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Press Release

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MFRI REPORTS RECORD SALES FOR 2007 THIRD QUARTER AND FIRST NINE MONTHS. NET SALES UP 10% OVER PRIOR-YEAR'S FIRST NINE MONTHS. EARNINGS WERE DOWN FOR THE QUARTER AND THE YEAR-TO-DATE

NILES, IL, December 17, 2007 -- MFRI, Inc. (the "Company") announced record sales for the nine months ended October 31, 2007. For the third quarter of 2007, Company net sales were \$65,086,000, 1.4% greater than the \$64,182,000 for the prior-year's third quarter; net sales for the Piping Systems business increased by 2.6%, the Filtration Products business increased by 1.8%, while the Industrial Process Cooling business decreased by 5.7%. Net income for the third quarter 2007 was \$1,215,000 or \$0.18 per share (\$0.18 diluted based on 6,880,000 fully diluted shares outstanding) versus \$2,720,000 or \$0.51 per share (\$0.48 diluted based on 5,677,000 fully diluted shares outstanding) in the prior-year's third quarter.

For the nine months ended October 31, 2007, Company net sales were also a new record at \$180,984,000, up 9.9% from \$164,656,000 for the comparable period in 2006; net sales for the Filtration Products business increased by 17.0%, the Piping Systems business increased by 16.0%, while the Industrial Process Cooling Equipment business decreased by 10.5%. Net sales increased due to the better economic environment, a higher starting backlog and the implementation of a more global strategy. Net income for the first nine months of 2007 was \$3,696,000 or \$0.56 per share (\$0.54 diluted based on 6,832,000 fully diluted shares outstanding) versus \$5,185,000 or \$0.97 per share (\$0.93 diluted based on 5,571,000 fully diluted shares outstanding) in the prior-year's first nine months.

Net income for the third quarter and the nine months was sharply down primarily due to the following factors:

- At the Piping Systems Segment's New Iberia, Louisiana plant, half the quarter was devoted to an attempt to develop a new product for a major customer application. While progress was made, the effort is not yet successful. In the middle of October 2007 we resumed work on customer orders.
- A manufacturing error occurred at our Filtration Products Segment's recently acquired factory in South Africa necessitating the replacement and rework of a sizeable customer order.
- The Company's Industrial Process Cooling Segment has incurred increased expenses relating to unanticipated development and field modification costs for certain refrigeration equipment previously sold to its customers. This work continues into the fourth quarter as well.
- Because of the above factors and other occurrences, the gross margin for the third quarter declined from 22% in the last year's quarter to 17% in the current year's quarter. For the nine months the decline was from 22% in 2006 to 19% in the current nine month period.
- Incremental expenses of \$446,000 were incurred to comply with Sarbanes-Oxley 404 (including consulting fees) for the first nine months of 2007 that were not incurred in 2006.
- Offsetting some of the issues described above is an unusually low tax rate for 2007. The year-to-date estimated income taxes were \$215,000 or 5.5% of income before taxes rather than the 34% statutory income tax rate. The large decrease in the estimated effective tax rate was due to the favorable income tax effect of the estimated tax-free earnings from the United Arab Emirates which were higher than previously projected further impacted by a decrease in estimated taxable

earnings. In addition, the anticipated utilization of the research tax credits, which did not have as large an impact in the prior year due to continued operating loss carry-forwards that have now been fully utilized. Income taxes for the quarter were negative, to adjust the year-to-date amount to the estimated annual effective 5.5% rate.

The backlog at October 31, 2007 was \$130.8 million an increase of \$54.7 million or 72.0% when compared to the end of the prior-year's third quarter. The Piping Systems business segment showed a substantial year-over-year backlog increase of 82.8% to a level of \$55,526,000 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 at \$36,652,000 was down 5.0% from the prior-year's quarter. The Industrial Process Cooling Equipment backlog was down 24.4% to \$5,353,000. The new subsidiary, Midwesco Mechanical and Energy, Inc., included in Corporate and Other, had a backlog at October 31, 2007 of \$33,253,000 compared with \$8,350,000 at its inception in December 2006.

David Unger, CEO said, "While we are concerned about the decline in margins during this past quarter and nine months, we are very pleased with the level of backlog and we believe than many of the issues causing the margin decline are behind us. 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 should bring us increasing benefits in future periods."

Due to the seasonality of the Company's Piping Systems business, sales and earnings are typically higher during the late spring, summer and early fall months (second and third quarters), due to favorable weather for construction over much of North America and correspondingly lower during the late fall, winter and early spring months (fourth and first quarters).

About MFRI

MFRI is 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. Form 10-Q for the third quarter of 2007 will be filed today and will then 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 (Unaudited)

(In 000's except per share data)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2007	2006	2007	2006
Operating Statement Information				
Net sales				
Filtration Products	\$ 25,421	\$ 24,970	\$ 72,731	\$ 62,175
Piping Systems	29,584	28,823	78,528	67,686
Industrial Process Cooling Equipment	9,665	10,251	28,462	31,804
Corporate and Other	416	138	1,263	2,991
Total	<u>65,086</u>	<u>64,182</u>	<u>180,984</u>	<u>164,656</u>
Gross Profit				
Filtration Products	3,033	5,297	10,752	12,390
Piping Systems	5,614	6,474	16,469	15,056
Industrial Process Cooling Equipment	2,557	2,590	7,085	9,150
Corporate and Other	(4)	6	(37)	97
Total	<u>11,200</u>	<u>14,367</u>	<u>34,269</u>	<u>36,693</u>
Income from Operations:				
Filtration Products	10	2,557	2,173	4,227
Piping Systems	3,398	4,687	10,251	9,437
Industrial Process Cooling Equipment	69	109	(388)	1,657
Corporate and Other	(2,167)	(2,058)	(6,374)	(5,280)
Income from Operations	<u>1,310</u>	<u>5,295</u>	<u>5,662</u>	<u>10,041</u>
Income from joint venture	(27)	149	0	432
Interest expense – net	664	729	1,751	1,906
Income before income taxes	<u>619</u>	<u>4,715</u>	<u>3,911</u>	<u>8,567</u>
Income tax expense (benefit)	(594)	1,995	215	3,382
Net income	\$ <u>1,215</u>	\$ <u>2,720</u>	\$ <u>3,696</u>	\$ <u>5,185</u>
Weighted average common shares outstanding basic	6,652	5,381	6,600	5,323
Earnings per share basic	\$ 0.18	\$ 0.51	\$ 0.56	\$ 0.97
Weighted average common shares outstanding diluted	6,680	5,677	6,832	5,571
Earnings per share diluted	\$ 0.18	\$ 0.48	\$ 0.54	\$ 0.93
Backlog	<u>10/31/07</u>	<u>1/31/07</u>	<u>10/31/06</u>	
Piping Systems	\$ 55,526	\$ 46,385	\$ 30,376	
Filtration Products	36,652	36,603	38,588	
Corporate and Other	33,253	8,350	0	
Industrial Process Cooling Equipment	5,353	6,805	7,083	
Total	\$ <u>130,784</u>	\$ <u>98,143</u>	\$ <u>76,047</u>	