

MFRI REPORTS RECORD FIRST QUARTER NET SALES OF \$46.9 MILLION-AN INCREASE OF 30% COMPARED WITH PRIOR YEAR'S QUARTER AND RECORD BACKLOG.

NILES, IL, June 14, 2006 -- MFRI, Inc. (NASDAQ NM: MFRI), a leading manufacturer of custom-designed industrial filtration products, specialty piping systems and industrial process cooling equipment, announced improved sales, gross profits, operating profits and pre-tax profits for the first quarter ended April 30, 2006, but an unfavorable net income comparison primarily because the start-up expenses for its new plant, Perma-Pipe Middle East, FZE, ("PPME"), in the United Arab Emirates ("UAE") are not deductible when calculating Income Taxes. When the operations of this new plant become profitable there will be essentially no income tax on those earnings, potentially offsetting this near-term unfavorable impact.

Net sales for the first quarter of 2006 were up in all segments to a record \$46,932,000, 30% more than the \$36,202,000 reported for the prior year's quarter. The large increase was primarily due to increases in the oil and gas business and improved conditions in the plastic molding and printing markets. Gross margin was 20.9%, down from the prior year's 21.7%, but gross profits were a record \$9,805,000 up 24.6% from the prior year's \$7,867,000. Income before taxes was \$659,000 or 1.4% of sales up 109.9% from the prior year's \$314,000 or 0.9% of sales. The non-deductible start-up expenses for the PPME plant included in the quarter were \$380,000. Excluding these expenses, the income before taxes was \$1,039,000 or 2.2% of sales, up 230.9% from the prior year's \$314,000. Net income was \$151,000 or \$0.03 per share (\$0.03 diluted EPS) versus a \$218,000 or \$0.04 per share (\$0.04 diluted EPS) in the prior year's first quarter. The unusual 77% tax rate was caused by the non-deductibility of the PPME plant start-up costs and in the first quarter 2006, an expense of \$106,000 was incurred relating to prior years' state taxes. By comparison, last years first quarter income taxes were 31% of pre-tax income.

As of the end of this first quarter PPME had substantially completed the preparation of its factory and manufacturing of its first orders was underway. PPME will manufacture specialty pre-insulated piping systems for energy related projects in Dubai, other parts of the UAE, and other markets in the region. It is anticipated that this new plant will be fully operational later in 2006.

"Even though our ongoing investment in bringing the PPME facility up to full operation dampens near term earnings, we are very excited about the future contributions this initiative will bring. Also, we are very pleased with our new bookings and sales during the first quarter. Our total backlog at the end of the first quarter was over \$73 million compared with about \$40 million at the end of last year's first quarter and all three of our principal business segments showed substantial increases in sales and gross profits." David Unger, CEO said. "We believe that the robust backlog in all of our principal business segments coupled with the many opportunities we see before us bode well for upcoming quarters," Unger added.

Form 10-Q for this first quarter of 2006 will be filed today and will be accessible at <http://www.sec.gov/>. The Company welcomes all inquiries at (847) 966-1000. For more information, visit the Company's web site www.mfri.com.

Statements and other information contained in this announcement which can be identified by the use of forward-looking terminology such as "anticipate," "may," "will," "expect," "continue," "remain," "intend," "aim," "should," "prospects," "could," "future," "potential," believes," "plans," "likely," and "probable," or the negative thereof or other variations thereon or comparable 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. 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, 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, INC. AND SUBSIDIARIES**Condensed Statements of Operations and Related Data***(In 000's except per share data)*

| | Three Months Ended April 30, | |
|--|---------------------------------|------------------|
| | 2006 | 2005 |
| Operating Statement Information | | |
| Net Sales: | | |
| Filtration Products | \$ 18,565 | \$ 17,037 |
| Piping Systems | 14,246 | 11,306 |
| Industrial Process Cooling Equipment | 11,636 | 7,859 |
| Corporate and Other | 2,485 | 0 |
| Totals | <u>\$ 46,932</u> | <u>\$ 36,202</u> |
| Gross Profit: | | |
| Filtration Products | \$ 3,302 | \$ 3,129 |
| Piping Systems | 2,906 | 2,424 |
| Industrial Process Cooling Equipment | 3,517 | ,2314 |
| Corporate and Other | 80 | 0 |
| Totals | <u>\$ 9,805</u> | <u>\$ 7,867</u> |
| Income from Operations: | | |
| Filtration Products | \$ 682 | \$ 835 |
| Piping Systems | 1,092 | 1,038 |
| Industrial Process Cooling Equipment | 904 | 367 |
| Corporate and Other | (1,546) | (1,636) |
| Income from Operations | <u>\$ 1,132</u> | <u>\$ 604</u> |
| Income before income taxes:: | | |
| Filtration Products | \$ 682 | \$ 835 |
| Piping Systems | 1,175 | 1,134 |
| Industrial Process Cooling Equipment | 904 | 367 |
| Corporate and Other | (2,102) | (2,022) |
| Income before income taxes: | <u>659</u> | <u>314</u> |
| Net income | <u>\$ 151</u> | <u>\$ 218</u> |
| Weighted average number of common shares outstanding - basic | 5,281 | 5,234 |
| Earnings per share - basic net income | \$ 0.03 | \$ 0.04 |
| Weighted average number of common shares outstanding - diluted | 5,662 | 5,623 |
| Earnings per share - diluted net income | \$ 0.03 | \$ 0.04 |

In thousands

| <i>Backlog:</i> | <u>4/30/06</u> | <u>4/30/05</u> | <u>1/31/06</u> |
|--------------------------------------|------------------|------------------|------------------|
| Filtration Products | \$ 27,660 | \$ 14,674 | \$ 20,426 |
| Piping Systems | 38,800 | 19,904 | 19,869 |
| Industrial Process Cooling Equipment | 6,976 | 5,808 | 9,306 |
| Totals | <u>\$ 73,436</u> | <u>\$ 40,386</u> | <u>\$ 49,601</u> |