



COMPANY **MFRI, INC.**
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MFRI ANNOUNCES THIRD QUARTER FISCAL 2016/17 FINANCIAL RESULTS

- *Net sales of \$25.3 million*
- *Loss from continuing operations of \$1.1 million*
- *Net loss from continuing operations of \$3.6 million, or \$0.47 per diluted share*
- *Processing of new pipeline project for Canadian energy company underway*

NILES, IL, December 13, 2016 -- MFRI, Inc. (NASDAQ: MFRI) announced today financial results for the third fiscal quarter ended October 31, 2016.

CEO David Mansfield commented, “MFRI’s third-quarter results were impacted by the ongoing soft energy market and reductions in capital allocations to infrastructure development in North America and the Middle East. As a consequence of the market contraction, there is overcapacity in the market and this has had a significant impact on both revenue and pricing. Revenue was down 46% as compared to last year’s period. During the quarter, the Company completed the wind down of its fabric filter business and continued to right size its cost and financing structures. General and administrative expenses decreased by more than \$2 million from the 2015 third quarter.

“With these significant steps accomplished, I believe the Company is now set to sharpen its focus on advancing our Perma-Pipe business and brand. While conditions in the global energy markets remain challenging – and will likely continue into 2017 – there are a number of areas where robust opportunities for new projects are emerging. I also believe we are well positioned to leverage Perma-Pipe’s reputation as an outstanding global provider of factory-insulated pipe systems and coatings in both the Company’s traditional geographic markets and in new ones.

“During the quarter, Perma Pipe Canada began processing the anti-corrosion coated and insulated pipeline project recently won from a major Canadian energy company, which consists of two lines totaling 180 miles (300 km) destined for eastern Alberta. We are running multiple shifts and as of October 31, 2016 had processed almost one-quarter of the total production. We expect to continue production through March 2017.

“Our backlog as of October 31 was almost \$53 million. The 27% increase from the end of 2Q FY 2016/17 reflects activity in Canada as well as improved bookings in the Middle East. Although it remains difficult to forecast timing in today’s uncertain environment, we are continuing to work expeditiously to secure new projects in both traditional and new areas of activity.”

	October 31,	July 31,	April 30,	Jan. 31,
Backlog (\$ in thousands)	2016	2016	2016	2016
Piping Systems	\$52,755	\$41,532	\$47,851	\$47,937

THIRD FISCAL QUARTER ENDED OCTOBER 31, 2016

SALES - Net sales decreased 46% to \$25.3 million in the current quarter from \$47.0 million in the prior-year quarter. Since the Company serves oil and gas customers, the low price of oil has had a dampening effect on infrastructure projects in the Gulf of Mexico, Canada and the Middle East. The continued shrinking of domestic federal and state infrastructure spending, combined with the general recession in the Gulf Cooperation Council region, have combined to weaken demand for district heating and cooling projects.

GROSS PROFIT - Gross margin decreased to 15% of net sales in the current quarter from 30% of net sales in the prior-year quarter due to lower volumes available to cover fixed costs and to increasing competitive pressures on pricing that adversely impacted intake margins.

EXPENSES – Operating expenses decreased to \$4.7 million from \$6.8 million due to staffing reductions and lower management incentive compensation. This reduction reflects the efforts to resize the organization during the current market downturn.

PRETAX LOSS FROM CONTINUING OPERATIONS – Pretax loss from continuing operations was \$1.1 million as compared to income of \$7.8 million in the prior-year quarter due to:

- competitive pricing pressure and weak infrastructure spending in district heating and cooling markets
- reduced volume in oil and gas operations resulting from low prices.

NET LOSS – Net loss was \$3.8 million as compared to net income of \$6.1 million in the prior-year quarter.

NINE MONTHS ENDED OCTOBER 31, 2016

SALES - For the reasons discussed above, net sales decreased 23% to \$71.2 million year-to-date from \$92.4 million in the prior-year-to-date.

GROSS PROFIT - Gross margin decreased to 12% of net sales year-to-date from 21% of net sales in the prior-year-to-date. The resulting lower production levels and absorption of manufacturing costs resulted in reduced operating profit margins.

EXPENSES - General and administrative expenses decreased \$2.6 million from \$14.4 million in the prior-year period to \$11.8 million due to staffing reductions and lower management incentive compensation expense. Selling expenses increased slightly to \$4.2 million from \$4.0 million due to the addition of the Canadian activity.

PRETAX LOSS FROM CONTINUING OPERATIONS - Pretax loss from continuing operations was \$9.4 million year to date versus income of \$1.7 million during the prior-year period of income due to:

- competitive pricing pressure and weak infrastructure spending in district heating and cooling markets

- reduced volume in oil and gas operations resulting from low oil prices
- a non-cash loss of \$1.6 million from the consolidation of the joint venture
- a one-time \$0.8 million lawsuit settlement
- \$0.3 million in severance costs
- increased professional services associated with the changes in the Company's business structure to concentrate on a single line of business.

TAXES - The Company's effective tax rate ("ETR") from continuing operations for the year to date was a negative 11.4% compared to 51.7% during the prior-year period. The October 31, 2016 computation of the projected annual tax rate has been significantly impacted by an increase in the projected loss for the year, especially an increase in the loss attributable to the U.A.E., which receives no tax benefit due to a zero tax rate in that country. Other changes in the ETR from the prior year-to-date to the current year-to-date are due to the Canadian acquisition and the allocation of tax expense between continuing operations, other comprehensive income and discontinued operations when applying intra-period allocation rules.

DISCONTINUED OPERATIONS - The Company began winding down the last of its filter businesses in May 2016 and substantially completed that process in October 2016, when it sold its filter production site in Winchester, Virginia. This business is reported as discontinued operations in the consolidated financial statements and the notes thereto.

NET LOSS – Net loss was \$9.6 million compared to \$0.9 million in the prior-year period.

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 October 31, 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 October 31,		Nine Months Ended October 31,	
	2016	2015	2016	2015
Net sales	\$25,302	\$46,950	\$71,230	\$92,374
Cost of sales	21,605	32,635	62,561	72,578
Gross profit	3,697	14,315	8,669	19,796
Operating expenses:				
General and administrative expense	3,352	5,491	11,815	14,424
Selling expense	1,382	1,303	4,236	3,951
Total operating expenses	4,734	6,794	16,051	18,375
(Loss) income from operations	(1,037)	7,521	(7,382)	1,421
Income from joint venture	—	408	—	524
Loss on consolidation of joint venture	—	—	(1,620)	—
Interest expense, net	112	127	435	210
(Loss) income from continuing operations before income taxes	(1,149)	7,802	(9,437)	1,735
Income tax expense	2,411	1,344	1,077	897
(Loss) income from continuing operations	(3,560)	6,458	(10,514)	838
(Loss) income from discontinued operations, net of tax	(203)	(344)	906	(1,770)
Net (loss) income	(\$3,763)	\$6,114	(\$9,608)	(\$932)
Weighted average common shares outstanding				
Basic	7,541	7,290	7,457	7,273
Diluted	7,541	7,367	7,457	7,273
(Loss) earnings per share from continuing operations				
Basic	(\$0.47)	\$0.89	(\$1.41)	\$0.12
Diluted	(\$0.47)	\$0.88	(\$1.41)	\$0.12
(Loss) earnings per share from discontinued operations				
Basic and diluted	(\$0.03)	(\$0.05)	\$0.12	(\$0.24)
(Loss) earnings per share				
Basic	(\$0.50)	\$0.84	(\$1.29)	(\$0.13)
Diluted	(\$0.50)	\$0.83	(\$1.29)	(\$0.13)

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

MFRI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

<i>(In thousands)</i>	October 31, 2016	January 31, 2016
ASSETS	Unaudited	
Current assets		
Cash, cash equivalents	\$9,008	\$16,631
Restricted cash	946	2,324
Trade accounts receivable, net	30,347	36,090
Inventories, net	14,305	15,625
Assets of discontinued operations	46	14,241
Assets held for sale	—	3,062
Prepaid expenses and other current assets	6,752	7,909
Total current assets	61,404	95,882
Property, plant and equipment, net of accumulated depreciation	36,465	25,400
Other assets		
Goodwill	2,476	—
Note receivable from joint venture	—	1,905
Investment in joint venture	—	9,112
Other assets	4,912	5,824
Total other assets	7,388	16,841
Total assets	\$105,257	\$138,123
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	\$7,548	\$11,026
Accrued liabilities, compensation, incentives, and payroll taxes	8,212	14,610
Current maturities of long-term debt	6,906	14,006
Liabilities for discontinued operations	644	12,836
Liabilities held for sale	—	3,439
Other current liabilities, including customer deposits	9,044	8,170
Total current liabilities	32,354	64,087
Long-term liabilities		
Long-term debt, less current maturities	7,164	1,493
Other long-term liabilities	5,310	3,515
Total long-term liabilities	12,474	5,008
Stockholders' equity		
Total stockholders' equity	60,429	69,028
Total liabilities and stockholders' equity	\$105,257	\$138,123

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

<i>(In thousands)</i>	Nine months ended	
	October 31,	
	2016	2015
Operating activities		
Net loss	(\$9,608)	(\$932)
Adjustments to reconcile net loss to net cash flows used in operating activities		
Depreciation and amortization	4,258	4,425
Loss on consolidation of joint venture	1,620	—
Gains on disposal of subsidiaries	(186)	—
Cash surrender value on life insurance policies	(136)	(2)
Other, net	299	569
Changes in operating assets and liabilities		
Accounts receivable	14,860	(17,820)
Accrued compensation and payroll taxes	(9,047)	5,686
Other assets and liabilities	(6,860)	(1,713)
Net cash used in operating activities	(4,800)	(9,787)
Investing activities		
Proceeds from sales of property and equipment	13,962	—
Proceeds from surrender of corporate-owned life insurance policies	1,894	—
Acquisition of interest in subsidiary, net of cash acquired	(4,672)	—
Capital expenditures	(1,544)	(5,971)
Receipts on loan from joint venture	—	1,890
Net cash provided by (used in) investing activities	9,640	(4,081)
Financing activities		
Proceeds from debt borrowings	38,956	81,874
Payments of debt on revolving lines of credit, other	(51,313)	(67,451)
Other financing	179	(427)
Net cash (used in) provided by financing activities	(12,178)	13,996
Effect of exchange rate changes on cash and cash equivalents	(285)	246
Net (decrease) increase in cash and cash equivalents	(7,623)	374
Cash and cash equivalents - beginning of period	16,631	10,508
Cash and cash equivalents - end of period	\$9,008	\$10,882