



Press Release

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**MFRI REPORTS RECORD SALES UP 15.4% AND EARNINGS UP 0.6% FOR THE FIRST HALF YEAR COMPARED TO LAST YEAR. RECORD SALES FOR THE SECOND QUARTER UP 10.1% AND EARNINGS DOWN 37.6% COMPARED TO THE PRIOR-YEAR'S QUARTER. RECORD BACKLOG AT JULY 31, 2007 WAS \$131.3 MILLION UP 72.0% OVER JULY 31, 2006.**

**NILES, IL, September 10, 2007 -- MFRI, Inc. (NASDAQ NM: MFRI), a leading manufacturer of pre-insulated piping systems for oil and gas gathering, district heating and cooling and other specialty applications; custom-designed industrial filtration products to remove particulates from dry gas streams, and thermal transfer equipment to remove heat from molding, printing and other industrial processes; announced record sales and slight increase in earnings for the six months ended July 31, 2007. Compared with the first half of the prior year, net sales were up \$15.4 million or 15.4% to \$115.9 million and net income was up 0.6% to \$2.5 million. Net sales for the second quarter 2007, compared to 2006, were up \$5.4 million or 10.1% to \$58.9 million. Second quarter net income for 2007 was down \$0.9 million or 37.6% to \$1.4 million, when compared to second quarter 2006.**

For the six months ended July 31, 2007, net sales of \$115,898,000 were up 15.4% from \$100,474,000 for the comparable period in 2006. Sales increased 27.2% in the Filtration Products segment, increased 25.9% in the Piping Systems business segment and decreased 12.8% in the Industrial Process Cooling business segment. Gross margin for the first half of 2007 decreased to 19.9% of sales from 22.2% for the prior-year's first half. The gross margin decrease in the Filtration Products business segment was primarily due to the highly competitive marketplace, increasing cost of raw materials and customer mix. The gross margin decrease in the Industrial Process Cooling business segment was primarily due to additional post sale customer support costs and an increasing original equipment manufacturer customer sales mix. Net income for the first half of 2007 was \$2,481,000, up 0.6% from the first six months of the prior year. This amounted to \$0.38 per share for 6,574,000 weighted average shares outstanding (\$0.37 diluted for 6,791,000 shares) versus \$2,465,000 or \$0.47 per share for 5,294,000 weighted average shares then outstanding (\$0.43 diluted for 5,667,000 shares) in the prior-year's first half.

Net sales for the second quarter 2007 were \$58,944,000, 10.1% greater than the \$53,542,000 reported for the prior-year's quarter. Sales for the quarter compared to the prior-year's second quarter increased 12.0% in the Filtration Products business segment, increased 14.6% the Piping Systems business segment and decreased 5.7% in the Industrial Process Cooling business segment. Gross margin for the second quarter 2007 decreased to 20.8% of sales from 23.4% for the prior-year's quarter. The gross margin decrease in the Filtration Products business segment was primarily due to the highly competitive marketplace, increasing cost of raw materials and customer mix. The gross margin decrease in the Industrial Process Cooling business segment was primarily due to additional post sale customer support costs and an increasing original equipment manufacturer customer sales mix. Net income for the second quarter was \$1,443,000 or \$0.22 per share for 6,611,000 weighted average shares outstanding (\$0.21 diluted for 6,836,000 shares) versus a \$2,314,000 or \$0.44 weighted average shares per share for 5,306,000 weighted average shares then outstanding (\$0.41 diluted for 5,710,000 shares) in the prior-year's second quarter.

Due to the seasonality of the Company's Piping Systems business, revenues are typically higher during the late spring, summer and early fall months (second and third quarters), because of favorable weather for construction over much of North America.

The record backlog at July 31, 2007 of \$131,251,000 was \$54.9 million higher or 72.0% when compared to the \$76,317,000 level at July 31, 2006. The Piping Systems business segment showed a substantial year-over-year backlog increase of 81.4% to a level of \$62,704,000 which was due to increases for the domestic district heating and cooling activity, oil and gas gathering and the new United Arab Emirates plant. Filtration Products backlog was essentially level with the end of the prior-year's quarter at \$33,032,000. The Industrial Process Cooling Equipment backlog was down 18.2% to \$6,793,000.

The new subsidiary, Midwesco Mechanical and Energy, Inc. reported in Corporate and Other, had a backlog on July 31, 2007 of \$28,722,000 compared with \$8,350,000 at its inception in December 2006.

David Unger, CEO said, "While we are somewhat concerned about the decline in margins during this past quarter and half year, we are very pleased with the level of backlog in all of our business segments. We believe the rapid build up in the activity at our new United Arab Emirates plant and our new activity from Midwesco Mechanical and Energy, Inc. should contribute to our increasing profitability in the coming quarters. The growing opportunities we encounter keep us all excited about our future..." Unger continued, "We believe the increasingly global character of our business, and our active programs for global sourcing of raw materials, should bring us increasing benefits in future periods."

Form 10-Q for the second quarter of 2007 will be filed tomorrow and 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 July 31,		Six Months Ended July 31,	
	2007	2006	2007	2006
<b>Operating Statement Information</b>				
Net sales				
Filtration Products	\$ 20,873	\$ 18,640	\$ 47,310	\$ 37,205
Piping Systems	28,203	24,617	48,943	38,863
Industrial Process Cooling Equipment	9,355	9,917	18,797	21,553
Corporate and Other	513	368	848	2,853
Total	\$ 58,944	\$ 53,542	\$ 115,898	\$ 100,474
Gross profit (loss)				
Filtration Products	\$ 3,576	\$ 3,791	\$ 7,719	\$ 7,093
Piping Systems	6,386	5,676	10,854	8,582
Industrial Process Cooling Equipment	2,320	3,043	4,527	6,560
Corporate and Other	(5)	11	(31)	91
Total	\$ 12,277	\$ 12,521	\$ 23,069	\$ 22,326
Income (loss) from operations:				
Filtration Products	\$ 856	\$ 988	\$ 2,163	\$ 1,670
Piping Systems	4,319	3,658	6,853	4,750
Industrial Process Cooling Equipment	(53)	644	(458)	1,548
Corporate and Other	(2,650)	(1,676)	(4,206)	(3,222)
Total	\$ 2,472	\$ 3,614	\$ 4,352	\$ 4,746
Net income	\$ 1,443	\$ 2,314	\$ 2,481	\$ 2,465
Weighted average common shares outstanding basic	6,611	5,306	6,574	5,294
Earnings per share basic	\$ 0.22	\$ 0.44	\$ 0.38	\$ 0.47
Weighted average common shares outstanding diluted	6,836	5,710	6,791	5,667
Earnings per share diluted	\$ 0.21	\$ 0.41	\$ 0.37	\$ 0.43
Backlog	<u>7/31/07</u>	<u>1/31/07</u>	<u>7/31/06</u>	
Filtration Products	\$ 33,032	\$ 36,603	\$ 33,438	
Piping Systems	62,704	46,385	34,576	
Industrial Process Cooling Equipment	6,793	6,805	8,303	
Corporate and Other	28,722	8,350	0	
Total	\$ <u>131,251</u>	\$ <u>98,143</u>	\$ <u>76,317</u>	