due to the lower volume in sales.

Operating expense decreased to \$12.3 million from \$13.0 million in the prior-year period. Operating expenses as a percent of net sales increased to 13.3% from 12.7%. The dollar decrease was due to lower management incentive compensation expense due to lower earnings in the period.

FILTRATION PRODUCTS - Year to date net sales decreased 4% to \$51.7 million from \$54 million in the prior-year period. Sales were negatively impacted by foreign currency fluctuations of approximately \$2.0 million in addition to lower domestic filter bags sales volume. Gross profit decreased to \$6.9 million

from \$7.3 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. Startup costs for the new production facility in the U.A.E. had offset some of the cost reductions elsewhere.

Year to date operating expenses decreased to \$8.2 million from \$8.6 million in the prior-year period. 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 October 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 October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Net sales				
Piping Systems	\$46,950	\$26,540	\$92,374	\$102,683
Filtration Products	19,366	17,279	51,677	54,030
Total	\$66,316	\$43,819	\$144,051	\$156,713
Gross profit				
Piping Systems	\$14,315	\$4,609	\$19,796	\$25,913
Filtration Products	2,656	2,112	6,876	7,342
Total	\$16,971	\$6,721	\$26,672	\$33,255
Income (loss) from operations				
Piping Systems	\$9,721	\$1,096	\$7,470	\$12,896
Filtration Products	(162)	(726)	(1,337)	(1,300)
Corporate	(2,199)	(1,606)	(6,048)	(5,328)
Total	\$7,360	(\$1,236)	\$85	\$6,268
Income from joint venture	408	903	524	1,114
Interest expense, net	211	293	457	793
Income (loss) from continuing operations before income taxes	\$7,557	\$(626)	\$152	\$6,589
Income tax expense	1,443	11	1,084	1,553
Income (loss) from continuing operations	\$6,114	\$(637)	\$(932)	\$5,036
Income (loss) from discontinued operations, net of tax	—	265	—	(217)
Net income (loss)	\$6,114	\$(372)	\$(932)	\$4,819
Weighted average common shares outstanding				
Basic	7,290	7,290	7,273	7,238
Diluted	7,367	7,290	7,273	7,337
Earnings (loss) per share from continuing operations				
Basic	\$0.84	(\$0.09)	(\$0.13)	\$0.70
Diluted	\$0.83	(\$0.09)	(\$0.13)	\$0.69
Earnings (loss) per share from discontinued operations				
Basic and diluted	—	\$0.04	—	(\$0.03)
Earnings (loss) per share				
Basic	\$0.84	(\$0.05)	(\$0.13)	\$0.67
Diluted	\$0.83	(\$0.05)	(\$0.13)	\$0.66

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

MFRI, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands)

	October 31, 2015	January 31, 2015
ASSETS	Unaudited	
Current assets		
Cash and cash equivalents	\$10,882	\$10,508
Restricted cash	433	428
Trade accounts receivable, net	58,967	41,847
Inventories, net	35,378	29,770
Prepaid expenses and other current assets	8,905	5,049
Total current assets	114,565	87,602
Property, plant and equipment, net of accumulated depreciation	39,954	41,486
Long-term assets		
Note receivable	2,036	3,931
Investment in joint venture	9,034	8,514
Other assets	7,185	7,005
Total long-term assets	18,255	19,450
Total assets	\$172,774	\$148,538
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	\$22,125	\$11,072
Accrued liabilities, compensation, incentives, and payroll taxes	19,104	13,770
Current maturities of long-term debt	35,049	17,033
Other current liabilities, including customer deposits	9,941	9,875
Total current liabilities	86,219	51,750
Long-term liabilities		
Long-term debt, less current maturities	8,930	12,603
Other long-term liabilities	4,982	10,662
Total long-term liabilities	13,912	23,265
Stockholders' equity		
Total stockholders' equity	72,643	73,523
Total liabilities and stockholders' equity	\$172,774	\$148,538

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

(In thousands)	Nine Months Ended	
	October 31	
	2015	2014
Operating activities		
Net (loss) income	(\$932)	\$4,819
Adjustments to reconcile net (loss) income to net cash flows (used in) provided by operating activities		
Depreciation and amortization	4,425	4,299
Loss on disposal of discontinued operations	—	283
Deferred tax expense	479	420
Other, net	88	(1,912)
Changes in operating assets and liabilities		
Accounts receivable	(17,820)	5,108
Costs and estimated earnings in excess of billings on uncompleted contracts	(589)	(2,598)
Accrued compensation and payroll taxes	5,686	(3,309)
Other assets and liabilities	(1,124)	(2,043)
Net cash (used in) provided by operating activities	<u>(9,787)</u>	<u>5,067</u>
Investing activities		
Capital expenditures, other investing activities	(5,971)	(4,200)
Payments on loan from joint venture	1,890	—
Net cash used in investing activities	<u>(4,081)</u>	<u>(4,200)</u>
Financing activities		
Proceeds from debt and cash surrender value	81,874	62,876
Payments of debt on revolving lines of credit, other	(67,451)	(63,685)
Payments for repurchase of common stock	(290)	—
Other financing	(137)	1,110
Net cash provided by financing activities	<u>13,996</u>	<u>301</u>
Effect of exchange rate changes on cash and cash equivalents	246	(147)
Net increase in cash and cash equivalents	374	1,021
Cash and cash equivalents - beginning of period	10,508	13,395
Cash and cash equivalents - end of period	<u>\$10,882</u>	<u>\$14,416</u>