



**MFRI REPORTS NET SALES EVEN WITH PRIOR YEAR'S QUARTER AT \$39.4 MILLION;  
NET INCOME DOWN PRIMARILY DUE TO UNUSUAL AND NON-RECURRING EXPENSES.**

NILES, IL, December 14, 2005 -- MFRI, Inc. (NASDAQ NM: MFRI), a leading manufacturer of custom-designed industrial filtration products, specialty piping systems and industrial process cooling equipment, announced improved gross profits and gross margin for the third quarter and the nine months ended October 31, 2005, but unfavorable net income comparisons primarily due to SOX404 related spending and other expenses of an unusual and non-recurring nature. For the nine months ended October 31, 2005, net sales were up by \$6.4 million or 5.8%. The backlog increased by \$2.3 million or 5.6% to \$43.6 million versus October 31, 2004.

**Third Quarter 2005 Results**

Net sales were \$39,384,000, 0.8% less than the \$39,708,000 reported for the prior year's third quarter. Gross margin increased to 23.5% from 23.1%. Net income was \$857,000 or \$0.16 per share (\$0.15 diluted EPS) versus a \$1,614,000 or \$0.33 per share (\$0.30 diluted EPS) in the prior year's third quarter.

Sales were even despite the fact that Hurricane Rita caused the shutdown of the New Iberia, LA Piping Systems plant for much of October and November, delaying some production to the fourth quarter. Total Company gross profits were up due to higher margins. The \$889,000 increase in total operating expenses included startup costs of \$292,000 relating to the Piping Systems Business's new factory in the United Arab Emirates ("UAE"), SOX404 compliance related spending of \$250,000, Hurricane Rita required repairs of \$143,000 in New Iberia, and \$126,000 of consulting expenses to implement production planning systems.

In September 2005, the Company announced that its Piping Systems Business had established a new subsidiary, Perma-Pipe Middle East, FZE, ("PPME"), in the UAE. The company 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 the new plant will be operational in February 2006.

**Year-to-Date 2005 Results**

Net sales of \$116,277,000 for the nine months ended October 31, 2005 increased 5.8% from \$109,904,000 for the comparable period in 2004. Sales increased in each division due to a better economic environment. Total gross margin increased to 22.7% from 21.9% in the prior year. Net income was lower than the prior year at \$1,862,000 or \$0.35 per share (\$0.33 diluted EPS) versus a \$2,653,000 or \$0.54 per share (\$0.52 diluted EPS). The \$3,370,000 increase in total operating expenses included \$1,096,000 of additional sales costs somewhat related to higher volume, SOX404 compliance related spending of \$99,000, startup costs of \$385,000 related to the Piping Systems Business's new factory in UAE, consulting expense of \$271,000 to implement production planning systems, and Hurricane Rita required repairs of \$143,000 in New Iberia.

"We are very pleased with our sales year-to-date. We believe that the level of backlog in all of our business segments and the many opportunities we see before us bode well for upcoming quarters. The major incremental expenditures of over \$809,000 in nine months towards compliance with the SEC mandated SOX404 provisions, have surely taken a toll on our Company in both dollars and management time." David Unger, CEO said. "The SEC had given some relief on the timing of SOX404 compliance requirements for smaller companies such as ours, and MFRI plans to sharply decrease its SOX404-related expenses during the balance of this year." Unger added.

Form 10-Q for the third quarter of 2005 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](http://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 (Unaudited)**

(In 000's except per share data)

	Three Months Ended		Nine Months Ended	
	October 31,		October 31,	
	2005	2004	2005	2004
<b>Operating Statement Information</b>				
Net sales				
Filtration Products	\$ 15,832	\$ 14,067	\$ 47,789	\$ 45,733
Piping Systems	13,704	18,544	42,738	42,531
Industrial Process Cooling Equipment	9,848	7,097	25,750	21,640
Total	\$ 39,384	\$ 39,708	\$ 116,277	\$ 109,904
Gross Profit				
Filtration Products	\$ 3,276	\$ 3,238	\$ 9,778	\$ 9,363
Piping Systems	3,114	3,773	9,307	8,406
Industrial Process Cooling Equipment	2,873	2,153	7,362	6,253
Total	\$ 9,263	\$ 9,164	\$ 26,447	\$ 24,022
Income from Operations:				
Filtration Products	\$ 858	\$ 1,060	\$ 2,718	\$ 2,830
Piping Systems	1,580	2,417	4,821	4,644
Industrial Process Cooling Equipment	672	452	1,241	1,238
General Corporate Expenses	(1,417)	(1,446)	(4,893)	(3,880)
Income from Operations	\$ 1,693	\$ 2,483	\$ 3,887	\$ 4,832
Net income	\$ 857	\$ 1,614	\$ 1,862	\$ 2,653
Weighted average common shares outstanding basic	5,262	4,961	5,249	4,935
Earnings per share basic	\$ 0.16	\$ 0.33	\$ 0.35	\$ 0.54
Weighted average common shares outstanding diluted	5,596	5,304	5,602	5,109
Earnings per share diluted	\$ 0.15	\$ 0.30	\$ 0.33	\$ 0.52
<i>Backlog</i>	<u>10/31/05</u>	<u>1/31/05</u>	<u>10/31/04</u>	
Filtration Products	\$ 17,459	\$ 17,518	\$ 17,589	
Piping Systems	18,916	18,125	19,439	
Industrial Process Cooling Equipment	7,177	5,321	4,201	
Total	\$ 43,552	\$ 40,964	\$ 41,229	