

**MFRI REPORTS RECORD SALES AND EARNINGS FOR THE SECOND QUARTER AND THE FIRST HALF OF 2006. NET SALES WERE UP 31.6% OVER THE SECOND QUARTER OF THE PRIOR YEAR TO \$54 MILLION. NET INCOME PER OUTSTANDING SHARE WAS UP 267% TO \$0.44 COMPARED TO \$0.12 FOR THE PRIOR YEAR'S QUARTER.**

**MFRI, Inc. (NASDAQ NM: MFRI), a leading manufacturer of factory 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 earnings for the second quarter and six months ended July 31, 2006. Compared with the first six months of the prior year net sales were up by \$23.6 million or 30.7% and net income was up by 194.5%.**

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), due to favorable weather for construction over much of North America.

Net sales for the second quarter were \$53,542,000, 31.6% greater than the \$40,691,000 reported for the prior-year's quarter. Gross margin increased to 23.5% of sales from 22.3%. Net income for the second quarter was \$2,314,000 or \$0.44 per share (\$0.41 diluted) versus a \$619,000 or \$0.12 per share (\$0.11 diluted) in the prior year's second quarter. Sales for the quarter compared to the prior year's second quarter increased substantially in all business segments: the Piping Systems business increased by 38.9%, the Industrial Process Cooling business increased by 23.3%, and the Filtration Products business increased by 24.9%. For the quarter, operating profits were up 171.2% to \$3,653,000 due to increased volumes and margins.

For the six months ended July 31, 2006 the net sales of \$100,474,000 were up 30.7% from \$76,893,000 for the comparable period in 2005. Sales increased in each business segment due to the better economic environment and the implementation of a more global strategy. The Piping Systems business increased by 33.9%, the Industrial Process Cooling Equipment business increased by 35.5%, and the Filtration Products business increased by 16.4%. Gross margin increased to 22.3% from 22.0% for the first six months. Net income for the first half was \$2,465,000 up 194.5% from the first six months of the prior year or \$0.47 per share (\$0.43 diluted EPS) versus \$837,000 or \$0.16 per share (\$0.15 per diluted share) in the prior year's first half.

The backlog on July 31, 2006 was higher by \$35.7 million or 87.9% to \$76 million when compared to the end of the prior-year's second quarter. All three business segments showed substantial year over year backlog increases; Filtration Products backlog was up 130.5% to \$33.4 million. Piping Systems was up 78.8% to \$34.6 million and Industrial Process Cooling Equipment was up 22.6% to \$8.3 million.

David Unger, CEO said, "We are very pleased with our performance for this second quarter and the 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 the balance of 2006." Unger continued, "The increasingly global character of our business, our new plants in the United Arab Emirates and South Africa, 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 2006 will be filed today 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)

<b>Operating Statement Information</b>	Three Months Ended July 31,		Six Months Ended July 31,	
	2006	2005	2006	2005
Net sales				
Filtration Products	\$ 18,640	\$ 14,921	\$ 37,205	\$ 31,958
Piping Systems	24,617	17,727	38,863	29,033
Industrial Process Cooling Equipment	9,917	8,043	21,553	15,902
Corporate and Other	368		2,853	
Total	<u>\$ 53,542</u>	<u>\$ 40,691</u>	<u>\$ 100,474</u>	<u>\$ 76,893</u>
Gross Profit				
Filtration Products	\$ 3,791	\$ 3,130	\$ 7,093	\$ 6,259
Piping Systems	5,676	3,769	8,582	6,193
Industrial Process Cooling Equipment	3,043	2,175	6,560	4,489
Corporate and Other	11		91	
Total	<u>\$ 12,521</u>	<u>\$ 9,074</u>	<u>\$ 22,326</u>	<u>\$ 16,941</u>
Income (expense) from Operations:				
Filtration Products	\$ 988	\$ 782	\$ 1,670	\$ 1,617
Piping Systems	3,658	2,203	4,750	3,241
Industrial Process Cooling Equipment	644	202	1,548	569
Corporate and Other	(1,676)	(1,840)	(3,222)	(3,476)
Income from Operations	<u>\$ 3,614</u>	<u>\$ 1,347</u>	<u>\$ 4,746</u>	<u>\$ 1,951</u>
Net income	<u>\$ 2,314</u>	<u>\$ 619</u>	<u>\$ 2,465</u>	<u>\$ 837</u>
Weighted average common shares outstanding basic	5,306	5,252	5,294	5,243
Earnings per share basic	<u>\$ 0.44</u>	<u>\$ 0.12</u>	<u>\$ 0.47</u>	<u>\$ 0.16</u>
Weighted average common shares outstanding diluted	5,710	5,606	5,667	5,613
Earnings per share diluted	<u>\$ 0.41</u>	<u>\$ 0.11</u>	<u>\$ 0.43</u>	<u>\$ 0.15</u>
<i>Backlog</i>	<u>7/31/06</u>	<u>1/31/06</u>	<u>7/31/05</u>	
Filtration Products	\$ 33,438	\$ 20,426	\$ 14,508	
Piping Systems	34,576	19,869	19,334	
Industrial Process Cooling Equipment	8,303	9,306	6,774	
Total	<u>\$ 76,317</u>	<u>\$ 49,601</u>	<u>\$ 40,616</u>	