

KMG CHEMICALS INC  
Form S-3  
July 05, 2007

As filed with the Securities and Exchange Commission on July 5, 2007.

Registration No. 333-

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM S-3**

**REGISTRATION STATEMENT**

**UNDER**

**THE SECURITIES ACT OF 1933**

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**KMG CHEMICALS, INC.**

(Exact name of registrant as specified in its charter)

**Texas**  
(State or other jurisdiction of  
incorporation or organization)

**75-2640529**  
(I.R.S. Employer  
Identification No.)

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**10611 Harwin Drive, Suite 402**

**Houston, Texas 77036**

**(713) 988-9252**

(Address, including zip code, and telephone number, including

area code, of registrant's principal executive offices)

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**Roger C. Jackson**  
**General Counsel**  
**10611 Harwin Drive, Suite 402**  
**Houston, Texas 77036**  
**(713) 988-9252**

(Name and address, including zip code, and telephone number,  
including area code, of agent for service)

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*Copies to:*  
**George G. Young III**  
**Haynes and Boone, LLP**  
**1221 McKinney Street, Suite 2100**  
**Houston, Texas 77010**  
**(713) 547-2081**  
**(713) 236-5699(fax)**

**Approximate date of commencement of proposed sale of securities to the public:** From time to time after the effective date of this Registration Statement, as determined by the selling shareholder.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

**CALCULATION OF REGISTRATION FEE**

Title of Each Class of Securities to be Registered	Amount to be Registered (1)	Proposed Maximum Aggregate Offering Price Per Share (2)	Proposed Maximum Aggregate Offering Price (2)	Amount of Registration Fee
Common Stock, par value \$0.01 per share	1,000,000	\$ 27.37	\$ 27,370,000	\$ 841

(1) In accordance with Rule 416, we are also registering an indeterminable number of shares of common stock as may be issued in connection with stock splits, stock dividends or similar transactions.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act and based upon the average of the high and low prices on the Nasdaq Global Market on July 2, 2007.

# Edgar Filing: KMG CHEMICALS INC - Form S-3

Subject to completion, dated July 5, 2007

*The information in this preliminary prospectus is not complete and may be changed. The selling shareholder may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting any offer to buy these securities in any jurisdiction where the offer or sale is not permitted.*

## **Prospectus**

**1,000,000 shares**

**KMG Chemicals, Inc.**

## **Common Stock**

The selling shareholder named in this prospectus may use this prospectus to offer and resell from time to time up to 1,000,000 shares of our common stock. We will not receive any of the proceeds from the sale of our common stock by the selling shareholder.

The selling shareholder named in this prospectus, or his donees, pledgees, transferees or other successors-in-interest, may offer or resell the shares from time to time through public or private transactions at prevailing market prices, at prices related to prevailing market prices or at privately negotiated prices.

The selling shareholder may resell the common stock to or through underwriters, broker-dealers or agents, who may receive compensation in the form of discounts, concessions or commissions. The selling shareholder will bear all discounts, concessions and commissions, if any, attributable to the sale of shares. We will bear all costs, expenses, and fees in connection with the registration of the shares. For additional information on the methods of sale that may be used by the selling shareholder, see **Plan of Distribution** on page 8.

Our common stock is traded on the Nasdaq Global Market under the symbol **KMGB**. On July 2, 2007, the last reported sales price for our common stock was \$26.79 per share.

**This investment involves risk. See **Risk Factors** beginning on page 5.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is \_\_\_\_\_, 2007.

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**You should rely only on the information contained or incorporated by reference in this prospectus and any applicable prospectus supplement or amendment. We have not, and the selling shareholder has not, authorized any person to provide you with different information. This prospectus is not an offer to sell, nor is it an offer to buy, these securities in any state where the offer or sale is not permitted. The information in this prospectus is complete and accurate as of the date on the front cover, but the information may have changed since that date.**

**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission, or the SEC, using a shelf registration process. Under this shelf registration process, the selling shareholder referred to in this prospectus may offer and resell from time to time up to 1,000,000 outstanding shares of our common stock.

This prospectus does not cover the issuance of any shares of common stock by us to the selling shareholder, and we will not receive any of the proceeds from any sale of shares by the selling shareholder. Except for underwriting discounts, concessions and selling commissions, which may be paid by the selling shareholder, we have agreed to pay the expenses incurred in connection with the registration of the shares of common stock covered by this prospectus.

Information about the selling shareholder may change over time. Any changed information given to us by the selling shareholder will be set forth in a prospectus supplement if and when necessary. Further, in some cases, the selling shareholder will also be required to provide a prospectus supplement containing specific information about the terms on which he is offering and selling our common stock. If a prospectus supplement is provided and the description of the offering in the prospectus supplement varies from the information in this prospectus, you should rely on the information in the prospectus supplement.

Unless the context otherwise requires, references in this prospectus to KMG, we, us, and our are to KMG Chemicals, Inc. and its consolidated subsidiaries.

**SUMMARY**

*This summary highlights selected features of this offering and the information included or incorporated by reference in this prospectus. This summary does not contain all of the information that you should consider before investing in our common stock. You should carefully read the entire prospectus, especially the risks of investing in our common stock discussed under "Risk Factors" in this prospectus and any accompanying prospectus supplement and the risk factors discussed in the documents incorporated by reference herein.*

**KMG Chemicals, Inc.**

We manufacture, formulate and distribute specialty chemicals. We grow by purchasing businesses and business lines that operate in segments of the specialty chemical industry that:

- provide us an opportunity to obtain a significant share of the market segment through further acquisitions and organic growth;
- are of a size that larger industry participants find too small to be attractive;
- have niche products with well established and proven commercial uses and predictable financial trends;
- offer products that have moved well beyond their discovery phase and into their consolidation phase, and require little or no on-going research and development expenditures;
- afford attractive profit margins; and
- have significant barriers to entry.

We have acquired and currently operate businesses engaged in the industrial wood preserving and agrochemical segments. We are a leading seller of wood preserving chemicals to industrial customers who use these preservatives primarily to extend the useful life of utility poles and railroad cross-ties. We are also developing a growing presence as a seller of agrochemicals, which includes animal health and agricultural chemicals. Our animal health pesticides are used on cattle, swine and poultry to protect these animals from flies and other pests. Our agricultural herbicide product is used primarily for weed control in cotton and sugarcane fields and along highways.

**The Offering**

Common stock offered by the selling shareholder	1,000,000 shares
Selling shareholder	All of the common stock is being offered by the selling shareholder named herein. See <b>Selling Shareholder</b> for more information on the selling shareholder.
Use of proceeds	We will not receive any proceeds from the sale of the shares in this offering.
Plan of distribution	The selling shareholder named in this prospectus, or his pledgees, donees, transferees or other successors-in- interest, may offer or resell the shares from time to time through public or private transactions at prevailing market prices, at prices related to prevailing market prices or at privately negotiated prices. The selling shareholder may resell the common stock to or through underwriters, broker-dealers or agents, who may receive compensation in the form of discounts, concessions, or commissions. For additional information on the methods of sale that may be used by the selling shareholder, see <b>Plan of Distribution</b> on page 8.
Nasdaq Global Market Exchange symbol	KMGB
Risk factors	Investing in our common stock involves risks. For a discussion of certain risks associated with an investment in our common stock, please see the section entitled <b>Risk Factors</b> beginning on page 5 of this prospectus and the risk factors discussed in the documents incorporated by reference.

**WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the SEC a registration statement on Form S-3 to register the stock to be sold in connection with this prospectus. As permitted by the rules and regulations of the SEC, this prospectus, which forms a part of the registration statement, does not contain all of the information included in the registration statement. For further information pertaining to us and the securities offered under this prospectus, reference is made to the registration statement and the attached exhibits and schedules. Although required material information has been presented in this prospectus, statements contained in this prospectus as to the contents or provisions of any contract or other document may be summary in nature. In each instance reference is made to the copy of this contract or other document filed as an exhibit to the registration statement and each statement is qualified in all respects by this reference, including the exhibits and schedules filed therewith. You should rely only on the information incorporated by reference or provided in this prospectus or any supplement to this prospectus. We have not authorized anyone else to provide you with different information. The selling shareholder should not make an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus or any supplement to this prospectus is accurate as of any date other than the date on the cover page of this prospectus or any supplement. Our business, financial condition, results of operations and prospectus may have changed since that date.

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and, in accordance with the requirements of the Exchange Act, we file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings, including this registration statement, are available over the Internet at the SEC's website at <http://www.sec.gov>. You may also read and copy any document we file with the SEC at the Public Reference Room of the SEC at 100 F. Street, N.E., Washington, D.C. 20549. You may also obtain copies of the documents at prescribed rates by writing to the SEC at that address. Please call 1-800-SEC-0330 for further information on the operations of the public reference facilities.

**INCORPORATION OF CERTAIN INFORMATION BY REFERENCE**

For purposes of this prospectus, the SEC allows us to incorporate by reference information we have filed with them, which means that we can disclose important information to you by referring you to documents we have filed with the SEC. The information incorporated by reference is considered to be part of this prospectus. We incorporate by reference the documents listed below, excluding any disclosures therein that are furnished and not filed:

- our Annual Report on Form 10-K for the fiscal year ended July 31, 2006;
- our Proxy Statement filed November 3, 2006;
- our Quarterly Reports on Form 10-Q for the fiscal quarters ended April 30, 2007, January 31, 2007 and October 31, 2006;
- our Forms 8-K filed June 5, 2007, May 23, 2007, May 22, 2007, May 9, 2007 and February 26, 2007; and
- the description of our common stock contained in our Registration Statement on Form 10-SB (Reg. No. 0-29278) filed on April 23, 1997.

All reports and other documents we subsequently file pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the termination of this offering, but excluding any information furnished to, rather than filed with, the SEC, will also be incorporated by reference into this prospectus and deemed to be part of this prospectus from the date of the filing of such reports and documents.

Information contained in this prospectus modifies or supersedes, as applicable, the information contained in earlier-dated documents incorporated by reference. Information contained in later-dated documents incorporated by reference will automatically supplement, modify or supersede, as applicable, the information contained in this prospectus or in earlier-dated documents incorporated by reference.

You may obtain copies of any of these filings by contacting us at the address or phone number indicated below or by contacting the SEC as described above in *Where You Can Find More Information*. Documents incorporated by reference are available from us without charge, excluding all exhibits unless an exhibit has been specifically incorporated by reference into this prospectus, by requesting them in writing, by telephone or via the internet at:

KMG Chemicals, Inc.

10611 Harwin Drive, Suite 402

Houston, Texas 77036-1534

(713) 988-9252

Attn: General Counsel

Internet Website: [www.kmgchemicals.com](http://www.kmgchemicals.com)

The information contained on our website does not constitute a part of this prospectus, and our website address supplied above is intended to be an inactive textual reference only and not an active hyperlink to our website.

### **RISK FACTORS**

Investing in our common stock involves risks. You should carefully consider and evaluate all of the information contained in this prospectus and in the documents incorporated in this prospectus by reference before you decide to purchase our common stock. In particular, you should carefully consider and evaluate the many significant risks and uncertainties described in the documents incorporated by reference in this prospectus. Any of these risks and uncertainties set forth could materially and adversely affect our business, results of operations and financial condition, which in turn could materially and adversely affect the trading price of our common stock being offered by this prospectus. As a result, you could lose all or part of your investment.

*Sales of our common stock by the selling shareholder may cause our stock price to decline.*

Sales of substantial amounts of our common stock in the public market, or the perception that these sales may occur, could cause the market price of our common stock to decline. In addition, the sale of these shares could impair our ability to raise capital through the sale of additional common or preferred stock.

As of July 2, 2007, we had 10,769,398 shares of common stock outstanding. Upon effectiveness of the registration statement, of which this prospectus forms a part, the 1,000,000 shares registered for resale under this prospectus will become freely tradable.

### INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, or the Securities Act, and Section 21E of the Exchange Act, which are intended to be covered by the safe harbors created by those laws. We have based these forward-looking statements on our current expectations and projections about us and our industry. These forward-looking statements include information about possible or assumed future results of our operations. All statements, other than statements of historical facts, included or incorporated by reference in this prospectus that address activities, events or developments that we expect or anticipate may occur in the future, including such things as future capital expenditures, business strategy, competitive strengths, goals, growth of our business and operations, plans and references to future successes may be considered forward-looking statements. Also, when we use words such as anticipate, believe, estimate, intend, plan, project, forecast, may, should, expect, probably or similar expressions, we are making forward-looking statements. Our forward-looking statements speak only as of the date made and we will not update forward-looking statements unless the securities laws require us to do so.

Some of the key factors which could cause our future financial results and performance to vary from those expected include:

- decline in demand for creosote-treated railroad cross-ties from the current upper range of usage, decline in treatment of utility poles with pentachlorophenol, and market developments affecting, and other changes in, the demand for our products and the introduction of new competing products;
- availability or increases in the price of our primary raw materials or active ingredients, particularly creosote, chlorine, phenol and co-solvent for our wood treating chemicals;
- our ability to identify, develop or acquire, integrate into our operations, and market additional product lines and businesses necessary to implement our business strategy and our ability to finance such acquisitions and development;
- the ability to obtain registration and re-registration of our products, particularly our wood treating products, under applicable law;
- the ability to introduce livestock ear tags containing a new use of an active ingredient;
- the loss of our primary customers;
- our ability to implement productivity improvements, cost reduction initiatives or facilities expansions;
- the timing of planned capital expenditures;
- the condition of the capital markets generally, which will be affected by interest rates, foreign currency fluctuations and general economic conditions;
- cost and other effects of legal and administrative proceedings, settlements, investigations and claims, including environmental liabilities which may not be covered by indemnity or insurance;
- the political and economic climate in the foreign or domestic jurisdictions in which we conduct business; and
- other United States or foreign regulatory or legislative developments which affect the demand for our products generally or increase the environmental compliance cost for our products or impose liabilities on the manufacturers and distributors of such products.

The information contained in this prospectus, including the information set forth under the heading Risk Factors, identifies additional factors that could cause our results or performance to differ materially from those we



express or imply in our forward-looking statements. Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of these assumptions and, therefore, the forward-looking statements based on these assumptions, could themselves prove to be inaccurate. In light of the significant uncertainties inherent in the forward-looking statements which are included in this prospectus, our inclusion of this information is not a representation by us or any other person that our objectives and plans will be achieved.

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**USE OF PROCEEDS**

We will not receive any proceeds from the sale of shares of our common stock by the selling shareholder.

**SELLING SHAREHOLDER**

The registration statement, of which this prospectus forms a part, relates to the registration for the account of selling shareholder of an aggregate of 1,000,000 shares of our common stock. The following table sets forth the name of the selling shareholder, the number of shares of common stock beneficially owned by him as of July 2, 2007, the number of shares of common stock being offered by him, the number of shares of common stock he will beneficially own if he sells all of the shares being registered and the selling shareholder's percentage of ownership of our common stock if all the shares in the offering are sold.

The shares offered hereby are being registered to permit public secondary trading. The selling shareholder, including his donees, pledgees, transferees or other successors-in-interest may offer all or part of the shares for resale from time to time. However, the selling shareholder is under no obligation to resell all or any portion of such shares, nor is the selling shareholder obligated to resell any shares immediately, under this prospectus.

All information with respect to share ownership has been furnished by or on behalf of the selling shareholder and is as of July 2, 2007, unless otherwise indicated. We believe, based on information supplied by the selling shareholder, that except as may otherwise be indicated in the notes to the table below, the selling shareholder has sole voting and investment power with respect to the shares of common stock owned by him. Because the selling shareholder may resell all or part of his shares, no estimates can be given as to the number of shares of common stock that will be held by the selling shareholder upon termination of any offering made hereby. For purposes of the table below, however, we have assumed that after termination of this offering none of the shares covered by this prospectus will be held by the selling shareholder.

David L. Hatcher, the selling shareholder, is the Chairman of our Board of Directors and, until June 1, 2007, was our chief executive officer. To our knowledge, Mr. Hatcher has not had any position with, held any office of, or had any other material relationship with us during the past three years, except as described (i) in the footnotes to the table below, (ii) in the footnotes to our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended July 31, 2006, which information is incorporated by reference in this prospectus, and (iii) in the other documents incorporated by reference in this prospectus.

Beneficial ownership is determined in accordance with Rule 13d-3(d) promulgated by the SEC under the Exchange Act. The percentage of shares beneficially owned is based on 10,769,398 shares of our common stock outstanding as of July 2, 2007, and the shares of common stock beneficially owned by the selling shareholder, as set forth in the following table.

Name and address of selling shareholder	Shares beneficially owned prior to offering		Number of shares being offered	Shares beneficially owned after the offering	
	Number	Options Exercisable within 60 days		Number(1)	Percent
David L. Hatcher	4,118,586	0	1,000,000	3,118,586	29.0 %

### PLAN OF DISTRIBUTION

We are registering 1,000,000 shares of our common stock for possible sale by the selling shareholder. The selling shareholder, as used herein, includes donees, pledgees, transferees or other successors-in-interest selling common stock or interests in common stock received after the date of this prospectus from the selling shareholder as a gift, pledge, partnership distribution or other transfer. The selling shareholder may offer and sell all or a portion of the shares covered by this prospectus from time to time, in one or more or any combination of the following transactions:

- on the Nasdaq Global Market, in the over-the-counter market, or on any other national securities exchange on which our shares are listed or traded;
- in privately negotiated transactions;
- in underwritten transactions;
- in a block trade in which a broker-dealer will attempt to sell the offered shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- through purchases by a broker-dealer as principal and resale by the broker-dealer for its account pursuant to this prospectus;
- in ordinary brokerage transactions and transactions in which the broker solicits purchasers; and
- through the writing of options (including put or call options), whether the options are listed on an options exchange or otherwise.

The selling shareholder may sell the shares at prices then prevailing or related to the then current market price or at negotiated prices. The offering price of the shares from time to time will be determined by the selling shareholder and, at the time of the determination, may be higher or lower than the market price of our common stock on the Nasdaq Global Market or any other exchange or market.

The shares may be sold directly or through broker-dealers acting as principal or agent, or pursuant to a distribution by one or more underwriters on a firm commitment or best-efforts basis. The selling shareholder may also enter into hedging transactions with broker-dealers. In connection with such transactions, broker-dealers or other financial institutions may engage in short sales of our common stock in the course of hedging the positions they assume with the selling shareholder. The selling shareholder may also enter into options or other transactions with broker-dealers or other financial institutions which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction). In connection with an underwritten offering, underwriters or agents may receive compensation in the form of discounts, concessions or commissions from the selling shareholder or from purchasers of the offered shares for whom they may act as agents. In addition, underwriters may sell the shares to or through dealers, and those dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. The selling shareholder and any underwriters, dealers, or agents participating in a distribution of the shares may be deemed to be underwriters within the meaning of the Securities Act and any profit on the sale of the shares by the selling shareholder and any commissions received by broker-dealers may be deemed to be underwriting commissions under the Securities Act.

We and the selling shareholder may agree to indemnify an underwriter, broker-dealer or agent against certain liabilities related to the selling of the common stock, including liabilities arising under the Securities Act. We have agreed to pay the costs, expenses, and fees of registering the shares of common stock offered by the selling shareholder. However, the selling shareholder will pay any underwriting discounts or commissions relating to the sale of the shares of common stock in any underwritten offering.

Upon our notification by the selling shareholder that any material arrangement has been entered into with an underwriter or broker-dealer for the sale of shares through a block trade, special offering, exchange distribution, secondary distribution or a purchase by an underwriter or broker-dealer, we will file-a supplement to this prospectus, if required, pursuant to Rule 424(b) under the Securities Act, disclosing certain material information, including:

- the number of shares being offered;
- the terms of the offering;
- the names of the participating underwriters, broker-dealers or agents;
- any discounts, commissions or other compensation paid to underwriters or broker-dealers and any discounts, commissions or concessions allowed or reallocated or paid by any underwriters to dealers;
- the public offering price; and
- other material terms of the offering.

The selling shareholder is subject to the applicable provisions of the Exchange Act and the rules and regulations under the Exchange Act, including Regulation M. This regulation may limit the timing of purchases and sales of any of the shares of common stock offered in this prospectus by the selling shareholder. The anti-manipulation rules under the Exchange Act may apply to sales of shares in the market and to the activities of the selling shareholder and his affiliates. The restrictions may affect the marketability of the shares and the ability of any person or entity to engage in market-making activities for the shares.

#### **LEGAL MATTERS**

The validity of the shares of common stock offered hereby has been passed upon for us by Haynes and Boone, LLP.

#### **EXPERTS**

The financial statements as of July 31, 2006 and 2005, and for each of the years then ended, appearing in KMG's Annual Report on Form 10-K for the year ended July 31, 2006, have been audited by UHY LLP, independent registered public accounting firm, as stated in their report dated October 20, 2006, and are incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The financial statements for the year ended of July 31, 2004 and the related financial statement schedule incorporated in this prospectus by reference from KMG's Annual Report on Form 10-K for the year ended July 31, 2006 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report dated October 13, 2004, which is incorporated herein by reference, and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

**1,000,000 shares**

**KMG Chemicals, Inc.**

**Common stock**

**Prospectus**

**, 2007**

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**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****Item 14. Other Expenses of Issuance and Distribution**

The following table sets forth the costs and expenses expected to be incurred by us in connection with the offering described in this registration statement. All amounts are estimates except the registration and filing fees.

Expenses	Amount		
Securities and Exchange Commission registration fee	\$	841	
Printing and engraving expenses		10,000	*
Legal fees and expenses		30,000	*
Accounting fees and expenses		20,000	*
Miscellaneous		0	
Total	\$	60,841	*

\* Estimate.

The selling shareholder will be responsible for any underwriting discounts, brokerage fees or commissions and taxes of any kind (including, without limitation, transfer taxes) with respect to any disposition, sale or transfer of the shares being registered and for any legal, accounting and other expenses incurred by the selling shareholder.

**Item 15. Indemnification of Directors and Officers**

Article 1302-7.06 of the Texas Miscellaneous Corporation Laws Act (the "Miscellaneous Laws") authorizes corporations to include a provision in their articles of incorporation limiting or eliminating the personal liability of directors to corporations or its shareholders for monetary damages for an act or omission in the director's capacity as a director. The Restated and Amended Articles of Incorporation of KMG Chemicals, Inc. (the "Company") limit the liability of directors to the fullest extent permitted by the Miscellaneous Laws. Specifically, directors of the Company shall not be liable except for:

- a breach of the director's duty of loyalty to the Company or its shareholders;
- an act or omission not in good faith that constitutes a breach of duty of the director to the Company or an act or omission that involves intentional misconduct or a knowing violation of the law;
- a transaction from which the director received an improper benefit, whether or not the benefit resulted from an action taken within the scope of the director's office; or
- an act or omission for which the liability of the director is expressly provided by an applicable statute.

The inclusion of this provision in the Restated and Amended Articles of Incorporation may have the effect of reducing the likelihood of derivative litigation against directors and may discourage or deter shareholders or management from bringing a lawsuit against directors for breach of their duty of care, even though such an action, if successful, might otherwise have benefited the Company and its shareholders.

Article 2.02-1 of the Texas Business Corporation Act (the "TBCA") provides that a corporation may indemnify any director or officer who was, is or is threatened to be made, a named defendant or respondent in a proceeding because he is or was a director or officer, provided that the director or officer (i) conducted himself in good faith, (ii) reasonably believed (a) in the case of conduct in his official capacity, that his conduct was in the corporation's best interests or (b) in all other cases, that his conduct was at least not opposed to the corporation's best interests and (iii) in the case of any criminal proceeding, had no reasonable cause to believe his conduct was unlawful. Subject to certain exceptions, a director or officer may not be indemnified if the person is found liable to the corporation or if the person is found liable on the basis that he improperly received a personal benefit. Under



Texas law, reasonable expenses incurred by a director or officer may be paid or reimbursed by the corporation in advance of a final disposition of the proceeding after the corporation receives a written affirmation by the director or officer of his good faith belief that he has met the standard of conduct necessary for indemnification and a written undertaking by or on behalf of the director or officer to repay the amount if it is ultimately determined that the director or officer is not entitled to indemnification by the corporation. Texas law requires a corporation to indemnify an officer or director against reasonable expenses incurred in connection with a proceeding in which he is named a defendant or respondent because he is or was a director or officer if he is wholly successful in defense of the proceeding.

The Company's Bylaws also provide for indemnification of its officers and directors, and the advancement to them of expenses in connection with proceedings and claims, to the fullest extent permitted under the TBCA.

Texas law permits a corporation to purchase and maintain insurance or another arrangement on behalf of any person who is or was a director or officer against any liability asserted against him and incurred by him in such a capacity or arising out of his status as such a person, whether or not the corporation would have the power to indemnify him against that liability under Article 2.02-1 of the TBCA. The Company maintains directors' and officers' liability insurance policies to cover certain liabilities of directors and officers arising out of claims based on certain acts or omissions by them in their capacity as directors or officers.

#### **Item 16. Exhibits and Financial Statement Schedules**

A list of exhibits filed herewith is contained in the Exhibit Index that immediately precedes such exhibits and is incorporated by reference herein.

#### **Item 17. Undertakings**

a. The undersigned registrant hereby undertakes:

1. To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

i. To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

ii. To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement.

iii. To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that the undertakings set forth in clauses (i), (ii) and (iii) above do not apply if the information required to be included in a post-effective amendment by those clauses is contained in reports filed with or furnished to the Commission by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement.

2. That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities



offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

3. To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

4. That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

(A) Each prospectus filed by a registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(B) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5) or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii) or (x) for the purpose of providing the information required by Section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which the prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.

b. The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

c. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on the 5th day of July, 2007.

KMG CHEMICALS, INC.

By: */s/ J. Neal Butler*  
J. Neal Butler  
Chief Executive Officer

**POWER OF ATTORNEY**

Each person whose signature appears below constitutes and appoints David L. Hatcher and John V. Sobchak, each with full power to act alone, as his true and lawful attorney-in-fact and agent, with full power of substitution, for him and on his behalf and in his name, place and stead, in any and all capacities, to execute any and all amendments (including post-effective amendments) to this Registration Statement, including, without limitation, additional registration statements filed pursuant to Rule 462(b) under the Securities Act, and to file the same, with all exhibits thereto and other documents in connection therewith, with the SEC, granting unto said attorney-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises in order to effectuate the same, as fully and to all intents and purposes as he might or could do if personally present, hereby ratifying and confirming all that said attorneys-in-fact and agents, or either of them, or their substitute or their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
<i>/s/ J. Neal Butler</i> J. Neal Butler	Chief Executive Officer and President and Director (Principal Executive Officer)	July 5, 2007
<i>/s/ John V. Sobchak</i> John V. Sobchak	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	July 5, 2007
<i>/s/ David L. Hatcher</i> David L. Hatcher	Chairman of the Board of Directors	July 5, 2007

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/s/ George W. Gilman George W. Gilman	Director	July 5, 2007
/s/ Fred C. Leonard III Fred C. Leonard III	Director	July 5, 2007
/s/ Charles L. Mears Charles L. Mears	Director	July 5, 2007
/s/ Charles M. Neff, Jr. Charles M. Neff, Jr.	Director	July 5, 2007
/s/ Stephen A. Thorington Stephen A. Thorington	Director	July 5, 2007
/s/ Richard L. Urbanowski Richard L. Urbanowski	Director	July 5, 2007

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**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
3.1	Restated and Amended Articles of Incorporation of the Company, filed as Exhibit 3(i) to the Company's Quarterly Report on Form 10-QSB12G filed December 6, 1996, and incorporated herein by reference.
3.2	Bylaws of the Company, filed as Exhibit 3(ii) to the Company's Quarterly Report on Form 10-QSB12G filed December 6, 1996, and incorporated herein by reference.
4.1	Form of Stock Certificate, filed as Exhibit 4.1 to the Company's Quarterly Report on Form 10-QSB filed December 6, 1996, and incorporated herein by reference.
5.1	Legal Opinion of Haynes and Boone, LLP.
23.1	Consent of UHY LLP.
23.2	Consent of Deloitte & Touche LLP.
23.4	Consent of Haynes and Boone, LLP (included in its opinion filed as Exhibit 5.1).
24.1	Power of Attorney (included in the signature page of the Registration Statement).

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