UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended January 31, 2010

Commission File No. 0-18370

MFRI, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**36-3922969**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7720 N. Lehigh Avenue, Niles, Illinois	**60714**
(Address of principal executive offices)	(Zip Code)

(847) 966-1000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 per share	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this FORM 10-K or any amendment to this FORM 10-K. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of The Exchange Act) Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant (the exclusion of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant) was $33,201,258 based on the closing sale price of $6.00 per share as reported on the NASDAQ Global Market on July 31, 2009.

The number of shares of the registrant's common stock outstanding at April 8, 2010 was 6,836,433.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the 2009 Annual Meeting of Stockholders are incorporated by reference into Part III.

FORM 10-K CONTENTS
JANUARY 31, 2010

PART I

Forward Looking Statements

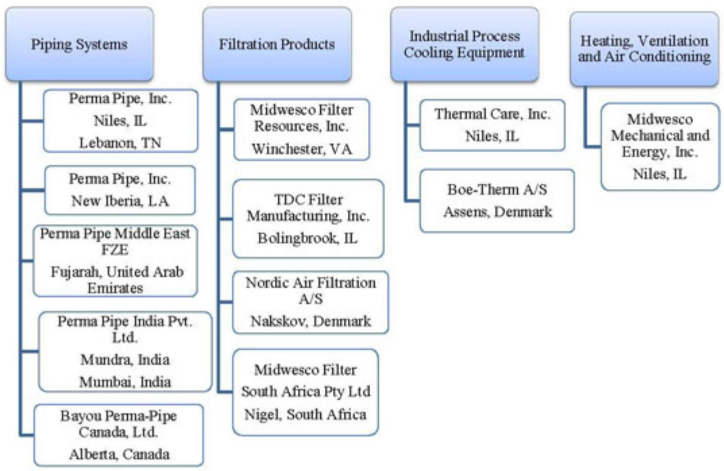
Statements in this Form 10-K that are not historical facts, so-called "forward-looking statements," are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that all forward-looking statements involve risks and uncertainties, including those detailed in MFRI's filings with the Securities and Exchange Commission ("SEC"). See "Risk Factors" in Item 1A.

Item 1. BUSINESS

MFRI, Inc., collectively with its subsidiaries ("MFRI", the "Company" or the "Registrant"), is engaged in the manufacture and sale of products in three distinct business segments: piping systems, filtration products and industrial process cooling equipment. Corporate and other includes the installation of heating, ventilation and air conditioning ("HVAC") systems. The Company's fiscal year ends on January 31. Years and balances described as 2009 and 2008 are the fiscal years ended January 31, 2010 and 2009, respectively. In the year ended January 31, 2010, no customer accounted for 10% or more of the Company's net sales.

Information with respect to the Company's business segments is included in the following discussions of the separate business segments and in the financial statements and related notes thereto.

MFRI, Inc.'s Operating Units



All subsidiaries shown are, directly or indirectly, wholly owned by MFRI, Inc. except Bayou Perma-Pipe Canada, Ltd.

Available Information

The Company files with, and furnishes to the SEC, reports including annual meeting materials, annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, as well as amendments thereto. The Company maintains a website www.mfri.com. These reports and related materials are available free of charge as soon as reasonably practicable after the Company electronically delivers such material to the SEC. These materials can be found on the website under: Investor's Center — SEC Filings. The information on the Company's website is not part of this annual report on Form 10-K, and is not incorporated into this or any other filings by the Company with the SEC.

Piping Systems Business

Products and Services. The Company engineers, designs, manufactures and sells specialty piping systems and leak detection and location systems. Piping systems include (i) industrial and secondary containment piping systems for transporting chemicals, hazardous fluids and petroleum products, (ii) insulated and jacketed district heating and cooling ("DHC") piping systems for efficient energy distribution to multiple locations from central energy plants, and (iii) oil and gas gathering flow and long lines for oil and mineral transportation. The Company's leak detection and location systems are sold with many of its piping systems, and on a stand-alone basis to monitor areas where fluid intrusion may contaminate the environment, endanger personal safety, cause a fire hazard, impair essential services or damage equipment or property.

The Company's piping systems are frequently custom fabricated to job site dimensions and/or to incorporate provisions for thermal expansion due to varying temperatures. This custom fabrication helps to minimize the amount of field labor required by the installation contractor. Most of the Company's piping systems are produced for underground installations and, therefore, require trenching, which is done by unaffiliated installation contractors.

Marketing. The Company's piping systems customer base is industrially and geographically diverse. In the United States of America ("U.S."), the Company employs a national and regional sales managers who use and assist a network of independent manufacturers' representatives, none of whom sells products that are competitive with the Company's piping systems. Globally, the Company employs a direct sales force as well as an exclusive agent network for several countries in the Middle and Far East to market and sell products and services.

Recent Development. The Company continues to seek market potential around the world to grow volume and profitability. In October 2009, the piping systems business, in joint venture with The Bayou Companies, Inc., a subsidiary of Insituform Technologies, Inc., completed a 12.25 million Canadian dollar acquisition of Garneau, Inc's pipe coating and insulation facility and associated assets located in Camrose, Alberta, Canada, which provides the Company the opportunity to sell product to the growing oil sands market.

Patents and Trademarks. The Company owns several patents covering its piping and electronic leak detection systems. The patents are not material either individually or in the aggregate to the overall business because the Company believes sales in the business would not be materially reduced if patent protection were not available. The Company owns numerous trademarks connected with its piping and leak detection systems business including the following: Perma-Pipe®, Chil-Gard®, Double Quik®, Escon-A®, FluidWatch®, Galva-Gard®, Polytherm®, Pal-AT®, Stereo-Heat®, LiquidWatch®, PalCom®, Xtru-therm®, Auto-Therm®, Pex-Gard®, Multi-Therm®, and Ultra-Therm®. The Company also owns a Canadian trademarks for Ric-Wil® and Perma-Pipe™, a Denmark trademark for Ric-Wil®, France trademark for Perma-Pipe®, German trademark for Perma-Pipe®, Oman trademarks for Perma-Pipe®, Pal-At® and Xtru-therm®, Kuwait trademarks for Perma-Pipe®, Pal-At® and Xtru-therm®, Singapore trademarks for Perma-Pipe®, Pal-At® and Xtru-therm®, India trademarks for Perma-Pipe™, Pal-At™ and Xtru-therm™ , Australia trademark for Ric-Wil™ and United Kingdom trademarks for Polytherm®, Perma-Pipe® and Ric-Wil®.

Backlog. As of January 31, 2010, the backlog (uncompleted firm orders) was $48,770,000, substantially all of which is expected to be completed in 2010. As of January 31, 2009, the backlog was $52,385,000. The Company has received additional orders for the India pipeline project for at least 150 kilometers, which is expected to begin in May of 2010.

Raw Materials. The basic raw materials used in production are pipes and tubes made of carbon steel, alloy, copper, ductile iron, plastics and various chemicals such as polyols, isocyanate, urethane resin, polyethylene and fiberglass, mostly purchased in bulk quantities. The Company believes there are currently adequate supplies or sources of availability of these needed raw materials.

The sensor cables used in the leak detection and location systems are manufactured to the Company's specifications by companies regularly engaged in the business of manufacturing such cables. The Company owns patents for some of the features of its sensor cables. The Company assembles the monitoring component of the leak detection and location system from standard components purchased from many sources.

Competition. The piping systems business is highly competitive. The Company believes its principal competition in this segment consists of between ten and twenty major competitors and more small competitors. The Company believes quality, service, a comprehensive product line and price are the key competitive factors. The Company also believes it has a more comprehensive line for DHC than any of its competitors. Certain competitors of the Company have greater financial resources and some have cost advantages as a result of manufacturing a limited range of products.

Government Regulation. The demand for the Company's leak detection and location systems and secondary containment piping systems, a small percentage of the total annual piping sales, is driven by federal and state environmental regulation with respect to hazardous waste. The Federal Resource Conservation and Recovery Act requires, in some cases, that the storage, handling and transportation of certain fluids through underground pipelines feature secondary containment and leak detection. The National Emission Standard for Hydrocarbon Airborne Particulates requires reduction of airborne volatile organic compounds and fugitive emissions. Under this regulation, many major refineries are required to recover fugitive vapors and dispose of the recovered material in a process sewer system, which then becomes a hazardous secondary waste system that must be contained. Although there can be no assurances as to the ultimate effects of these governmental regulations, the Company believes it may increase the demand for its piping systems products.

Filtration Products Business

Products and Services. The Company manufactures and sells a wide variety of filter elements for cartridge collectors and baghouse air filtration and particulate collection systems. The principal types of industrial air filtration and particulate collection systems in use are baghouses, cartridge collectors, electrostatic precipitators, scrubbers and mechanical collectors. This equipment is used to eliminate particulate from the air by passing particulate laden gases through fabric filters (filter bags) or pleated media filter elements, in the case of baghouses or cartridge collectors, between electrically charged collector plates, in the case of electrostatic precipitators and contact with liquid reagents (scrubbers). The Company manufactures filter elements in standard industry sizes, shapes and filtration media and to custom specifications, maintaining manufacturing standards for more than 10,000 styles of filter elements to suit substantially all industrial applications. Filter elements are manufactured from industrial yarn, fabric and paper purchased in bulk. Most filter elements are produced from cellulose, acrylic, fiberglass, polyester, aramid, laminated membranes, or polypropylene fibers. The Company also manufactures filter elements from more specialized materials, sometimes using special finishes.

The Company markets numerous filter-related products and accessories used during the installation, operation and maintenance of cartridge collectors and baghouses, including wire cages used to support filter bags, spring assemblies for proper tensioning of filter bags and clamps and hanger assemblies for attaching filter elements. In addition, the Company markets other hardware items used in the operation and maintenance of cartridge collectors and baghouses. The Company also provides maintenance services, consisting primarily of air filtration system inspection and filter element replacement, using a network of independent contractors.

Over the past three years, the Company's filtration products business has supplied filter elements to more than 4,000 user locations. The Company has particular expertise in supplying filter bags for use with electric arc furnaces in the steel industry. The Company believes its production capacity and quality control procedures make it a leading supplier of filter bags to large users in the electric power industry. Orders from the electric power industry tend to be substantial in size, but are usually at lower margins than from other industries.

Marketing. The customer base is industrially and geographically diverse. These products and services are used primarily by operators of utility and industrial coal-fired boilers, incinerators and cogeneration plants and by producers of metals, cement, chemicals and other industrial products.

The Company has an integrated sales program for its filtration products business, which consists of field-based sales personnel, manufacturers' representatives, a telemarketing operation and computer-based customer information systems. The Company believes the computer-based information systems are instrumental in increasing sales of filter-related products and accessories and maintenance services, as well as sales of filter elements. The Company's filtration products are marketed domestically under the names, Midwesco Filter and TDC Filter Manufacturing.

The Company markets its U.S. manufactured filtration products internationally using domestically based sales resources to target major users in foreign countries. The Denmark filtration facility markets pleated filter elements throughout Europe and Asia, primarily to original equipment manufacturers.

Trademarks. The Company owns the following trademarks covering its filtration products: Seamless Tube®, Leak Seeker®, Prekote®, We Take the Dust Out of Industry®, Pleatkeeper®, Pleat Plus® and EFC®.

Backlog. As of January 31, 2010, the backlog was $21,400,000, substantially all of which is expected to be completed in 2010. As of January 31, 2009, the backlog was $35,549,000. Customers are delaying their purchases and curtailing infrastructure projects in response to the economic climate.

Raw Materials. The basic raw materials used are industrial fibers and media supplied by leading producers of such materials. The majority of raw materials purchased are woven fiberglass fabric, yarns for manufacturing Seamless Tube® products and other woven, felted, spun bond, laminated membranes, and cellulose media. Only a limited number of suppliers are available for some of these materials. The Company believes supplies of all materials are adequate to meet current demand.

Competition. The filtration products business is highly competitive. In addition, new installations of cartridge collectors and baghouses are subject to competition from alternative technologies. The Company believes, based on domestic sales, that its principal competitors in this segment consist of approximately five major competitors and at least 50 smaller competitors, most of which are doing business on a regional or local basis. In Europe, several companies supply filtration products, and the Company is a relatively small participant in that market. Some of the Company's competitors have greater financial resources than the Company.

The Company believes quality, service, and price are the most important competitive factors in its filtration products business. Often, a manufacturer has a competitive advantage when its products have performed successfully for a particular customer in the past. Additional effort is required by a competitor to market products to such a customer. In certain applications, the Company's proprietary Seamless Tube® product and customer support provide the Company with a competitive advantage. Certain competitors may have a competitive advantage with respect to their own proprietary products and processes, such as specialized fabrics and fabric finishes. In addition, some competitors may have cost advantages with respect to certain products as a result of lower wage rates and/or greater vertical integration.

Government Regulation. The Company's filtration products business is substantially dependent upon governmental regulation of air pollution at the federal and state levels. Federal clean air legislation requires compliance with national primary and secondary ambient air quality standards for specific pollutants, including particulate. The states are primarily responsible for implementing these standards and, in some cases, have adopted more stringent standards than those issued by the U.S. Environmental Protection Agency under the Clean Air Act Amendments of 1990 ("Clean Air Act").

Industrial Process Cooling Equipment Business

Products and Services. The Company engineers, designs, manufactures and sells cooling and temperature control equipment for industrial applications. The Company believes it manufactures the most complete line of chillers available in its primary markets. Products include: chillers (portable and central); cooling towers; plant circulating assemblies; hot water, hot oil, and negative pressure temperature controllers; water treatment equipment; specialty cooling devices for printing presses and ink management; and replacement parts and various accessories relating to the foregoing products. The Company's products are used to optimize manufacturing productivity by quickly removing heat from manufacturing processes and providing accurate temperature control. The Company combines chillers and/or cooling towers with plant circulating systems to create plant-wide systems that account for a large portion of its business. The Company specializes in customizing cooling systems and computerized controls according to customer specifications.

The principal markets for the Company's cooling and temperature control products are thermoplastics processing and the printing industries. The Company also sells its products to original equipment manufacturers, to other cooling manufacturers on a private branded basis and to manufacturers in the laser, metallizing, machine tool industries, and various other industries.

Marketing. Generally, the Company sells its products in the global thermoplastics and printing markets as well as to other industrial applications that require specialized heat transfer equipment. Domestic thermoplastics processors are the largest market served by the Company, representing the core of its business. The Company's cooling products are sold through independent manufacturers' representatives on an exclusive territory basis. Temperature control products are sold through a network of independent dealers/distributors in major industrial markets.

The Company believes the total annual U.S. market for water cooling equipment in the plastics industry was more than $100 million on a pre-recession basis, and the Company is one of the three largest suppliers of such equipment to the plastics industry. The Company believes the plastics industry is a mature industry with growth generally consistent with that of the national economy. The Company has increased sales to non-plastics industries that require specialized heat transfer equipment, usually sold to end users as a package by the supplier of the primary equipment, particularly in the laser industry, metalizing industry, and machine tool industries. The Company believes the size of this market was more than $200 million annually prior to the current recession. The original equipment manufacturer generally distributes products to the end user in these markets.

Trademarks. The Company has registered the trademarks Thermal Care®, AWS® and Applied Web Systems®.

Backlog. As of January 31, 2010, the backlog was $2,380,000, substantially all of which is expected to be completed in 2010. As of January 31, 2009, the backlog was $3,835,000. The decrease was primarily due to lower demand for products in all market sectors.

Raw Materials. The Company uses prefabricated sheet metal and subassemblies manufactured by both Thermal Care and outside vendors for chillers and temperature control fabrication. Cooling towers are manufactured using fiberglass and hardware components purchased from several sources. The Company believes its access to sheet metal, subassemblies, fiberglass and hardware components is adequate to meet demands.

Competition. The Company believes there are about 15 competitors selling cooling equipment in the domestic plastics market. The Company further believes three manufacturers, including the Company, account for approximately 50% of the domestic plastics cooling equipment market. Many international customers, with relatively small cooling needs, are able to purchase small refrigeration units (portable chillers), which are manufactured in their respective local markets at prices below that which the Company can offer due to issues such as freight cost and customs duties. However, such local manufacturers often lack the technology and products needed for plant-wide cooling systems. The Company believes its reputation for producing quality plant-wide cooling products results in a significant portion of the Company's business in the cooling product area. Temperature control units, which are sold globally, compete with both local and European manufacturers. The quality, reliability, features and range of temperature control applications addressed by the Company's products provide a competitive advantage.

The Company believes quality, service, a comprehensive product line and price are the key competitive factors in its industrial process cooling equipment business. The Company believes it has a more comprehensive line of cooling products than any of its competitors. Certain competitors of the Company have cost advantages as a result of manufacturing in non-union shops and offering a limited range of products. Some of the Company's competitors may have greater financial resources than the Company.

Government Regulation. The Company does not expect compliance with federal, state and local provisions regulating the discharge of materials into the environment or otherwise relating to the protection of the environment to have a material effect on capital expenditures, earnings or the Company's competitive position. Management is not aware of the need for any material capital expenditures for environmental control facilities for the foreseeable future. Regulations, promulgated under the Clean Air Act, prohibit the manufacture and sale of certain refrigerants. The Company does not use these refrigerants in its products. The Company expects that suitable refrigerants conforming to federal, state and local laws and regulations will continue to be available to the Company, although no assurances can be given as to the ultimate effect of the Clean Air Act and related laws on the Company.

Other Business

Corporate and other activity includes activity for the installation of HVAC systems. This activity is not sufficiently large to constitute a reportable segment. During 2009, this subsidiary's net sales were $16,079,000, and 7.0% of consolidated net sales.

Backlog. At January 31, 2010, the backlog for other business was $790,000, substantially all of which is expected to be completed in 2010 and was $16,051,000 at January 31, 2009. Customers are delaying their purchases and curtailing infrastructure projects in response to the economic climate. In 2010, the Company has obtained a new order for approximately $8 million.

Employees

As of February 28, 2010, the Company had 1,235 full-time employees, of whom 47.0% worked outside the U.S.

International

The Company's international operations as of January 31, 2010 include subsidiaries and a joint venture in five foreign countries on four continents. The Company's international operations contributed approximately 29.0% of revenue in 2009 and 30.7% of revenue in 2008.

Refer to the Business Segment descriptions on pages 1 through 5 above and Note 1 - Description of the Business and Segment Information in the Notes to Consolidated Financial Statements for additional information on international activities. International operations are subject to certain risks inherent in conducting business in foreign countries, including price controls, exchange controls, limitations on participation in local enterprises, nationalization, expropriation and other governmental action, and changes in currency exchange rates.

Executive Officers of the Registrant

The following table set forth information regarding the executive officers of the Company as of March 31, 2010:

Name	Offices and Positions, if any, held with the Company; Age	Executive Officer of the Company or its Predecessor since
David Unger	Director, Chairman of the Board, and Chief Executive Officer of the Company; Age 75	1972
Bradley E. Mautner	Director, President and Chief Operating Officer of the Company; Age 54	1994
Michael D. Bennett	Vice President, Chief Financial Officer,Secretary and Treasurer; Age 65	1989
Timothy P. Murphy	Vice President; Age 60	2008
Fati A. Elgendy	President, Perma-Pipe; Age 61	1990
Billy E. Ervin	Vice President; Age 64	1986
Robert A. Maffei	Vice President; Age 62	1987
John Mark Foster	President, Midwesco Filter; Age 48	2008
Stephen C. Buck	President, Thermal Care; Age 61	2007
Thomas A. Benson	Vice President; Age 56	1988
Edward A. Crylen	President, Midwesco Mechanical and Energy; Age 58	2006

All of the executive officers serve at the discretion of the Board of Directors.

David Unger, Chairman of the Board of Directors and Chief Executive Officer since 1989; President from 1994 until 2004.

Bradley E. Mautner, President and Chief Operating Officer since December 2004; Executive Vice President from December 2002 to December 2004;Vice President from December 1996 through December 2002; Director since 1994. Bradley E. Mautner is the son of Henry M. Mautner, a director.

Michael D. Bennett, Chief Financial Officer and Vice President since August 1989.

Timothy P. Murphy, Vice President of Human Resources ("HR") since May 2008. Prior to joining the Company, Mr. Murphy spent 28 years as a business consultant in roles including Principal Partner of Murphy & Hill Consulting, Managing Director of the Bay Area office of RHR, International and Consultant with YSC, Ltd. Mr. Murphy previously consulted to the Company from 1985 to 2008.

Fati A. Elgendy, President and Chief Operating Officer of Perma-Pipe since March 1995.

Billy E. Ervin, Vice President, Director of Production of Perma-Pipe since 1986.

Robert A. Maffei, Vice President, Director of Sales and Marketing of Perma-Pipe since August 1996.

John Mark Foster, President of Midwesco Filter since 2008. Mr. Foster previously worked at Saint-Gobain (PAR: SGO) in the areas of industrial/project engineering and plant management, followed by positions in market management, human resources and a series of North American and European general management assignments.

Stephen C. Buck, President of Thermal Care since 2007. Mr. Buck joined Thermal Care after a 22 year career most recently as President - Safety Products Group with Federal Signal Corporation (NYSE: FSS), which manufactures and markets products to industrial and municipal customers worldwide. Prior to his employment with Federal Signal Corporation, Mr. Buck held various positions in marketing and management for companies in computer hardware/software, oil field services and telecommunications.

Thomas A. Benson, Vice President Sales and Marketing of Thermal Care since May 1988.

Edward A. Crylen, President and Chief Operating Officer of Midwesco Mechanical and Energy, since its formation in December 2006. From 1989 to December 2006, he was President of the Midwesco Mechanical and Energy, division of Midwesco, Inc. (affiliate) that was primarily owned by two principal stockholders who were also members of management.

Item 1A. Risk Factors

The Company's business, financial condition, results of operations and cash flows are subject to various risks, including, but not limited to those set forth below, which could cause actual results to vary materially from recent results or from anticipated future results. These risk factors should be considered together with information included elsewhere in this Annual Report on Form 10-K.

Economic Factors. Substantially all of the Company's businesses, directly or indirectly, serve markets that were adversely impacted by recent global economic climate. Although improvement is expected, the timing of economic recovery in the markets we serve remains uncertain. A further downturn in one or more of our significant markets could have a material adverse effect on the Company's business, results of operations or financial condition. Because economic and market conditions vary within the Company's business segments, the Company's future performance by business segment will also vary. In addition, the Company is exposed to fluctuations in currency exchange rates and commodity prices. Failure to successfully manage any of these risks could have an adverse impact on the Company's financial position, results of operations and cash flows.

Customer Access to Capital Funds. Uncertainty about current economic market conditions in the U.S. and globally poses risks that the Company's customers may postpone spending for capital improvement and maintenance projects in response to tighter credit markets or negative financial news, which could have a material negative effect on the demand for the Company's products. The adverse effect of the credit experienced by the Emirate of Dubai has significantly decelerated construction activity both in the United Arab Emirates ("U.A.E.") and across other Gulf Cooperation Council ("GCC") countries, negatively impacting sales volume at the U.A.E. facility.

International rapid growth. Potential international future rapid growth could place a significant strain on management, operations and financial systems as well as on the Company's ability to attract and retain competent employees. Future operating results will depend in part on the Company's ability to continue to implement and improve operating and financial controls and management information systems. Failure to effectively manage growth could materially adversely impact the business, financial conditions and results of operations.

Changes in Government Policies and Laws, Worldwide Economic Conditions. International sales represent an increasing portion of the Company's total sales and continued growth and profitability may involve further international expansion. The Company's financial results could be affected by changes in trade, monetary and fiscal policies, laws and regulations, or other activities of U.S. and non U.S. governments, agencies and similar organizations. These conditions include but are not limited to changes in a country's or region's economic or political conditions, trade regulations affecting production, pricing and marketing of products, local labor conditions and regulations, reduced protection of intellectual property rights in some countries, changes in the regulatory or legal environment, restrictions on currency exchange activities, burdensome taxes and tariffs and other trade barriers. International risks and uncertainties, including changing social and economic conditions as well as terrorism, political hostilities and war, could lead to reduced international sales and reduced profitability associated with such sales.

Government regulation. The demand for the Company's leak detection and location systems and secondary containment piping systems is driven primarily by government regulation with respect to hazardous waste. Laws such as the Federal Resource Conservation and Recovery Act and standards such as the National Emission Standard for Hydrocarbon Airborne Particulates have increased the demand for the Company's leak detection and location and secondary containment piping systems. The Company's filtration products business, to a large extent, is dependent on governmental regulation of air pollution at the federal and state levels. The Company believes that continuing growth in the sale of filtration products and services will be materially dependent on continuing enforcement of environmental laws such as the Clean Air Act. Although changes in such environmental regulations could significantly alter the demand for the Company's products and services, the Company does not believe such a change is likely to decrease demand in the foreseeable future.

Financing. If there were an event of default under the Company's current revolving credit facility, the holders of the defaulted debt could cause all amounts outstanding with respect to that debt to be due and payable immediately. The Company cannot assure that the assets or cash flow would be sufficient to fully repay amounts due under any of the financing arrangements, if accelerated upon an event of default, or, that the Company would be able to repay, refinance or restructure the payments under any such arrangements. Complying with the covenants under the Company's revolving credit facility may limit management's discretion by restricting options such as:

- incurring additional debt;
- entering into certain transactions with affiliates;
- making investments or other restricted payments;
- paying dividends or make other distributions; and
- creating liens.

Any additional financing the Company may obtain could contain similar or more restrictive covenants. The Company's ability to comply with any covenants may be adversely affected by general economic conditions, political decisions, industry conditions and other events beyond management's control.

Competition. The businesses in which the Company is engaged are highly competitive. Many of the competitors are larger and have more resources than the Company. Additionally, many of the Company's products are also subject to competition from alternative technologies and alternative products. To the extent the Company relies upon a single source for key components of several of its products, the Company believes there are alternate sources available for such components; however, there can be no assurance that the interruption of supplies of such components would not have an adverse effect on the financial condition of the Company, and that the Company, if required to do so, would be able to negotiate agreements with alternative sources on acceptable terms.

Backlog. The Company defines backlog as the revenue value in dollars attributed to confirmed customer purchase orders that have not yet been recognized as revenues. However, by industry practice, orders may be canceled or modified at any time. When a customer cancels an order, the customer is responsible for all finished goods, all direct and indirect costs incurred, and also for a reasonable allowance for anticipated profits. No assurance can be given that these amounts will be received after cancellation. Any cancellation or delay in orders may result in lower than expected revenues.

Percentage-of-completion method of accounting. The Company measures and recognizes a portion of revenue and profits under the percentage-of-completion accounting methodology. This methodology allows revenue and profits to be recognized proportionally over the life of a contract by comparing the amount of the cost incurred to date against the total amount of cost expected to be incurred. The effect of revisions to revenue and total estimated cost is recorded when the amounts are known and can be reasonably estimated. These revisions can occur at any time and could be material. On a historical basis, management believes that reasonably reliable estimates of the progress towards completion on long-term contracts have been made. However, given the uncertainties associated with these types of contracts, it is possible for actual cost to vary from estimates previously made, which may result in reductions or reversals of previously recorded revenue and profits.

Internal Controls. As a public company, the Company is required to comply with the reporting obligations of the Securities Exchange Act of 1934 and is required to comply with Section 404 of the Sarbanes Oxley Act ("SOX 404"). The Company's failure to prepare and disclose this information in a timely manner could subject it to penalties under Federal securities laws, expose it to lawsuits and restrict its ability to access financing. If the Company fails to achieve and maintain the adequacy of internal controls, and the Company, or its auditors, are unable to assert that the Company's internal control over financial reporting is effective, the Company could be subject to regulatory sanctions or lose investor confidence in the accuracy and completeness of the financial reports. In addition, the Company has experienced, and may experience, incremental costs of compliance with SOX 404.

Item 1B. Unresolved Staff Comments

None

Item 2. PROPERTIES

Piping Systems Business

Illinois	Owned production facilities and office space	16,400 square feet
Louisiana	Owned production facilities and leased land	18,900 square feet
Tennessee	Owned production facilities and office space	131,800 square feet on approximately 23.5 acres
Canada	Joint venture owned production facilities and office space	87,160 square feet on approximately 128 acres
India	Production facilities on the premises of Jindal Saw Ltd. leased office space	36,467 square feet
United Arab Emirates	Leased production facilities and office space	117,900 square feet on 16 acres

Filtration Products Business

Illinois	Bolingbrook - owned production facilities and office space	
	Cicero – owned former production facilities and office space currently idle	101,500 square feet on 5.5 acres
		130,700 square feet on 2.8 acres
Virginia	Owned production facilities	97,500 square feet on 5.0 acres
	Leased production and office space	67,000 square feet
Denmark	Owned production facilities and office space	69,800 square feet on 3.5 acres
South Africa	Leased production facilities and office space	24,800 square feet

Industrial Process Cooling Equipment Business

Illinois	Owned production facilities and office space	88,000 square feet on 8.1 acres
Denmark	Owned production facilities and office space	16,500 square feet

The Company's principal executive offices, which occupy approximately 26,600 square feet of space in Niles, Illinois, are owned by the Company. The Company believes its properties and equipment are well maintained and in good operating condition and, that productive capacities will generally be adequate for present and currently anticipated needs.

The Company has two significant lease agreements as follows:

- Production facilities and office space of approximately 117,900 square feet in the U.A.E. are leased for the period July 1, 2005 to June 30, 2012.
- Production facilities and office space of approximately 67,000 square feet in Virginia are leased through July 31, 2010. The Company has the option to extend the lease term for three years at a rate agreed upon between the Company and the Lessor.

For further information, see Note 6 - Lease Information, in the Notes to Consolidated Financial Statements.

Item 3. LEGAL PROCEEDINGS

The Company had no pending litigation material to its business.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company’s fiscal year ends on January 31. Years and balances described as 2009, 2008, 2007, 2006, and 2005 are the fiscal years ended January 31, 2010, 2009, 2008, 2007, and 2006, respectively.

The Company's Common Stock is traded on the Nasdaq Global Market under the symbol “MFRI”. The following table sets forth, for the periods indicated, the high and low Common Stock sale prices as reported by the Nasdaq Global Market for 2009 and for 2008.

2009	**High**	**Low**
First Quarter	$ 6.43	$ 4.85
Second Quarter	8.04	5.45
Third Quarter	7.43	6.00
Fourth Quarter	7.32	6.38

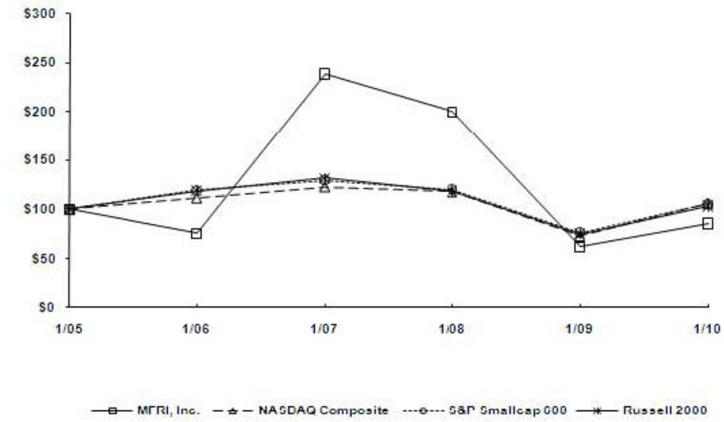
2008	High	Low
First Quarter	$ 16.73	$ 13.91
Second Quarter	18.00	11.12
Third Quarter	13.76	6.60
Fourth Quarter	8.79	4.25

As of March 15, 2010, there were 73 stockholders of record.

STOCK PRICE PERFORMANCE GRAPH

The Stock Price Performance Graph compares the yearly dollar change in the Company's cumulative total stockholder return on its Common Stock with the cumulative total returns of the Nasdaq Composite Index (the "Nasdaq Index"), the Russell 2000 Index and the S&P Smallcap 600 Index. The Company has selected these indices because they include companies with similar market capitalizations to the Company, as the most appropriate comparisons because the Company has three distinctly different business segments and no industry "peer" group is comparable to the Company. The comparison assumes $100.00 investments on January 31, 2005 in the Company's Common Stock, the Nasdaq Index, the Russell 2000 Index, and the S&P Smallcap 600 Index and further assumes reinvestment of dividends.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among MFRI, Inc., the NASDAQ Composite Index,
the S&P Smallcap 600 Index and the Russell 2000 Index



*$100 invested on 1/31/05 in stock or index, including reinvestment of dividends.

Fiscal year ending January 31.	1/05	1/06	1/07	1/08	1/09	1/10
MFRI, Inc.	100.00	75.63	238.75	199.75	61.88	85.25
NASDAQ Composite	100.00	111.70	122.93	117.81	72.77	105.98
S&P Smallcap 600	100.00	119.40	129.44	120.27	76.09	105.74
Russell 2000	100.00	118.89	131.31	118.45	74.81	103.10

The Company has never declared or paid a cash dividend and does not anticipate paying cash dividends on its Common Stock in the foreseeable future. Management presently intends to retain all available funds for the development of the business and for use as working capital. Future dividend policy will depend upon the Company's earnings, capital requirements, financial condition and other relevant factors. The Company's line of credit agreement does not permit the payment of dividends. For further information, see Note 5 – Debt in the Notes to Consolidated Financial Statements.

Neither the Company nor any "affiliated purchaser" as defined in Rule 10b-18 purchased any shares of the Company's Common Stock during the period covered by this report. The Company has not made any sale of unregistered securities during the preceding three years.

The Transfer Agent and Registrar for the Common Shares is Continental Stock Transfer & Trust Company, 17 Battery Place, New York, New York 10004, (212) 509-4000.

Equity Compensation Plan Information

The following table provides certain information regarding the number of shares of Common Stock to be issued upon exercise of outstanding options, warrants and rights under the Company's equity compensation plans and the weighted average exercise price and number of shares of Common Stock remaining available for issuance under those plans as of January 31, 2010.

Plan Category	Number of shares to be issued upon exercise of outstanding options, warrants and right	Weighted-average exercise price of outstanding options, warrants and rights	Number of shares available for future issuance under equity compensation plans
Equity compensation plans approved by stockholders	680,354	$13.20	475,521
Equity compensation plans not approved by stockholders	0	N/A	0

Item 6. SELECTED FINANCIAL DATA

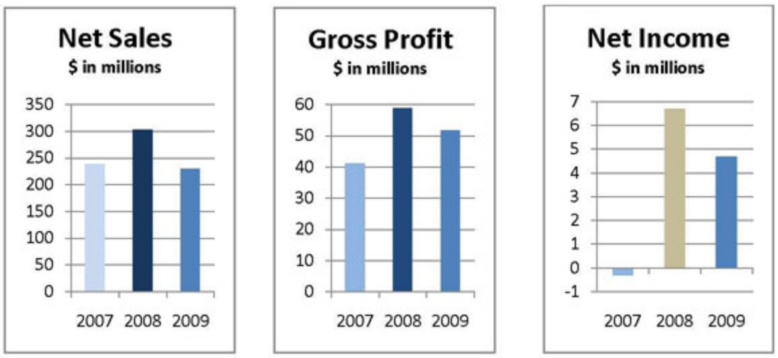
The following selected financial data for the Company for the years 2009, 2008, 2007, 2006, and 2005 are derived from the financial statements of the Company. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein in response to Item 7 and the consolidated financial statements and related notes included herein in response to Item 8.

	2009	2008	2007	2006	2005
			Fiscal Year ended January 31,		
In thousands, except per share information	2010	2009	2008	2007	2006
Statements of Operations Data:					
Net sales	$ 230,381	$ 303,066	$ 239,487	$ 213,471	$ 154,587
Income from operations	7,197	10,792	2,896	8,942	2,679
Net income (loss)	4,671	6,689	(298)	4,593	531
Net income (loss) per share – basic	0.68	0.98	(0.04)	0.86	0.10
Net income (loss) per share - diluted	$ 0.68	$ 0.98	$ (0.04)	$ 0.82	$ 0.10
Balance Sheet Data:					
Total assets	$ 150,547	$ 181,148	$ 140,412	$ 121,440	$ 88,635
Long-term debt (excluding capital leases), less current portion	33,877	41,763	19,556	29,606	29,715
Capitalized leases, less current portion	195	327	152	238	9

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The statements contained under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and certain other information contained elsewhere in this annual report, which can be identified by the use of forward-looking terminology such as "may," "will," "expect," "continue," "remains," "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 could cause actual results to differ materially from those projected. These 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.

CONSOLIDATED RESULTS OF OPERATIONS



Consolidated Backlog ***(In thousands)*****:**	**1/31/10**	**1/31/09**
Piping Systems	$ 48,770	$ 52,385
Filtration Products	21,400	35,549
Industrial Process Cooling Equipment	2,380	3,835
Corporate and Other	790	16,051
Total	$ 73,340	$ 107,820

MFRI, Inc. is engaged in the manufacture and sale of products in three reportable business segments: piping systems, filtration products, and industrial process cooling equipment.

The analysis presented below and discussed in more detail throughout the MD&A was organized to provide instructive information for understanding the business going forward. However, this discussion should be read in conjunction with the consolidated financial statements in Item 8 of this report, including the notes thereto. An overview of the segment results is provided in Note 1 - Business and Segment Information to the consolidated financial statements in Item 8 of this report.

Critical Accounting Policies and Estimates

MD&A discusses the audited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Management believes that judgment and estimates related to the following critical accounting policies could materially affect the consolidated financial statements:

- Revenue
- Percentage of completion method revenue recognition
- Inventory valuation, the allowance for doubtful accounts and other accrued liabilities
- Income taxes
- Equity-based compensation

In the fourth quarter of 2009, there were no changes in the above critical accounting policies.

Substantially all of the Company's businesses directly or indirectly serve markets that were adversely impacted by recent global economic conditions. Although improvement is expected, the timing of economic recovery in the markets we serve remains uncertain. A further downturn in one or more of our significant markets could have a material adverse effect on the Company's business, results of operations or financial condition. Because economic and market conditions vary within the Company's business segments, the Company's future performance by business segment will also vary. Should the current credit crisis and general economic recession continue, the Company could continue to experience a period of declining net sales, which could adversely impact the Company's results of operations. The adverse effect of the credit crisis experienced by the Emirate of Dubai has significantly decelerated construction activity both in the U.A.E. and across other GCC countries, negatively impacting sales volume at the U.A.E. facility.

2009 Compared to 2008

Net sales were $230,381,000 in 2009, a decrease of 24.0% from $303,066,000 in 2008, with decreased sales in the piping systems business, the filtration products business and the industrial process cooling business. This decrease was most pronounced in the fourth quarter. The 2009 fourth quarter compared to prior-year's quarter decreased 40.6%, with all segments and geographies down. In the piping systems business, district heating and cooling as well as oil and gas products experienced softer market conditions. Other contributing factors were the completion of the India pipeline project in the third quarter and the dramatically weaker market conditions in Dubai. The HVAC business also showed decreased sales as construction decisions for new projects have been deferred.

Gross profit of $51,946,000 in 2009 decreased 11.9% from $58,948,000 in 2008. Gross margin for 2009 rose to 22.5% from 19.5% in 2008.

Selling expenses decreased 10.5% to $13,029,000 from $14,550,000 in 2008. This decrease was primarily driven by the industrial process cooling equipment business and the filtration product business, which had decreased commission expense from lower sales and a decline in compensation and related expenses due to staff reductions.

General and administrative expenses increased 2.9% to $31,720,000 from $30,818,000 in 2008. The increase was mainly due to increased legal fees associated with collection activities in the U.A.E., foreign exchange loss, increased deferred compensation expense and increased stock compensation expense.

The Company's worldwide effective income tax rates for 2009 and 2008 were 12.0% and 17.0%, respectively.

Net income was $4,671,000 in 2009, down from net income of $6,689,000 in 2008 primarily due to decreased sales, the reasons summarized above and those discussed in more detail below. The fourth quarter produced a net loss of $5,781,000, compared to a net loss of $827,000 in the prior-year's quarter. The net loss in the fourth quarter of 2009 was higher than the same period in 2008 due to lower sales in all segments and compressed margins due to competitive factors.

2008 Compared to 2007

Record net sales were $303,066,000 in 2008, an increase of 26.5% from $239,487,000 in 2007, with increased sales in the piping systems business and the filtration products business while the industrial process cooling business decreased.

Gross profit of $58,948,000 in 2008 increased 42.9% from $41,249,000 in 2007. Gross margin for 2008 rose to 19.5% from 17.2% in 2007.

Selling expenses increased 2.0% to $14,550,000 from $14,270,000 in 2007. This was primarily driven by increased staffing in the piping systems business and filtration products business partially offset by the industrial process cooling equipment business, which had decreased commission expense from lower sales and a reduction in staffing completed in 2007.

General and administrative expenses increased 28.0% to $30,818,000 from $24,083,000 in 2007. The increase was mainly due to increased profit-based management incentive expense, increased bank fees, additional stock compensation expense partially offset by a decrease in the deferred compensation expense of $495,000.

The Company recognized a $2,788,000 non-cash charge for goodwill impairment. The completed goodwill impairment assessment followed the fourth quarter 2008 worsening of economic conditions. These conditions impacted both the risks considered and the calculations made, which caused the estimated future cash flows of the filtration products business (whose goodwill was $1,688,000) and the industrial process cooling equipment business (whose goodwill was $1,100,000) to be lower than when goodwill impairment testing was done during 2007. For additional information, see Goodwill Impairment within Note 2 - Significant Accounting Policies in the Notes to the Financial Statements.

The Company's worldwide effective income tax rate for 2008 was 17.0%. The 2008 tax rate decreased as compared to 2007 mainly due to the impact of tax-free foreign income.

Net income rose to $6,689,000 in 2008 from a net loss of $298,000 in 2007 primarily due to increased sales, the reasons summarized above and those discussed in more detail below.

Piping Systems Business

(In thousands)	2009	2008	2007	% (Decrease) Increase 2009	2008
Net sales	$ 111,665	$ 151,792	$ 104,273	(26.4%)	45.6%
Gross profit	$ 37,974	$ 37,871	$ 18,952	0.3%	99.8%
Percentage of net sales	34.0%	24.9%	18.2%		
Income from operations	$ 22,399	$ 24,037	$ 10,623	(6.8%)	126.3%
Percentage of net sales	20.1%	15.8%	10.2%		

2009 Compared to 2008

Net sales of $111,665,000 for 2009 decreased 26.4% from $151,792,000 in 2008, attributed primarily to a drop in sales in both international and domestic heating and cooling, as well as oil and gas products due to the economic slowdown both in the U.S. and in the U.A.E. The insulation of pipe for a crude oil pipeline project in India began full production in the third quarter 2008 and contributed to sales in 2009. As of October 31, 2009, the Company had completed the India pipeline project, and has received additional orders for at least 150 kilometers (93 miles), which is expected to begin in May of 2010.

The adverse effect of the credit crisis experienced by the Emirate of Dubai has significantly decelerated construction activity both in the U.A.E. and across other GCC countries, negatively impacting sales volume at the U.A.E. facility.

Gross margin as a percent of net sales increased to 34.0% in 2009 from 24.9% in 2008, primarily due to production efficiencies in the international operations and the favorable adjustment of cost estimates associated with the completion of the India pipeline project. Gross profit in the U.A.E. also improved due to decreased raw material costs.

Total selling expense decreased to $2,801,000 or 2.5% of net sales in 2009 from $2,840,000 or 1.9% of net sales in 2008. The dollar decrease was mainly due to lower sales commissions in the domestic heating and cooling, and oil and gas product lines.

General and administrative expense increased to $12,774,000 or 11.4% of net sales in 2009 from $10,994,000 or 7.2% of net sales in 2008. The increase in general and administrative expenses was primarily due to increased legal fees associated with collection activities in the U.A.E., increased profit-based management incentive expense and foreign exchange loss.

2008 Compared to 2007

Net sales of $151,792,000 for 2008 increased 45.6% from $104,273,000 in 2007, attributed to increasing the Company's market share in the U.A.E., as well as other GCC countries such as Qatar, Kuwait, and Bahrain. The U.A.E. facility's net sales were $54,454,000 in 2008 compared to $22,339,000 in 2007. As of January 31, 2009, the Company had completed more than half of the India pipeline contract.

Gross margin as a percent of net sales increased to 24.9% in 2008 from 18.2% in 2007, primarily due to production efficiencies in both domestic and international operations. Margins in the U.A.E. improved from increased volume without corresponding increases in fixed expenses.

Total selling expense increased to $2,840,000 or 1.9% of net sales in 2008 from $2,297,000 or 2.2% of net sales in 2007. The dollar increase was mainly due to increased staffing primarily in the U.A.E.

General and administrative expense increased to $10,994,000 or 7.2% of net sales in 2008 from $6,032,000 or 5.8% of net sales in 2007. The increase was primarily due to the increase in profit-based management incentive expense, additional administrative costs in the India pipeline project, and increased bank fees offset by a gain in foreign currency exchange.

Filtration Products Business

The timing of large orders can have a material effect on net sales and gross profit from period to period. Pricing on large orders was generally extremely competitive and therefore resulted in relatively low gross margins.

The Company's filtration products business is dependent on government regulation of air quality at the federal and state levels. The Company believes that growth in the sale of its filtration products and services will be materially dependent on continued enforcement of environmental laws such as the Clean Air Act. Although there can be no assurance what the ultimate effect of the Clean Air Act will be on the Company's filtration products business, the Company believes the Clean Air Act is likely to have a positive long-term effect on demand for the Company's filtration products and services.

(In thousands)	2009	2008	2007	% (Decrease) Increase 2009	2008
Net sales	$ 80,819	$ 105,390	$ 97,120	(23.3%)	8.5%
Gross profit	$ 6,733	$ 11,424	$ 13,776	(41.1%)	(17.1%)
Percentage of net sales	8.3%	10.8%	14.2%		
Income from operations	$ (5,290)	$ (2,936)	$ 2,220	(80.2%)	(232.3%)
Percentage of net sales	(6.5%)	(2.8%)	2.3%		

2009 Compared to 2008

Net sales decreased 23.3% to $80,819,000 in 2009 from $105,390,000 in 2008. Sales declines were the result of lower market demand across all filtration products. Customers are delaying their purchases and curtailing infrastructure projects in response to the economic climate.

Gross margin as a percent of net sales decreased to 8.3% in 2009 from 10.8% in 2008, primarily due to the lower pricing driven by excess capacity in the filter bag products markets.

Selling expense decreased to $6,841,000 in 2009 from $7,575,000 in 2008. The dollar decrease in selling expense was primarily due to fewer selling personnel, decreased commission expense related to lower sales and decreased advertising expense. Selling expenses as a percentage of net sales increased to 8.5% from 7.2% in the prior-year due to the effect of lower sales.

General and administrative expenses increased to $5,182,000 or 6.4% of net sales from $5,097,000 or 4.8% of net sales in 2008. The increase was primarily due to additional professional costs, higher bank fees, and foreign currency exchange loss. These factors were partially offset by personnel reductions.

2008 Compared to 2007

Net sales increased 8.5% to $105,390,000 in 2008 from $97,120,000 in 2007. This increase was due to the result of higher unit volume in all product lines, primarily from domestic power generation customers.

Gross margin as a percent of net sales decreased to 10.8% in 2008 from 14.2% in 2007, primarily due to the highly competitive marketplace, increased raw material costs, temporary manufacturing inefficiencies during the relocation to the Bolingbrook, IL facility and higher cost of production labor at the Denmark facility due to increased staffing. In 2009, production staffing was reduced by 35%.

Selling expense increased to $7,575,000 or 7.2% of net sales in 2008 from $6,873,000 or 7.1% of net sales in 2007. The increase in selling expense was primarily due to additional selling personnel, and increased travel and advertising expenses.

General and administrative expenses increased to $5,097,000 or 4.8% of net sales from $4,682,000 or 4.8% of net sales in 2007. The dollar increase was primarily due to the hiring of several new senior managers and increased professional service expense.

For the fourth quarter and fiscal year ended January 31, 2009, the filtration products business recorded a non-cash impairment charge of $1,688,000 in connection with the write-off of goodwill. For additional information, see Goodwill Impairment within Note 2 - Significant Accounting Policies in the Notes to the Financial Statements.

Industrial Process Cooling Equipment Business

(In thousands)	2009	2008	2007	% Decrease 2009	% Decrease 2008
Net sales	$ 21,818	$ 31,738	$ 36,327	(31.3%)	(12.6%)
Gross profit	$ 4,977	$ 7,919	$ 8,508	(37.2%)	(6.9%)
Percentage of net sales	22.8	25.0%	23.4%		
Income from operations	$ (1,935)	$ (1,765)	$ (1,227)	(9.6%)	(43.8%)
Percentage of net sales	(8.9%)	(5.6%)	(3.4%)		

2009 Compared to 2008

Net sales decreased 31.3% to $21,818,000 in 2009 from $31,738,000 in 2008. The decrease was primarily due to lower demand for products in all market sectors.

Gross margin decreased to 22.8% in 2009 from 25.0% in 2008, primarily due to lower sales volume and an unfavorable product mix.

Selling expense decreased to $3,387,000 in 2009 from $4,135,000 in 2008. This was primarily driven by decreased commission expense from lower sales, and a decline in compensation and related expenses due to workforce reductions. Selling expense as a percentage of net sales increased to 15.5% from 13.0% of net sales in the prior-year due to the effect of lower sales.

General and administrative expense decreased to $3,525,000 or 16.2% of net sales in 2009 from $4,449,000 or 14.0% of net sales in 2008. The change in spending was the result of reduced outside product development services and lower compensation and related expenses due to workforce reductions. General and administrative expenses as a percentage of net sales increased to 16.2% from 14.0% of net sales in the prior-year due to the effect of lower sales.

2008 Compared to 2007

Net sales decreased 12.6% to $31,738,000 in 2008 from $36,327,000 in 2007. The decrease was primarily due to lower demand for its products in the global plastic and domestic printing markets.

Gross margin as a percentage of net sales increased to 25.0% in 2008 from 23.4% in 2007, primarily due to significant reduction in post-sale customer support costs, partially offset by lower sales volume relative to fixed costs.

Selling expense decreased to $4,135,000 or 13.0% of net sales in 2008 from $5,100,000 or 14.0% of net sales in 2007. This was primarily driven by decreased commission expense from lower sales, and a reduction in staffing in the second half of 2007 and during 2008.

General and administrative expense decreased to $4,449,000 or 14.0% of net sales in 2008 from $4,635,000 or 12.8% of net sales in 2007. This dollar decrease was primarily due to the gain on the sale of property and staffing reductions, partially offset by increased new product development engineering expenses.

For the fourth quarter and fiscal year ended January 31, 2009, the industrial process cooling equipment business recorded a non-cash impairment charge of $1,100,000 in connection with the annual goodwill assessment. For additional information, see Goodwill Impairment within Note 2 - Significant Accounting Policies in the Notes to the Financial Statements.

General Corporate and Other

2009 Compared to 2008

Net sales increased to $16,079,000 in 2009 from $14,146,000 in 2008 related to the HVAC systems business. In 2010, the Company has obtained a new order for approximately $8 million.

General and administrative expense decreased 0.4% to $10,239,000 in 2009 from $10,278,000 in 2008, and increased as a percentage of consolidated net sales to 4.4% in 2009 from 3.4% in 2008. The decrease was due mainly to lower profit-based management incentive expense and lower expenses incurred to comply with SOX404, partially offset by increased deferred compensation expense, increased stock compensation expense, and hiring.

Interest expense decreased 32.5% to $1,912,000 in 2009 from $2,834,000, net of capitalized interest, in 2008 primarily due to decreased borrowings and lower interest rates.

2008 Compared to 2007

Net sales increased to $14,146,000 in 2008 from $1,767,000 in 2007. The 2008 and 2007 net sales related to the start-up of the HVAC systems business.

General and administrative expense increased 17.7% to $10,278,000 in 2008 from $8,733,000 in 2007, and decreased as a percentage of consolidated net sales to 3.4% in 2008 from 3.6% in 2007. The dollar increase was mainly due to the increased profit-based management incentive expense, incremental expenses relating to stock compensation expense and additional staffing. These expenses were partially offset by decreased deferred compensation expense. The deferred compensation plan was affected by the market value of the underlying investments. Since the underlying investment declined, the Company’s liability to the employees in the plan decreased.

Interest expense, net of capitalized interest, increased 17.7% to $2,834,000 in 2008 from $2,408,000 in 2007 primarily due to increased borrowings. Capitalized interest of $152,000 was recorded in 2008 and was attributable to the building preparations for the relocation of the filtration products business’ Cicero, Illinois operations to Bolingbrook, Illinois, which occurred in the second and third quarters of 2008. The building was purchased in March 2008 for $6,400,000, and improvements and modifications cost an additional $3,159,000.

INCOME TAXES

The Company's worldwide effective income tax rates were 12.0%, 17.0%, and 158.3%, in 2009, 2008 and 2007, respectively. The effective tax rate in the periods presented was the result of the mix of income earned in multiple tax jurisdictions with various income tax rates. Income earned in the U.A.E. is not subject to any local country income tax. The effective tax rates in 2009 and 2008 were less than the statutory U.S. federal income tax rate, mainly due to the large portion of income earned in the U.A.E. During 2009, the Company reevaluated the need for a valuation allowance against deferred tax assets and established a partial valuation allowance for the research and development credits, as the Company no longer believed that it was more likely than not that a portion of the research and development credits would be utilized within the next five years. As of January 31, 2010, no valuation allowance was deemed necessary on the federal net operating loss ("NOL"). The effective tax rate was higher in 2007 than the statutory U.S. federal income tax rate primarily due to establishing a valuation allowance for certain foreign NOLs and state NOLs. In addition, 2007 had minimal income in the U.A.E. For additional information, see Note 7 - Income Taxes in the Notes to the Financial Statements.

As of January 31, 2010, the Company had undistributed earnings of foreign subsidiaries for which deferred taxes have not been provided. The Company intends and has the ability to reinvest these earnings for the foreseeable future outside the U.S. If these amounts were distributed to the U.S., in the form of dividends or otherwise, the Company would be subject to additional U.S. income taxes. Determination of the amount of unrecognized deferred income tax liabilities on these earnings is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

A reconciliation of the effective income tax rate to the U.S. Statutory tax rate is as follows:

	2009	**2008**
Statutory tax rate	34.0%	34.0%
Differences in foreign tax rate	(54.9%)	(44.3%)
Research tax credit, net of valuation allowance	14.1%	(1.5%)
Valuation allowance for South African and state NOLs	5.4%	3.9%
Return to provision adjustments	2.9%	3.5%
State taxes, net of federal benefit	1.7%	3.8%
All other, net expense	8.8%	5.8%
Impairment of goodwill	0%	11.8%
Effective tax rate	12.0%	17.0%

For further information, see Note 7 – Income Taxes in the Notes to Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents as of January 31, 2010 were $8,067,000 as compared to $2,735,000 at January 31, 2009. The Company's working capital was $57,026,000 at January 31, 2010 compared to $57,984,000 at January 31, 2009. Cash provided by operations in 2009 was $34,587,000. Compared to January 31, 2009, trade receivables decreased by $24,309,000, primarily due to the combined effects of customer collections and lower sales volume in the piping systems business last half of the year, notably $12,235,000 in the U.A.E. Trade receivables also decreased $4,711,000 in the HVAC business. Inventories decreased by $15,273,000 in 2009. Total inventory decreased in the filtration business by $11,692,000 and in the U.A.E. by $3,656,000. Accounts payable decreased by $9,765,000 mainly due to the decrease in purchases. Customer deposits decreased $4,921,000 from January 31, 2009, mainly related to the piping systems business. At January 31, 2010, the filtration products business had customer deposits of $2,276,000 for orders for which the product is expected to ship in 2010.

Net cash used in investing activities in 2009 included $5,262,000 for capital expenditures, primarily for machinery and equipment in the piping systems business. In October 2009, the Company made an investment of $1,960,000 in a Canadian joint venture related to the piping systems business. For additional information, see Investment in Joint Ventures within Note 2 - Significant Accounting Policies in the Notes to the Financial Statements.

The Company estimates that capital expenditures for 2010 will be approximately $9,850,000, of which the Company may finance capital expenditures through real estate mortgages, equipment financing loans, internally generated funds and its revolving line of credit. The majority of such expenditures relates to foreign growth within the piping systems business.

Debt totaled $37,190,000 at January 31, 2010, a decrease of $18,278,000 since the beginning of the year. Net cash used in financing activities was $22,915,000. Stock option activity in 2009 resulted in $88,000 of total cash flow, which included $27,000 tax expense from stock options exercised in addition to stock option proceeds of $61,000. Other long-term liabilities of $5,631,000 were composed primarily of deferred compensation and accrued pension cost.

The following table summarizes the Company's estimated contractual obligations at January 31, 2010.

(In thousands)

Contractual Obligations	**Total**	**1/31/11**	**1/31/12**	**1/31/13**	**1/31/14**	**1/31/15**	**Thereafter**
Revolving line domestic (1)	$ 17,725	$ 0	$ 0	$ 0	$ 17,725	$ 0	$ 0
Mortgages (2)	20,242	1,460	1,461	1,163	925	925	14,308
Revolving line foreign	2,117	998	545	22	22	22	508
Term loans (3)	5,811	1,549	1,304	1,216	1,707	35	0
Subtotal	$ 45,895	$ 4,007	$ 3,310	$ 2,401	$ 20,379	$ 982	$ 14,816
Capitalized lease obligations	425	222	176	25	2	0	0
Operating lease obligations (4)	1,804	1,021	433	205	75	25	45
Projected pension contributions (5)	3,485	573	285	287	298	315	1,727
Deferred compensation (6)	3,892	82	82	81	44	43	3,560
Employment agreements (7)	101	0	0	0	0	0	101
Uncertain tax position obligations (8)	964	0	0	0	0	0	964
Total	$ 56,566	$ 5,905	$ 4,286	$ 2,999	$ 20,798	$ 1,365	$ 21,213

Notes to Contractual Obligations Table

(1) Interest obligations exclude floating rate interest on debt payable under the domestic revolving line of credit. Based on the amount of such debt at January 31, 2010, and the weighted average interest rates on that debt at that date (2.62%), such interest was being incurred at an annual rate of approximately $464,400.
(2) Scheduled maturities, including interest.
(3) Term loan obligations exclude floating rate interest on Term Loan with a January 31, 2010 balance of $1,929,000. Based on the amount of such debt as of January 31, 2010, and the weighted average interest rates on that debt at that date (2.52%), such interest was being incurred at an annual rate of approximately $48,600.
(4) Minimum contractual amounts, assuming no changes in variable expenses.
(5) Includes expected employer contributions for fiscal year ending January 31, 2011 and estimated future benefit payments reflecting expected future service.
(6) Non-qualified deferred compensation plan – The Company has deferred compensation agreements with key employees. Vesting is based on years of service. Life insurance contracts have been purchased which may be used to fund the Company's obligation under these agreements. Payment estimates have been included, that the third party administrator calculates in May.
(7) Refer to the Proxy statement for a description of compensation plans for Named Executive Officers.
(8) Refer to Note 7 – Income Taxes in the Notes to Consolidated Financial Statements for a description of the uncertain tax position obligations.

Financing

At January 31, 2010, the Company was not in compliance with a fixed charge covenant (the "Covenant") under the Loan Agreement as defined below. A waiver was obtained for such noncompliance, and the Covenant has been amended to levels consistent with the Company's current business plan. A ninth amendment dated April 13, 2010 has been finalized. This amendment extends the loan agreement to November 30, 2013.

On July 11, 2002, the Company entered into a secured loan and security agreement with a financial institution ("Loan Agreement"). The Loan Agreement was amended on April 13, 2010. Under the terms of the Loan Agreement, which matures on November 30, 2013, the Company can borrow up to $38,000,000, subject to borrowing base and other requirements, under a revolving line of credit. The Loan Agreement covenants restrict debt, liens, and investments, do not permit payment of dividends, and require attainment of certain levels of profitability and cash flows. Interest rates generally are based on options selected by the Company as follows: (a) a margin in effect plus a prime rate; or (b) a margin in effect plus the LIBOR rate for the corresponding interest period. At January 31, 2010, the prime rate was 3.25%, and the margins added to the prime rate and the LIBOR rate, which are determined each quarter based on the applicable financial statement ratio, were 0.25 and 1.75 percentage points, respectively. Monthly interest payments were made throughout 2009. The average interest rate for the year ending January 31, 2010 was 2.62%. As of January 31, 2010, the Company had borrowed $17,724,800 and had $4,727,800 available to it under the revolving line of credit. In addition, $201,300 of availability was used under the Loan Agreement primarily to support letters of credit to guarantee amounts committed for inventory purchases. The Loan Agreement provides that all payments by the Company's customers are deposited in a bank account from which all funds may only be used to pay the debt under the Loan Agreement. At January 31, 2010, the amount of restricted cash was $640,900. Cash required for operations is provided by draw-downs on the line of credit.

The Company also has credit arrangements used by its Denmark and U.A.E. subsidiaries. These credit arrangements are generally in the form of overdraft facilities at rates competitive in the countries in which the Company operates. At January 31, 2010, borrowings under these credit arrangements totaled $1,830,000; an additional $3,700,000 remained unused.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

Revenue recognition: The Company recognizes revenues including shipping and handling charges billed to customers, when all the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) the seller’s price to the buyer is fixed or determinable, and (iii) collectability is reasonably assured. All subsidiaries of the Company, except as noted below, recognize revenues upon shipment or delivery of goods or services when title and risk of loss pass to customers.

Percentage of completion method revenue recognition: All divisions recognize revenues under the above stated revenue recognition policy except for sizable complex contracts that require periodic recognition of income. For these contracts, the Company uses the “percentage of completion” accounting method. Under this approach, income is recognized in each reporting period based on the status of the uncompleted contracts and the current estimates of costs to complete. The choice of accounting method is made at the time the contract is received based on the expected length and complexity of the project. The percentage of completion is determined by the relationship of costs incurred to the total estimated costs of the contract. Provisions are made for estimated losses on uncompleted contracts in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and income. Such revisions are recognized in the period in which they are determined. Claims for additional compensation due the Company are recognized in contract revenues when realization is probable and the amount can be reliably estimated.

Inventories: Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method for substantially all inventories.

Income Taxes: Deferred income taxes have been provided for temporary differences arising from differences in basis of assets and liabilities for tax and financial reporting purposes. Deferred income taxes on temporary differences have been recorded at the current tax rate. The Company assesses its deferred tax assets for realizability at each reporting period.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. For further information, see Note 7 – Income Taxes in the Notes to Consolidated Financial Statements.

Stock Options: Stock compensation expense for employee equity awards are recognized ratably over the requisite service period of the award. The Black-Scholes option-pricing model is utilized to estimate the fair value of awards. Determining the fair value of stock options using the Black-Scholes model requires judgment, including estimates for (1) risk-free interest rate – an estimate based on the yield of zero–coupon treasury securities with a maturity equal to the expected life of the option; (2) expected volatility – an estimate based on the historical volatility of the Company's Common Stock; and (3) expected life of the option – an estimate based on historical experience including the effect of employee terminations. If any of these assumptions differ significantly from actual, stock-based compensation expense could be impacted.

Recently Adopted Accounting Standards: In December 2008, the FASB issued guidance that requires additional disclosures for plan assets of defined benefit pension or other postretirement plans consistent with guidance contained in ASC 820, *Fair Value Measurements and Disclosures*. The new guidance, which has been codified in ASC 715, *Compensation – Retirement Benefits*, 20, "Defined Benefit Plans – General," requires that disclosures include a description of the investment policies and strategies, the fair value of each major category of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs on changes in plan assets, and the significant concentrations of risk within plan assets. ASC 715-20 does not change the accounting treatment for postretirement benefit plans. ASC 715-20 is effective for the Company on January 31, 2010. Refer to Note 8 – Employee Retirement Plans in the Notes to Consolidated Financial Statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to market risk associated with changes in foreign currency exchange rates, interest rates and commodity prices. Foreign currency exchange rate risk is mitigated through maintenance of local production facilities in the markets served, often, though not always, invoicing customers in the same currency as the source of the products and use of foreign currency denominated debt in Denmark, India, and the U.A.E. At times, the Company has attempted to mitigate interest rate risk by maintaining a balance of fixed and floating rate debt.

A hypothetical ten percent change in market interest rates over the next year would increase or decrease interest on the Company's floating rate debt instruments by approximately $46,400.

Commodity price risk is the possibility of higher or lower costs due to changes in the prices of commodities, such as ferrous alloys which the Company uses in the production of piping systems. The Company attempts to mitigate such risks by obtaining price commitments from its commodity suppliers and, when it appears appropriate, purchasing quantities in advance of likely price increases.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of the Company for each of the three years in the period ended as of January 31, 2010, 2009 and 2008 and the notes thereto are set forth elsewhere herein.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of January 31, 2010. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of as of January 31, 2010 to ensure that information required to be disclosed in the reports that are filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and is accumulated and communicated to the issuer's management, including the principal executive and financial officers, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting: The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. As required by Rule 13a-15(c) under the Exchange Act, MFRI's management carried out an evaluation, with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of its internal control over financial reporting as of the end of the last fiscal year. The framework on which such evaluation was based is contained in the report entitled "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Report").

The Company's system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on its assessment, management has concluded that the Company has maintained effective internal control over financial reporting as of January 31, 2010, based on criteria in the COSO Report.

Grant Thornton LLP, an independent registered public accounting firm, has audited management's effectiveness of MFRI's internal control over financial reporting as of January 31, 2010 as stated in their report which is included herein.

Change in Internal Controls: There has been no change in internal control over financial reporting that occurred during the last fiscal year that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

Item 9B. OTHER INFORMATION

None

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information with respect to this item is incorporated herein by reference to the Company's definitive proxy statement for the 2010 annual meeting of stockholders.

Information with respect to executive officers of the Company is included in Item 1, Part I hereof under the caption "Executive Officers of the Registrant".

Item 11. EXECUTIVE COMPENSATION

Information with respect to this item is incorporated herein by reference to the Company's definitive proxy statement for the 2010 annual meeting of stockholders.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information with respect to this item is incorporated herein by reference to the Company's definitive proxy statement for the 2010 annual meeting of stockholders.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information with respect to this item is incorporated herein by reference to the Company's definitive proxy statement for the 2010 annual meeting of stockholders.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information with respect to this item is incorporated herein by reference to the Company's definitive proxy statement for the 2010 annual meeting of stockholders.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

a. List of documents filed as part of this report:
   (1) Financial Statements - Consolidated Financial Statements of the Company
   Refer to Part II, Item 8 of this report.
   (2) Financial Statement Schedules
   Schedule II - Valuation and Qualifying Accounts

b. Exhibits: The exhibits, as listed in the Exhibit Index included herein, are submitted as a separate section of this report.

c. The response to this portion of Item 15 is submitted under 15a (2) above.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
MFRI, Inc. and Subsidiaries

We have audited MFRI, Inc. (a Delaware Corporation) and Subsidiaries' (the "Company") internal control over financial reporting as of January 31, 2010, based on criteria established in *Internal Control—Integrated Fram*ework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, MFRI, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of January 31, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of January 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity, comprehensive income (loss) and cash flows for each of the three years in the period ended January 31, 2010, and our report dated April 16, 2010, expressed an unqualified opinion on those financial statements.

/s/ Grant Thornton LLP

Chicago, Illinois
April 16, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
MFRI, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of MFRI, Inc. (a Delaware corporation) and Subsidiaries (the “Company”) as of January 31, 2010 and 2009, and the related consolidated statements of operations, stockholders’ equity, comprehensive income (loss) and cash flows for each of the three years in the period ended January 31, 2010. Our audits of the basic financial statements included the financial statement schedule listed in the index appearing under Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MFRI, Inc. and Subsidiaries as of January 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2010, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), MFRI, Inc. and Subsidiaries’ internal control over financial reporting as of January 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated April 16, 2010, expressed an unqualified opinion on the effective operation of internal control over financial reporting.

/s/ Grant Thornton LLP

Chicago, Illinois
April 16, 2010

MFRI, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	2009	**2008**	**2007**
		Fiscal Year Ended January 31,	
(In thousands except per share information)	2010	2009	2008
Net sales	$ 230,381	$ 303,066	$ 239,487
Cost of sales	178,435	244,118	198,238
Gross profit	51,946	58,948	41,249
Operating expenses:			
General and administrative expense	31,720	30,818	24,083
Selling expense	13,029	14,550	14,270
Impairment of goodwill	0	2,788	0
Total operating expenses	44,749	48,156	38,353
Income from operations	7,197	10,792	2,896
Income from joint ventures	21	104	23
Interest expense, net	1,912	2,834	2,408
Income before income taxes	5,306	8,062	511
Income tax expense	635	1,373	809
Net income (loss)	$ 4,671	$ 6,689	$ (298)
Weighted average number of common shares outstanding – basic	6,824	6,797	6,627
Basic earnings per share:			
Net income (loss)	$ 0.68	$ 0.98	$ (0.04)
Weighted average number of common shares outstanding – diluted	6,855	6,853	6,627
Diluted earnings per share:			
Net income (loss)	$ 0.68	$ 0.98	$ (0.04)

See accompanying Notes to Consolidated Financial Statements.

MFRI, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands)	As of January 31, 2010	2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 8,067	$ 2,735
Restricted cash	641	220
Trade accounts receivable, less allowance for doubtful accounts of $379 in 2009 and $473 in 2008	36,157	59,766
Inventories, net	35,349	52,291
Due from joint ventures	4,253	277
Prepaid expenses and other current assets	3,531	8,323
Costs and estimated earnings in excess of billings on uncompleted contracts	3,127	2,472
Deferred tax assets - current	2,769	2,171
Income Taxes Receivable	1,414	0
Total current assets	95,308	128,255
Property, Plant and Equipment, Net	45,812	47,256
Other Assets:		
Deferred tax assets - long-term	4,187	2,756
Cash surrender value of deferred compensation plan	2,491	1,677
Investment in joint ventures	2,097	116
Other assets	414	796
Patents, net of accumulated amortization	238	292
Total other assets	9,427	5,637
Total Assets	$ 150,547	$ 181,148
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	$ 13,024	$ 27,232
Commissions and management incentive payable	9,895	10,418
Other accrued liabilities	4,116	4,947
Accrued compensation and payroll taxes	3,812	3,601
Customer deposits	3,521	8,206
Current maturities of long-term debt	3,118	12,793
Billings in excess of costs and estimated earnings on uncompleted contracts	796	2,586
Income taxes payable	0	488
Total current liabilities	38,282	70,271
Long-Term Liabilities:		
Long-term debt, less current maturities	34,072	42,090
Deferred compensation liability	3,892	2,502
Other long term liabilities	1,739	2,107
Total long-term liabilities	39,703	46,699
Stockholders' Equity:		
Common stock, $0.01 par value, authorized 50,000 shares 6,836 and 6,815 issued and outstanding in 2009 and 2008, respectively	68	68
Additional paid-in capital	48,086	46,922
Retained earnings	23,594	18,923
Accumulated other comprehensive income (loss)	814	(1,735)
Total stockholders’ equity	72,562	64,178
Total Liabilities and Stockholders’ Equity	$ 150,547	$ 181,148

See accompanying Notes to Consolidated Financial Statements.

MFRI, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock					
(In thousands)	**Shares**	**Amount**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Comprehensive Income (Loss)**
Balances at February 1, 2007	5,530	$ 55	$ 25,327	$ 13,037	$ 397	$ 4,973
Net loss				(298)		(298)
Recording of uncertain tax positions				(505)		
Issuance of stock	1,003	10	18,322			
Stock options exercised	254	3	932			
Stock-based compensation expense			504			
Excess tax benefits from stock options exercised			1,466			
Interest rate swap					2	2
Pension liability adjustment (net of taxes of $483)					(71)	(71)
Unrealized gain on marketable securities (including a tax benefit of $87)					(184)	(184)
Foreign currency translation adjustment, pre-tax					783	783
Balances at January 31, 2008	6,787	68	46,551	12,234	927	232
Net income				6,689		6,689
Stock options exercised	28		83			
Stock-based compensation expense			745			
Tax expense from stock options exercised			(457)			
Pension liability adjustment (net of taxes of $749)					(435)	(435)
Foreign currency translation adjustment, pre-tax					(2,227)	(2, 227)
Balances at January 31, 2009	6,815	68	46,922	18,923	(1,735)	4,027
Net income				4,671		4,671
Stock options exercised	21		61			
Stock-based compensation expense			1,076			
Excess tax benefits from stock options exercised			27			
Pension liability adjustment (net of taxes of $649)					164	164
Foreign currency translation adjustment, pre-tax					2,385	2,385
Balances at January 31, 2010	6,836	$ 68	$ 48,086	$ 23,594	$ 814	$ 7,220

See accompanying Notes to Consolidated Financial Statements.

MFRI, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	2009 Fiscal Year Ended January 31, 2010	2008 2009	2007 2008
Operating activities:			
Net income (loss)	$ 4,671	$ 6,689	$ (298)
Adjustments, to reconcile net income (loss) to net cash flows from operating activities:			
Depreciation and amortization	6,338	5,776	4,431
Deferred tax benefit	(1,231)	(71)	(1,913)
Stock-based compensation expense	1,076	745	504
Cash surrender value of deferred compensation plan	(814)	300	(486)
Provision (benefit) for uncollectible accounts	(130)	114	15
Loss (gain) on sales of assets	60	(108)	60
Income from joint ventures	(21)	(104)	(23)
Impairment of goodwill	0	2,788	0
Gain on sale of marketable securities	0	0	(258)
Changes in operating assets and liabilities:			
Accounts receivable	24,309	(21,131)	(3,878)
Inventories	15,273	(8,297)	(5,452)
Accounts payable	(9,765)	4,995	1,561
Customer deposits	(4,921)	4,121	(1,482)
Income taxes receivable and payable	(2,085)	1,174	(648)
Other assets and liabilities	1,472	2,198	1,609
Prepaid expenses and other current assets	651	(5,910)	(1,032)
Accrued compensation and payroll taxes	(296)	4,556	(60)
Net cash provided by (used in) operating activities	34,587	(2,165)	(7,350)
Investing activities:			
Purchases of property and equipment	(5,262)	(18,464)	(5,763)
Investment in joint ventures	(1,960)	0	0
Proceeds from sales of property and equipment	17	297	149
Distributions from joint ventures	0	0	286
Proceeds from sales of marketable securities	0	0	258
Net cash used in investing activities	(7,205)	(18,167)	(5,070)
Financing activities:			
Borrowings under revolving, term, mortgage loans, and capitalized leases	188,179	130,668	111,388
Repayments of debt	(206,287)	(108,878)	(116,625)
Net (repayment) borrowing	(18,108)	21,790	(5,237)
Increase (decrease) in drafts payable	(4,725)	192	(454)
Payments on capitalized lease obligations	(170)	(53)	(208)
Tax benefit (expense) of stock options exercised	27	(457)	1,466
Stock options exercised	61	83	932
Issuance of stock	0	0	18,332
Net cash (used in) provided by financing activities	(22,915)	21,555	14,831
Effect of exchange rate changes on cash and cash equivalents	865	(1,153)	(311)
Net increase in cash and cash equivalents	5,332	70	2,100
Cash and cash equivalents – beginning of year	2,735	2,665	565
Cash and cash equivalents – end of year	$ 8,067	$ 2,735	$ 2,665
Supplemental cash flow information:			
Cash paid for:			
Interest, net of capitalized amounts	$ 1,993	$ 2,733	$ 2,429
Income taxes paid, net of refunds	$ 4,199	$ 131	$ 1,011

Note 1 - Business and Segment Information

MFRI, Inc. ("MFRI", the "Company", or the "Registrant") was incorporated on October 12, 1993. MFRI is engaged in the manufacture and sale of products in three distinct business segments: piping systems, filtration products and industrial process cooling equipment.

Fiscal Year: The Company's fiscal year ends on January 31. Years and balances described as 2009, 2008, and 2007 are the fiscal years ended January 31, 2010, 2009 and 2008, respectively.

Nature of Business: The piping systems business engineers, designs, manufactures and sells specialty piping systems and leak detection and location systems. This segment's specialty piping systems include (i) industrial and secondary containment piping systems for transporting chemicals, waste streams and petroleum liquids, (ii) insulated and jacketed district heating and cooling piping systems for efficient energy distribution to multiple locations from central energy plants, and (iii) oil and gas gathering flow and long lines for oil and mineral transportation. The piping systems business's leak detection and location systems are sold as part of many of its piping systems products, and on a stand-alone basis, to monitor areas where fluid intrusion may contaminate the environment, endanger personal safety, cause a fire hazard, impair essential services or damage equipment or property. The filtration products business manufactures and sells a wide variety of filter elements for use in industrial air filtration systems and particulate collection systems. Air filtration systems are used in a wide variety of industries to limit particulate emissions, primarily to comply with environmental regulations. The filtration products business markets air filtration related products and accessories, and provides maintenance services, consisting primarily of dust collector inspection, filter cleaning and filter replacement. The industrial process cooling equipment business engineers, designs, manufactures and sells industrial process cooling equipment, including chillers, cooling towers, plant circulating systems, and related accessories for use in industrial process applications. The Company has a subsidiary that is not sufficiently large to constitute a reportable segment, which engages in the installation of HVAC systems. The Company's products are sold both within the U.S. and internationally.

MFRI's reportable segments are strategic businesses that offer different products and services. Each is managed separately based on fundamental operating differences. Each strategic business was acquired as a unit and management at the time of acquisition was retained. The Company evaluates performance based on gross profit and income or loss from operations.

The following is information relevant to the Company's business segments:

	2009	2008	2007
Net sales:			
Piping Systems	$ 111,665	$ 151,792	$ 104,273
Filtration Products	80,819	105,390	97,120
Industrial Process Cooling Equipment	21,818	31,738	36,327
Corporate and Other	16,079	14,146	1,767
Total net sales	$ 230,381	$ 303,066	$ 239,487
Gross profit:			
Piping Systems	$ 37,974	$ 37,871	$ 18,952
Filtration Products	6,733	11,424	13,776
Industrial Process Cooling Equipment	4,977	7,919	8,508
Corporate and Other	2,262	1,734	13
Total gross profit	$ 51,946	$ 58,948	$ 41,249
Income (loss) from operations:			
Piping Systems	$ 22,399	$ 24,037	$ 10,623
Filtration Products	(5,290)	(2,936)	2,220
Industrial Process Cooling Equipment	(1,935)	(1,765)	(1,227)
Corporate and Other	(7,977)	(8,544)	(8,720)
Total income from operations	$ 7,197	$ 10,792	$ 2,896
Income (loss) before income taxes:			
Piping Systems	$ 22,420	$ 24,141	$ 10,646
Filtration Products	(5,290)	(2,936)	2,220
Industrial Process Cooling Equipment	(1,935)	(1,765)	(1,227)
Corporate and Other	(9,889)	(11,378)	(11,128)
Total income before income taxes	$ 5,306	$ 8,062	$ 511
Segment assets:			
Piping Systems	$ 76,557	$ 87,803	$ 62,075
Filtration Products	49,556	64,865	51,407
Industrial Process Cooling Equipment	8,447	10,527	14,419
Corporate and Other	15,987	17,953	12,511
Total segment assets	$ 150,547	$ 181,148	$ 140,412
Capital expenditures:			
Piping Systems	$ 3,716	$ 6,641	$ 2,190
Filtration Products	1,127	10,925	2,500
Industrial Process Cooling Equipment	32	73	187
Corporate and Other	387	825	886
Total capital expenditures	$ 5,262	$ 18,464	$ 5,763
Depreciation and amortization:			
Piping Systems	$ 3,561	$ 3,210	$ 2,063
Filtration Products	1,939	1,626	1,459
Industrial Process Cooling Equipment	225	368	393
Corporate and Other	613	572	516
Total depreciation and amortization	$ 6,338	$ 5,776	$ 4,431
Impairment of goodwill			
Filtration Products	$ 0	$ 1,688	$ 0
Industrial Process Cooling Equipment	$ 0	$ 1,100	$ 0
Total impairment of goodwill	$ 0	$ 2,788	$ 0

Geographic Information: Net sales are attributed to a geographic area based on the destination of the product shipment. Long-lived assets are based on the physical location of the assets and consist of property, plant and equipment used in the generation of revenues in the geographic area.

	2009	2008	2007
Net Sales:			
United States	$ 150,871	$ 197,274	$ 166,424
Middle East	32,150	52,193	22,560
Europe	17,410	24,915	31,073
India	16,110	13,801	927
Canada	5,500	4,742	5,350
Mexico, South America, Central America and the Caribbean	3,195	4,879	6,521
All other Asia	2,490	3,715	3,849
Africa	2,360	999	2,029
Other	295	548	754
Total Net Sales	$ 230,381	$ 303,066	$ 239,487
Long-Lived Assets:			
United States	$ 30,851	30,892	21,601
U.A.E.	7,478	6,871	7,413
Denmark	4,909	4,959	6,225
India	2,360	4,363	0
South Africa	214	171	162
Total Long-Lived Assets	$ 45,812	$ 47,256	$ 35,401

Note 2 - Significant Accounting Policies

Reclassifications: Reclassifications were made to prior-year financial statements to conform to the current-year presentations.

Use of Estimates: The preparation of financial statements in conformity with generally accepted U.S. accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition: The Company recognizes revenues including shipping and handling charges billed to customers, when all the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) the seller's price to the buyer is fixed or determinable, and (iii) collectability is reasonably assured. All subsidiaries of the Company, except as noted below, recognize revenues upon shipment or delivery of goods or services when title and risk of loss pass to customers.

Percentage of Completion Revenue Recognition: All divisions recognize revenues under the above stated revenue recognition policy except for sizable complex contracts - that require periodic recognition of income. For these contracts, the Company uses "percentage of completion" accounting method. Under this approach, income is recognized in each reporting period based on the status of the uncompleted contracts and the current estimates of costs to complete. The choice of accounting method is made at the time the contract is received based on the expected length and complexity of the project. The percentage of completion is determined by the relationship of costs incurred to the total estimated costs of the contract. Provisions are made for estimated losses on uncompleted contracts in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and income. Such revisions are recognized in the period in which they are determined. Claims for additional compensation due the Company are recognized in contract revenues when realization is probable and the amount can be reliably estimated.

Shipping and Handling: Shipping and handling costs are included in cost of goods sold, and the amounts invoiced to customers relating to shipping and handling are included in net sales.

Operating Cycle: The length of the piping systems business's contracts vary, but are typically less than one year. The Company includes in current assets and liabilities amounts realizable and payable in the normal course of contract completion unless completion of such contracts extends significantly beyond one year. The Company's other businesses do not have an operating cycle beyond one year.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its domestic and foreign subsidiaries, all of which are wholly owned. All significant intercompany balances and transactions have been eliminated.

Translation of Foreign Currency: Assets and liabilities of consolidated foreign subsidiaries are translated into U.S. dollars at exchange rates in effect at year-end. Revenues and expenses are translated at average exchange rates prevailing during the year. Gains or losses on foreign currency transactions and the related tax effects are reflected in net income. The resulting translation adjustments are included in stockholders' equity as part of accumulated comprehensive income.

Contingencies: The Company is subject to various legal proceedings and claims that arise in the ordinary course of business, including those involving environmental, tax, product liability and general liability claims. The Company accrues for such liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated. Such accruals are based on developments to date, the Company's estimates of the outcomes of these matters, and its experience in contesting, litigating and settling other similar matters. The Company does not currently anticipate the amount of any ultimate liability with respect to these matters will materially affect the Company's financial position, liquidity or future operations.

Cash and Cash Equivalents: All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. The balance is primarily cash and cash equivalents at the foreign subsidiaries. The Company has not experienced any losses as a result of its cash concentration. Consequently, no significant concentration of credit risk is considered to exist. Accounts payable included drafts payable of $2,624,000 and $7,349,000 as of January 31, 2010 and 2009, respectively.

Restricted Cash: The Loan Agreement requires that all payments by the Company's customers are deposited in a bank account from which all funds may only be used to pay the debt under the Loan Agreement.

Accounts Receivable Collection: The majority of the Company's accounts receivable are due from geographically dispersed contractors and manufacturing companies. Credit is extended based on an evaluation of a customer's financial condition, including the availability of credit insurance. In the U.S. collateral is not generally required. Accounts receivable are due within various time periods specified in the terms applicable to the specific customer and are stated at amounts due from customers net of an allowance for claims and doubtful accounts. The allowance for doubtful accounts was calculated using a percentage of sales method based upon collection history and an estimate of uncollectible accounts. Management may exercise its judgment in adjusting the provision as a consequence of known items, such as current economic factors and credit trends. Accounts receivable adjustments are recorded against the allowance for doubtful accounts.

Concentration of Credit Risk: The Company has a broad customer base doing business in all regions of the U.S. as well as other areas in the world. The Company maintains foreign credit insurance covering selected foreign sales not secured by letters of credit or guarantees from parent companies in the U.S. This expense is included in general and administrative expense in the Consolidated Statements of Operations. In the fiscal years ended January 31, 2010, 2009 and 2008, no customer accounted for 10% or more of net sales.

Other Comprehensive Income (Loss): Other comprehensive income (loss) is defined as the change in equity resulting from transactions from non-owner sources. Other comprehensive income (loss) consisted of the following: minimum pension liability, foreign currency translation, unrealized gain on marketable securities and interest rate swap.

Pension Plan: The Winchester facility has a defined benefit plan covering its hourly employees. The benefits are based on fixed amounts multiplied by years of service of retired participants. The Company engages outside actuaries to calculate its obligations and costs. The funding policy is to contribute such amounts as are necessary to provide for benefits attributed to service to date and those expected to be earned in the future. The amounts contributed to the plan are sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974.

Inventories: Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method for substantially all inventories. Inventories consist of the following:

	2009	2008
Raw materials	$ 28,477	$ 41,514
Work in process	2,679	5,398
Finished goods	5,444	6,880
Subtotal	36,600	53,792
Less allowances	1,251	1,501
Inventories, net	$ 35,349	$ 52,291

Long-Lived Assets: Property, plant and equipment are stated at cost. Interest is capitalized in connection with the construction of facilities and amortized over the asset's estimated useful life. Interest of $152,000 was capitalized during 2008. Long-lived assets are reviewed for possible impairment whenever events indicate that the carrying amount of such assets may not be recoverable. If such a review indicates impairment, the carrying amount of such assets is reduced to an estimated fair value.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to 30 years. Leasehold improvements are depreciated over the remaining life of the lease or its useful life whichever is shorter. Amortization of assets under capital leases is included in depreciation and amortization.

The Company's investment in property, plant and equipment is summarized below:

	2009	2008
Land, buildings and improvements	$ 32,867	$ 31,862
Machinery and equipment	43,996	41,871
Furniture, office equipment and computer systems	12,706	12,004
Transportation equipment	561	512
Subtotal	90,130	86,249
Less accumulated depreciation and amortization	44,318	38,993
Property, plant and equipment, net	$ 45,812	$ 47,256

Goodwill Impairment: The goodwill impairment assessment performed for 2008 identified the effect of economic conditions at that time, on both the risks considered and the calculations made. The assessment considered uncertainty about economic conditions that could pose risks to the Company's customer demand in the U.S. and globally, and incorporated discount rates that were higher than prior years in calculating the present value of estimated future cash flows. Based on its completed assessment of estimated future cash flows, the Company concluded that as of January 31, 2009, the goodwill of $1,688,000 related to the filtration products business and $1,100,000 related to the industrial process cooling equipment business were both fully impaired. As a result, the Company recorded a noncash charge of $2,788,000 during the fourth quarter of 2008 related to the impairment of goodwill.

Other intangible assets with definite lives: The Company owns several patents covering the features of its piping and electronic leak detection systems. The patents are not material either individually or in the aggregate to the overall business because the Company believes sales in the business would not be materially reduced if patent protection were not available. Patents are capitalized and amortized on a straight-line basis over a period not to exceed the legal lives of the patents. Gross patents were $2,399,700 and $2,494,000 as of January 31, 2010 and 2009. Accumulated amortization was $2,161,700 and $2,202,000 as of January 31, 2010 and 2009, respectively. Future amortizations over the next five years ending January 31 will be $55,000 in 2011, $39,000 in 2012, $29,000 in 2013, $24,000 in 2014, $21,000 in 2015, and $70,000 thereafter.

Investment in Joint Ventures: In October 2009, the Company paid a total of $5.88 million, $1.96 million for the 49% investment and $3.92 million in a loan, in a Canadian joint venture with The Bayou Companies, Inc., a subsidiary of Insituform Technologies, Inc. This joint venture completed a 12.25 million Canadian dollar acquisition of Garneau, Inc's pipe coating and insulation facility and associated assets located in Camrose, Alberta, Canada, which provides the Company the opportunity to sell product to the growing oil sands market.

In April 2002, the piping system business and two unrelated companies formed an equally owned joint venture to more efficiently market their complementary thermal insulation products and systems for use in undersea pipeline flow assurance projects worldwide. On June 28, 2007, the piping system business loaned the joint venture $100,000. The loan and interest were paid in 2008.

The Company accounts for the investment in joint ventures using the equity method.

	2009	2008	2007
Partner distributions from joint ventures	$ 0	$ 0	$ 286
Share of income from joint ventures	$ 21	$ 104	$ 23

Research**:** Research and development expenses consist of materials, salaries and related expenses of certain engineering personnel, and outside services related to product development projects. Research and development costs are expensed as incurred. Research and development expense was $2,478,000 in 2009, $2,517,000 in 2008 and $4,994,000 in 2007.

Income Taxes: Deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of enacted tax laws. The deferred income tax provisions and benefits are based on changes to the assets or liabilities from year to year. In providing for deferred taxes, the Company considers tax regulations of the jurisdictions in which it operates, estimates of future taxable income and available tax planning strategies. If tax regulations, operating results or the ability to implement tax planning and strategies vary, adjustments to the carrying value of deferred tax assets and liabilities may be required. Valuation allowances are recorded related to deferred tax assets based on the more-likely-than-not realization criteria.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. For further information, see Note 7 – Income Taxes in the Notes to Consolidated Financial Statements.

Net Income Per Common Share: Earnings per share ("EPS") are computed by dividing net income by the weighted average number of common shares outstanding (basic) plus all potentially dilutive common shares outstanding during the year (diluted). The computation of diluted EPS for the year ended January 31, 2008 excluded 111 stock options due to the loss for the period. The basic weighted average shares reconcile to diluted weighted average shares as follows:

	2009	2008	2007
Basic weighted average number of common shares outstanding	6,824	6,797	6,627
Dilutive effect of stock options	31	56	0
Weighted average number of common shares outstanding assuming full dilution	6,855	6,853	6,627
Weighted average number of stock options not included in the computation of diluted EPS of common stock because the option exercise prices exceeded the average market prices	571	292	143
Expired or canceled options during the year	26	20	11
Stock options with an exercise price below the average stock price	110	258	294

In 2009, a total of 21,463 stock options were exercised.

Stock Options: Stock compensation expense for employee equity awards are recognized ratably over the requisite service period of the award. The Black-Scholes option-pricing model is utilized to estimate the fair value of awards. Determining the fair value of stock options using the Black-Scholes model requires judgment, including estimates for (1) risk-free interest rate – an estimate based on the yield of zero–coupon treasury securities with a maturity equal to the expected life of the option; (2) expected volatility – an estimate based on the historical volatility of the Company's Common Stock; and (3) expected life of the option – an estimate based on historical experience including the effect of employee terminations. If any of these assumptions differ significantly from actual, stock-based compensation expense could be impacted.

Fair Value of Financial Instruments*:* The carrying values of cash and cash equivalents, accounts receivable and accounts payable are reasonable estimates of their fair value due to their short-term nature. The carrying amount of the Company's short-term debt, revolving line of credit and long-term debt approximate fair value because the majority of the amounts outstanding accrue interest at variable rates.

New Accounting Pronouncements: In December 2008, the FASB issued guidance that requires additional disclosures for plan assets of defined benefit pension or other postretirement plans consistent with guidance contained in ASC 820, *Fair Value Measurements and Disclosures*. The new guidance, which has been codified in ASC 715, *Compensation – Retirement Benefits*, 20, "Defined Benefit Plans – General," requires that disclosures include a description of the investment policies and strategies, the fair value of each major category of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs on changes in plan assets, and the significant concentrations of risk within plan assets. ASC 715-20 does not change the accounting treatment for postretirement benefit plans. ASC 715-20 is effective for the Company on January 31, 2010. ASC 715-20 is effective for the Company on January 31, 2010. Refer to Note 8 – Employee Retirement Plans in the Notes to Consolidated Financial Statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

Note 3 - Retention

Retention receivable is the amount withheld by a customer until a contract is completed. Retention receivables of $6,481,500 and $3,303,000 were included in the balance of trade accounts receivable as of January 31, 2010 and 2009, respectively.

Retention payable is the amount withheld by the Company until a contract is completed. Retention payables of $509,300 and $300,600 were included in the balance of trade accounts payable as of January 31, 2010 and 2009, respectively.

Note 4 - Costs and Estimated Earnings on Uncompleted Contracts

	2009	2008
Costs incurred on uncompleted contracts	$ 44,797	$ 43,974
Estimated earnings	10,186	11,059
Earned revenue	54,983	55,033
Less billings to date	52,652	55,147
Total	$ 2,331	$ (114)
Classified as follows:		
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 3,127	$ 2,472
Billings in excess of costs and estimated earnings on uncompleted contracts	(796)	(2,586)
Total	$ 2,331	$ (114)

Note 5 - Debt

Debt consisted of the following	2009	2008
Revolving line domestic	$ 17,725	$ 23,762
Mortgage notes	12,080	12,557
Revolving lines foreign	1,830	11,957
Term loans	5,159	6,110
Capitalized lease obligations (See Note 6 - Lease Information)	396	497
Total debt	37,190	54,883
Less current maturities	3,118	12,793
Total long-term debt	34,072	42,090

The following table summarizes the Company's scheduled maturities at January 31, 2010:

	Total	1/31/11	1/31/12	1/31/13	1/31/14	1/31/15	Thereafter
Revolving line domestic	$ 17,725	$ 0	$ 0	$ 0	$ 17,725	$ 0	$ 0
Mortgages	12,080	708	756	505	284	299	9,528
Revolving line foreign	1,830	843	501	0	0	0	486
Term loans	5,159	1,366	1,136	1,065	1,586	6	0
Capitalized lease obligations	396	201	169	24	2	0	0
Total	$ 37,190	$ 3,118	$ 2,562	$ 1,594	$ 19,597	$ 305	10,014

At January 31, 2010, the Company was not in compliance with a fixed charge covenant (the "Covenant") under the Loan Agreement as defined below. A waiver was obtained for such noncompliance, and the Covenant has been amended to levels consistent with the Company's current business plan. A ninth amendment dated April 13, 2010 has been finalized. This amendment extends the loan agreement to November 30, 2013.

On July 11, 2002, the Company entered into a secured loan and security agreement with a financial institution ("Loan Agreement"). The Loan Agreement was amended on April 13, 2010. Under the terms of the Loan Agreement, which matures on November 30, 2013, the Company can borrow up to $38,000,000, subject to borrowing base and other requirements, under a revolving line of credit. The Loan Agreement covenants restrict debt, liens, and investments, do not permit payment of dividends, and require attainment of certain levels of profitability and cash flows. Interest rates generally are based on options selected by the Company as follows: (a) a margin in effect plus a prime rate; or (b) a margin in effect plus the LIBOR rate for the corresponding interest period. At January 31, 2010, the prime rate was 3.25%, and the margins added to the prime rate and the LIBOR rate, which are determined each quarter based on the applicable financial statement ratio, were 0.25 and 1.75 percentage points, respectively. Monthly interest payments were made throughout 2009. The average interest rate for the year ending January 31, 2010 was 2.62%. As of January 31, 2010, the Company had borrowed $17,724,800 and had $4,727,800 available to it under the revolving line of credit. In addition, $201,300 of availability was used under the Loan Agreement primarily to support letters of credit to guarantee amounts committed for inventory purchases. The Loan Agreement provides that all payments by the Company's customers are deposited in a bank account from which all funds may only be used to pay the debt under the Loan Agreement. At January 31, 2010, the amount of restricted cash was $640,900. Cash required for operations is provided by draw-downs on the line of credit.

The Company guarantees the subsidiaries' debt including all foreign debt.

Mortgages: On June 6, 2008, the Company obtained a loan in the amount of 2,306,250 DKK (approximately $438,000 U.S. dollars at the prevailing exchange rate at the time of the transaction) from a Danish bank under a mortgage note secured by its manufacturing facility in Denmark. The loan has a variable interest rate plus margin of 1.75%. The interest rate at January 31, 2010 was 4.45% with quarterly payments of $19,000 for both principal and interest, and has a ten-year term.

On March 4, 2008, the Company borrowed $5,440,000 under a mortgage note secured by the filtration products manufacturing facility located in Bolingbrook, Illinois. The 25 year mortgage resets its interest rate every five years based on a published index. The initial interest rate is 6.54% during the first five years with monthly payments of $36,867 for principal and interest combined.

On January 18, 2008, the Company borrowed $3,675,000 under a mortgage note secured by its manufacturing and office facility in Niles, Illinois. The loan bears interest at 6.26% with monthly payments of $22,652 for both principal and interest based on an amortization schedule of 30 years with a balloon payment at the end of the ten-year term.

On December 31, 2005, the Company obtained a loan in the amount of 7,067,000 Danish Kroners ("DKK") (approximately $1,122,000 U.S. dollars at the prevailing exchange rate at the time of the transaction) from a Danish bank to partially finance a building addition at its Filtration facility in Denmark. The loan has a term of twenty years. The loan bears interest at 4.28% with quarterly payments of $23,500 for both principal and interest.

On May 11, 2005, the Company obtained a loan in the amount of 3,241,500 DKK (approximately $536,000 U.S. dollars at the prevailing exchange rate at the time of the transaction) from a Danish bank to partially finance the building addition. The loan has a term of twenty years. The loan bears interest at 4.89% with quarterly payments of $10,700 for both principal and interest.

On July 31, 2002, Perma-Pipe, Inc. borrowed $1,750,000 under a mortgage note secured by its manufacturing facility in Lebanon, Tennessee. From the proceeds, $1,000,000 was used for a payment of amounts borrowed under the Note Purchase Agreements with the remaining proceeds used to repay amounts borrowed under the Loan Agreement. The loan bears interest at 7.75% with monthly payments of $21,001 for both principal and interest, and has a ten year term.

On April 26, 2002, Midwesco Filter borrowed $2,025,000 under a mortgage note secured by its manufacturing facility in Winchester, Virginia. Proceeds from the mortgage, net of a prior mortgage loan were used to make principal payments to the lenders under the Prior Term Loans and the bank which was the lender under the Company's revolving line of credit at that time. The loan bears interest at 7.10% with a monthly payment of $23,616 for both principal and interest, and has a ten year term.

Revolving lines foreign: The Company also has credit arrangements used by its Denmark and U.A.E. subsidiaries. These credit arrangements are generally in the form of overdraft facilities at rates competitive in the countries in which the Company operates. The interest rate at the Denmark subsidiaries was 4.45% at January 31, 2010, and the interest rate at the U.A.E subsidiaries was 8.5% at January 31, 2010. At January 31, 2010, borrowings under these credit arrangements totaled $1,830,000; an additional $3,700,000 remained unused.

Term loans: On November 1, 2008, the filtration products business Bolingbrook location entered into a capital lease in the amount of $537,400. Proceeds were used to purchase improvements for the facility. The loan bears interest at 7.55% with a monthly payment of $16,125 for both principal and interest, and has a three year term.

On March 9, 2007, the filtration products business Denmark location obtained a loan in the amount of 1,343,200 Euros (approximately $1,765,000 U.S. dollars at the prevailing exchange rate at the time of the transaction) from a Danish bank to finance capital expenditures and other expenses. The loan matures May 2011. The loan bears interest at a floating rate at January 31, 2010 of 5.00% per annum with monthly principal payments of $35,300.

On August 28, 2007, the Company amended and restated the Term Loan Note to $3,000,000 ("Term Loan"). In March 2005, the Company's Loan Agreement was amended to add a term loan. Interest rates under the Term Loan are based on options selected by the Company as follows: (a) a margin in effect plus a prime rate; or (b) a margin in effect plus the LIBOR rate for the corresponding interest period. At January 31, 2010, the prime rate was 3.25% and the Libor rate was 0.5%, and the margins added to the prime rate and the LIBOR rate, which are determined each quarter based on the applicable financial statement ratio, were 0.50 and 2.5 percentage points, respectively. The Company is scheduled to pay $107,000 of principal on the first days of March, June, September, and December in each year ending on September 30, 2010, with the remaining unpaid principal payable on November 30, 2010. An amended and restated loan agreement expiring November 2013 is being prepared.

On August 31, 2006, the Company obtained a loan in the amount of 5,200,000 U.A.E. Dirhams ("AED") (approximately $1,416,000 U.S. dollars at the prevailing exchange rate at the time of the transaction) from a U.A.E. bank to finance capital expenditures. The loan matures January 2012. The loan bears interest at rate between 8.75% and 9.5% per annum with quarterly principal payments of $93,600.

On December 30, 2005, Perma-Pipe, Inc. borrowed $900,000 under an equipment loan secured by equipment. The loan bears interest at 6.23% with monthly payments of $13,400 for both principal and interest, and has a seven year term.

On April 8, 2003, the Company obtained a loan from a Danish bank to purchase equipment and office furniture for a building for its Filtration facility in Denmark, in the amount of 700,000 Euro, approximately $754,600 U.S. dollars at the exchange rate prevailing at the time of the transaction. The loan has a term of ten years. The loan bears interest at 6.1% with quarterly payments of $9,400 for both principal and interest.

Note 6 - Lease Information

The following is an analysis of property under capitalized leases:	2009	2008
Machinery and equipment	$ 459	$ 460
Furniture and office equipment	478	478
Transportation equipment	86	86
Data processing equipment	69	0
Subtotal	1,092	1,024
Less accumulated amortization	580	438
Total	$ 512	$ 586

Non-cash financing and investing activities:	2009	2008	2007
Fixed assets acquired under capital leases	$ 69	$ 521	$ 124

The piping systems business leases manufacturing and warehouse facilities, land, transportation equipment and office space under non-cancelable operating leases, which expire beginning 2010 through 2017. The filtration products business leases approximately 67,000 square feet of production and office space under an operating lease, which began in June 2004 and expires in July 2010. Management expects that these leases will be renewed or replaced by other leases in the normal course of business.

At January 31, 2010, future minimum annual rental commitments under non-cancelable lease obligations were as follows:

	Operating Leases	Capital Leases
2010	$ 1,021	$ 222
2011	433	176
2012	205	25
2013	75	2
2014	25	0
Thereafter	45	0
Subtotal	1,804	425
Less Amount representing interest	0	29
Future minimum lease payments	$ 1,804	$ 396

Rental expense for operating leases was $1,966,000, $2,307,000 and $1,690,800 in 2009, 2008 and 2007, respectively.

Note 7 - Income Taxes

The following is a summary of domestic and foreign income (loss) before income taxes:

	2009	2008	2007
Domestic	$ (9,162)	$ (1,272)	$ 1,700
Foreign	14,468	9,334	(1,189)
Total	$ 5,306	$ 8,062	$ 511

Components of income tax expense (benefit) are as follows:	2009	2008	2007
Current			
Federal	$ (132)	$ 456	$ 1,581
Foreign	2,906	1,324	86
State and other	29	272	384
Subtotal	2,803	2,052	2,051
Deferred:			
Federal	(1,517)	(374)	(1,234)
Foreign	(723)	(534)	(159)
State and other	72	229	151
Subtotal	(2,168)	(679)	(1,242)
Total	$ 635	$ 1,373	$ 809

The excess tax benefit (expense) related to stock options recorded through equity was $27,000, ($457,000) and $1,466,000 in 2009, 2008 and 2007, which did not affect net income in 2009, 2008 and 2007. The amounts were recorded to additional paid-in capital on the consolidated balance sheet and in financing activities on the consolidated statement of cash flows. The expense in 2008 related to removing foreign employee stock option grants from the stock compensation expense and its associated deferred tax item.

The annual tax rate has been impacted by the mix of the earnings in the U.A.E. versus total earnings. The year-to-date effective tax rate was less than the statutory U.S. federal income tax rate, mainly due to the large portion of income earned in the U.A.E. Income earned in the U.A.E. is not subject to any local country income tax.

The determination of the consolidated provision for income taxes, deferred tax assets and liabilities, and the related valuation allowance requires management to make certain judgments and estimates. As a company with subsidiaries in foreign jurisdictions, the Company is required to calculate and provide for estimated income tax expense for each of the tax jurisdictions. The process of calculating income taxes involves estimating current tax obligations and exposures in each jurisdiction as well as making judgments regarding the future recoverability of deferred tax assets. Changes in the estimated level of annual pre-tax income, in tax laws, and changes resulting from tax audits can affect the overall effective income tax rate, which impacts the level of income tax expense and net income. Judgments and estimates related to the Company's projections and assumptions are inherently uncertain; therefore, actual results could differ materially from projections.

During 2009, the Company established a partial valuation allowance of $814,000 for the $1,721,000 research and development credits, as the Company no longer believed that it was more likely than not that a portion of the research and development credits would be utilized within the next five years. The Company will continue to periodically review the adequacy of its valuation allowance in all of the tax jurisdictions in which it operates and may make further adjustments based on management's outlook for continued profits in each jurisdiction.

The difference between the provision for income taxes and the amount computed by applying the Federal effective rate of 34% was as follows:

	2009	2008	2007
Tax expense at federal statutory rate	$ 1,804	$ 2,741	$ 174
Foreign rate tax (benefit) expense differential	(2,915)	(3,573)	32
Valuation allowance for South African and state NOLs*	287	404	583
Return to provision adjustments	154	194	68
State tax expense, net of federal benefit	92	308	125
Research tax credit, net of valuation allowance	746	(120)	(223)
Other – net	467	471	50
Goodwill impairment	0	948	0
Total	$ 635	$ 1,373	$ 809

* Valuation allowances against foreign and state NOL benefits:	2009	2008
For current year NOL	$ 287	$ 404
For prior year NOL carryovers	987	583
Total	$ 1,274	$ 987

The Company has a Federal operating loss carryforward of $7,709,000 with a recognized tax benefit of $2,621,000 that will begin to expire in 2029 or year ending January 31, 2030. As of January 31, 2010, no valuation allowance was deemed necessary on the federal NOL.

The deferred tax asset for state NOL carryforwards of $532,000 relates to amounts that expire at various times from 2010 to 2029. The amount that expires in 2010 is approximately $10,000. A valuation allowance has been established for approximately $498,000 of this tax asset based upon an assessment that it is more likely than not that realization cannot be assured in certain tax jurisdictions.

The Company has a deferred tax asset for Denmark NOL carryforwards of $965,000 that can be carried forward indefinitely and does not have a valuation allowance recorded against it. The Company also has a South African deferred tax asset for NOLs carryforwards of $776,000 for which a 100% valuation allowance has been established based upon an assessment that it is more likely than not that realization cannot be assured. The ultimate realization of this tax benefit is dependent upon the generation of sufficient operating income in the respective tax jurisdictions.

As of January 31, 2010, the Company had undistributed earnings of foreign subsidiaries for which deferred taxes have not been provided. The Company intends and has the ability to reinvest these earnings for the foreseeable future outside the U.S. If these amounts were distributed to the U.S., in the form of dividends or otherwise, the Company would be subject to additional U.S. income taxes. Determination of the amount of unrecognized deferred income tax liabilities on these earnings is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

Components of the deferred income tax asset balances were as follows:

	2009	2008
U.S. Federal NOL carryover	$ 2,621	$ 1,272
Research tax credit	1,721	1,334
Non-qualified deferred compensation	1,313	821
Accrued commissions and incentives	1,214	1,207
Other accruals not yet deducted	1,011	980
Denmark NOL carryover	965	549
South African NOL carryover	776	597
Stock compensation	754	445
State NOL carryover	532	479
Inventory valuation allowance	448	415
Foreign deferred tax assets	252	0
Accrued pension	0	284
Inventory uniform capitalization	108	133
Other	1	102
Goodwill	13	80
Subtotal	11,729	8,698
Valuation allowance for net operating losses	(1,274)	(987)
Valuation allowance for research tax credit	(814)	0
Total deferred tax assets, net of valuation allowances	$ 9,641	$ 7,711

Components of the deferred income tax liability balances were as follows:

	2009	2008
Depreciation	$ 1,958	$ 1,471
Accrued pension	463	0
Foreign deferred liability	0	300
Prepaid	264	264
Total deferred tax liabilities	$ 2,685	$ 2,035

	2009	2008
The classifications in the balance sheet were:		
Current assets	$ 2,769	$ 2,171
Long-term assets	4,187	3,505
Total deferred tax assets, net of valuation allowances	$ 6,956	$ 5,676

The following table summarizes unrecognized tax benefit activity, excluding the related accrual for interest and penalties:

	2009	2008
Balance at beginning of the year	$ 775	$ 704
Increases in positions taken in a prior period	1	7
Increases in positions taken in a current period	62	71
Decreases due to lapse of statute of limitations	(9)	(7)
Balance at end of the year	$ 829	$ 775

Included in the total unrecognized tax liability at January 31, 2010 were estimated accrued interest of $75,700 and penalties of $59,200 for the prior year period, accrued interest and penalties were $57,300 and $51,000, respectively. These non-current income tax liabilities are recorded in other long-term liabilities in the consolidated balance sheet. The Company's policy is to include interest and penalties in income tax expense.

The Company is subject to income taxes in the U.S. federal jurisdiction, and various states and foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. Generally, tax years back to January 31, 2007 are open for federal and state tax purposes. In addition, federal and state tax losses generated in years January 31, 2001 through January 31, 2005 are subject to adjustment on audit, up the amount of loss claimed in those years.

The Company's management periodically estimates the probable tax obligations of the Company using historical experience in tax jurisdictions and informed judgments. There are inherent uncertainties related to the interpretation of tax regulations in the jurisdictions in which the Company transacts business. The judgments and estimates made at a point in time may change based on the outcome of tax audits, as well as changes to or further interpretations of regulations. If such changes take place, there is a risk that the tax rate may increase or decrease in any period. Tax accruals for tax liabilities related to potential changes in judgments and estimates for federal, foreign and state tax issues are included in current liabilities on the consolidated balance sheet.

Note 8 - Retirement Plans

Pension Plan

The Winchester facility has a defined benefit plan covering its hourly rated employees. The benefits are based on fixed amounts multiplied by years of service of retired participants. The Company engages outside actuaries to calculate its obligations and costs. The funding policy is to contribute such amounts as are necessary to provide for benefits attributed to service to date and those expected to be earned in the future. The amounts contributed to the plan are sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974. The Company may contribute additional amounts at its discretion.

Asset Allocation

The market related value of plan assets at January 31, 2010 was:

Vanguard Balanced Index Fund	$	3,828
Vanguard Inflation Protected Fund		214
Fifth Third Banksafe Trust		141
Vanguard REIT Index Fund		67
Total	$	4,250

At January 31, 2010, 91.7% of plan assets were held in mutual funds, 5.0% were held in bond funds and the remaining 3.3% was in a money market fund. The plans hold no securities of MFRI, Inc. 100% of the assets are held for benefits under the plan. The fair value of the major categories of the pension plans' investments are presented below.

	2009 Target Allocation			
Mutual funds:		Total		Quoted prices in active markets for identical assets Level 1
Equity securities	$	2,297	$	2,297
U.S. bond market		1,531		1,531
High-quality inflation-indexed bonds issued by the U.S. Treasury and government agencies as well as domestic corporations		214		214
Money market fund		141		141
Real Estate	$	67	$	67

The target asset allocation was 95% to 100% mutual funds. The investment policy is to invest substantially all funds not needed to pay benefits and investment expenses for the year, with target asset allocations of 60% equities (plus or minus 10%) and 40% fixed income (plus or minus 10%), diversified across a variety of sub-asset classes and investment styles, following a flexible asset allocation approach that will allow the plan to participate in market opportunities as they become available. The expected long-term rate of return on assets is based on historical long-term rates of equity and fixed income investments and the asset mix objective of the funds.

Investment market conditions in 2009 resulted in $773,000 actual return on plan assets as presented below, which increased the fair value of plan assets at year end, as is also presented below. The Company did not change its 8% expected return on plan assets used in determining cost and benefit obligations, the return that the Company has assumed during every profitable and unprofitable investment year since 1991. The plan’s investments are intended to earn long-term returns to fund long-term obligations, and investment portfolios with asset allocations similar to those of the plan’s investment policy have attained such returns over several decades. Future contributions that may be necessary to maintain funding requirements are not expected to materially affect the Company’s liquidity.

The following provides a reconciliation of benefit obligations, plan assets and funded status of the plan:

	2009	2008
Accumulated benefit obligations:		
Vested benefits	$ 4,373	$ $3,820
Accumulated benefits	$ 4,457	$ $3,933
Change in benefit obligation:		
Benefit obligation – beginning of year	$ 4,103	$ 4,290
Service cost	119	125
Interest cost	259	238
Amendments	247	0
Actuarial loss (gain)	228	(419)
Benefits paid	(142)	(131)
Benefit obligation – end of year	$ 4,814	$ 4,103
Change in plan assets:		
Fair value of plan assets – beginning of year	$ 3,048	$ 3,912
Actual return on plan assets gain (loss)	773	(946)
Company contributions	571	213
Benefits paid	(142)	(131)
Fair value of plan assets – end of year	$ 4,250	$ 3,048
Funded status	$ (564)	$ (1,055)
Amounts recognized in accumulated other comprehensive income:		
Net loss	$ 1,127	$ 1,530
Unamortized prior service cost	581	442
Net amount recognized	$ 1,708	$ 1,972

The amount of unamortized prior service cost and net loss to be amortized in the following year is $107

Weighted-average assumptions used to determine net cost and benefit obligations for years ended January 31:

	2009	2008
End of year benefit obligation	5.980%	6.490%
Service cost discount rate	6.490%	5.692%
Expected return on plan assets	8.000%	8.000%
Rate of compensation increase	N/A	N/A

The discount rate was based on a Citigroup pension discount curve of high quality fixed income investments with cash flows matching the plans' expected benefit payments. The Company determines the expected long-term rate of return on plan assets by performing a detailed analysis of historical and expected returns based on the strategic asset allocation approved by the Board of Directors and the underlying return fundamentals of each asset class. The Company's historical experience with the pension fund asset performance is also considered.

Components of net periodic benefit cost:	2009	2008
Service cost	$ 119	$ 125
Interest cost	259	238
Expected return on plan assets	(244)	(309)
Amortization of prior service cost	107	107
Recognized actuarial loss	102	27
Net periodic benefit cost	$ 343	$ 188

Amounts recognized in other comprehensive income:	2009	2008
Actuarial loss on obligation	$ (228)	$ 419
Amendments	(247)	0
Actual return on plan assets gain	632	(1,228)
Reclassify prior service cost	107	107
Total in other comprehensive income	264	(702)

Cash Flows:	
Expected employer contributions for fiscal year ending 1/31/2011	$ 317
Expected employee contributions for fiscal year ending 1/31/2011	0
Estimated future benefit payments reflecting expected future service for the fiscal year(s) ending:	
1/31/2011	256
1/31/2012	285
1/31/2013	287
1/31/2014	298
1/31/2015	315
1/31/2016-1/31/2020	$ 1,727

401(k) Plan

The domestic employees of the Company participate in the MFRI, Inc. Employee Savings and Protection Plan, which is applicable to all employees except certain employees covered by collective bargaining agreement benefits. The plan allows employee pretax payroll contributions of up to 16% of total compensation. The Company matches 50% of each participant's contribution, up to a maximum of 3% of each participant’s salary.

Contributions to the 401(k) Plan were $487,200, $557,100 and $608,200 for the years ended January 31, 2010, 2009 and 2008, respectively. In 2007, contributions included $133,800 related to forfeiture allocations for prior years. The Company estimates that it will contribute $470,000 for the year ending January 31, 2011.

Deferred Compensation Plans

The Company has deferred compensation agreements with key employees. Vesting is based on years of service. Life insurance contracts have been purchased which may be used to fund the Company’s obligation under these agreements.

Note 9 - Stock Options

Under the 2004 Stock Option Plan (“Option Plan”), 250,000 shares of common stock are reserved for issuance to employees of the Company and its affiliates as well as certain advisors and consultants to the Company. In addition, under the Option Plan, the number of shares that may be issued shall be increased by an additional two percent of the aggregate number of shares of Common Stock outstanding as of the last day of the most recently completed fiscal year of the Company, beginning January 31, 2005. Option exercise prices will be no less than fair market value for the common stock on the date of grant. The options granted under the Option Plan may be either non-qualified options or incentive options.

Under the 2009 Independent Directors’ Stock Option Plan, 100,000 shares of common stock are reserved for issuance to Directors of the Company. In addition, the number of shares that may be issued shall be increased May 1, 2010 and each May 1 thereafter until May 1, 2019, pursuant to the terms of this Plan shall be increased by the number equal to 0.35% of the aggregate number of shares of common stock outstanding as of the last day of the most recently ended fiscal year of the Company. Pursuant to the 2009 Independent Directors’ Stock Option Plan, an option to purchase 10,000 shares of common stock is granted automatically to each director who is not an employee of the Company (an “Independent Director”) on the date the individual is first elected as an Independent Director. An option to purchase 1,000 shares was granted to each Independent Director acting on June 23, 2009, and options to purchase 1,000 shares are granted to each Independent Director upon each date such Independent Director is re-elected as an Independent Director, commencing with the Company’s annual meeting for the year 2009.

Pursuant to the 2001 Independent Directors' Stock Option Plan, an option to purchase 10,000 shares of common stock is granted automatically to each director who is not an employee of the Company on the date the individual is first elected as an Independent Director. An option to purchase 1,000 shares was granted to each Independent Director acting on December 31, 2001, and options to purchase 1,000 shares are granted to each Independent Director upon each date such Independent Director is re-elected as an Independent Director, commencing with the Company's annual meeting for the year 2002.

Such options vest ratably over four years and are exercisable for up to ten years from the date of grant. To cover the exercise of vested options, the Company generally issues new shares from its authorized but unissued share pool. The Company calculates all stock compensation expense based on the grant date fair value of the option and recognizes expense on a straight-line basis over the four-year vesting period of the option.

The fair value of each option award was estimated on the date of grant using the Black-Scholes Merton option-pricing model that used the assumptions noted in the following table. The principal variable assumptions utilized in valuing options and the methodology for estimating such model inputs include:

1. risk-free interest rate - an estimate based on the "Market yield on U.S. Treasury securities at the rate for the period described in assumption 3 below, quoted on investment basis" for the end of week closest to the stock option grant date, from the Federal Reserve web site;
2. expected volatility - an estimate based on the historical volatility of MFRI Common Stock's weekly closing stock price for the period 1/1/93 to the date of grant; and
3. expected life of the option - an estimate based on historical experience including the effect of employee terminations.

	2009	2008	2007
1. Risk-free interest rate	1.88%-5.16%	2.80% - 3.57%	4.26% - 5.16%
2. Expected volatility	51.72%-66.82%	60.34% - 63.64%	51.72%
3. Expected life in years	5.5	5.0	5.0
4. Dividend yield	0.0%	0.0%	0.0%

The following summarizes the activity related to options outstanding under the plans for the three years ended January 31, 2008, 2009 and 2010:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at February 28, 2007	548	$ 4.91	6.4	$ 3,515
Granted	153	28.71		
Exercised	(254)	3.67		3,837
Expired or forfeited	(10)	5.08		
Outstanding at January 31, 2008	437	13.59	7.2	2,903
Options exercisable at January 31, 2008	225		5.3	2,473
Granted	161	17.30		
Exercised	(28)	2.99		125
Expired or forfeited	(20)	23.77		
Outstanding at January 31, 2009	550	14.85	7.2	260
Options exercisable at January 31, 2009	254		5.4	260
Granted	178	6.81		
Exercised	(21)	2.84		55
Expired or forfeited	(27)	12.94		
Outstanding at January 31, 2010	680	$ 13.20	7.2	$ 379
Options exercisable at January 31, 2010	304		5.5	$ 366

Range of Exercise Prices		Options Outstanding: Number Outstanding at January 31, 2010	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price	Options Exercisable: Number Outstanding at January 31, 2010		Weighted Average Exercise Price
$	2.00-$2.99	36	2.9	$	2.1619	36	$	2.1619
$	3.00-$3.99	54	2.0		3.1244	54		3.1244
$	6.00-$6.99	178	9.4		6.8062	0		0.0000
$	7.00-$7.99	49	5.4		7.6100	49		7.6100
$	10.00-$10.99	82	6.4		10.0750	61		10.0750
$	12.00-$12.99	2	8.3		12.6650	1		12.6650
$	13.00-$13.99	10	8.4		13.6500	4		13.6500
$	16.00-$16.99	1	8.1		16.1150	0		16.1150
$	17.00-$17.99	143	8.4		17.6424	37		17.6492
$	26.00-$26.99	3	7.5		26.0450	1		26.0450
$	28.00-$28.99	122	7.4		28.9900	61		28.9900
		680	7.2	$	13.1955	304	$	12.3577

The weighted average fair value of options granted, net of options surrendered, during 2009, 2008 and 2007 are estimated at $5.736, $16.41, and $14.54 per share, respectively, on the date of grant. The total intrinsic value of options exercised during the years ended January 31, 2010, 2009 and 2008 were $55,000, $125,000, and $3,837,000, respectively.

Following is a summary of the Company's unvested options outstanding as of January 31, 2010:

	Unvested Options Outstanding		Weighted-Average Grant Date Fair Value		Aggregate Intrinsic Value
Outstanding at beginning of the year	296	$	19.95	$	0
Granted	178		6.81		
Vested	(86)		19.61		
Expired or forfeited	(11)		19.37		
Outstanding at end of the year	377	$	13.87	$	13

Based on historical experience the Company expects 85% of these options to vest.

As of January 31, 2010, there was $2,000,000 of unrecognized compensation cost related to unvested stock options granted under the Plans. That cost is expected to be recognized over the weighted-average period of 2.5 years. The stock-based compensation expense for the years ended January 31, 2010, 2009, and 2008 was $1,077,000, $745,000, and $504,300, respectively.

Note 10 - Stock Rights

On September 15, 2009, the Company entered into the Amendment (the "Amendment") to Rights Agreement dated as of September 15, 1999. Among other things, the Amendment extends the term of the Rights Agreement until September 15, 2019 and amends certain definitions to include positions in certain derivative instruments related to the Company's common stock as constituting beneficial ownership of such stock.

On September 15, 1999, the Company's Board of Directors declared a dividend of one common stock purchase right (a "Right") for each share of MFRI's common stock outstanding at the close of business on September 22, 1999. The stock issued after September 22, 1999 and before the redemption or expiration of the Rights is also entitled to one Right for each such additional share. Each Right entitles the registered holders, under certain circumstances, to purchase from the Company one share of MFRI's common stock at $25.00, subject to adjustment. At no time will the Rights have any voting power.

The Rights may not be exercised until 10 days after a person or group acquires 15% or more of the Company's common stock, or announces a tender offer that, if consummated, would result in 15% or more ownership of the Company's common stock. Separate Rights certificates will not be issued and the Rights will not be traded separately from the stock until then. Should an acquirer become the beneficial owner of 15% or more of the Company's common stock, Rights holders other than the acquirer would have the right to buy common stock in MFRI, or in the surviving enterprise if MFRI is acquired, having a value of two times the exercise price then in effect. Also, MFRI's Board of Directors may exchange the Rights (other than those of the acquirer which will have become void), in whole or in part, at an exchange ratio of one share of MFRI common stock (and/or other securities, cash or other assets having equal value) per Right subject to adjustment. The Rights described in this paragraph and the preceding paragraph shall not apply to an acquisition, merger or consolidation approved by the Company's Board of Directors.

The Rights will expire on September 15, 2019, unless exchanged or redeemed prior to that date. The redemption price is $0.01 per Right. MFRI's Board of Directors may redeem the Rights by a majority vote at any time prior to the 20th day following public announcement that a person or group has acquired 15% of MFRI's common stock. Under certain circumstances, the decision to redeem requires the concurrence of a majority of the independent directors.

Note 11 - Quarterly Financial Data (Unaudited)

The following is a summary of the unaudited quarterly results of operations:

2009	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 67,579	$ 61,106	$ 52,586	$ 49,110
Gross profit	18,727	14,629	12,490	6,100
Net income (loss)	$ 6,006	$ 3,751	$ 695	$ (5,781)
Weighted average number of common shares:				
Outstanding – basic	6,816	6,819	6,826	6,835
Outstanding – diluted	6,852	6,846	6,856	6,835
Per share data:				
Net income (loss) – basic	$ 0.88	$ 0.55	$ 0.10	$ (0.85)
Net income (loss) - diluted	$ 0.88	$ 0.55	$ 0.10	$ (0.85)

2008	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 65,981	$ 77,645	$ 76,817	$ 82,623
Gross profit	11,143	15,401	17,099	15,305
Net income (loss)	$ 423	$ 2,405	$ 4,688	$ (827)
Weighted average number of common shares:				
Outstanding – basic	6,787	6,794	6,799	6,808
Outstanding – diluted	6,888	6,882	6,854	6,808
Per share data:				
Net income (loss) – basic	$ 0.06	$ 0.35	$ 0.69	$ (0.12)
Net income (loss) - diluted	$ 0.06	$ 0.35	$ 0.68	$ (0.12)

The fourth quarter for 2009 and 2008 had net losses; therefore, the diluted loss per share for the quarters were identical to the basic loss per share rather than assuming conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect on earnings per share. The net loss in the fourth quarter of 2009 was higher than the same period in 2008 due to lower sales in all segments and compressed margins due to competitive factors. In the 2008 fourth quarter, the Company recognized a non-cash $2,788,000 impairment of goodwill, which was recorded as part of continuing operations. The goodwill impairment charge related to the Company's filtration products and industrial process cooling equipment businesses.

Schedule II

MFRI, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended January 31, 2010, 2009 and 2008

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions from Reserves (1)	Charged to other accounts (2)	Balance at End of Period
Year Ended January 31, 2010:					
Allowance for possible losses in collection of trade receivables	$473	$34	$193	$65	$379
Year Ended January 31, 2009:					
Allowance for possible losses in collection of trade receivables	$384	$197	$138	$30	$473
Year Ended January 31, 2008:					
Allowance for possible losses in collection of trade receivables	$352	$198	$175	$9	$384

(1) Uncollectible accounts charged off
(2) Primarily related to recoveries from accounts previously charged off and currency translation

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MFRI, INC.

Date: April 16, 2010

/s/ David Unger
David Unger
Chairman of the Board of Directors, and
Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

DAVID UNGER*	Director, Chairman of the Board of Directors, and Chief Executive Officer (Principal Executive Officer)	
HENRY M. MAUTNER*	Director	
BRADLEY E. MAUTNER*	Director and President	
MICHAEL D. BENNETT*	Vice President, Secretary and Treasurer (Principal Financial and Accounting Officer)	April 16, 2010
DENNIS KESSLER*	Director	
ARNOLD F. BROOKSTONE*	Director	
EUGENE MILLER *	Director	
STEPHEN B. SCHWARTZ *	Director	
MICHAEL J. GADE*	Director	
MARK A. ZORKO*	Director	

*By: /s/ David Unger
David Unger

Individually and as Attorney in Fact

EXHIBIT INDEX

Exhibit No.	Description
3(i)	Certificate of Incorporation of MFRI, Inc. [Incorporated by reference to Exhibit 3.3 to Registration Statement No. 33-70298]
3(ii)	By-Laws of MFRI, Inc. amended and restated [Incorporated by reference to Exhibit 3.2 filed on July 27, 2009]
4	Specimen Common Stock Certificate [Incorporated by reference to Exhibit 4 to Registration Statement No. 33-70794]
4(a)	2010 Rights Agreement as amended [Incorporated by reference to Exhibit 4.1 of the Company's Schedule filed on September 17, 2009]
10(a)	1993 Stock Option Plan [Incorporated by reference to Exhibit 10.4 of Registration Statement No. 33-70794]
10(b)	1994 Stock Option Plan [Incorporated by reference to Exhibit 10(c) to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1994]
10(c)	2001 Independent Directors Stock Option Plan, as amended [Incorporated by reference to Exhibit 10(d)(5) to the Company's Schedule filed on May 25, 2001]
10(d)	Form of Directors Indemnification Agreement Certificate [Incorporated by reference to Exhibit 10.1 to the Company's Schedule filed on May 15, 2006]
10(e)	MFRI 2004 Stock Incentive Plan [Incorporated by reference to Exhibit 10(e) to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2006]
10(f)	Loan and Security Agreement between the Company and Fleet Capital Corporation dated July 11, 2002 and the amendments thereto dated October 3, 2002, December 12, 2002, April 30, 2003, October 31, 2003, July 1, 2004 and March 28, 2005. [Incorporated by reference to Exhibit 10(f) to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2006]
10(g)	Amended and Restated Loan and Security Agreement between the Company and Bank of America dated December 15, 2006 and the amendments thereto dated [Incorporated by reference to Exhibit 10.1 to the Company's Schedule filed on December 20, 2006]
10(h)	Code of Conduct [Incorporated by reference to Exhibit 14 of the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2004]
10(i)*	Ninth Amendment to Amended and Restated Loan and Security Agreement
10(j)	Employment agreement with Fati Elgendy dated February 1, 2007 [Incorporated by reference to DEF14A Schedule filed on May 29, 2008]
10(k)*	2009 Non-Employee Directors Stock Option Plan
21*	Subsidiaries of MFRI, Inc.
23*	Consent of Independent Registered Public Accounting Firm – Grant Thornton LLP
24*	Power of Attorney executed by directors and officers of the Company
31*	Rule 13a – 14(a)/15d – 14(a) Certifications (1) Chief Executive Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (2) Chief Financial Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32*	Section 1350 Certifications (1) Chief Executive Officer certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (2) Chief Financial Officer certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

*Filed herewith