



7720 North Lehigh Avenue  
Niles, Illinois 60714-3491

Phone (847) 966-1000

Fax (847) 966-8563

**For Immediate Release**

**Press Release**

**COMPANY: MFRI, INC. (NASDAQ NM: MFRI)**  
**CONTACT: David Unger, Chairman and CEO**  
**(847) 966-1000**

**MFRI REPORTS RECORD SALES OF \$239 MILLION FOR YEAR ENDED 1/31/08, UP 12% COMPARED TO PRIOR YEAR. FOURTH QUARTER LOSS CREATED SMALL FULL YEAR LOSS. 2008 BEGINS WITH RECORD BACKLOG OF \$143 MILLION, UP 46% FROM THE PRIOR-YEAR'S LEVEL.**

**NILES, IL, April 30, 2008 -- MFRI, Inc., is a multi-line company with interests in: pre-insulated specialty 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; thermal transfer equipment to remove heat from molding, printing and other industrial processes and installation of heating, ventilation and air conditioning ("HVAC") for large buildings, with a focus on energy efficient design.**

For the year ended January 31, 2008 ("2007"), net sales were \$239,487,000, up 12.2% from \$213,471,000 in the prior year. Net loss for the year ended January 31, 2008 was \$298,000, or \$0.04 per share basic and diluted, versus net income of \$4,593,000 or \$0.86 per share basic and \$0.82 diluted for the prior year. Gross margin for 2007 declined to 17.2% from 20.8% in 2006. Because of factors outlined below and other occurrences, 2007 gross profit of \$41,249,000 was 7.1% lower than 2006 gross profit of \$44,405,000.

Net sales in 2007 for the Piping Systems business increased by 26.9%, the Filtration Products business increased by 12.5%, while the Industrial Process Cooling Equipment business decreased by 11.7%. The HVAC business, included in corporate and other, was a start-up operation in 2007.

Net sales for the fourth quarter of 2007 were \$58,503,000, 19.8% greater than the \$48,815,000 for the prior-year's quarter. The net loss for the fourth quarter of 2007 was \$3,762,000 or \$0.56 per share basic and diluted, versus a net loss of \$592,000 or \$0.12 per share basic and diluted in the prior-year's fourth quarter.

Sales for the fourth quarter of 2007 compared to the prior-year's fourth quarter increased by 77.8% in the Piping Systems business, remained level in the Filtration Products business and decreased by 15.9% in the Industrial Process Cooling business.

Net income for 2007 was sharply down primarily due to the following factors:

**Piping Systems:**

- During the fourth quarter 2007, the Perma-Pipe Middle East location ("PPME") in the United Arab Emirates received a customer contract change to a very large pipeline project which reduced the project scope as well as net sales. This, along with significant unplanned costs to finish product, significantly reduced net income at PPME. Also, overhead additions were made in marketing, sales and operations to bolster the skills and resources of this rapidly growing unit.
- At the New Iberia, Louisiana facility, half the third quarter was devoted to research and development of a new product for a major customer application. While progress was made, the effort was not successful and work on production of other customer orders resumed.
- Margin erosion occurred due to higher prices for raw materials, specifically steel and plastic resins, which could not be passed along to customers under existing orders.

#### Filtration Products:

- The recently acquired plant in South Africa had a manufacturing error which necessitated the replacement of sizeable customer orders.
- High factory labor and warranty costs along with software implementation expenses at the European pleated filter operation adversely affected results.
- Ongoing market pricing pressure in the United States and increasing raw materials prices worldwide also reduced margin in both pleated and bag products.

#### Industrial Process Cooling:

- The Industrial Process Cooling business incurred increased expenses related to unanticipated development and field modification costs for certain refrigeration equipment previously sold to its customers. The product was temporarily removed from the market which reduced sales. Product enhancements made in Q3 and Q4, although costly to the Company, were successful and led to reintroduction of the product to the market.
- Significant expenditures were made and continue to be made in new product design and development as well as engineering staff recruitment.
- Gross profit was reduced primarily due to material cost increases which were not completely offset by selling price increases.

#### New or increased 2007 expenses:

- Additional expenses and consulting fees totaling \$929,000 to comply with Sarbanes-Oxley Section 404 requirements, with certification of compliance with these regulations achieved as of January 31, 2008.
- Start-up expenses of \$664,000 for the newly created HVAC subsidiary.
- Incremental vacation expense of \$422,000 to adjust the accrual for vacation pay.
- Additional stock compensation expense of \$366,000.
- Increase of \$726,000 or 32.5% from the prior year in consolidated warranty expense, mainly due to the reasons previously detailed by business segment.

Due to the seasonal nature of the Piping Systems' domestic district heating and cooling business, sales and earnings are typically lower during the late fall, winter and early spring (fourth and first quarters), due to unfavorable weather for construction over much of North America and are correspondingly higher during the late spring, summer and early fall months (second and third quarters).

The backlog on January 31, 2008 increased by \$45.3 million or 46.2% to \$143.5 million when compared to the backlog on January 31, 2007. The new HVAC subsidiary, Piping Systems and Filtration Products business segments showed substantial year-over-year backlog increases; the new HVAC subsidiary was up 297.4% to \$33.2 million, Piping Systems was up 41.9% to \$65.8 million, including a major order as described below and Filtration Products backlog was up 4.3% to \$38.2 million. The backlog of the Industrial Process Cooling Equipment segment decreased by 7.2% to \$6.3 million.

As previously announced, MFRI's Perma-Pipe business received an order to perform the insulating and jacketing services for a 600 kilometer (370 mile) long, 600 millimeter (24 inch) diameter heat traced heavy crude oil pipeline. The pre-insulation services will be performed at a new Perma-Pipe facility now under construction in Mundra, India on the premises of Jindal Saw Ltd. Jindal, one of India's largest steel pipe producers, will manufacture and fabricate the pipe for the project. The company expects to begin production of this order in June 2008 and finish in early 2009.

David Unger, CEO said, "Our expansion strategy led to strong sales and backlog growth. In 2007, 30% of the Company's sales were to customers outside of the United States, up from only 18% in 2006, and sales have approximately doubled since 2003. However, the poor fourth quarter results are not satisfactory or in line with our expectations. Many changes have been made and are continuing so that the Company should be in a position to return to more historic margins and acceptable profitability. Even though we expect pressure from soft U.S. and European economies, operating margin improvement is a high priority. Our increased order backlog, \$45,000,000 higher than a year ago, should result in continued strong sales growth."

Form 10-K for the year ended January 31, 2008 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**  
(In 000’s except per share data)

	Three Months Ended January 31,		Year Ended January 31,	
	2008	2007	2008	2007
<b>Operating Statement Information</b>				
Net sales:				
Piping Systems	\$ 25,746	\$ 14,480	\$ 104,273	\$ 82,166
Filtration Products	24,389	24,187	97,120	86,362
Industrial Process Cooling Equipment	7,865	9,357	36,327	41,161
Corporate and Other	503	791	1,767	3,782
Totals	<u>\$ 58,503</u>	<u>\$ 48,815</u>	<u>\$ 239,487</u>	<u>\$ 213,471</u>
Gross profit:				
Piping Systems	\$ 2,484	\$ 1,724	\$ 18,952	\$ 16,780
Filtration Products	3,024	3,840	13,776	16,230
Industrial Process Cooling Equipment	1,424	2,124	8,508	11,274
Corporate and Other	48	24	13	121
Totals	<u>\$ 6,980</u>	<u>\$ 7,712</u>	<u>\$ 41,249</u>	<u>\$ 44,405</u>
Income (loss) from operations:				
Piping Systems	\$ 372	\$ 131	\$ 10,623	\$ 9,568
Filtration Products	47	1,047	2,220	5,274
Industrial Process Cooling Equipment	(838)	(435)	(1,227)	1,222
Corporate and Other	(2,347)	(1,842)	(8,720)	(7,122)
Totals	<u>\$ (2,766)</u>	<u>\$ (1,099)</u>	<u>\$ 2,896</u>	<u>\$ 8,942</u>
Income from joint venture	23	59	23	491
Interest expense – net	657	770	2,408	2,676
Income (loss) before income taxes	(3,400)	(1,810)	511	6,757
Income tax expense (benefit)	362	(1,218)	809	2,164
Net income (loss)	<u>\$ (3,762)</u>	<u>\$ (592)</u>	<u>\$ (298)</u>	<u>\$ 4,593</u>
Weighted average number of common shares outstanding - basic	6,707	5,464	6,627	5,358
Earnings per share - basic net income (loss)	\$ (0.56)	\$ (0.12)	\$ (0.04)	\$ 0.86
Weighted average number of common shares outstanding - diluted	6,707	5,464	6,627	5,600
Earnings per share - diluted net income (loss)	\$ (0.56)	\$ (0.12)	\$ (0.04)	\$ 0.82
Backlog (In thousands):	1/31/08	10/31/07	1/31/07	
Piping Systems	\$ 65,810	\$ 55,526	\$ 46,385	
Filtration Products	38,161	36,652	36,603	
Corporate and Other	33,179	33,253	8,350	
Industrial Process Cooling Equipment	6,315	5,353	6,805	
Totals	<u>\$ 143,465</u>	<u>\$ 130,784</u>	<u>\$ 98,143</u>	