

Business Description

MFRI, Inc. and its subsidiaries manufacture and sell industrial air filtration products, piping systems, and industrial process cooling equipment. The air filtration division's products include filter elements for dust baghouses, cartridge collectors, and related parts and services. The piping systems division prefabricates piping for the district cooling, district heating, and oil and gas industries. The industrial process cooling equipment segment manufactures liquid chillers, cooling towers, and mold temperature controllers.

Stock Data

Price	\$22.80
52Wk High	\$26.71
52Wk Low	\$9.08
3mo. Daily Volume	31,200
Market Capitalization	\$150 Mil.
Shares Outstanding	6.5 Mil.
Inside Ownership	19%
Dividend Yield	N/A
Book Value	\$8.73
Net Debt-to-Total Capital	27%
EV-to-EBITDA - '07E	9.1
EV-to-Sales - '07E	0.66

Financial Data

EPS	FY-05	FY-06	FY-07E	FY-08E
Q1-Apr	\$0.04	\$0.03	\$0.11	
Q2-July	\$0.11	\$0.41	\$0.51	
Q3-Oct	\$0.14	\$0.48	\$0.66	
Q4-Jan	(\$0.19)	(\$0.10)	(\$0.03)	
FY	\$0.10	\$0.82	\$1.25	\$1.85
P/E			18.2	12.3
Revenue	\$154	\$213	\$259	\$313
% Chg		38.1%	21.2%	21.0%
Cash	\$1	\$1	\$1	\$1
Assets	\$89	\$121	\$135	\$150
Debt	\$31	\$38	\$20	\$20
Equity	\$32	\$39	\$65	\$75

Note: Figures in \$millions except per share data

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MFRI INC.
NASDAQ: MFRI
DATE: May 30, 2007
PRICE: \$22.80
RATING: Strong Buy
PRICE TARGET: \$32.00

Global Expansion of Company's Piping Systems Business has created Several New Opportunities in Oil Drilling and Gas Production in the Middle East, and District Cooling in United Arab Emirates.

Repatriated Oil Profits Spurring Massive Infrastructure Development in MFRI's End Markets in the Middle East.

New EPA Restrictions Lowering Particulate Emissions Tolerance from 65 Micrograms to 35 Micrograms per CBM Should Generate Mini-Business Cycle for Air Filtration Products.

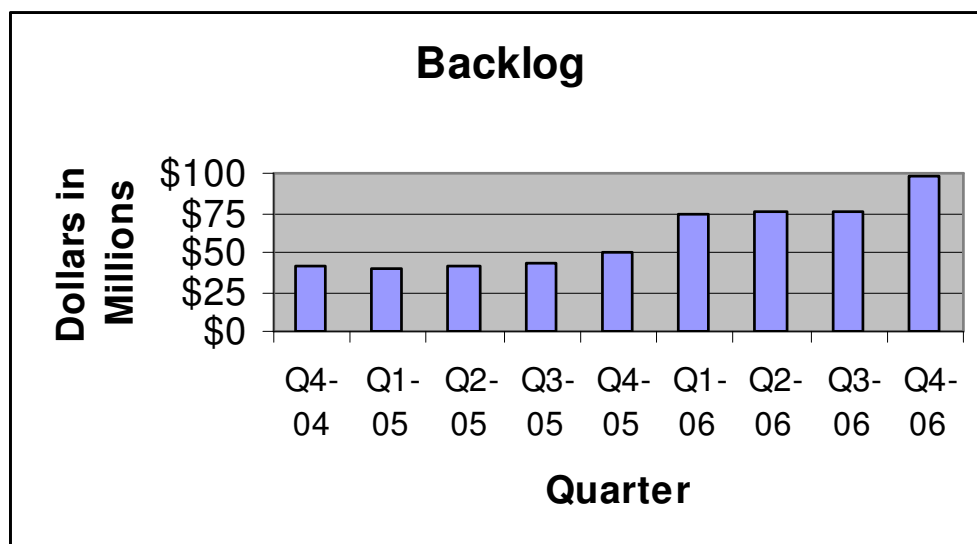
Total Backlog Up 98% from Prior Year.

We Expect 20% Sales and 50% EPS Growth Annually over Next Two Years. Using a 17x P/E or 10x Enterprise Value to EBITDA, both which are Slight Discounts to the Peer Group, on our Calendar 2008E Results in a \$32 Price Target. With Over 40% Upside, We Initiate Coverage with a Strong Buy Rating.



Investment Thesis

We expect MFRI will generate 20% revenue and 50% EPS growth over the next two years. We are most optimistic about the company's Piping Systems segment. This business is likely to grow at a 40% rate for the foreseeable future, becoming the company's largest segment. Historically, approximately 75% of this segment's revenue has been driven by district heating and cooling systems in the U.S., which is a fairly mature market and should experience only modest growth going forward. However, over the last year, MFRI has entered two new markets that should add significantly to growth and profitability going forward. The company's new Perma-Pipe ME subsidiary is well-positioned to capitalize on the significant growth in natural gas production and district cooling networks in the United Arab Emirates. Additionally, the company's focus on deep water oil drilling in the U.S. and abroad has begun to generate significant incremental growth. As a result, the Piping Systems segment has been a significant contributor to the recent growth in MFRI's backlog. The tables below show total backlog over the last two years and the approximate revenue breakout by end market in the Piping Systems segment. Albeit not as strong as the Piping Systems business, the Filtration Products division should also generate solid growth going forward. We expect Filtration Products will grow at approximately 10% over the next couple of years driven by demand from the mini-mill steel industry. This end-market continues to show signs of sustained growth. The transition to electric arc furnaces appears to be an enduring trend as recycled scrap steel production continues to grow. Additionally, we believe recent EPA regulations restricting particulate matter emissions and the new subsidiary in South Africa will also enhance sales. The slowest growth segment will likely be the Process Cooling business but should still generate growth in-line with the broader worldwide industrial economy of approximately 5%.



Estimated Piping Systems Revenue Breakdown

(in millions)	FY 05	FY 06	% Chg.	FY 07E	% Chg.	FY 08E	% Chg.
U.S. District Heating & Cooling	\$52	\$60	15%	\$65	8%	\$70	8%
Perma-Pipe Middle East	\$0	\$4	NA	\$17	325%	\$42	147%
U.S. Oil and Gas	\$3	\$18	500%	\$28	56%	\$42	50%
	<u>\$55</u>	<u>\$82</u>	<u>49%</u>	<u>\$110</u>	<u>34%</u>	<u>\$154</u>	<u>40%</u>

In our modeling, we have maintained gross margins within historical ranges with the expectation that the Piping Systems segment will experience slight margin expansion and the other two businesses slight margin erosion. With 20% sales growth, MFRI should also benefit from economies of scale. As a result, we expect operating margins will improve from the 4.2% level in 2006 to 5.5% in 2007 and 6.3% in 2008. Additionally, interest expense should decline by about 50% as the funds from the recent public offering will be used to pay down long-term debt. The tax rate is expected to decline slightly going forward as more income is generated in the United Arab Emirates where there is no income tax. The projected diluted share count is expected to be 6.8 million, which includes the recent 1 million share offering. Additionally, free cash flow should improve going forward as capital expenditures associated with the Perma-Pipe ME startup should abate going forward.

Valuation

Our 20% sales and 50% EPS growth assumption over the next couple years results in our 2008 EBITDA estimate of \$25 million and our EPS estimate of \$1.85. Combining our 2008 EBITDA and EPS estimates with an Enterprise Value to EBITDA multiple of 10x and a P/E of 17x, both which represent slight discounts to the median peer group multiples, results in a \$32 price target over the next 12 months. With over 40% upside from current levels, we initiate coverage of MFRI with a Strong Buy rating.

Piping Systems Business Poised for Sustainable Long-term Growth

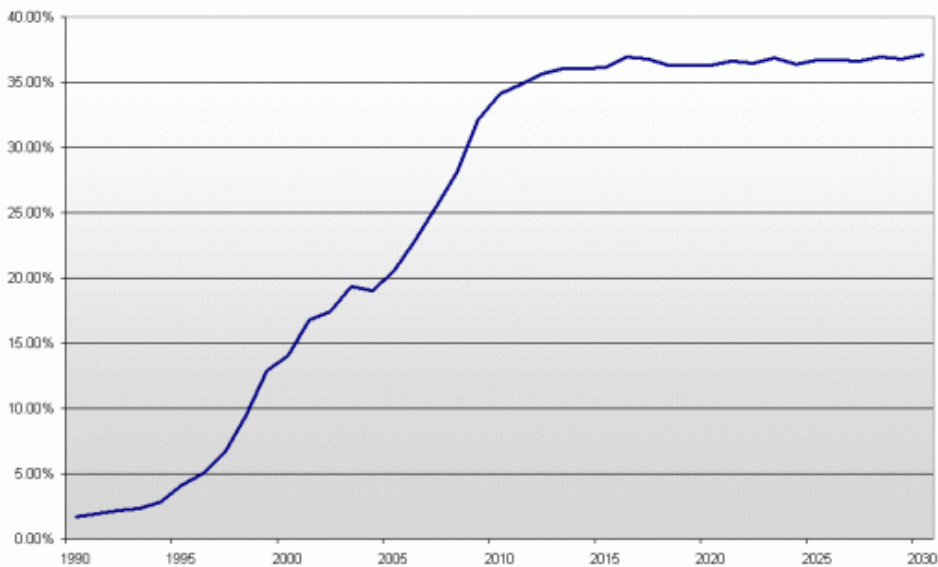
The company has strategically positioned its piping systems business to capitalize upon global market growth. The company's piping systems segment manufactures and fabricates piping systems for the oil, gas, chemical, district heating, and district cooling industries in the U.S. and abroad. Most notably, the company established a subsidiary, Perma-Pipe Middle East (PPME) in the Emirate of Fujairah, U.A.E. in September of 2005.



Source: lonelyplanet.com

The piping systems segment is linked to several key emerging markets. “Deepwater” oil drilling, defined as drilling beyond 1,000 feet, has accelerated recently due to increased oil profits, better technology, and consensus opinion that traditional depths offer fewer opportunities for new reserves. It is estimated that approximately 50¹ new ocean jack-up oil rigs are either being built or scheduled to be built over the next three years. The Chevron Corporation, for example, is presently engaged in developing a deepwater field 190 miles off the Louisiana coast with per day barrel estimates of 100,000. Though costly and risk-laden, deepwater drilling is expected to rise steadily as a percentage of overall production as the graph on the next page indicates. Some experts maintain that the break-even point for deepwater drilling is approximately \$60/barrel.

US Deepwater Production as a % of Total



[Source: Energy Information Administration](#)

For the oil industry, MFRI insulates, jackets, and fabricates tubing and piping to meet customer specifications. The pipes return the oil to the surface platform. The double insulation piping needs to withstand water temperatures (32 to 35 degrees F)² and pressures (5,000 psi) associated with deepwater drilling. More importantly, the pipe must be well insulated to prevent heat loss from the crude oil. If the crude oil dips to temperatures below 155 degrees F, paraffin deposits will form which will obstruct flow and result in costly down-time. The company maintains that it is the only supplier of piping systems which also manufactures leak detection and location systems. The company’s “heat tracing” piping systems utilize an electrically heated cable which runs within the containment of the pipe to compensate for heat loss and maintain uniform temperature throughout the long runs of pipe.

The forecast for new and planned oil and gas pipelines for 2007 is 98,232³ miles, compared to 81,593 miles for 2006, a 20% increase. Of the 98,232 miles, approximately 40,210 miles involve North American projects while the remainder involves international projects.

¹ Energy.seekingalpha.com, Sept 5, 2006

² Journal of Thermophysics and Heat Transfer, January-March 2007, Vol. 21

³ Pipeline and Gas Journal, January 2007

The company's piping products also have applications within the natural gas sector and the company's recently opened subsidiary (Perma-Pipe ME) in the UAE is strategically located to capitalize on natural gas production in adjacent regions. Natural gas production in the Middle East and Africa was 448 bcm in 2005. This is projected to increase to 744⁴ bcm by 2010, equating to roughly a 15% compounded annual growth rate. Qatar, where Perma-Pipe ME has booked its first major pipeline contract, is expected to boost natural gas production by 42%⁵ in 2007. Additionally, Abu Dhabi of the UAE is predicting that its gas production will increase 33% from 46.6⁶ bcm to 62 bcm by 2008.

The table below lists the top twenty rankings of natural gas reserves in the world. The shaded countries represent market opportunities readily accessible from the company's new operations in the UAE.

Rank	Country	Proved reserves (trillion cu ft)
1	Russia	1,680
2	Iran	971
3	Qatar	911
4	Saudi Arabia	241
5	United Arab Emirates	214
6	United States	193
7	Nigeria	185
8	Algeria	161
9	Venezuela	151
10	Iraq	112
11	Indonesia	98
12	Norway	84
13	Malaysia	75
14	Turkmenistan	71
15	Uzbekistan	66
16	Kazakhstan	65
17	Netherlands	62
18	Egypt	59
19	Canada	57
20	Kuwait	56
Top 20 countries		5,510
Rest of world		602
World total		6,112

Source: Oil and Gas Journal, Vol. 103, Dec. 2005

⁴ Business Monitor International, Oct 2006

⁵ Jordan Times, Jan 9, 2007

⁶ Business Monitor International, Sept 2006

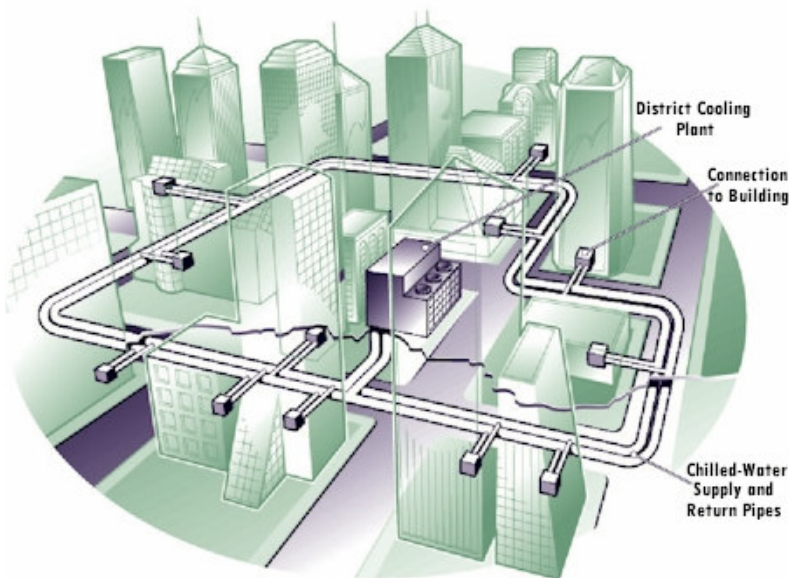
United Arab Emirates Market Presents Significant Growth Opportunity

Independent of the UAE piping systems revenue, approximately 75% of the company's piping revenue is derived from district heating and cooling systems, while the remainder involves natural gas and oil. We believe the UAE subsidiary, Perma-Pipe, is just about breaking even as its first major sale was in October 06 and start-up costs are still being absorbed from its March 06 opening.

The United Arab Emirates, particularly Dubai, is experiencing rapid economic growth, buoyed by real estate and infrastructure development. The repatriation of capital after 9/11 into the region coupled with pro-business government reforms have contributed to the growth. Although not specifically quantifiable, significant levels of oil-related money fled U.S. capital markets after 9/11 in search of more stable markets. The Gulf stock markets grew four-fold in capitalization between 2002 and July 2005 to \$830 billion⁷. Improved marginal product of capital (MPK) returns in the Middle East region are also contributing to investment decisions. The Gulf region's private wealth was estimated at \$1 trillion in 2003 by the Merrill Lynch/Cap Gemini World Wealth Report. The report projects that this wealth will increase to \$1.5 trillion by 2007. As of 2004, it was estimated that there were 300,000 high net worth individuals with more than \$1 million⁸ in liquid assets in the Gulf. Additionally, Global Insight forecasts GDP growth in the UAE of 6% for 2007. The UAE is embarked on a course to diversify its previously oil-centric economy by developing alternative industries.

District Cooling Capacity in UAE to Double by 2010

The process of district cooling is gaining wider acceptance in the Middle East. The diagram below depicts the centralized system which distributes chilled water from a centralized source through an arterial network of piping.



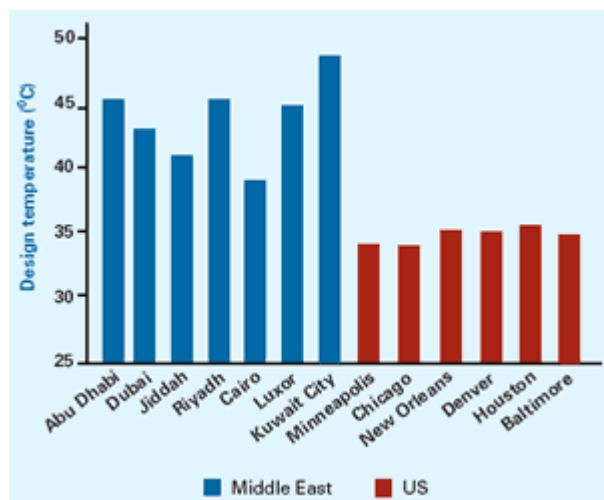
Source: FrederiksenConsulting, fredcon.com

⁷ www.newagebd.com, Aug, 2005

⁸ MENAFN(Middle East North Africa Financial Network).com, 6/15/04

District cooling systems are predicated upon coordinated real estate development to ensure there is a sufficient customer base to constitute a network of receivers. Such coordinated development was lacking previously in the Middle East region, so prior air conditioning needs were typically met via small, individual units. District cooling is more energy efficient and enables real estate owners to save valuable leasing space by obviating the need for cooling units at multiple locations. The application of district cooling dates back to 1889 and the Colorado Automatic Refrigerator Company⁹ and was utilized in several landmark projects beginning in the 1930's in the U.S and accelerated in the 1960's. It is particularly common at the University level in the U.S.

The pervasive heat conditions of the Middle East afford significant demand for cooling solutions. Additionally, some coastal locations sustain high levels of humidity. The graph below compares the peak summer design temperatures of major Middle Eastern cities with U.S. cities which currently employ District Cooling systems.



Source: Cogeneration and On-Site Power Production, vol. 5 Issue 5, Sept-Oct 2004

The present cooling capacity of the UAE is estimated to be in the range of 1 to 1.5 million tons of refrigeration (TR). A small bedroom requires approximately 1 TR. It is estimated that cooling capacity in the UAE will double to 3 million TR by 2010¹⁰.

In terms of the U.S. market, the company believes that it maintains roughly 50% market share in the district heating market and approximately 25-30% market share in the district cooling market.

Tax-Free Zone of U.A.E. is Business Friendly

The U.A.E. pro-business fiscal policies have been attracting substantial foreign investment. There are no income taxes in the U.A.E. As sales increase for the Perma-Pipe ME subsidiary and become a larger percentage of total sales, the overall tax rate for the holding company will decrease and more operating income will flow to the bottom line.

⁹ Middle East Economic Digest, November 2005.

¹⁰ Gulfnews, 10/29/06

New EPA Regulations on Particulate Matter Should Generate “Mini-Business Cycle” For Air Filtration Products Division

New particle tolerance level lowered from 65 micrograms to 35 micrograms per cubic meter

As the table below reflects, the company’s Filtration Products division has experienced recent significant growth. This division manufactures filter elements for dust baghouses, cartridge collectors, and related parts and services. These air pollution abatement products filter out dust and particulates from various manufacturing processes to improve the quality of external air emissions.

Filtration Products 5 Year Revenue

(in thousands)

	FY 02	FY 03	FY 04	FY 05	FY 06
Sales	\$53,174	\$54,872	\$61,740	\$64,413	\$86,362
YOY Increase		3.2%	12.5%	4.3%	34.1%

The company’s most typical customers are mini steel mills which recycle scrap steel. Additional served industries include cement, metals, and coal-fired power generation. Additionally, the company’s filter products can be utilized for air inlet filtration by gas turbines and power generation at compressor stations to prevent unwanted debris from causing turbine jams which result in costly downtime. The mini-mills typically utilize electric arc furnaces (EAF) to smelt the scrap steel, releasing chemicals from the previously treated steel. We believe the recent sales success of this division is related to the resurgence of the steel industry over the past several years, especially the growth of mini-mills. Mini-mills produce less steel but operate more cost effectively than traditional mills. Electric arc furnaces produce the most steel for its size and price in addition to being able to smelt steel and scrap of varying sizes and conditions.

The company presently offers over 10,000 styles of fabric filters. Prices may range from \$40-\$200 per unit and order quantities vary significantly as some customers may order as many as 40,000 bags, to be delivered over a six year period. The company utilizes a number of sales channels including a direct sales force which manages a database of over 14,000 customers and employs a “tickler” system to call on customers for filter replacements. Mini-mills will typically replace filters every two years. Some customers in other industries may go as long as 7-9 years before replacing. Over the past three years, the company estimates that it has served over 4,000 user locations with filter products. It is estimated that the production of one ton of steel via an electric arc furnace will produce roughly 25 pounds of byproduct dust¹¹. Approximately 15% of the filtration products revenue relates to ancillary items such as collection inspection, maintenance services, and leak detection. The company has no customers which account for more than 10% of sales and approximately 10% of filtration sales are export sales.

We believe the EPA’s recent stiffening of particulate emission regulations will create a mini-business cycle for the filtration division and aid in sustaining near term sales growth. Effective December 17, 2006, the EPA tightened its primary PM(particulate matter) standard from 65 micrograms per cubic meter to 35 micrograms per cubic meter. Although compliance and enforcement issues are debatable, we believe empirical evidence suggests that tougher environmental regulations typically result in higher levels of pollution abatement spending by businesses. Moreover, present proposals for constructing

¹¹ U.S. Department of Energy, Office of Industrial Technologies

more than 150 new coal-fueled power plants in the U.S. may provide an additional sales catalyst in the future. Lastly, the company acquired a South African manufacturer of air filtration products in July of 2006 in order to access the African, Near East, and Middle East markets. Management forecasts that this new entity, Nordic Midwesco PTY Limited, will generate approximately \$1 million in sales for 2006 with a slight operating profit.

Industry Overview

The Air Filtration Products industry is very competitive with continuous pricing pressures. The technology tends to be less proprietary so product differentiation among competitors is more difficult. Firms tend to settle into niche markets and groom customer relationships within specific industries. In the case of MFRI, they have developed strong and recurring relationships within the steel mini-mill industry. Government regulations concerning air quality often impact business cycles.

The Piping Systems industry lends itself to more proprietary technology in terms of software and cable sensors for monitoring systems. MFRI offers more complete package systems by offering leak detection and location systems in addition to its pipe fabrication services.

The Industrial Process Cooling Equipment industry enjoys comparatively better gross margins than the other two industries. The industry is linked to the thermoplastics market where roughly 8,000 companies process plastic products in the U.S. This segment of the company's business is arguably the most sensitive to the overall economy. Specifically, the cooling equipment is used by plastic molding firms which service the auto industry. The company has begun initiatives to diversify its customer base by seeking new applications for its cooling equipment.

Company History, Ownership, & Overview

MFRI(Midwesco Filter Resources, Inc) Inc.'s public history began in 1989 when the Filter Media Products Division of Midwesco, Inc. was incorporated and renamed Midwesco Filter Resources, Inc. and taken public. The company diversified its product base from industrial air filtration products by acquiring Perma-Pipe, Inc. in 1994, a manufacturer of piping systems for oil, gas, district heating, and district cooling. At present time, Perma-Pipe, Inc. is the largest manufacturer of pre-insulated piping systems in North America. A series of acquisitions and plant expansions ensued as MFRI continued to grow. The company once again diversified by entering into a new industry, the heat transfer equipment industry, through its acquisition of Thermal Care in 1996. The firm was a manufacturer of cooling towers, liquid chillers, mold temperature controllers, and plant circulating systems for heat-intensive industrial processing industries.

Most recently the company has been pursuing an aggressive globalization strategy by augmenting its European presence through acquisition and expansion with new facilities in the United Arab Emirates and South Africa to penetrate emerging markets. The company recently completed a public offering of 1,000,000 shares at \$18.50/share to facilitate its growth plans as well as pay down some long-term debt.

Executive Management Team

David Unger, *CEO*

Mr. Unger has been employed by the company since 1958. He served as President of Midwesco, Inc. from 1972 through January 1994 and Vice President from February 1994 through December 1996. He is also Chairman of the Company's Board of Directors.

Bradley E. Mautner, *President*

Mr. Mautner has served in various executive and administrative capacities with the company since 1978. He has served as the company's President and COO since December 2004. He has also been a director of the company since 1995.

Michael D. Bennett, *CFO*

Mr. Bennett has served as the company's CFO since 1989.

Risks

Recession Sensitivity

All three of the company's business segments have historically shown vulnerability to recessionary periods with corresponding decreases in revenue. We believe, however, that the company's reach into new global markets may mute this exposure to some degree.

Oil Prices

As mentioned previously, some expert conjecture has pegged the break-even point for deep oil exploration at \$60 per barrel. Should oil prices drop significantly below \$60, deep water drilling investment could be negatively impacted. Please recall that approximately 25% of the company's piping systems revenue is derived from oil and gas piping.

Country Specific Risks of UAE

Although the UAE is prospering economically, a few peripheral issues specific to the region may burgeon to thwart this growth. For instance, the booming real estate market may experience a pricing correction which may put additional pressures on the banking industry and affect capital availability and hence project development. It should be noted that banks in the UAE are restricted to a 15%¹² real estate sector exposure ceiling and there is no formal deposit insurance. The region has endured a history of banking crises but authoritative action has always precluded any bankruptcy. Additionally, the region relies heavily upon foreign labor and the challenging wage and working conditions may culminate in disruptive labor events. The currency, the UAE dirham, has demonstrated near zero volatility and foreign currency in the region is freely convertible.

Seasonality

The company's business is seasonal in nature. The late winter and early spring months (4th and 1st quarter) typically result in less robust financial performance. Atypical inclement weather in the U.S. could negatively impact results beyond seasonally-adjusted estimates.

¹² S&P, Bank Industry Risk Analysis: United Arab Emirates, Jan 07

Peer Group Comparison in 000's

Ticker	Name	Price	Sales	Gross Margin	Op. Margin	Net Margin	ROE	ROA	Net Debt Ratio	EV / Sales	EV / EBITDA	Price / BV	CY	CY
													2007E P/E	2008E P/E
DCI	Donaldson Company Inc.	\$37.50	\$1,808,175	32.4%	11.5%	7.8%	26.8%	13.3%	28.6%	1.80	12.8	5.5	20.3	18.3
CLC	CLARCOR Inc.	\$32.80	\$900,694	30.3%	13.8%	9.2%	16.6%	12.1%	-11.0%	1.81	11.0	3.0	19.3	17.2
OIS	Oil States International Inc.	\$37.65	\$1,923,357	23.7%	15.5%	10.3%	31.2%	14.7%	30.6%	1.16	6.3	2.2	9.6	9.0
LSS	Lone Star Technologies Inc.*	\$67.25	\$1,377,600	17.1%	10.7%	7.9%	16.9%	11.0%	-28.8%	1.37	10.7	2.7	17.3	12.0
	Median		\$1,592,888	27.0%	12.6%	8.5%	21.8%	12.7%	8.8%	1.59	10.9	2.9	18.3	14.6
MFRI	MFRI Inc.	\$22.20	\$213,471	20.8%	4.2%	2.2%	14.4%	5.2%	42.5%	0.80	13.2	3.7	17.8	12.0

Note: All figures based on trailing 12-months except CY 2006E and CY 2007E, which are based on 21st Century or consensus estimates

All figures adjusted to exclude one-time and other non-operating charges

Prices as of 5/29/07

*Agreed to purchase by U.S. Steel for \$67.50/share

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21st Century Equity Research

Income Statement (in thousands)	FY-04	FY-05	Q1-FY 06	Q2-FY 06	Q3-FY 06	Q4-FY 06	FY 06	Q1-FY 07E	Q2-FY 07E	Q3-FY 07E	Q4-FY 07E	FY 07E	FY 08E
Filtration Products	\$61,740	\$64,413	\$18,565	\$18,640	\$24,970	\$24,187	\$86,362	\$23,206	\$23,300	\$27,467	\$26,606	\$100,579	\$108,625
Piping Systems	\$54,053	\$54,657	\$14,246	\$24,617	\$28,823	\$14,480	\$82,166	\$17,808	\$33,233	\$37,470	\$21,720	\$110,230	\$154,322
Industrial Process Cooling Equipment	\$29,303	\$35,517	\$11,636	\$9,917	\$10,251	\$9,357	\$41,161	\$11,636	\$11,107	\$11,481	\$10,761	\$44,985	\$47,234
Corporate & other			\$2,485	\$368	\$138	\$791	\$3,782	\$750	\$750	\$750	\$750	\$3,000	\$3,000
yoy sales growth-filtration		4.3%	9.0%	24.9%	57.7%	45.5%	34.1%	25.0%	25.0%	10.0%	10.0%	16.5%	8.0%
yoy sales growth-piping		1.1%	26.0%	38.9%	110.3%	21.5%	50.3%	25.0%	35.0%	30.0%	50.0%	34.2%	40.0%
yoy sales growth-process cooling		21.2%	48.1%	23.3%	4.1%	-4.2%	15.9%	0.0%	12.0%	12.0%	15.0%	9.3%	5.0%
Total revenue	\$145,096	\$154,587	\$46,933	\$53,543	\$64,184	\$48,816	\$213,472	\$53,400	\$68,391	\$77,169	\$59,837	\$258,797	\$313,182
yoy sales growth		6.5%	29.6%	31.6%	63.0%	27.4%	38.1%	13.8%	27.7%	20.2%	22.6%	21.2%	21.0%
Filtration Products-Gross Profit	\$12,320	\$11,758	\$3,302	\$3,791	\$5,297	\$3,840	\$16,230	\$4,177	\$4,660	\$5,631	\$4,289	\$18,757	\$19,987
Piping Systems-Gross Profit	\$10,284	\$10,862	\$2,906	\$5,676	\$6,474	\$1,724	\$16,780	\$3,704	\$7,810	\$8,805	\$3,258	\$23,577	\$33,642
Industrial Process Cooling Equipment-Gross Profit	\$8,524	\$10,066	\$3,517	\$3,043	\$2,590	\$2,124	\$11,274	\$3,374	\$3,221	\$3,215	\$2,475	\$12,285	\$12,517
Corporate & other			\$80	\$11	\$6	\$24	\$121	\$20	\$20	\$20	\$20	\$80	\$80
Filtration gross margin	20.0%	18.3%	17.8%	20.3%	21.2%	15.9%	18.8%	18.0%	20.0%	20.5%	16.1%	18.6%	18.4%
Piping gross margin	19.0%	19.9%	20.4%	23.1%	22.5%	11.9%	20.4%	20.8%	23.5%	23.5%	15.0%	21.4%	21.8%
Cooling gross margin	29.1%	28.3%	30.2%	30.7%	25.3%	22.7%	27.4%	29.0%	29.0%	28.0%	23.0%	27.3%	26.5%
Total Gross Profit	\$31,129	\$32,687	\$9,806	\$12,522	\$14,368	\$7,713	\$44,406	\$11,276	\$15,712	\$17,672	\$10,042	\$54,700	\$66,227
Selling	\$10,477	\$12,383	\$3,706	\$3,481	\$3,666	\$3,500	\$14,353	\$4,200	\$4,100	\$4,350	\$4,200	\$16,850	\$19,378
G&A	\$15,474	\$17,624	\$4,967	\$5,426	\$5,406	\$5,311	\$21,110	\$5,700	\$6,000	\$6,100	\$5,900	\$23,700	\$27,255
Total Operating Expenses	\$25,951	\$30,007	\$8,673	\$8,907	\$9,072	\$8,811	\$35,463	\$9,900	\$10,200	\$10,450	\$10,100	\$40,550	\$46,633
Income from ops	\$5,178	\$2,680	\$1,133	\$3,615	\$5,296	-\$1,098	\$8,943	\$1,376	\$5,512	\$7,222	-\$58	\$14,150	\$19,595
Income from Joint Venture	\$225	\$196	\$83	\$200	\$149	\$59	\$491	\$90	\$150	\$100	\$90	\$430	\$450
Interest expense	\$1,658	\$1,839	\$556	\$621	\$729	\$770	\$2,676	\$325	\$350	\$375	\$375	\$1,425	\$1,600
Income before income tax	\$3,745	\$1,037	\$660	\$3,194	\$4,716	-\$1,809	\$6,758	\$1,141	\$5,312	\$6,947	-\$343	\$13,155	\$18,445
Income tax expense	\$931	\$505	\$508	\$879	\$1,995	-\$1,218	\$2,164	\$399	\$1,859	\$2,431	-\$103	\$4,587	\$5,533
Net Income	\$2,814	\$532	\$152	\$2,315	\$2,721	-\$591	\$4,594	\$742	\$3,452	\$4,515	-\$240	\$8,568	\$12,911
Diluted shares	5,223	5,585	5,662	5,710	5,677	5,761	5,600	6,800	6,825	6,850	6,875	6,838	6,975
EPS	\$0.54	\$0.10	\$0.03	\$0.41	\$0.48	-\$0.10	\$0.82	\$0.11	\$0.51	\$0.66	-\$0.03	\$1.25	\$1.85
Percent Change		-82.3%	-31.1%	266.7%	240.0%	-47.6%	761.7%	307.2%	24.8%	37.5%	-66.0%	52.7%	47.7%
% of Sales													
Filtration Products	42.6%	41.7%	39.6%	34.8%	38.9%	49.5%	40.5%	43.5%	34.1%	35.6%	44.5%	38.9%	34.7%
Piping Systems	37.3%	35.4%	30.4%	46.0%	44.9%	29.7%	38.5%	33.3%	48.6%	48.6%	36.3%	42.6%	49.3%
Industrial Process Cooling Equipment	20.2%	23.0%	24.8%	18.5%	16.0%	19.2%	19.3%	21.8%	16.2%	14.9%	18.0%	17.4%	15.1%
Corporate & other	0.0%	0.0%	5.3%	0.7%	0.2%	1.6%	1.8%	1.4%	1.1%	1.0%	1.3%	1.2%	1.0%
Total Gross Profit	21.5%	21.1%	20.9%	23.4%	22.4%	15.8%	20.8%	21.1%	23.0%	22.9%	16.8%	21.1%	21.1%
Selling	7.2%	8.0%	7.9%	6.5%	5.7%	7.2%	6.7%	7.9%	6.0%	5.6%	7.0%	6.5%	6.2%
G&A	10.7%	11.4%	10.6%	10.1%	8.4%	10.9%	9.9%	10.7%	8.8%	7.9%	9.9%	9.2%	8.7%
Total Operating Expenses	17.9%	19.4%	18.5%	16.6%	14.1%	18.0%	16.6%	18.5%	14.9%	13.5%	16.9%	15.7%	14.9%
Income from ops	3.6%	1.7%	2.4%	6.8%	8.3%	-2.3%	4.2%	2.6%	8.1%	9.4%	-0.1%	5.5%	6.3%
Income from Joint Venture	0.2%	0.1%	0.2%	0.4%	0.2%	0.1%	0.2%	0.2%	0.2%	0.1%	0.2%	0.2%	0.1%
Interest expense	1.1%	1.2%	1.2%	1.2%	1.1%	1.6%	1.3%	0.6%	0.5%	0.5%	0.6%	0.6%	0.5%
Income before income tax	2.6%	0.7%	1.4%	6.0%	7.3%	-3.7%	3.2%	2.1%	7.8%	9.0%	-0.6%	5.1%	5.9%
Income tax expense(% of income)	24.9%	48.7%	77.0%	27.5%	42.3%	67.3%	32.0%	35.0%	35.0%	35.0%	30.0%	34.9%	30.0%
Net Income	1.9%	0.3%	0.3%	4.3%	4.2%	-1.2%	2.2%	1.4%	5.0%	5.9%	-0.4%	3.3%	4.1%
Cash Flow													
Net Income							\$4,594					\$8,568	\$12,911
Depreciation and Amortization							\$4,067					\$4,500	\$5,400
Cap Ex							-\$8,269					-\$6,000	-\$6,000
Working Capital							-\$5,000					-\$5,000	-\$5,000
Free Cash Flow							-\$4,608					\$2,068	\$7,311
Backlog													
Percent Change	\$40,964	\$49,601	\$73,406	\$76,317	\$76,047	\$98,143	\$98,143						
		21.1%	81.8%	87.9%	74.6%	97.9%	97.9%						

Balance Sheet (in thousands)	FY-05	FY-06
ASSETS		
Current Assets:		
Cash and cash equivalents	1,114	565
Restricted cash	369	540
Trade accounts receivable	20,377	35,056
Accounts receivable-related company	1,149	583
Income taxes receivable	145	93
Costs and estimated earnings in excess of billings on uncompleted contracts	2,471	4,974
Inventories, net	23,711	35,155
Deferred income taxes	2,131	2,382
Prepaid expenses and other current assets	1,311	1,326
Total current assets	52,778	80,674
Property, Plant and Equipment, Net	28,320	33,441
Other Assets:		
Patents, net	453	392
Goodwill	2,509	2,613
Other assets	4,575	4,320
Total other assets	7,537	7,325
Total Assets	<u>\$88,635</u>	<u>\$121,440</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	10,929	20,919
Current maturities of long-term debt	1,562	9,191
Commissions payable	5018	6908
Customer Deposits	1,995	5,454
Other accrued liabilities	2,119	3,119
Accrued compensation and payroll taxes	2,478	2,480
Billings in excess of costs and estimated earnings on uncompleted contracts	134	1,270
Accounts payable-related company	0	599
Total current liabilities	24,235	49,940
Long-Term Liabilities:		
Long-term debt, less current maturities	29,724	29,844
Other	2,866	2,840
Total long-term liabilities	32,590	32,684
Stockholders' Equity:		
Common stock	53	55
Additional paid-in capital	23,084	25,327
Retained earnings	8,444	13,037
Accumulated other comprehensive income	229	397
Total stockholders' equity	31,810	38,816
Total Liabilities and Stockholders' Equity	<u>\$88,635</u>	<u>\$121,440</u>