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MFRI ANNOUNCES FIRST QUARTER FISCAL 2016/17 FINANCIAL RESULTS

- *Net sales rise 14% in the quarter, largely due to inclusion of revenue from new Canadian subsidiary*
- *Pretax loss of \$4.5 million includes \$0.6 million increase in Operating Expenses from expenses related to Canadian subsidiary, professional service fees for transactions and severance costs, and \$0.4 million margin reduction from prior-year quarter*
- *Net loss of \$6.3 million, or \$0.86 per diluted share, includes \$1.6 million non-cash expense for adjustment to carried value of 49% interest in BPPC*
- *Working to expand scope of piping offerings in North America and Middle East*

NILES, IL, June 10, 2016 -- MFRI, Inc. (NASDAQ: MFRI) announced today financial results for the first fiscal quarter ended April 30, 2016.

CEO Bradley Mautner commented, “During the quarter, we took further steps to complete the series of actions we initiated last fall to focus all of our strategic efforts on MFRI’s Piping business. The effects of these actions – which included acquiring full ownership of Bayou Perma-Pipe Canada (BPPC), selling the pleated element portions of our Filtration business, taking actions to exit the fabric filter portion, and adjusting our staff and infrastructure accordingly – impacted our financial results for the first quarter. However, they also positioned us to broaden the set of offerings we bring to the Piping market and to expand our activities in North America, an important target area for long-term growth opportunities.

“For the first quarter, we generated a 14% increase in sales from the prior-year quarter, driven by projects in Canada, the U.S. and India, offsetting a volume decline in the Middle East. In early February, we took over full operational ownership at BPPC, now known as Perma Pipe Canada, and have been pleased with the transition and efforts of the team to advance the business into new activities. Even though last year’s decline in oil prices, as well as the fires that took place in northwestern Alberta last month, have created substantial challenges in the energy markets, we have uncovered many new opportunities and believe that investing in the specialty piping space and diversifying that portfolio offer a compelling long-term strategy for MFRI, positioning us to leverage our deep engineering expertise and well-established brand.

“As part of exiting the Filtration business, we sold our Bolingbrook, Illinois facility in May and are in the process of winding down the fabric filter business. In another action to rationalize our organization, facilities and infrastructure, we recently sold our former headquarters building in Niles, Illinois and relocated our Perma Pipe and corporate staff into appropriately sized office space nearby.

“As we migrate to a Perma Pipe-centric business model, we have been reviewing all of the Company’s activities to increase our efficiency and effectiveness by reducing staff to match current and anticipated levels of demand. As part of that effort, our board of directors determined that resizing MFRI’s board will continue to provide excellent governance oversight in a cost-effective manner consistent with the scale of the business. As a result, five directors were nominated for election by the shareholders at this month’s annual meeting compared to the eight Board members currently serving the Company.”

Mr. Mautner continued, “The many actions we have undertaken to re-align our business focus did impact our financial results for the first quarter. Our loss from operations was flat from the prior-year quarter after excluding \$0.3 million in severance expenses and \$0.6 million in Canadian SG&A. In addition, we recognized a non-cash loss of \$1.6 million from the consolidation of our Canadian joint venture. Under GAAP, the carrying value of our 49% ownership in the Canadian joint venture was re-measured before our acquisition of the remaining 51% interest. The fair market assessment was driven by the favorable purchase price paid for the remaining 51% when compared to the carrying value of our original investment plus our portion of accumulated earnings in the business.”

Mr. Mautner concluded, “Our Piping business is project driven and sales are subject to wide variation year to year and even quarter to quarter. As of April 30, 2016, our backlog was \$47.9 million, on par with the backlog as of the end of fiscal 2015/16, but 28% lower than a year ago, reflecting the softness in market demand in North America and the Middle East. In an effort to offset those headwinds, we have expanded the scope of offering to our customers – for example, increasing our efforts in pipe spool fabrication for traditional and industrial use and applying newer specialty coatings for corrosion prevention. Overall, we believe that the list of available opportunities remains strong and when projects do proceed, we are better positioned today than ever to capitalize on those opportunities.”

BACKLOG

	April 30,	Jan. 31,	April 30,	April 30,
Backlog (\$ in thousands)	2016	2016	2015	2014
Piping Systems	\$47,851	\$47,937	\$66,388	\$44,716

DISCONTINUED OPERATIONS

The remaining domestic fabric filter business, which is included in discontinued operations, was operational and selling product as of April 30, 2016. The Company began winding down the business in May and is currently engaged in liquidating the assets of this business. This business is reported as discontinued operations in the consolidated financial statements and the notes to consolidated financial statements have been revised to conform to the current year reporting.

FIRST FISCAL QUARTER ENDED APRIL 30, 2016

SALES - Net sales increased 14% to \$23.1 million in the current quarter from \$20.3 million in the prior-year quarter. An increase of \$2.1 million occurred in the Company’s new Canadian subsidiary. The remaining increase was driven by large projects in the U.S. and India offsetting decreases in the Middle East.

GROSS PROFIT - Gross margin decreased to 9% of net sales in the current quarter from 12% of net sales in the prior-year quarter. Gross margin and gross profit decreased due to pricing pressure in the Middle East, an excess inventory reserve adjustment of \$0.2 million recorded in the current quarter, and operations of the newly acquired Canadian facility, which had relatively low utilization.

EXPENSES - Operating expenses increased to \$6.5 million in the current quarter from \$5.9 million in the prior-year quarter. The increase of \$0.6 million in the current quarter is related to the inclusion of SG&A expenses of the Company's newly consolidated Canadian subsidiary, severance costs from the reduction in corporate staffing levels and increased professional services in connection with transactions related to the realignment of the Company's portfolio and the rightsizing of its staff and facilities.

LOSS FROM OPERATIONS – Pretax loss from operations was \$4.5 million in the current quarter versus \$3.6 million in the prior-year quarter. The factors contributing to the increase in the fiscal 2016/17 quarter were reduced volume in North American oil and gas operations driven by lower oil prices, pricing pressure in the markets in which the Company is active, and uncertain market conditions in the Middle East, which delayed new projects that require our products, as well as the increase in operating expenses referred to above.

MFRI, Inc.

MFRI, Inc. is a global leader in pre-insulated piping and leak detection systems for oil and gas gathering, district heating and cooling, and other applications. It uses its extensive engineering and fabrication expertise to develop piping solutions that solve complex challenges regarding the safe and efficient transportation of many types of liquids. In total, MFRI has operations at seven locations in five 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 April 30, 2016 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 April 30,	
	2016	2015
Net sales	\$23,069	\$20,277
Cost of sales	21,077	17,922
Gross profit	1,992	2,355
Operating expenses:		
General and administrative expense	5,093	4,706
Selling expense	1,404	1,219
Total operating expenses	6,497	5,925
Loss from operations	(4,505)	(3,570)
Income from joint venture	—	165
Loss on consolidation of joint venture	(1,620)	—
Interest expense (income), net	226	(79)
Loss from continuing operations before income taxes	(6,351)	(3,326)
Income tax (benefit) expense	(257)	26
Loss from continuing operations	(6,094)	(3,352)
Loss from discontinued operations, net of tax	(200)	(1,303)
Net loss	(\$6,294)	(\$4,655)
Weighted average common shares outstanding		
Basic and diluted	7,351	7,252
Loss per share from continuing operations		
Basic and diluted	(\$0.83)	(\$0.46)
Loss per share from discontinued operations		
Basic and diluted	(\$0.03)	(\$0.18)
Loss per share		
Basic and diluted	(\$0.86)	(\$0.64)

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

MFRI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands except per share data)

	April 30, 2016	January 31, 2016
	Unaudited	
ASSETS		
Current assets		
Cash, cash equivalents	\$12,858	\$16,631
Restricted cash	944	2,324
Trade accounts receivable, net	28,297	36,090
Inventories, net	13,839	15,625
Assets of discontinued operations	14,871	15,733
Assets held for sale	2,992	3,062
Prepaid expenses and other current assets	5,636	7,583
Total current assets	79,437	97,048
Property, plant and equipment, net of accumulated depreciation	39,417	25,400
Long-term assets		
Goodwill	2,693	—
Note receivable	—	1,905
Investment in joint venture	—	9,112
Other assets	3,911	4,658
Total long-term assets	6,604	15,675
Total assets	\$125,458	\$138,123
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	\$6,943	\$11,026
Accrued liabilities, compensation, incentives, and payroll taxes	12,209	14,610
Current maturities of long-term debt	14,051	14,006
Liabilities for Discontinued operations	12,432	15,465
Liabilities held for sale	3,475	3,439
Other current liabilities, including customer deposits	7,680	8,170
Total current liabilities	56,790	66,716
Long-term liabilities		
Long-term debt, less current maturities	1,234	1,493
Other long-term liabilities	2,380	886
Total long-term liabilities	3,614	2,379
Stockholders' equity		
Total stockholders' equity	65,054	69,028
Total liabilities and stockholders' equity	\$125,458	\$138,123

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

(In thousands)

Three months ended April 30,

	2016	2015
Operating activities		
Net loss	(\$6,294)	(\$4,655)
Adjustments to reconcile net loss to net cash flows provided by (used in) operating activities		
Depreciation and amortization	1,448	1,423
Loss on consolidation of joint venture	1,620	—
Gains on disposal of subsidiaries	(867)	—
Cash surrender value on life insurance policies	1,765	(66)
Other, net	162	88
Changes in operating assets and liabilities		
Accounts receivable	12,228	3,500
Accrued compensation and payroll taxes	(2,536)	5,782
Other assets and liabilities	(474)	(6,914)
Net cash provided by (used in) operating activities	7,052	(842)
Investing activities		
Acquisition of interest in subsidiary, net of cash acquired	(4,672)	—
Capital expenditures	(796)	(2,034)
Receipts on loan from joint venture	—	331
Net cash used in investing activities	(5,468)	(1,703)
Financing activities		
Proceeds from debt	14,786	24,907
Payments of debt on revolving lines of credit, other	(20,417)	(23,191)
Other financing	(161)	643
Net cash (used in) provided by financing activities	(5,792)	2,359
Effect of exchange rate changes on cash and cash equivalents	435	396
Net (decrease) increase in cash and cash equivalents	(3,773)	210
Cash and cash equivalents - beginning of period	16,631	10,508
Cash and cash equivalents - end of period	\$12,858	\$10,718