



**FOR IMMEDIATE RELEASE**

**KMG CHEMICALS REPORTS RECORD SECOND QUARTER RESULTS**

**Second Quarter Earnings Climb 338% to \$0.35 per Diluted Share**

HOUSTON, TX – March 8, 2010 – KMG Chemicals, Inc. (NASDAQ: KMGB), a global provider of specialty chemicals in carefully focused markets, today announced financial results for the second quarter ended January 31, 2010, with record revenues and earnings for a second quarter period.

**Overview of Second Quarter Results**

For the second quarter ended January 31, 2010, net sales were \$45.1 million producing operating income of \$6.9 million, and net income of \$4.0 million or \$0.35 per diluted share. In the second fiscal quarter of 2009, net sales were \$44.2 million resulting in operating income of \$2.5 million, and net income of \$903,000 or \$0.08 per diluted share.

In the fiscal 2010 second quarter, Electronic Chemicals generated net sales of \$22.9 million or 51% of the total net sales; Wood Treating Chemicals generated \$19.8 million or 44% of net sales, while Animal Health generated net sales of \$2.4 million, or 5% of the total. In the second quarter of fiscal 2009, Electronic Chemicals generated \$21.6 million or 49% of total net sales, Wood Treating Chemicals generated net sales of \$20.4 million or 46% of net sales and Animal Health generated net sales of \$2.2 million or 5% of net sales.

For the first half of fiscal 2010, net sales declined 2% to \$94.5 million, operating income increased 147% to \$14.9 million, and net income was \$8.6 million or \$0.75 per diluted share versus \$2.5 million or \$0.22 per diluted share in the same period in fiscal 2009.

Neal Butler, President and CEO of KMG, commented, “We are very pleased with our results thus far this year. In the first half of fiscal 2010, net income increased 241% over the same period last year. We have seen growing demand for our electronic chemicals serving the semiconductor and photovoltaic industries, and the outlook for the rest of the year is favorable for this market.

“Our Electronic Chemicals business maintained strong sales, approximating those of the previous quarter, despite the slowdown typical of the holiday season. Margins in this business expanded in the second quarter versus the first quarter, due to the continued impact of previously implemented efficiency improvement initiatives, particularly with regards to the business’ supply chain. Sales increased 6% in the quarter, while operating income more than doubled to \$3.0 million, versus the second quarter of fiscal 2009.

“Wood Treating Chemicals performed well in the second quarter, generating \$6.0 million of operating income, an 81% increase over the prior year period, although significantly lower than the previous three quarters. As anticipated, we experienced an easing in customer demand in the utility pole and rail tie markets during the quarter, leading to a 14% decline in Penta sales volume and an 18.3% decline in Creosote sales volume. The rail tie market has been returning to more normal levels following three years of record rail tie replacement rates in the US. The year-over-year improvement in quarterly operating profits in the second quarter was driven primarily by a previous shortage in domestically produced creosote,

favorably weighting our product mix to greater imported volumes. The short position of domestic creosote has now been alleviated. Also, as expected, raw material costs have rebounded from the previous low levels in the prior three quarters, adversely impacting margins in Wood Treating Chemicals in the second quarter. For the balance of the fiscal year, we anticipate input costs to continue at these levels and demand for creosote to potentially ease further.”

Mr. Butler went on to say, “Animal Health sales were incrementally better this quarter compared to the previous year, with significantly improved margins due to lower operating expenses in the business. Overall, the cattle and poultry markets appear to have improved somewhat from a very difficult year in 2009, and we are optimistic about the performance of this business over the next two quarters. Sales in this business are strongly weighted towards the second half of our fiscal year. With the growth we have seen over the last several years in our overall business, the Animal Health segment has had a diminishing impact on our consolidated results.”

### **Balance Sheet Discussion**

John V. Sobchak, CFO of KMG, commented, “Net working capital at the end of the second quarter was \$37.1 million, compared to \$29.7 million at July 31<sup>st</sup>, due to the increase in our cash position and lower accrued liabilities and accounts payable. Cash on January 31<sup>st</sup> was \$8.8 million, down from \$12.0 million at October 31<sup>st</sup> due primarily to a reduction in accrued liabilities and accounts payable. Our revolving credit facility of \$35.0 million was fully available at the end of the second quarter, however, it is worth noting that we expect an expansion of the facility to \$50.0 million in association with our pending acquisition, without any unfavorable change in terms. While the increased revolver capacity is not needed to fund this acquisition, we feel it is prudent to take advantage of this opportunity to expand the facility. At the end of the quarter, total borrowings had been reduced to \$43.3 million, which consisted of our \$20.0 million 7.43% fixed rate notes and the \$23.3 million of floating rate term loan, for which we are paying 1.75% over LIBOR.”

### **Upcoming Acquisition and Outlook**

On February 25<sup>th</sup>, KMG signed a definitive agreement to acquire General Chemical’s Electronic Chemicals business. The transaction consists of purchasing the majority of the fixed assets and associated intangibles of the business for \$18.5 million in cash and approximately \$850,000 of assumed liabilities, plus an estimated \$7.0 million for the business’ inventory. Included in the transaction is a solvents processing facility in Hollister, California, and the equipment related to the business at their Bay Point, CA facility, as well as a long term tolling agreement for certain acids to be manufactured by General Chemical for KMG at their facility in Bay Point, CA. In December 2007, when the first Electronic Chemicals business was acquired from Air Products, KMG entered into a three year tolling agreement for the supply of certain solvents. That tolling agreement expires in ten months at which time, KMG plans to move the production of those products to the soon-to-be acquired Hollister facility. The additional production volume will significantly increase the throughput of the Hollister plant and improve its operating efficiency. The acquisition is expected to close around the end of March, assuming satisfaction of the closing conditions, including obtaining necessary operating permits.

Mr. Butler added, “We are extremely enthusiastic about adding this business to our Electronic Chemicals segment. This is a solid and profitable business in its own right that generated \$43 million of revenue in calendar year 2009, and offers significant operating synergies to KMG due to the compatibility of its operations with ours. KMG is the current market leader in the high purity wet process chemicals market in North America, and the addition of General Chemical’s business will further expand our position, scope and ability to provide quality service to our customers in the U.S., Europe, Middle East and Asia. As mentioned in the

announcement last month, we expect the acquisition to be significantly and progressively accretive to KMG's earnings in fiscal 2011 and 2012 as the business is integrated into KMG, although it will be mildly dilutive to earnings in the second half of fiscal 2010, mainly due to closing and integration expenses. During this second quarter we expensed \$315,000 of transaction costs related to this acquisition. ”

He concluded, “We continued to see the positive residual effects on our profitability in the second quarter thanks to the measures we implemented in fiscal 2009 to improve supply chain and manufacturing efficiencies. While we are focused in the near-term on completing the integration of our pending Electronic Chemicals acquisition, we continue to seek suitable growth opportunities in keeping with our strategy to acquire, operate and integrate profitable business lines. As we stated previously, even with minor dilution to earnings in the second half of the fiscal year due to transaction, closing and integration costs associated with this acquisition, KMG is anticipating solid results and another year of record earnings in fiscal 2010.”

### **Conference Call**

Messrs. Butler and Sobchak will conduct a conference call focusing on the financial results at 10:00 a.m. E.T. today, Monday, March 8, 2010. Interested parties may participate in the call by dialing 866-861-6730. Please call in 10 minutes before the call is scheduled to begin, and ask for the KMGB call (conference ID # 54643183).

The conference call will also be webcast live via the Investor Relations section of KMG's website at [www.kmgchemicals.com](http://www.kmgchemicals.com). To listen to the live call please go to the website at least 15 minutes early to register, download and install any necessary audio software. If you are unable to listen live, the conference call will be archived on the website.

### **About KMG**

KMG Chemicals, Inc., through its subsidiaries, produces and distributes specialty chemicals to carefully focused markets. The Company grows by acquiring and optimizing stable chemical product lines and businesses with established production processes. Its current operations are focused on the wood treatment, electronic, and agricultural chemical markets. For more information, visit the Company's web site at [www.kmgchemicals.com](http://www.kmgchemicals.com).

*The information in this news release includes certain forward-looking statements that are based upon assumptions that in the future may prove not to have been accurate and are subject to significant risks and uncertainties, including statements as to the future performance of the company. Although the company believes that the expectations reflected in its forward-looking statements are reasonable, it can give no assurance that such expectations or any of its forward-looking statements will prove to be correct. Factors that could cause results to differ include, but are not limited to, successful performance of internal plans, product development acceptance, the impact of competitive services and pricing and general economic risks and uncertainties.*

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(See accompanying tables)

**KMG CHEMICALS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(UNAUDITED)**  
(in thousands except for per share data)

	<u>Three Months Ended</u> <u>January 31,</u>		<u>Six Months Ended</u> <u>January 31,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
NET SALES	\$ 45,134	\$ 44,207	\$ 94,548	\$ 96,440
COST OF SALES	<u>28,422</u>	<u>30,471</u>	<u>59,445</u>	<u>67,174</u>
Gross Profit	<u>16,712</u>	<u>13,736</u>	<u>35,103</u>	<u>29,266</u>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	9,788	11,229	20,229	23,234
Operating income	<u>6,924</u>	<u>2,507</u>	<u>14,874</u>	<u>6,032</u>
OTHER INCOME (EXPENSE):				
Interest income	1	4	2	6
Interest expense	(535)	(785)	(1,092)	(1,664)
Other, net	<u>(71)</u>	<u>(247)</u>	<u>(99)</u>	<u>(280)</u>
Total other expense, net	<u>(605)</u>	<u>(1,028)</u>	<u>(1,189)</u>	<u>(1,938)</u>
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	<u>6,319</u>	<u>1,479</u>	<u>13,685</u>	<u>4,094</u>
Provision for income taxes	<u>(2,356)</u>	<u>(572)</u>	<u>(5,102)</u>	<u>(1,571)</u>
INCOME FROM CONTINUING OPERATIONS	<u>3,963</u>	<u>907</u>	<u>8,583</u>	<u>2,523</u>
DISCONTINUED OPERATIONS				
Loss from discontinued operations, before income taxes	—	(7)	—	(7)
Income tax benefit	<u>—</u>	<u>3</u>	<u>—</u>	<u>3</u>
Loss from discontinued operations	<u>—</u>	<u>(4)</u>	<u>—</u>	<u>(4)</u>
NET INCOME	<u>\$ 3,963</u>	<u>\$ 903</u>	<u>\$ 8,583</u>	<u>\$ 2,519</u>
EARNINGS PER SHARE:				
Basic				
Income from continuing operations	\$ 0.36	\$ 0.08	\$ 0.77	\$ 0.23
Loss from discontinued operations	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net income	<u>\$ 0.36</u>	<u>\$ 0.08</u>	<u>\$ 0.77</u>	<u>\$ 0.23</u>
Diluted				
Income from continuing operations	\$ 0.35	\$ 0.08	\$ 0.75	\$ 0.22
Loss from discontinued operations	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net income	<u>\$ 0.35</u>	<u>\$ 0.08</u>	<u>\$ 0.75</u>	<u>\$ 0.22</u>
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	11,162	11,083	11,153	11,076
Diluted	11,420	11,221	11,397	11,222
SUPPLEMENTAL DATA:				
Depreciation and amortization expense	1,438	1,610	2,817	3,388

**KMG Chemicals, Inc.**  
**Balance Sheet Highlights**  
(In thousands)  
**(UNAUDITED)**

	<b>January 31, <u>2010</u></b>	<b>July 31, <u>2009</u></b>
Cash and cash equivalents	\$ 8,754	\$ 7,174
Net working capital	37,132	29,724
Total assets	143,994	143,508
Long-term debt, including current portion	43,333	46,292
Shareholders' Equity	79,201	70,977