



300 Throckmorton Street  
Fort Worth, TX 76102

November 3, 2017

Dear Shareholder:

The Board of Directors of KMG Chemicals, Inc. invites you to this year's annual meeting of the shareholders to be held at The Worthington Renaissance Fort Worth Hotel, 200 Main Street, Fort Worth, Texas 76102, on December 5, 2017, at 10:00 a.m. (Central Time). The Board of Directors is also soliciting your proxies and your votes and is recommending the approval of the proposals described in the enclosed Proxy Statement.

**For the date, time and location of the 2017 Annual Meeting and an identification of the matters to be voted upon at the 2017 Annual Meeting, please see the Notice of Annual Meeting of Shareholders. For the Board's recommendations regarding those matters, please refer to:**

- **Proposal Number 1 — Election of Directors**
- **Proposal Number 2 — Ratification of Our Independent Registered Public Accounting Firm for Fiscal Year 2018**
- **Proposal Number 3 — Advisory (Non-Binding) Vote on Executive Officer Compensation**
- **Proposal Number 4 — Advisory (Non-Binding) Vote on Frequency of Future Say-On-Pay Votes**
- **Proposal Number 5 — Approval to Increase the Number of Shares that May Be Issued Under Our 2016 Long-Term Incentive Plan**

**For information on how to obtain directions to be able to attend the meeting and vote in person, please contact our Corporate Secretary, Roger C. Jackson, at [rjackson@kmgchemicals.com](mailto:rjackson@kmgchemicals.com).**

If you are a shareholder of record as of October 30, 2017, we have enclosed a proxy card that enables you to vote on the matters to be considered at the meeting, if you do not plan to attend in person. To vote, simply complete, sign and date your proxy card and mail it in the enclosed addressed envelope. If your shares are held in "street name" — that is, held for your account by a bank, brokerage firm or other intermediary — you should obtain instructions from the bank, brokerage firm or other intermediary that you must follow for your shares to be voted. Your broker is not permitted to vote on the election of directors and other matters to be considered at the Annual Meeting of Shareholders (except for the ratification of the independent registered public accounting firm) unless you communicate your voting decisions to your broker, bank or other nominee. You may also vote by the Internet or by telephone up until 11:59 P.M. Eastern Time the day before the 2017 Annual Meeting. To vote by the Internet, go to [www.proxyvote.com](http://www.proxyvote.com). Have your proxy card in hand when you access the web site, and follow the instructions to obtain your records and create an electronic voting instruction form. To vote by telephone, call 1-800-690-6903 using any touch-tone telephone to transmit your voting instructions. Have your proxy card in hand when you telephone, and follow the instructions.

The ability to have your vote counted at the 2017 Annual Meeting is an important shareholder right. Regardless of the number of shares you hold, and whether or not you plan to attend the meeting, we hope that you will promptly cast your vote.

We appreciate your continued confidence in us and look forward to seeing you at the 2017 Annual Meeting.

Sincerely,

A handwritten signature in black ink, appearing to read "C. Fraser", written over a light gray rectangular background.

Christopher T. Fraser  
Chairman of the Board



**KMG CHEMICALS, INC.**  
**300 Throckmorton Street**  
**Fort Worth, Texas 76102**

**NOTICE OF ANNUAL MEETING  
OF SHAREHOLDERS**

The Annual Meeting of the Shareholders (the "Annual Meeting") of KMG Chemicals, Inc., a Texas corporation (the "Company"), will be held at The Worthington Renaissance Fort Worth Hotel, 200 Main Street, Fort Worth, Texas 76102, on December 5, 2017 at 10:00 a.m. (Central Time):

1. To elect eight (8) directors to hold office until the next annual meeting of shareholders or until their respective successors have been duly elected and qualified;
2. To ratify the appointment of KPMG LLP as the independent registered public accounting firm and auditors for the Company for fiscal year 2018;
3. To vote on the advisory proposal respecting executive officer compensation;
4. To vote on the advisory proposal respecting the frequency of say-on-pay votes on executive officer compensation;
5. To vote to increase in the number of shares that may be issued under our 2016 Long-Term Incentive Plan; and
4. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

Shareholders of record at the close of business on October 30, 2017 are entitled to notice of and to vote at this Annual Meeting of Shareholders or any adjournment or postponement thereof.

All shareholders are cordially invited and urged to attend the Annual Meeting of Shareholders in person. **Even if you plan to attend the meeting, you are requested to complete, sign, date and return your proxy in the enclosed pre-addressed envelope.** If no direction is given, a signed proxy will be deemed a vote in favor of the proposals contained in the Proxy Statement. If you attend, you may vote in person if you wish, even though you have sent in your proxy. Your broker is not permitted to vote on the election of directors and other matters to be considered at the Annual Meeting (except for the ratification of the independent registered public accounting firm) unless you communicate your voting decisions to your broker, bank or other nominee.

By Order of the Board of Directors,



Roger C. Jackson  
Secretary  
November 3, 2017

**Important Notice Regarding Availability of Proxy Materials for the Annual Meeting of Shareholders to be Held on December 5, 2017: The Annual Report to shareholders, this Proxy Statement and the related form of proxy are available at [kmgchemicals.com](http://kmgchemicals.com).** This information and similar information for future Annual Meetings will also be available by email from our Corporate Secretary, Roger C. Jackson, at [rjackson@kmgchemicals.com](mailto:rjackson@kmgchemicals.com).



**KMG CHEMICALS, INC.**  
**300 Throckmorton Street**  
**Fort Worth, Texas 76102**

**PROXY STATEMENT**

**General Information**

This Proxy Statement and the accompanying form of proxy are being furnished to the shareholders of KMG Chemicals, Inc., a Texas corporation (the “Company”, “we”, “us” and “our”), in connection with the solicitation of proxies by our Board of Directors for use at the Annual Meeting of Shareholders (the “Annual Meeting”) to be held on December 5, 2017 at 10:00 a.m. (Central Time), at The Worthington Renaissance Fort Worth Hotel, 200 Main Street, Fort Worth, Texas 76102, and any adjournment or postponement thereof.

This Proxy Statement and the related form of proxy are being mailed on or about November 6, 2017 to all shareholders of record as of October 30, 2017 (the “Record Date”). A copy of our Annual Report on Form 10-K for the fiscal year ended July 31, 2017 accompanies this proxy statement and is available at [www.kmgchemicals.com](http://www.kmgchemicals.com). This information will also be available on request by email from our Corporate Secretary, Roger C. Jackson, at [rjackson@kmgchemicals.com](mailto:rjackson@kmgchemicals.com).

Unless otherwise indicated, shares of our common stock, par value \$.01 per share (the “Common Stock”), represented by proxies will be voted in favor of (i) the election of the eight (8) director nominees to the Board of Directors named in the Proxy Statement, (ii) the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for fiscal year 2018, (iii) the approval of the advisory resolution approving the compensation of the Company’s named executive officers (i.e., “say-on-pay”), (iv) the approval of the advisory resolution respecting the frequency of future say-on-pay votes, (v) the approval of an increase in the number of shares of the Company’s common stock, \$0.01 par value per share, that may be issued under the Company’s 2016 Long-Term Incentive Plan and (vi) to transact such other business as may properly come before the meeting or any adjournment or postponement thereof. With respect to the election of directors, a shareholder may, by checking the appropriate box on the proxy: (i) vote for all director nominees as a group; (ii) withhold authority to vote for all director nominees as a group; or (iii) vote for all director nominees as a group except those nominees identified by the shareholder in the appropriate area. With respect to the proposals regarding the ratification of our independent registered public accounting firm, the advisory vote on our executive compensation and the approval of an increase in the number of shares of common stock that may be issued under our 2016 Long-Term Incentive Plan, a shareholder may, by checking the appropriate box on the proxy: (i) vote for the proposal; (ii) vote against the proposal; or (iii) abstain from voting on the proposal. With respect to the proposal regarding the frequency of shareholder votes regarding executive compensation, a shareholder may, by checking the appropriate box on the proxy: (i) vote for a frequency of every year; (ii) vote for a frequency of every two years; (iii) vote for a frequency of every three years; or (iv) abstain from voting on the proposal.

Any shareholder who executes and delivers a proxy may revoke it at any time prior to its use by (i) giving written notice of revocation to our Corporate Secretary, (ii) executing and delivering a proxy bearing a later date, or (iii) appearing at the Annual Meeting and voting in person.

If the proxy in the accompanying form is properly executed and not revoked, the shares represented by the proxy will be voted in accordance with the instructions thereon.

**If no instructions are given on the matters to be acted upon, the shares represented by the proxy will be voted: (i) FOR the election of the directors nominated herein; (ii) FOR the proposal to ratify the appointment of KPMG LLP as our independent registered public accounting firm and auditors for fiscal year 2017; (iii) FOR the advisory proposal approving our executive compensation; (iv) FOR the advisory proposal that a vote of the shareholders on executive compensation be held every 1 YEAR; (v) FOR an increase in the number of shares of our common stock that may be issued under our 2016 Long-Term Incentive Plan; and (iv) in the discretion of the proxy holders as to any business that may properly come before the Annual Meeting or any adjournment or postponement thereof.**

## Who May Vote

Only holders of record of outstanding shares of Common Stock at the close of business on the Record Date are entitled to one vote for each share held on all matters coming before the Annual Meeting or any adjournment or postponement thereof. There were 15,365,646 shares of Common Stock outstanding and entitled to vote on October 30, 2017.

## Voting Requirements

The holders of a majority of the total shares of Common Stock issued and outstanding on the Record Date, whether present in person or represented by proxy, will constitute a quorum for the transaction of business at the Annual Meeting. For purposes of determining whether a quorum is present under Texas law, broker non-votes and abstentions count towards the establishment of a quorum. A broker “non-vote” occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item, and the broker has not received voting instructions from the beneficial owner. Votes cast at the meeting will be counted by the inspector of the election.

The election of directors and the approval to increase the number of shares that may be issued under our 2016 Long-Term Incentive Plans require the favorable vote of the holders of a plurality of the shares of Common Stock present and voting, in person or by proxy, at the Annual Meeting. Abstentions and broker non-votes have no effect on determinations of plurality except to the extent that they affect the total votes received by any particular candidate. The advisory votes on ratification of the appointment of the independent registered public accounting firm, approval of our executive compensation, and frequency of votes on executive compensation are non-binding, so no specific vote is required. Abstaining shares will be considered present at the Annual Meeting for these matters so that the effect of abstentions will be the equivalent of a “no” vote. With respect to broker non-votes, the shares will not be considered present at the Annual Meeting for these matters so that broker non-votes will have the practical effect of reducing the number of affirmative votes required to achieve a majority vote by reducing the total number of shares from which the majority is calculated.

If you hold your shares in street name, your broker, banker or other nominee will *not* have discretion to vote these shares on the election of directors and the non-binding approval of our executive compensation. Accordingly, if your shares are held in street name and you do not submit voting instructions to your broker, bank or other nominee, these shares will *not* be counted in determining the outcome of these matters at the Annual Meeting.

**Security Ownership of Certain Beneficial Owners, Directors  
and Named Executive Officers**

The following table sets forth certain information as of October 30, 2017 with regard to the beneficial ownership of Common Stock by (i) each person known to us to be the beneficial owner of 5% or more of our outstanding Common Stock, (ii) our named executive officers and the directors individually and (iii) our officers and directors as a group. All addresses are in care of KMG Chemicals, Inc., 300 Throckmorton Street, Fort Worth, Texas 76102.

Name	Common Stock Beneficially Owned Excluding Options	Shares Including Options Exercisable Within 60 Days	Percent of Total Beneficial Shares (%) (1)
<b><i>Directors and Named Executive Officers</i></b>			
Gerald G. Ermentrout	30,538	30,538	*
Christopher T. Fraser	197,851	197,851	1.3%
George W. Gilman	67,934	67,934	*
Jeffrey S. Handelman	2,000	2,000	*
Robert Harrer	4,760	4,760	*
John C. Hunter, III	18,601	18,601	*
Roger C. Jackson	84,320	84,320	*
Ernest C. Kremling	36,592	36,592	*
Fred C. Leonard, III	463,376	463,376	3.0%
Marcelino Rodriguez	7,919	7,919	*
Karen A. Twitchell	16,585	16,585	*
<b><i>Directors and Named Executive Officers as a Group (12 persons)</i></b>	<b>930,476</b>	<b>930,476</b>	<b>6.1%</b>
<b><i>Five Percent Shareholders</i></b>			
David L. Hatcher (2) 19 Briar Hollow Lane, Suite 290, Houston, TX 77027	1,472,097	1,472,097	9.6%
Trigran Investments, Inc. Douglas Granat, Lawrence A. Oberman, Steven G. Simon, Bradley F. Simon and Steven R. Monieson (3) 630 Dundee Road, Suite 230, Northbrook, IL 60062	844,127	844,127	5.5%
T. Rowe Price Associates, Inc. (4) 100 E. Pratt Street, Baltimore, MD 20202	1,734,913	1,734,913	11.3%

\* Less than 1%.

- (1) This table is calculated pursuant to Rule 13d-3(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Under Rule 13d-3(d), shares not outstanding which are subject to options, warrants, rights, or conversion privileges exercisable within 60 days are deemed outstanding for the purpose of calculating the number and percentage owned by a person, but not deemed outstanding for the purpose of calculating the number and percentage owned by any other person listed. As of October 30, 2017, we had 15,365,646 shares of Common Stock outstanding.
- (2) Based on the Form 4 filed with the Securities and Exchange Commission (the "SEC") on November 1, 2017 by David L. Hatcher.
- (3) Based on the Schedule 13G/A filed with the SEC on June 6, 2017 by Trigran Investments, Inc., Douglas Granat, Lawrence A. Oberman, Steven G. Simon, Bradley F. Simon and Steven R. Monieson, which indicated that the reporting persons share dispositive and voting power over the indicated number of shares, and the Schedule 13G/A filed with the SEC on June 6, 2017, 2015 by Trigran Investments, L.P. (which owns 341,819 shares representing 2.2% of the shares outstanding), to which Trigran Investments, Inc. serves as investment advisor with power to direct investments and/or sole power to vote the shares.
- (4) Based on the Schedule 13G/A filed with the SEC on February 7, 2017 jointly by T. Rowe Price Associates, Inc. ("Price Associates") and T. Rowe Price Small-Cap Value Fund, Inc. ("Price Small-Cap"). These shares are owned by various individual and institutional investors including Price Small-Cap (which owns 1,248,503 shares representing 8.1% of the shares outstanding), to which Price Associates serves as investment advisor with power to direct investments and/or sole power to vote the shares. For purposes of the reporting requirements of the Exchange Act, Price Associates is deemed to be a beneficial owner of such shares; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such shares.

## PROPOSAL 1:

### ELECTION OF DIRECTORS

Our bylaws provide for a minimum of five directors. The Board of Directors has established that eight directors will be the number of directors that will constitute the full Board of Directors at the time of the 2017 Annual Meeting.

Seven of the proposed nominees are current directors. One of the nominees, Margaret C. Montana, is expected to join the Board on December 1, 2017. We believe that our directors should possess the highest personal and professional integrity. We endeavor to have a Board with diverse backgrounds and experience. In light of our business and structure, we believe that the following are among the important experience and skills our directors bring to the Board:

- Leadership and corporate governance experience;
- Financial experience;
- Industry and acquisitions experience; and
- Public company experience.

The following table sets forth certain information with respect to each of our directors as of November 3, 2017.

**The Board of Directors recommends a vote FOR all nominees for director.**

#### Nominees for Director

<u>Name and Age</u>	<u>Director Since</u>	<u>Business Experience during the Past 5 Years and Other Information</u>
Gerald G. Ermentrout (69)	2008	Mr. Ermentrout has over 30 years of experience in industrial gases and electronic chemicals. He joined Air Products and Chemicals, Inc. in 1975 and held various positions until his retirement in early 2007. From 1996 to 2007, Mr. Ermentrout served as the Vice President and General Manager of the Electronic Chemicals Division, which included the high-purity process chemicals business that we acquired in December 2007. In that position, he managed Air Products' global materials and equipment business serving the semiconductor and flat panel display industries, with responsibility for sales, marketing and operations. During his tenure at Air Products, Mr. Ermentrout also held positions where he managed oxygen, nitrogen and hydrogen plants and pipeline systems, as well as managed major acquisitions and divestitures. He served on the board of directors of AZ Electronic Materials, a public company previously listed on the London Stock Exchange from April 1, 2007 until June 1, 2014. He received a Bachelor of Science in Engineering from the United States Naval Academy and a Master of Business Administration from Lehigh University. Mr. Ermentrout is the Lead Director on our Board of Directors as well as the chair of the Nominating and Corporate Governance Committee and a member of the Compensation and Development Committee. Mr. Ermentrout brings to our Board critical industry experience and specialized knowledge in electronic chemicals, our largest business segment. That experience includes managing electronic chemical operations in North America and internationally, and pursuing merger and acquisition opportunities in that business.



Name and Age	Director Since	Business Experience during the Past 5 Years and Other Information
Christopher T. Fraser (59)	2008	Mr. Fraser is a director, Chairman of the Board, President and our Chief Executive Officer (“CEO”). He became President and CEO on an interim basis in July 2013, and was selected as our permanent President and CEO in September 2013. He has broad experience in the chemical industry, much of that experience with major, global participants. From 2006 to 2009, he was the President and CEO of Chemical Lime Company, the leading North American producer of calcium based (limestone), alkaline products with various industrial applications including the manufacture of steel, water treatment, flue gas desulphurization, and chemical production. Before joining Chemical Lime, Mr. Fraser was President and CEO of OCI Chemical Corporation, a wholly-owned subsidiary of DC Chemical Co., among the world’s leading producers of high quality soda ash and sodium percarbonate. Prior to joining OCI in 1996, Mr. Fraser held various positions of responsibility in sales, marketing, business development, operations and general management. In 2011, Mr. Fraser joined the Operating Partner Program of Advent International, and in that position he advises that global equity firm on investment opportunities in the industrial sector, focusing on chemicals and materials. Mr. Fraser holds Bachelor of Science in Chemistry and in Business Administration from the University of Connecticut, as well as a Master of Business Administration from Pepperdine University. Prior to becoming our President and CEO, Mr. Fraser served as a director on our Board since 2008, and became Chairman of the Board in December 2012. His leadership, industry and governance experience as the CEO of chemical manufacturing companies, in mergers and acquisitions, and in creating and maintaining an appropriate corporate structure, have been a valuable resource to the Board.
George W. Gilman (75)	1996	Mr. Gilman served as a director of our subsidiary KMG-Bernuth from 1995 until 1997 and became a director on our Board in 1996. Mr. Gilman has served as the CEO, President and as a director of Commerce Securities Corporation, a Financial Industry Regulatory Authority member firm, since 1982. He practiced law with the law firm of George Gilman, P.C. from 1986 to 1998, and since 1998 has practiced with the law firm of Gilman & Gilman, P.C. He also has been involved in the commercial real estate business since 1987, and currently through Gulf Equities Realty Corp. Mr. Gilman is a certified public accountant. Mr. Gilman is a member of the Audit Committee and a member of the Nominating and Corporate Governance Committee. Mr. Gilman’s knowledge of accounting and legal matters, and his experience in public company financing and investor relations, provide the Board an important resource.
Robert Harrer (52)	2015	Mr. Harrer became a director in September 2015. He is currently Senior Vice President, Chief Financial Officer of Renaissance Pharmaceuticals, Inc., which develops and manufactures a broad range of sterile and environmentally controlled products. From March 2014 until December 2015, Mr. Harrer was Senior Vice President, Chief Financial Officer of Innophos, a leading producer of performance-critical specialty grade phosphate products and nutritional specialty ingredients. From 2010 to 2013, Mr. Harrer was Executive Vice President, Chief Financial Officer and Chief Administrative Officer of Avantor Performance Materials, a global manufacturer of performance materials and chemicals for leading-edge electronics, biopharmaceutical, laboratory and research applications. Avantor is owned by New Mountain Capital LLC, a private equity firm, for which Mr. Harrer worked as a business consultant prior to the acquisition of Avantor. From 2000-2009, Mr. Harrer worked for Rohm and Haas in various leadership positions, including Chief Financial Officer of the Electronic Materials business, Director of Finance of the European Region, and Corporate Controller and Director of Financial Planning at Rohm and Haas’ Philadelphia headquarter. Following The Dow Chemical Company’s acquisition of Rohm and Haas in 2009, Mr. Harrer served as division controller at Dow. Mr. Harrer earned his Master of Business Administration and Mathematics at Albert Einstein University in Ulm, Germany. Mr. Harrer is a member of the Audit Committee and a member of the Compensation and Development Committee. His financial, chemical industry and executive experience are invaluable resources for the Board.

Name and Age	Director Since	Business Experience during the Past 5 Years and Other Information
John C. Hunter, III (70)	2011	Mr. Hunter has over 40 years of global chemical industry experience. He began his career in 1969 with Monsanto Company, and for the next three decades held positions of increasing responsibility in areas such as engineering, sales, and management. He was appointed Vice President and General Manager, Asia Pacific, for the Specialty Chemicals Division of Monsanto Chemical Company in 1989, and Vice President and General Manager, Fibers Division and Asia-Pacific for the Chemicals Group, an operating unit of Monsanto Company, in 1993. Mr. Hunter became President of the Fibers Business Unit in 1995. In September 1997, Monsanto spun off its chemicals business as Solutia Inc., and Mr. Hunter was appointed its President and Chief Operating Officer. He became President and Chief Executive Officer of Solutia in May 1999, and added the role of Chairman of the Board in December 1999. Mr. Hunter retired as Chairman, President and Chief Executive Officer of Solutia in 2004. Mr. Hunter is currently a member of the board of directors and chair of the compensation and nominating committee of Edgewell Personal Care. He received a Bachelor of Science degree in Chemical Engineering from the Georgia Institute of Technology and a Master of Business Administration from the University of Houston. Mr. Hunter is a member of the Nominating and Corporate Governance Committee and the Compensation and Development Committee. His commercial, chemical industry and corporate governance experience as the CEO and Chairman of a major chemical manufacturing company are invaluable resources for the Board.
Fred C. Leonard, III (72)	1996	Mr. Leonard served as a director of our subsidiary KMG-Bernuth from 1992 until 1997, and served as the Secretary of KMG-Bernuth from 1993 until 2001. From 1972 through April 2015, Mr. Leonard served as the Chair of the Board, CEO and President of Valves Incorporated of Texas, Inc. (“Val-Tex”), a manufacturing company located in Houston, Texas, prior to our acquisition of Val-Tex. Mr. Leonard currently serves as a board member of Integrity Bank, SSB, an independent community bank in Houston, Texas, and DKI Investments Incorporated, a private Texas Corporation formed to acquire and operate companies. Mr. Leonard is the Chair of our Compensation and Development Committee and a member of our Audit Committee. He provides the Board with critical expertise in compensation systems and strategies, and as the long-time CEO of a private manufacturing company, he brings to the Board leadership experience and a broad-based expertise in a variety of business disciplines.
Margaret C. Montana (62)	N/A	Ms. Montana retired as Chief Executive Officer and President of Shell Midstream Partners, LP. in June 2015 and remains a member of its board of directors. Employed at Shell from 1977 until 2015, Ms. Montana served in various capacities in the downstream and midstream sector during her career. Ms. Montana became Executive Vice President, US Pipelines & Special Projects – Americas in Shell Downstream Inc. in January 2014. Ms. Montana served as Executive Vice President, Supply & Distribution, from 2009 to 2014, where she was responsible for hydrocarbon supply to Shell’s downstream worldwide fuels manufacturing and marketing businesses. Prior to 2009, Ms. Montana served in the U.S. from 2004 as Vice President, Supply, and then Vice President, Global Distribution, where she led Shell’s fuels global terminal and distribution operations. In these various roles, Ms. Montana led Shell’s U.S. pipeline business since 2006. Ms. Montana currently is a member of the board of directors of Contanda, a private terminal company; the board of trustees of Missouri University of Science & Technology and the Houston YMCA. Past affiliations include API Downstream Committee and the National Petroleum Council. Ms. Montana holds a bachelor of science in Chemical Engineering from the University of Missouri, Rolla. Ms. Montana’s extensive experience in the energy industry, particularly her experience in supply and distribution and in the pipeline sector, makes her well qualified to serve as a member of the Board.

Name and Age	Director Since	Business Experience during the Past 5 Years and Other Information
Karen A. Twitchell (62)	2010	<p>Ms. Twitchell is a member of the board of directors of Kraton Corp., where she is on the Audit and Compensation and Development Committees. In addition, she is on the board of Trecora Resources, where she is Chair of the Audit Committee and a member of the Compensation Committee. From 2010 to 2013, she was Executive Vice President and Chief Financial Officer of Landmark Aviation, where she was responsible for all financial and strategic planning functions. Previously, Ms. Twitchell was Vice President and Treasurer of LyondellBasell Industries from 2001 to 2009, where she was responsible for global treasury operations for this worldwide chemical and refining company. Before that, she had served as Vice President and Treasurer of Kaiser Aluminum Corporation and of Southdown Inc. Prior to joining Southdown, Ms. Twitchell was an investment banker with Credit Suisse First Boston in its corporate finance department. Ms. Twitchell holds a Bachelor of Arts in Economics from Wellesley College and a Master of Business Administration from Harvard University. Ms. Twitchell is Chair of the Audit Committee and a member of the Nominating and Corporate Governance Committee. She brings important experience to the Board in accounting matters, financings and capital structure, merger and acquisition transactions, investor relations and enterprise risk management.</p>

## Named Executive Officers Who Are Not Directors

The following table sets forth certain information with respect to our current named executive officers who are not directors.

<u>Name and Age</u>	<u>Business Experience during the Past 5 Years and Other Information</u>
Jeffrey S. Handelman (57)	Mr. Handelman became our Senior Vice President Electronic Chemicals in March 2017. Prior to joining KMG, Mr. Handelman was Executive Vice President, Process Materials at Versum Materials, a leading electronic materials supplier to the semiconductor industry. Versum Materials was spun off from Air Products and Chemicals' electronic chemicals division in September 2016. At Air Products, Mr. Handelman held positions of increasing responsibility, including Wet Process General Manager and Vice President, Global Sales for the firm's electronics business. Prior to joining Air Products, Mr. Handelman held various business management and strategic development positions at Ashland Chemical and Koch Industries.
Roger C. Jackson (66)	Mr. Jackson was elected Secretary in 2001, and became Vice President and General Counsel in 2002. Prior to then, Mr. Jackson had been a partner since 1995 in Woods & Jackson, L.L.P. and had been a partner in the Houston law firm Brown, Parker & Leahy L.L.P. beginning in 1985.
Ernest C. Kremling (53)	Mr. Kremling was named Senior Vice President Industrial Lubricants, Wood Treating Chemicals and Manufacturing Services in March 2017. Mr. Kremling joined KMG as Vice President-Operations in 2008. Prior to that, Mr. Kremling spent 20 years with the Dow Chemical Company in various manufacturing roles, which included project management and plant and site leadership. During the course of his employment with Dow, he worked in Asia for several years and held positions of global responsibility that covered Asia, Europe and South America.
Marcelino Rodriguez (58)	Marcelino Rodriguez was named Vice President and Chief Financial Officer in June 2016. Mr. Rodriguez joined KMG in 2014 as Corporate Controller and Chief Accounting Officer, overseeing the company's corporate accounting and financial reporting. Before joining KMG in 2014, Mr. Rodriguez served as Chief Financial Officer of Paul Mueller Company from 2011 to 2014 and Chief Financial Officer of Lhoist North America from 2000 to 2009. Mr. Rodriguez holds a Bachelor of Business Administration in Accounting from the University of Texas at San Antonio and earned his Master of Business Administration from St. Mary's University.

## **Communication with the Board**

In order to provide our shareholders and other interested parties with a direct and open line of communication to the Board of Directors, the Board of Directors has adopted the following procedures for communications to directors. Shareholders and other interested persons may communicate with the Board or with our non-management directors as a group by written communications addressed in care of the Chair of our Nominating and Corporate Governance Committee or our Corporate Secretary, 300 Throckmorton Street, Fort Worth, Texas 76102.

All communications received in accordance with these procedures will be reviewed initially by senior management. Senior management will relay all such communications to the appropriate director or directors unless it is determined that the communication (i) does not relate to our business or affairs or the functioning or constitution of the Board of Directors or any of its committees; (ii) relates to routine or insignificant matters that do not warrant the attention of the Board of Directors; (iii) is an advertisement or other commercial solicitation or communication; (iv) is frivolous or offensive; or (v) is otherwise not appropriate for delivery to directors.

The director or directors who receive any such communication will have discretion to determine whether the subject matter of the communication should be brought to the attention of the full Board of Directors or one or more of its committees and whether any response to the person sending the communication is appropriate. Any such response will be made only in accordance with applicable law and regulations relating to the disclosure of information.

The Corporate Secretary will retain copies of all communications received pursuant to these procedures for a period of at least one year. The Board of Directors will review the effectiveness of these procedures from time to time and, if appropriate, recommend changes. As of November 3, 2017, no such communications had been received.

## **Board Meetings**

The Board of Directors held ten meetings in fiscal year 2017, including special meetings, and took action by unanimous consent in several instances. All directors attended six meetings. In three of the meetings, one director did not attend. In one of the meetings, two directors did not attend. All Board members are expected to attend the Annual Meeting. Last year, all directors attended the Annual Meeting.

## **Director Independence**

The Board of Directors is currently composed of six non-employee directors and one employee director. Margaret C. Montana is expected to join the Board of Directors as a non-employee director on December 1, 2017. The Board of Directors has established that eight directors will be the number of directors that will constitute the full Board of Directors at the time of the 2017 Annual Meeting. Under our guidelines and the listing requirements of the New York Stock Exchange, at least a majority of our Board of Directors must be independent. The Board of Directors has determined that all six of its current non-employee directors meet the New York Stock Exchange requirement of independence. The Board of Directors has also determined that all non-employee directors who served during fiscal year 2017 met the New York Stock Exchange independence requirement.

## **Stock Ownership Guideline for Non-Employee Directors**

We have adopted a stock ownership guideline for non-employee directors. Non-employee directors are to own the greater of 4,000 shares or the number of shares of our Common Stock whose value equals five times their annual cash retainer. Non-employee directors have two years from their election to achieve the 4,000 shares level and five years from their election to achieve the 5x guideline. The Compensation and Development Committee may enforce the guideline by paying director compensation in restricted stock. As of July 31, 2017, each of our non-employee directors has satisfied the requirement as it may relate to them.

## Board Committee Membership

The Board of Directors has three standing committees, an Audit Committee, a Nominating and Corporate Governance Committee (“Governance Committee”) and a Compensation and Development Committee (“Compensation Committee”). The Audit Committee, the Governance Committee and the Compensation Committee are composed entirely of non-employee directors whom the Board has determined are independent under the applicable committee independence standards of the New York Stock Exchange. The table below provides the current membership for the four standing committees.

	Audit Committee	Nominating & Corporate Governance Committee	Compensation & Development Committee
Gerald G. Ermentrout		X*	X
George W. Gilman	X	X	
Robert Harrer	X		X
John C. Hunter, III		X	X
Fred C. Leonard, III	X		X*
Karen A. Twitchell	X*	X	

\* Committee Chair

## Board Leadership Structure

The Board does not have a set policy on whether the roles of the chairman and CEO should be separate and, if separate, whether the chairman should be selected from the non-employee directors or be an employee. Rather, the Board makes this choice on the basis of what it believes is in our best interests at a given point in time. The Board has determined that it is currently in our best interests that Christopher T. Fraser serves as our Chairman, President and CEO. The Board believes that Mr. Fraser’s knowledge and past experience as a CEO will serve us well and that his insights have been, and will continue to be, invaluable to the Board.

We have designated a Lead Director to ensure the representation of the non-employee directors in our leadership structure. The responsibilities of the Lead Director include calling and setting the agenda for executive sessions and other meetings of the non-employee directors, serving as principal liaison for the non-employee directors with the Board Chair and the CEO, substituting for the Board Chair when he is unavailable, and serving as the contact for shareholder communication. Mr. Ermentrout is our current Lead Director.

## The Board’s Oversight of Risk Management

Responsibility for risk oversight rests with the full Board. Three committees lend support to the Board in reviewing our consideration of material risks and overseeing our management of material risks. The Audit Committee makes inquiries of senior management about our risk assessment and risk management policies. These policies address our major financial risk exposures and the steps management has taken to monitor and mitigate these risks. The Compensation Committee reviews compensation policies and practices to ensure that our compensation policies are not reasonably likely to have a material adverse effect. The Governance Committee assists the Board with oversight of material risk generally, and specifically to assist with oversight of management’s responsibility to identify, assess, prioritize and manage material risks related to our business, and to ensure alignment between our risk-taking activities and our strategic objectives. We also have an enterprise risk management steering committee which is comprised of senior executive management. The steering committee is responsible for the administration of our enterprise risk management process. The Audit Committee receives reports from our enterprise risk management steering committee, and reports regularly to the Board.

## Committee Charters, the Code of Business Conduct and Corporate Governance Guidelines

The Audit, Governance and Compensation Committees have each adopted charters that have been approved by the Board of Directors. The Board of Directors has also adopted a Code of Business Conduct applicable to directors and all employees, including the CEO, the Chief Financial Officer (“CFO”) and other senior management. The Code of Business Conduct covers such topics as financial reporting, conflicts of interest, compliance with laws, fair dealing and use of our assets. The Code of Business Conduct satisfies the requirements of a “code of ethics” under Section 406(c) of the Sarbanes-Oxley Act of 2002, and requires that any waiver of those provisions as they relate to executive officers or directors may be made only by the Board of Directors and must be promptly disclosed to shareholders along with the reason for the waiver. The Board of Directors has also established Corporate Governance Guidelines covering, among other things, the duties and responsibilities and independence of our directors, director access to



management and independent auditors, director compensation, performance reviews of our CEO and management succession planning.

The charters of the Audit, Compensation and Governance Committees, the Code of Business Conduct and the Corporate Governance Guidelines, are available on our website at [kmgchemicals.com](http://kmgchemicals.com) or by writing to Corporate Secretary, KMG Chemicals, Inc., 300 Throckmorton Street, Fort Worth, Texas 76102. These documents will be provided free of charge. Material contained on our website is not incorporated by reference in, or considered to be part of, this Proxy Statement.

### **Audit Committee**

The Audit Committee advises the Board and management from time to time with respect to internal controls, systems and procedures, accounting policies and other significant aspects of our accounting, auditing and financial reporting practices. The Audit Committee also monitors the preparation of our quarterly and annual reports and supervises our relationship with our external auditors. The Audit Committee met nine times during fiscal year 2017.

The Audit Committee operates under a charter approved by the Board of Directors and that satisfies the applicable SEC rules and regulations and the New York Stock Exchange Listed Company Manual. The Audit Committee's function under its written charter is to appoint the independent registered public accounting firm and auditors to audit our financial statements and perform other services related to the audit; review the scope and results of the audit with the independent auditors; review with management and the independent auditors our interim and year-end operating results; oversee our external reporting; consider the adequacy of the internal accounting procedures; provide oversight for the internal audit function; evaluate the independence of the external auditors; and approve and review any non-audit services to be performed by the independent auditors. The Audit Committee has also established procedures for the receipt, retention, and treatment of complaints we receive regarding accounting, internal accounting controls or audit matters, and the confidential, anonymous submission to us by our employees of concerns regarding questionable accounting or auditing matters.

For fiscal year 2017 and currently, the Audit Committee consisted of four non-employee directors, George W. Gilman, Robert Harrer, Fred C. Leonard, III, and Karen A. Twitchell. Ms. Twitchell is the current Chair. Ms. Twitchell has served on our Board of Directors since 2010. In the course of her career, Ms. Twitchell, has acquired (i) an understanding of generally accepted accounting principles and financial statements, (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves, (iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by our financial statements, (iv) an understanding of internal control over financial reporting, and (v) an understanding of audit committee functions. The Board of Directors has determined that Ms. Twitchell is an "audit committee financial expert" within the meaning of that term under the rules of the SEC and has the requisite financial management experience as defined under the New York Stock Exchange Listed Company Manual. The Board has also determined that all of the members of the Audit Committee are independent and financially sophisticated within the meaning of the listing standards of the New York Stock Exchange and as defined in Exchange Act Rule 10A-3.

### **Report of the Audit Committee**

The Audit Committee reviewed our audited financial statements for the fiscal year ended July 31, 2017 with the independent auditors and management. Management has the responsibility for the preparation, presentation and integrity of the financial statements, and the independent registered public accounting firm and auditors have the responsibility for auditing the financial statements and expressing an opinion as to their conformity with accounting principles generally accepted in the United States of America.

Among other things, the Audit Committee discussed and reviewed with the independent auditors all communications required by applicable auditing standards, including those described by the statement on Auditing Standard No. 16, Communications with Audit Committees, as adopted by the Public Company Accounting Oversight Board ("PCAOB") as may be modified or supplemented, and discussed and reviewed the results of the audit by the independent auditors of the financial statements.

In discharging its oversight responsibility with respect to the audit process, the Audit Committee obtained from the independent auditors a formal written statement describing all relationships between the auditors and us that might bear on the auditors' independence consistent with applicable PCAOB rules. The Audit Committee also discussed with the auditors any relationship that may impact their objectivity and independence and satisfied itself as to the auditors' independence. The Audit Committee also discussed with management and the independent auditors the quality and adequacy of our responsibilities, budget and staffing.

Based on the above-mentioned review and discussions with management and the independent auditors, the Committee recommended to the Board that the audited financial statements be included in our report on Form 10-K for the fiscal year ended July 31, 2017, for filing with the Securities and Exchange Commission (“SEC”).

Audit Committee:  
Karen A. Twitchell, Chair  
George W. Gilman  
Robert Harrer  
Fred C. Leonard, III

This report by the Audit Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed filed under such acts.

### **Nominating and Corporate Governance Committee**

The Governance Committee is responsible for developing and implementing policies and practices relating to corporate governance, including establishing and monitoring implementation of Corporate Governance Guidelines. The committee also plans for the succession of the CEO and other executives. The committee is responsible for identifying and assessing candidates for the Board of Directors, including making recommendations to the Board regarding candidates. During fiscal year 2017, the Governance Committee held three meetings. In fulfilling its duties, the Governance Committee, among other things:

- identifies individuals qualified to be Board members consistent with criteria established by the committee, and with a view to selecting persons whose background and skills support our strategy for increasing shareholder value;
- recommends to the Board nominees for the next annual meeting of shareholders; and
- evaluates individuals suggested by shareholders.

In recommending director candidates to the Board, the Governance Committee charter requires the committee to select individuals who possess the highest personal and professional integrity. The selection process includes reviewing a candidate’s depth of experience and availability, the balance of the business interest and experience of the incumbent or nominated directors, and the need for any required expertise on the Board or one of its committees, including the expertise needed to support and oversee the execution of our corporate strategy. In making its nominations, the Governance Committee first evaluates the current Board members. The committee has also developed a matrix of desirable skills and experience to apply to director candidates, and in the appropriate case has retained a third party consulting firm that specializes in locating candidates for the boards of directors of public companies. The objective of this selection process is to assemble a group of Directors with diverse backgrounds and experience that can best represent shareholder interests through the exercise of sound judgment.

For fiscal year 2017 and currently, the Governance Committee consists solely of non-employee directors who are independent within the meaning of listing standards of the New York Stock Exchange and applicable SEC rules and regulations. Members of the Governance Committee currently are Gerald G. Ermentrout, George W. Gilman, John C. Hunter, III and Karen Twitchell. Mr. Ermentrout is the Chair.

The Governance Committee will consider recommendations for director made by shareholders during 2018. For information on recommending a candidate for nomination as a director, see “Shareholder Proposals for 2018 Annual Meeting” below. Recommendations by shareholders that are made in accordance with the procedures set forth under “Shareholder Proposals for 2018 Annual Meeting” below will receive equal consideration by the Governance Committee, although in fiscal year 2017 no such recommendations were received. Directors and members of management may also suggest candidates for director.

### **Compensation and Development Committee**

The Compensation Committee establishes compensation for our CEO and other executive officers, and makes recommendations to the Board of Directors regarding compensation of directors. The committee also administers our incentive compensation and other equity based compensation plans, which included in fiscal year 2017 our 2016 Long-Term Incentive Plan and 2009 Long-Term Incentive Plan. The Compensation Committee is composed of four non-employee directors, Gerald G. Ermentrout, Robert Harrer, John C. Hunter, III and Fred C. Leonard, III. Mr. Leonard is the current Chair. The Board has determined that each of the members of the committee is independent within the meaning of the listing standards of the New York Stock Exchange and as defined in applicable SEC rules and regulations. During fiscal year 2017, the Compensation Committee held five meetings.



**Compensation Committee Interlocks and Insider Participation**

During fiscal year 2017, none of the members of the Compensation Committee have served as officers or employees of the Company or of any of our subsidiaries or had a relationship requiring disclosure under this caption.

During fiscal year 2017, none of our executive officers served as a member of a compensation committee or board of directors of any other entity that has an executive officer serving as a member of our Compensation Committee or Board of Directors.

## Compensation Discussion and Analysis

### Introduction

This Compensation Discussion and Analysis (“CD&A”) contains the philosophy underlying our compensation strategy and the major elements of compensation paid to the persons included in our Summary Compensation Table. We refer to those persons as named executive officers (“NEOs”). For 2017, our NEOs were:

NEO	Title
Christopher T. Fraser	President and CEO
Marcelino Rodriguez	Vice President and CFO
Jeffrey S. Handelman	Senior Vice President Electronic Chemicals
Roger C. Jackson	Vice President, General Counsel and Secretary
Ernest C. Kremling	Senior Vice President Industrial Lubricants, Wood Treating Chemicals and Manufacturing Services
Andrew Lau (1)	Former Vice President Electronic Chemicals

(1) Mr. Lau left the Company in February 2017.

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### Executive Summary

In this CD&A, we address the following:

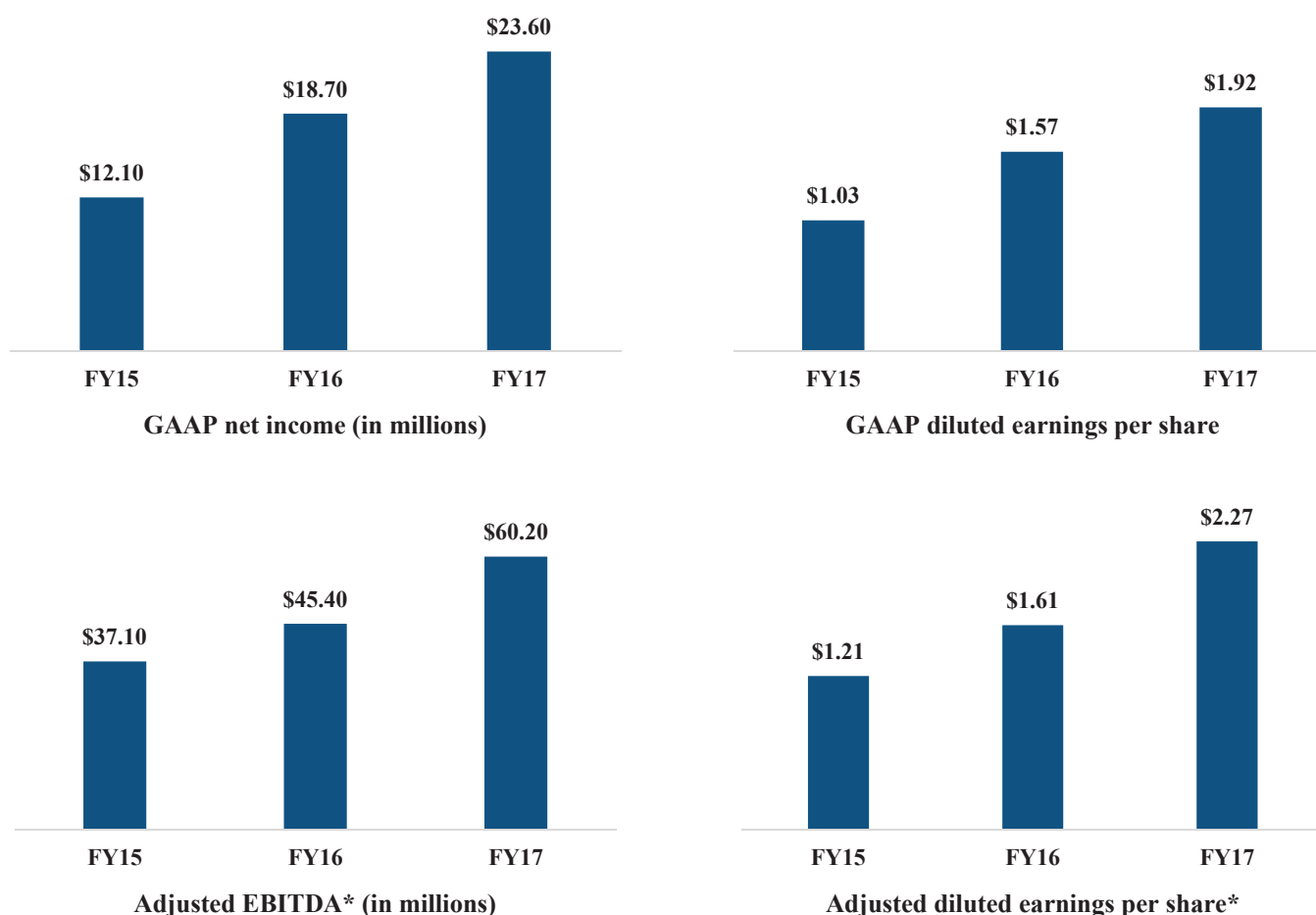
- the objectives underlying our executive compensation program;
- what our compensation program is designed to reward;
- the elements of compensation that make up our compensation program;
- how we determine executive compensation; and
- other important compensation policies.

### Business Performance Highlights

- GAAP diluted earnings per share was a record \$1.92 in fiscal year 2017, up 22% from \$1.57 in fiscal year 2016.
- Adjusted diluted earnings per share\* was a record \$2.27 in fiscal year 2017, up 41% from \$1.61 in fiscal year 2016.
- GAAP net income was \$23.6 million in fiscal year 2017, up 27% from \$18.7 million in fiscal year 2016.
- Adjusted EBITDA grew to a record \$60.2 million, up 33% from \$45.4 million in fiscal year 2016.
- We acquired two premier businesses — Sealweld Corporation (“Sealweld”) and Flowchem Holdings LLC (“Flowchem”) — that advanced our growth strategy and significantly expanded our breadth and capabilities in the global pipeline and energy markets.

\*See the discussion on pages 21–22 of our Annual Report on Form 10-K for the year ended July 31, 2017 under the Caption “Non-GAAP Financial Measures” for a reconciliation of non-GAAP financial measures.

### Business Performance Highlights



\*See the discussion on pages 21–22 of our Annual Report on Form 10-K for the year ended July 31, 2017 under the Caption “Non-GAAP Financial Measures” for a reconciliation of non-GAAP financial measures.

### Compensation Program Highlights

- NEO base salaries increased an average of 3.7%, reflecting both executive performance and the competitive market.
- Fiscal year 2017 target direct compensation was 73% performance-based for our CEO and 58% performance-based for our other NEOs.
- Annual incentive awards to our NEOs, excluding Mr. Lau, paid out at 155% of target on average, reflecting above-target performance for adjusted EBITDA and adjusted return on invested capital.
- We granted long-term incentive awards in October 2016 in the form of performance-based restricted stock awards where 100% of the vesting was contingent on meeting specified performance conditions.
- The Compensation Committee conducted an extensive review of public companies in chemical and related industries and updated our peer group to better align our compensation with the specialty chemicals industry.
- Performance-based long term incentive awards for the three year period ended July 31, 2017 paid out at 167% of target, reflecting above-target performance for adjusted return on invested capital and earnings per share growth over the three-year performance measurement period.

## Good Governance Policies

Below we highlight some of our executive compensation practices which we believe enforce alignment with shareholder interests:

### What We Do

- Majority of NEO compensation is variable
- Long-term incentives are heavily performance-based
- Share ownership requirements for NEOs
- Use an independent compensation consultant

### What We Don't Do

- No excise tax gross-ups
- No hedging transactions by officers or directors
- No share recycling under our amended LTI plan
- No single trigger change-in-control severance benefits

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## Objectives of Our Compensation Program

We produce and distribute specialty chemicals and performance materials for the semiconductor, industrial wood preservation and pipeline and energy markets. Our business strategy includes growing in a manner that increases shareholder value by purchasing additional product lines and businesses. We target for acquisition products and businesses in specialty chemicals that offer unique products with higher value applications, barriers to entry, proven management teams with a track record of performance and strong cash flow. To assist in carrying out this strategy, our Compensation Committee has designed our compensation program to:

- reward executive officers for long-term strategic management and the enhancement of shareholder value;
- integrate the compensation program with our short and long-term strategic business plans;
- ensure the alignment of our NEOs with the interests of our shareholders over the long-term; and
- attract, motivate, reward and retain experienced and highly qualified executive officers.

## What Our Compensation Program Is Designed To Reward

Our compensation program is designed to reward executive officers who are capable of leading us in achieving our business strategy on both a short-term and long-term basis. When making compensation decisions, we consider:

- overall Company performance;
- individual performance of our executives;
- relative internal relationships within the executive pay structure;
- compensation at our peer companies; and
- ability to pay.

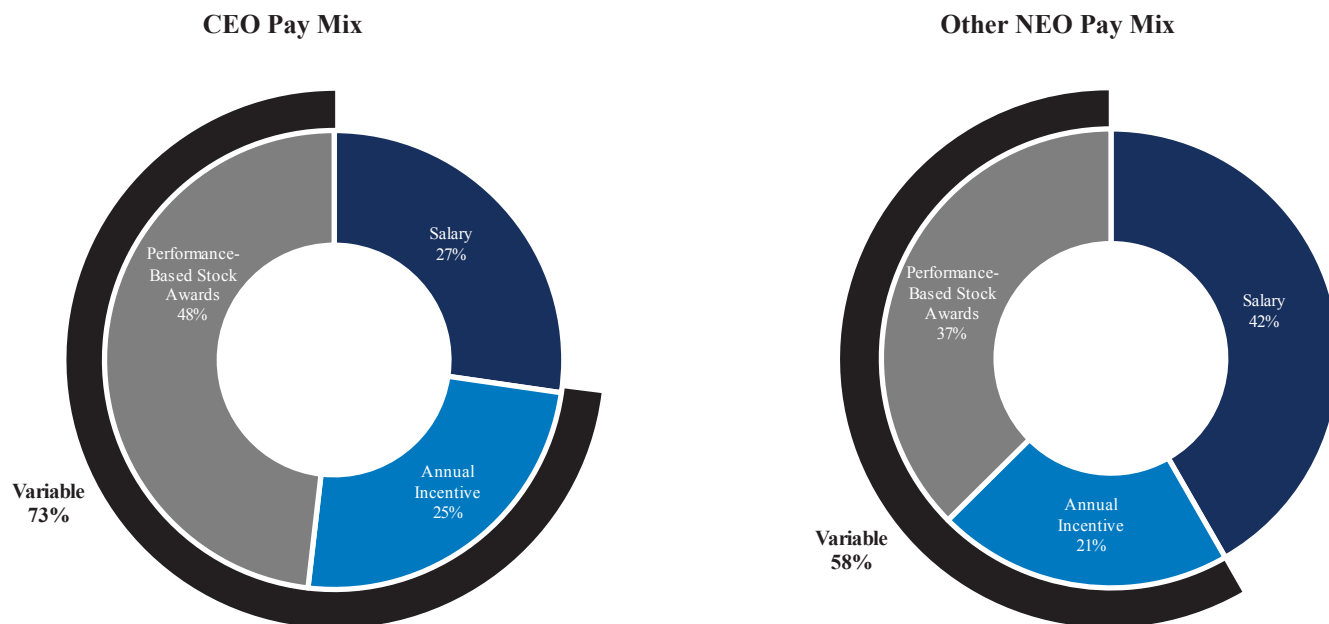
## The Elements of Our Compensation

In fiscal year 2017, we utilized the following elements of compensation to support our compensation program objectives:

- base salary;
- annual incentive compensation;
- long-term incentive compensation;
- other broad-based employee benefits; and
- executive benefits and perquisites.

## How We Determine Each Element of Compensation and Why We Pay Each Element

The Compensation Committee continues to weight at-risk performance-based incentives compensation of our NEOs more heavily than base salary. We believe that our compensation program will enhance our profitability and increase shareholder value by more closely aligning the financial interests of our executive officers with those of our shareholders. We believe that the achievement of long-term goals increases shareholder value to a greater degree than the achievement of short-term goals. The charts below show the mix of target direct compensation for our NEOs, excluding Mr. Lau, in fiscal year 2017, demonstrating the emphasis placed upon variable compensation and long-term incentive compensation in particular in our program:



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## Benchmarking and Other Market Data

The Compensation Committee analyzes comparative data from national surveys and data from a peer group of publicly-traded chemical companies of base salaries, annual and long-term incentive targets. We collectively refer to the national surveys and peer group information as “market survey data” in this discussion. The composition and performance of the peer group is reviewed each year. For fiscal year 2017, our independent consultant conducted an extensive review of public companies in chemical and related industries and recommended five replacements to the peer group to better align our compensation with the special chemicals industry. In fiscal year 2017, the peer group included fourteen publicly-traded chemical companies having comparable to slightly higher annual revenues and a comparable value for ongoing operations: American Vanguard Corporation, Balchem Corporation, Cabot Microelectronics Corp., Calgon Carbon Corporation, Entegris, Inc., Ingevity Corporation, Innophos Holdings, Inc., Innospec, Inc., LSB Industries, Inc., OMNOVA Solutions, Inc., Quaker Chemical Corp., Rogers Corp., Rudolph Technologies, Inc. and Trecora Resources. The 25th, 50th and 75th percentiles for the data sources were analyzed to gain an understanding of the range of competitive pay practices. Although the 50th percentile of the combined data was used by the Compensation Committee as a reference point for establishing base salary, annual incentive targets and total direct compensation, the compensation of individual executives may vary above or below the reference point because of the background, personal performance, skills and experience, the comparative compensation of our executives and our ability to provide certain compensation within our budgetary constraints.

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## About Our Executive Compensation Program

### Base Salary

Base salary is compensation paid to an executive for performing specific job responsibilities and it represents the minimum income an executive might receive in any given year. Base salary is essential to attracting and retaining experienced and highly qualified executives, including our NEOs. We initially establish base salary based upon the abilities, accomplishments, and prior work experience and performance of the executive officer. Adjustments in base salary are considered on a discretionary basis, taking into account internal pay relationships and consistency, the executive's historical contributions, and the experience, level of responsibility, changes in responsibilities, retention risk and market survey data.

We intend to pay base salaries that are within the market median range of national survey and peer group data. See "How We Determine Executive Officer Compensation — Benchmarking and Other Market Data." Increases in base salary in fiscal year 2017 were driven by market adjustments for the compensation of the CEO and the other NEOs. In addition, increases in base salary reflect that our operations have grown geographically and in complexity with recent acquisitions in our electronic chemicals business and the industrial lubricants business.

### Annualized Base Salaries of Named Executive Officers

Year	Fraser	Rodriguez	Handelman	Jackson	Kremling	Lau
FY 2017 (1)	\$ 736,000	\$ 260,000	\$ 360,000	\$ 287,000	\$ 345,000	\$ 292,000
FY 2016 (2)	\$ 716,000	\$ 260,000	—	\$ 273,000	\$ 326,000	278,000
% Increase	2.8%	—	—	5.1%	5.8%	5.0%

- (1) The table presents annualized base salaries. For actual base salaries paid to the NEOs see the Summary Compensation Table below. Mr. Handelman joined the Company in March 2017. Mr. Lau left the Company in February 2017.
- (2) Mr. Rodriguez became an NEO upon becoming Vice President and CFO in June 2016, immediately prior to the beginning of fiscal year 2017. For fiscal year 2016, the table presents his annualized base salary as CFO.

### Annual Incentive Compensation

#### *General*

Our annual incentive compensation is designed to focus and motivate our executives to achieve our strategic objectives.

The Compensation Committee administers our annual incentive awards to executives, but delegates to our CEO the day-to-day responsibility for the program with respect to the other executives. Annual incentive compensation rewards executives based upon achievement of the financial performance objectives and individual performance objectives that are established by the Compensation Committee, based upon the recommendation of the CEO for the other executive officers. The Compensation Committee establishes the financial and individual objectives for the CEO. The Compensation Committee evaluates each particular individual's achievement or progress toward the objectives, and determines the degree to which the objectives have been achieved. The Compensation Committee may make adjustments to the objectives or weight given to a particular objective to take into account special or unforeseen circumstances.

Annual incentive compensation is paid as a percentage of base salary. The annual incentive is calculated for each performance objective using the formula: Base Salary × Annual Incentive Level at Target × % Objective Weight × Payout % for Objective Achieved. The Compensation Committee intends to set annual target incentive compensation at approximately the median of national survey and peer group data.

#### *Annual Incentive Opportunity*

The table below shows the annual incentive targets for NEOs for fiscal year 2017. Mr. Lau left the Company in February 2017 and so did not receive any annual incentive award in fiscal year 2017 and is not included in the table below.

## Target Incentive Awards for Fiscal Year 2017 for the NEOs

Name	Target Incentive (% of Base Salary)	Target Incentive (\$)
Christopher T. Fraser	90%	662,400
Marcelino Rodriguez	50%	130,000
Jeffrey S. Handelman (1)	50%	135,000
Roger C. Jackson	50%	143,500
Ernest C. Kremling	50%	172,500

(1) Mr. Handelman joined the Company during fiscal year 2017 and the target annual incentive award presented in the table was pro-rated based on three-fourths (3/4) of a full fiscal year of participation.

Annual incentive compensation for our CEO and the other NEOs is subject to a potential range from threshold, to target, to maximum. For fiscal year 2017, the threshold performance payout is set at 45% of base salary for our CEO and 25% of base salary for the other NEOs. The maximum payout is set at 166.5% of base salary for our CEO and 92.5% of base salary for the other NEOs.

### *Financial Performance Objectives*

The Board of Directors establishes financial performance objectives based upon one or more of the following performance measures:

- return on equity, assets, capital or investment;
- revenue growth;
- earnings per share growth;
- EBITDA;
- gross margin; and
- operating cash flow or cash flow from operating activities.

Financial performance metrics may be adjusted for acquisitions, restructuring expenses, CEO transition expenses, foreign exchange translation gains/losses, stock-based compensation and other items as determined to be appropriate by the Compensation Committee. The financial performance objectives may be identical for all executives or may differ among executives to reflect more appropriate measures related to a particular individual's performance. Performance measures are adopted and weighted by the Compensation Committee annually to give emphasis to performance for which executives have the most direct control.

Each executive's objectives have a threshold level below which no award will be payable, a target level and a maximum award level. The target level for financial objectives is generally set based on performance at 100% of budget for the fiscal year. Threshold and maximum are generally set at 80% and 120% of target, respectively. Each objective is given a weight relative to the other financial performance and personal objectives.

For fiscal year 2017, the table below shows the performance objectives and actual results for adjusted EBITDA and adjusted return on invested capital:

### Annual Incentive Performance Objectives and Results in Fiscal Year 2017

Performance Objective (1)	Performance Target	Actual Results	Achievement (% of Target)	Payout (% of Target)
Corporate EBITDA, adjusted	\$48.2 million	\$53.9 million	111.8%	159.0%
Return on Invested Capital, adjusted	14%	18.4%	131.0%	200.0%

(1) EBITDA and return on invested capital was adjusted for non-budgeted acquisitions, currency exchange loss, stock-based compensation expense in excess of budget and acquisition and integration expenses.

For our corporate level NEOs, including Mr. Fraser, Mr. Rodriguez and Mr. Jackson, adjusted EBITDA and adjusted return on invested capital accounted for 70% of the annual incentive opportunity, and individual performance objectives described below accounted for 30%. For our business leaders, these corporate metrics accounted for 30% of the annual incentive opportunity, adjusted EBITDA for the applicable business accounted for 40% and individual performance objectives accounted for 30%. For Handelman,

our Senior Vice President of Electronic Chemicals, 30% of his award opportunity was based on the adjusted EBITDA of our electronic chemicals business, measured against threshold, target, and maximum levels of adjusted EBITDA set by the Compensation Committee. For fiscal year 2017, adjusted electronic chemicals EBITDA was achieved at 108% of target (for a payout percentage of 142%). In the case of Mr. Kremling, who became Senior Vice President Industrial Lubricants, Wood Treating Chemicals and Manufacturing Services in March 2017, two thirds (2/3) of his annual incentive was calculated in the same manner as our corporate level NEOs as described above, and one third (1/3) was calculated as a business unit leader. With respect to the one third (1/3) related to his performance as a business unit leader, 30% of the annual incentive opportunity was based on the adjusted EBITDA of our industrial lubricants and wood treating businesses, measured against threshold, target, and maximum levels of adjusted EBITDA set by the Compensation Committee. For fiscal year 2017, adjusted EBITDA for the industrial lubricants and wood treating chemicals businesses was achieved at 115.7% of target (for a payout percentage of 178%).

### *Individual Performance Objectives*

Personal goals for NEOs are selected by the Compensation Committee based on input from the CEO, as to other executive officers, and the input of other Board members. The personal goals for each individual are generally selected from areas of our business where the executive has the most direct and substantial involvement, and number from four to seven items. They are often very specific, and usually include initiating or completing projects having an important strategic or operational impact.

Although achievement of personal goals is determined by the Compensation Committee most often on the basis of a subjective or qualitative analysis, the committee tries to define the goals in a way that they can readily determine that they have been met. When the goals lend themselves to a quantitative approach, that method is used. For fiscal year 2017, the Compensation Committee included the factors described below when evaluating each NEO's achievement of his personal goals.

Mr. Fraser led the Company's acquisitions of Sealweld and Flowchem, transforming our performance materials segment with those additions, led the drive for operational and organizational excellence, and implemented an important reorganization and integration effort in Asia. For fiscal year 2017, the Compensation Committee determined that Mr. Fraser achieved his personal goals at 120% of target, thus earning a payout percentage of 150%.

Mr. Rodriguez led the improvement of our financial close process, expanded Business Intelligence functional capabilities and improved cost controls of professional services. The Compensation Committee determined that he achieved personal goals as a percentage of target and as a payout percentage of 110% and 125%, respectively.

Mr. Handelman joined the Company in March 2017. He successfully transitioned management of the electronic chemicals business from Mr. Lau, and the Compensation Committee determined that he achieved personal goals as a percentage of target and as a payout percentage of 100% and 100%, respectively.

Mr. Jackson instituted changes to the Company's corporate structure, supervised the ongoing EPA testing program for the Company's wood treating chemical and supported the successful completion of environmental and safety audits at multiple facilities. The Compensation Committee determined that he achieved personal goals as a percentage of target and as a payout percentage of 110% and 125%, respectively.

Mr. Kremling achieved targets for injuries and process safety incidents, continued with key global Operational Excellence and organizational effectiveness initiatives, and provided key support for business expansion and integration in Asia. The Compensation Committee determined that he achieved personal goals as a percentage of target and as a payout percentage of 110% and 125%, respectively.



## Annual Incentives Earned

Based on the business and individual performance results described above, the Compensation Committee awarded the annual incentive compensation described in the table below to our NEOs in fiscal year 2017. Mr. Lau left the Company in February 2017 and did not receive an annual incentive award in fiscal year 2017.

Name	Target Incentive (\$)	Actual Incentive (\$)	Actual Incentive (% of Target)
Christopher T. Fraser	662,400	1,089,950	165%
Marcelino Rodriguez	130,000	204,100	157%
Jeffrey S. Handelman	135,000	187,110	139%
Roger C. Jackson	143,500	224,981	157%
Ernest C. Kremling	172,500	272,420	158%

## Long-Term Incentive Compensation

### General

We provide our NEOs with long-term equity compensation tied to our performance. We believe that this aligns the financial interests of our shareholders with the interests of our executives, and motivates our executive officers to enhance shareholder value. Additionally, the Compensation Committee believes that long-term equity compensation serves as an important retention tool. Long-term equity compensation should comprise the largest percentage of executive compensation. Long-term equity incentives are targeted at the market 50<sup>th</sup> percentile, if performance objectives are achieved. However, the actual long-term incentive compensation delivered may be less or more than target based on performance. The Compensation Committee currently administers equity incentives under our 2016 Long-Term Incentive Plan and 2009 Long-Term Incentive Plan.

The Compensation Committee determines long-term incentive award levels and the types of awards from the financial results for the prior fiscal year. Long-term incentive grants vary in amount from year to year based on the performance of the executive, his or her expected role in our future performance and on our financial performance. In setting new long-term equity awards, the Compensation Committee also considers prior equity grants made to the executive officer, which were often made as new hire or special recognition awards.

In fiscal year 2017, we granted performance-based restricted stock awards to certain executives and key employees. Although we may consider grants of stock options in the future, we have not issued any stock options in recent years and there are currently none outstanding.

### Fiscal Year 2017 Performance-Based Restricted Stock Awards

Performance-based restricted stock awards were granted to the NEOs in fiscal year 2017. The Compensation Committee has designed the performance-based restricted stock awards to encourage retention of executives by using three-year overlapping performance periods.

In fiscal year 2017, the awards were granted as Series 4 awards of shares of restricted stock. Each Series 4 award includes two performance-based tranches (with each tranche accounting for 50% of the award). For the first tranche, vesting is subject to the achievement of an adjusted EBITDA metric. For the second tranche, vesting is subject to performance requirements for adjusted average annual return on invested capital and annual compound growth rate in the Company's adjusted diluted earnings per share. Performance under the awards is measured over a three-year period beginning August 1, 2016. The fiscal year 2017 Series 4 awards granted to the NEOs up to an aggregate target amount of 80,159 shares of performance-based restricted stock. Awards for all recipients vest based on satisfaction of performance requirements at July 31, 2019. The individual awards to particular NEOs are described in the Grants of Plan Based Awards table.

When considering the individual awards, the Compensation Committee determines, based on market survey data, a target award level as a percentage of base pay appropriate for each executive. The value of the restricted stock used to calculate the number of shares then awarded takes into consideration the share price at grant and may take into consideration anticipated share appreciation. In fiscal year 2017, the Compensation Committee assumed a Common Stock price of \$27.98 per share when establishing awards (at the beginning of the 3-year performance measurement period for the awards the actual share price was \$27.49). None of the awards received dividends or dividend equivalents. The Grants of Plan Based Awards table sets forth the performance-based restricted stock awards made to the NEOs in fiscal year 2017.

## Long-Term Incentive Compensation Vesting in Fiscal Year 2017

The number of shares of restricted stock listed below vested in fiscal year 2017 for the following NEOs from the Series 1 performance-based awards granted in fiscal year 2015. Mr. Lau left the Company in February 2017. Consequently, his Series 1 performance-based awards granted in fiscal year 2015 were forfeited and he is not included in the table of performance-based awards vested below.

2015–2017 Long-Term Incentive Performance Objectives	Fraser	Rodriguez	Jackson	Kremling
Annual compound growth rate in adjusted earnings per share and average annual adjusted return on invested capital (Series 1) (1)	86,911	1,875	14,902	21,997

(1) For the three years ended July 31, 2017, the annual compound growth rate in adjusted diluted earnings per share was 27.5% and the cumulative adjusted return on invested capital was 15.0%, which resulted in the vesting of 167% of the target award.

In addition, our NEOs were granted Series 1 time-based restricted stock awards in fiscal year 2015 that represented 25% of their long-term incentive compensation granted in that fiscal year. The number of shares of restricted stock listed below vested in fiscal year 2017 for the following NEOs from the Series 1 time-based awards granted in fiscal year 2015.

2015–2017 Long-Term Incentive Time-Based Awards	Fraser	Rodriguez	Jackson	Kremling	Lau
Time-Based Awards Vesting	17,347	375	2,974	4,391	3,206

The Stock Vested table sets forth details of the performance-based and time-based restricted stock awards to the NEOs that vested in fiscal year 2017.

## Broad-Based Employee Benefits

Our employee benefits are designed to allow us to be attractive to current and potential employees and to remain competitive in the market.

### Health and Welfare Plans

We offer health and welfare benefits to substantially all employees, including executives. These benefits include medical, dental, life, accidental death, short and long-term disability, and long-term care coverage. Executives make the same contributions for the same type of coverage, and receive the same level of benefits as other employees for each form of coverage or benefit. We provide vacation and paid holidays to all eligible employees, including executives, that is comparable to other similarly sized companies.

### Retirement Plans

We offer a defined contribution 401(k) plan to substantially all of our employees in the United States. In calendar years 2016 and 2015, participants may contribute up to \$18,000 of their compensation. We make matching contributions under the plan up to 4% of the participant's compensation. Employees age 50 or over are entitled to make an additional pre-tax contribution of up to \$6,000 per year. Employees are fully vested in employer contributions. The Summary Compensation Table reflects our contributions to the 401(k) Plan for each NEO.

## Executive Benefits and Perquisites

Executive benefits or perquisites may be provided on a limited basis to attract and retain key executives. Currently, we do not offer executive benefits or perquisites with a value over \$10,000 to any executive.

### Employment Agreements

We currently have employment agreements with two of our NEOs, Mr. Fraser and Mr. Jackson. Mr. Fraser's employment agreement continues until terminated. Mr. Jackson's employment agreement automatically renews for one-year periods, and will continue to do so unless we provide at least 60 days prior written notice of non-renewal. The employment agreements contain provisions for the assignment to us of any right, title and interest in all works, copyrights, materials, inventions, ideas, discoveries, designs, improvements, trade secrets, patents and trademarks, and any applications related thereto, during Mr. Fraser's or Mr. Jackson's employment. The agreements contain provisions prohibiting the disclosure of confidential information.

In Mr. Fraser's agreement we also agreed to grant performance-based restricted stock awards for 10,000 shares of common stock (at maximum) based upon the achievement of certain financial objectives, and 4,000 shares of common stock based upon the achievement certain organizational objectives, in fiscal year 2018. Under the terms of Mr. Jackson's agreement, if we terminate his employment (other than for cause or due to death or disability) or elect not to extend his employment for the renewal term, or if he voluntarily terminates his employment for good reason following a change of control, then we must pay him a termination payment equal to a multiple of his base salary at termination. See "Potential Payments upon Termination or Change in Control" for additional information.

Additionally, each of our executives signed an agreement with non-compete obligations prohibiting the executive from engaging and being financially interested in any business which is competitive with us during his term of employment and for a period of one year after his employment with us terminates, unless he first obtains our prior written consent. In the event an executive breaches any of these provisions, we may terminate any payments then owing to the executive and/or seek specific performance or injunctive relief for such breach or threatened breach.

### *Executive Severance Plan*

The Board of Directors approved an executive severance plan in fiscal year 2009. The plan provides that any regular, full-time employee who is designated by the Compensation Committee may become a participant. Except for Mr. Jackson, all of our NEOs have been designated as participants under the plan. The Compensation Committee intends, in appropriate cases, to use the plan to offer severance to eligible employees, including future hires. In anticipation of additional participants, the Compensation Committee has established three participation levels. The plan may also be used to offer severance payments in lieu of the severance payments under current employment agreements or severance plans to eligible employees wishing to convert to the plan.

The plan is designed to provide an eligible employee with a severance payment in the event of a qualifying termination, which is with respect to an eligible employee who (i) is affirmatively discharged from employment by us, other than a discharge for cause, or (ii) voluntarily terminates for good reason, as defined in the plan. The severance benefit is based on the participation level of the eligible employee as assigned by the Compensation Committee, and is calculated at a multiple of (i) base salary or (ii) base salary and annual incentive award at the target level. The severance benefit is paid in a lump sum.

For a qualifying termination occurring more than 30 days before a change of control, the severance benefit is 2.0x, 1.5x or 1.0x of base salary for the three participation levels. The highest participation level is for a CEO-participant, the second is for other senior executives who are participants and the third level is for all other participants. For a qualifying termination occurring within 30 days before or two years after a change of control, the benefit is 2.5x, 2.0x or 1.5x of base salary plus annual incentive compensation at the target level. If the qualifying termination was not for cause but was instead related to performance issues, the severance benefit is 1.0x, 0.75x or 0.5x of base salary only. In the case of a qualifying termination occurring within 30 days before or two years after a change of control or a qualifying termination occurring for good reason, the eligible employee is also paid a prorated portion of his or her annual incentive compensation.

In order for an eligible employee to receive severance benefits under the executive severance plan, he or she must execute and deliver an acceptable release of all claims.

## **How We Determine Executive Officer Compensation**

### **Role of the Compensation Committee**

The Compensation Committee is composed of independent, outside members of the Board of Directors in accordance with New York Stock Exchange rules and current SEC rules and regulations, and all but one member is independent under Section 162(m) of the Internal Revenue Code of 1986 (the "Code"). They are responsible for establishing, reviewing, approving and monitoring the compensation paid to the NEOs.

### **Role of Executive Officers in Setting Compensation**

Our CEO provides input on the Compensation Committee agenda, including background information regarding our strategic objectives, suggestions on annual performance targets and reports on his evaluations of the other executive officers. He makes recommendations with respect to merit increases and annual incentive goals for such other executive officers that are then reviewed by the Compensation Committee prior to final approval. Since our CEO is a member of the Board, he has input on the overall compensation program. The Compensation Committee makes the decision related to the CEO's compensation.

The Compensation Committee meetings are attended by the committee members, and as needed, by other directors, the CEO, CFO, Chief Legal Officer and outside advisors, including our compensation consultant. The Compensation Committee regularly meets in executive session without any members of management present.

### **Role of the Independent Consultant**

The Compensation Committee has the sole authority, to the extent deemed necessary and appropriate, to retain and terminate any compensation consultants and has the sole authority to approve related fees and other retention terms. In fiscal year 2017, the Compensation Committee engaged Pearl Meyer & Partners (“Pearl Meyer”) to advise it on executive compensation for fiscal year 2017 and for fiscal year 2018. Pearl Meyer is independent of us, reports directly to the Compensation Committee, and has no other business relationship with us other than assisting the committee with its executive compensation and board compensation practices. The independence of the consultant is considered annually by the committee. In fiscal year 2017, we incurred expense of approximately \$89,359 with Pearl Meyer. The Compensation Committee and Pearl Meyer review salaries based on our current and projected company size and annual and long-term incentive programs established for each executive’s position based on data from general industry surveys and our peer companies relating to our current and projected company size.

### **Other Important Compensation Policies**

#### **Stock Ownership Requirements for Named Executive Officers**

We have adopted a stock ownership requirement for certain executives that is measured as of the end of each fiscal year. The requirement calls for stock ownership related to base salary to equal three times base salary for the CEO, two times base salary for the VP-Operations, CFO and Chief Legal Officer and one time base salary for other designated executives. Executives covered by the requirement must achieve the stock ownership within five years of becoming an executive. Among the measures the Compensation Committee may consider if the required stock ownership level is not met by an executive, the after-tax portion of a cash bonus due to that executive may be paid in shares of our Common Stock. As of July 31, 2017, all of our executives had satisfied the stock ownership requirement as it applies to them.

#### **Consideration of Risk**

The Compensation Committee, with assistance of its independent compensation consultant, reviewed the elements of our executive compensation during fiscal year 2017 to determine whether any portion of executive compensation encouraged excessive risk taking. Management assessed risk with respect to the compensation of other employees. Management and the Compensation Committee believe that risks arising from our compensation policies and practices for our executive officers and other employees are not reasonably likely to have a material adverse effect on us. In addition, we believe that the mix and design of the elements of compensation do not encourage management to assume excessive risks.

#### **Financial Restatement**

The Compensation Committee does not have a policy in place governing modifications to compensation where the payment of such compensation was based upon the achievement of specific results that were subsequently subject to restatement. If the Compensation Committee deems it appropriate, however, to the extent permitted by governing law, we will seek to recoup amounts determined by a financial restatement to have been inappropriately paid to an executive officer. Our performance-based restricted stock awards include a provision authorizing recoupment.

#### **Trading in Our Stock Derivatives**

Our Insider Trading Policy prohibits directors and employees from purchasing or selling options on our Common Stock, engaging in short sales with respect to our Common Stock, or trading in puts, calls, straddles, equity swaps or other derivative securities that are directly linked to our Common Stock.

#### **Tax and Accounting Implications of our Forms of Compensation**

Section 162(m) of the Code limits the deductibility of certain compensation to \$1 million per year for our CEO and our three other most highly compensated executive officers. There is an exception to the \$1 million limit for compensation meeting certain requirements. While the Compensation Committee cannot predict with certainty how our executive compensation might be affected in the future by the Code, the committee intends to try to preserve the tax deductibility of executive compensation while maintaining an executive compensation program consistent with our compensation philosophy.

Our compensation program contains the following tax and accounting implications:

- Salary is expensed when earned, but it is not deductible over \$1 million for our covered employees (our CEO and our three other highest paid executives).
- Annual incentives paid under our shareholder-approved 2016 Long-Term Incentive Plan, and under our 2009 Long-Term Incentive Plan prior to December 8, 2014, in which the aggregate compensation was less than \$1.0 million for covered employees met the requirements of Section 162(m) of the Code and are deductible. Any portion paid under non-objectively verifiable criteria is not deductible over \$1 million under Section 162(m) of the Code for covered employees.
- Our 2016 and 2009 Long-Term Incentive Plans have been approved by shareholders, and performance-based awards are deductible under Section 162(m) of the Code.
- Performance-based restricted share awards are expensed over the performance and service period when payout is probable. No dividends are paid on performance restricted stock until shares are actually issued.
- Our 401(k) contributions are accrued and expensed in the year of service.

### **2016 Advisory Vote on Executive Compensation**

The Compensation Committee considered the results of the 2016 advisory, non-binding “say-on-pay” proposal in connection with the discharge of its responsibilities. Because 79.3% of our shareholders voting on the “say on pay” proposal approved the compensation of the NEOs described in our proxy statement for our 2016 Annual Meeting of Shareholders, the Compensation Committee did not implement significant changes to our executive compensation program as a result of the shareholder advisory vote. The Board currently intends to ask for an advisory, non-binding vote on compensation each year

### **Compensation Committee Report**

The Compensation Committee has reviewed and discussed with management the foregoing Compensation Discussion and Analysis. Based on this review and discussion with management, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

The Compensation Committee:  
Gerald G. Ermentrout  
John C. Hunter, III  
Fred C. Leonard, III, Chair



The following table presents information for the three fiscal years ended July 31, 2017, 2016 and 2015 for our President and CEO, our Vice President and CFO, and our other four NEOs, except for Mr. Rodriguez who became an NEO in 2016, and Mr. Handelman who became an NEO in 2017.

### Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$ (1))	Non-Equity Incentive Plan Compensation (\$ (2))	All Other Compensation (\$ (3))	Total (\$)
Christopher T. Fraser Director, President and CEO	2017	736,204	—	1,709,281	1,089,950	10,800	3,546,235
	2016	708,361	—	5,005,227	1,018,446	73,766	6,805,800
	2015	660,336	—	1,485,158	816,500	116,099	3,078,093
Marcelino Rodriguez (4) Vice President and CFO	2017	260,000	—	202,897	204,100	8,000	674,997
	2016	202,522	—	32,835	79,642	8,101	323,100
Jeffrey S. Handelman Senior Vice President Electronic Chemicals	2017	124,615	—	1,001,550	187,110	25,465	1,338,740
Roger C. Jackson Vice President, General Counsel and Secretary	2017	286,600	—	223,914	224,981	10,915	746,410
	2016	271,450	—	211,155	196,462	10,858	689,925
	2015	258,047	—	211,886	157,909	3,205	631,047
Ernest C. Kremling Senior Vice President Industrial Lubricants, Wood Treating Chemicals and Manufacturing Services	2017	344,328	—	340,995	272,420	19,583	977,325
	2016	322,270	—	318,996	245,328	81,090	967,684
	2015	298,930	—	312,797	194,137	11,921	817,785
Andrew C. Lau (5) Former Vice President Electronic Chemicals	2017	178,789	—	—	—	1,136,852	1,315,641
	2016	274,731	—	—	173,286	29,680	477,697
	2015	256,105	—	57,099	154,175	9,427	476,806

- (1) Stock awards reflect the grant date fair value of awards granted in each of the respective fiscal years calculated in accordance with accounting principles generally accepted in the United States. The value of performance-based restricted stock awards is presented assuming target performance objectives are met. The assumptions used in calculating those amounts are set forth in note 12 of our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended July 31, 2017. The table includes the grant date fair value of performance-based restricted stock awards made in fiscal year 2017 of \$1,709,281 to Mr. Fraser, \$202,897 to Mr. Rodriguez, \$223,914 to Mr. Jackson and \$340,995 to Mr. Kremling, respectively, based on a value of \$29.11 per share on the date of grant. If the maximum performance conditions are achieved on these awards, the value at the grant date of these performance-based restricted stock awards would be \$2,360,151 to Mr. Fraser, \$304,316 Mr. Rodriguez, \$335,900 to Mr. Jackson and \$511,492 to Mr. Kremling, respectively. The grant date fair value of Mr. Handelman's performance-based restricted stock award in fiscal year 2017 was \$477,732, based on a value of \$52.55 per share on the date of grant. If the maximum performance conditions are achieved, the value at the grant date of this performance-based restricted stock award would be \$716,572. Mr. Handelman also received a time-based restricted stock award of \$523,818 in fiscal year 2017, based on a grant date fair value of \$52.55 per share at the time of grant, that vests over a twenty month period from the date of his employment. See also the table respecting Grants of Plan-Based Awards for the fiscal year 2017 awards.
- (2) Non-equity incentive plan compensation represents payments under our annual incentive plan. See the discussion of our incentive plan under the Compensation Discussion and Analysis section of this Proxy Statement.
- (3) Under our 401(k) plan for United States based employees, we match up to 4% of participant's compensation. Matching contributions to our 401(k) plan are included in all other compensation. All other compensation for fiscal year 2017 also includes payments for relocation expenses of \$20,000 to Mr. Handelman and \$47,204 to Mr. Lau, respectively, with such amounts including a tax gross-up of \$42,950 to Mr. Lau. Mr. Kremling also received an \$8,532 tax gross-up in fiscal year 2017 related to relocation expenses that were incurred in fiscal year 2016.
- (4) Mr. Rodriguez became an NEO upon becoming Vice President and CFO in June 2016. The amounts included in this table for fiscal year 2016 include compensation to him as Controller and Chief Accounting Officer prior to becoming CFO.
- (5) Mr. Lau left the Company in February 2017. Unvested restricted stock awards for Mr. Lau were forfeited when he left the Company. The grant date fair value of forfeited awards not included in the table was \$288,597, \$272,866 and \$208,199 in fiscal years 2017, 2016 and 2015, respectively. Mr. Lau received severance of \$1,040,258, which is also included in all other compensation.

The following table presents information respecting grants of plan based awards for fiscal year 2017. The table does not include grants made to Mr. Lau in fiscal year 2017, whose awards were forfeited when he left the Company in February 2017.

### Grants of Plan-Based Awards

Name	Grant Date	Date of Board or Compensation Committee	Estimated Future Payouts Under Non-Equity Incentive Plans (\$) (1)			Estimated Future Payouts Under Equity Incentive Plan Awards (#) (1)(2)(3)			All Other Stock Awards (#)(4)	Grant Date Fair Value of Stock Awards (5)
			Threshold	Target	Maximum	Threshold	Target	Maximum		
Christopher T. Fraser	—	—	331,200	662,400	1,225,440					
	10/21/2017	10/21/2017				33,538	44,718	67,077	1,301,741	
	10/21/2017	10/21/2017				5,000	10,000	10,000	291,100	
	10/21/2017	10/21/2017				4,000	4,000	4,000	116,440	
Marcelino Rodriguez	—	—	65,000	130,000	240,500					
	10/21/2017	10/21/2017				5,227	6,970	10,454	202,897	
Jeffrey S. Handelman	—	—	67,500	135,000	249,750					
	4/28/2017	4/28/2017				6,818	9,091	13,636	477,732	
	4/28/2017	4/28/2017							9,968	
Roger C. Jackson	—	—	71,750	143,500	265,475					
	10/21/2017	10/21/2017				5,769	7,692	11,539	223,914	
Ernest C. Kremling	—	—	86,250	172,500	319,125					
	10/21/2017	10/21/2017				8,785	11,714	17,571	340,995	

- (1) See the discussion of our incentive plan under the Compensation Discussion and Analysis section of this Proxy Statement.
- (2) On October 21, 2017 (for all NEOs other than Mr. Handelman) and April 28, 2017 (for Mr. Handelman), the NEOs in the above table were granted Series 4 performance-based restricted stock awards. Each Series 4 award includes two tranches. For the first tranche, vesting is subject to the achievement of an adjusted EBITDA metric. For the second tranche, vesting is subject to performance requirements for adjusted average annual return on invested capital and annual compound growth rate in the Company's adjusted diluted earnings per share. Performance under the awards is measured over a three-year period beginning August 1, 2016. A threshold of 30.0% of the award vests, if the adjusted earnings per share growth rate over the measuring period is at least 5.0%. If adjusted return on invested capital is at least 8.0% a threshold award of 20.0% vests. The maximum award of 200.0% vests, if the earnings per share growth rate over the measuring period is at least 20.0% and the average annual return on invested capital is at least 16.0%.
- (3) On October 21, 2017, Mr. Fraser was granted Series 3 performance-based restricted stock awards: 10,000 shares of the Series 3 awards are subject to a performance requirement for net debt repayments with a threshold vesting of 50% at not less than \$10.0 million repaid and a maximum award vesting at \$15.0 million repaid; and 4,000 shares of the Series 3 awards are subject to a requirement to meet organizational goals.
- (4) On April 28, 2017, Mr. Handelman was granted an award for 9,968 shares of time-based restricted stock that vests one third (1/3) on November 1, 2017 and two thirds (2/3) on November 1, 2018.
- (5) This amount represents the aggregate grant date fair value of each award at the target level of each respective award. See note 12 to our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended July 31, 2017.

The following table presents information respecting outstanding equity awards at July 31, 2017. As of July 31, 2017, we did not have any outstanding stock option awards. Mr. Lau did not have any outstanding equity awards at July 31, 2017.

### Outstanding Equity Awards at Fiscal Year-End

Name	Stock Awards (1)			
	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(2)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(2)
Christopher T. Fraser	28,804 (3)	1,458,058		
	80,000 (4)	4,049,600		
	12,000 (5)	607,440		
			64,327 (6)	3,256,233
			57,606 (7)	2,916,016
		110,584 (8)	5,597,762	
Marcelino Rodriguez	750 (3)	37,965	10,026 (6)	507,516
			1,500 (7)	75,930
Jeffrey S. Handelman	9,968 (9)	504,580	13,078 (6)	662,008
Roger C. Jackson	4,852 (3)	245,608	11,065 (6)	560,110
			9,704 (7)	491,216
Ernest C. Kremling	7,317 (3)	370,387	16,851 (6)	852,998
			14,632 (7)	740,672

- (1) Stock awards reflect grants of performance-based restricted stock awards and time-based restricted stock awards under our 2016 Long-Term Incentive Plan and 2009 Long-Term Incentive Plan. See the Compensation Discussion and Analysis section of this Proxy Statement and note 12 of our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended July 31, 2017.
- (2) Market value is calculated based on our closing stock price on July 31, 2017 of \$50.62.
- (3) Represents fiscal year 2016 awards under our 2016 Long-Term Incentive Plan of time-based restricted stock. Awards vest October 31, 2018. The table reflects our estimate that 100.0% of the time awards will vest. See note 12 of our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended July 31, 2017.
- (4) Represents fiscal year 2016 awards under our 2016 Long-Term Incentive Plan of time-based restricted stock. The awards vest one-third (1/3) at July 31, 2018, 2019 and 2020. The table reflects our estimate that 100.0% of the time awards will vest. See note 12 of our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended July 31, 2017.
- (5) Represents fiscal year 2014 awards under our 2009 Long-Term Incentive Plan of time-based restricted stock. Awards vest generally on anniversary of hire date. The table reflects our estimate that 100.0% of the time awards will vest. See note 12 of our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended July 31, 2017.
- (6) Represents fiscal year 2017 awards under our 2016 Long-Term Incentive Plan and 2009 Long-Term Incentive Plan of Series 4 performance-based restricted stock. Awards vest July 31, 2019 if performance requirements are satisfied. Each Series 4 award includes two tranches. The table reflects our estimate that 100.0% of the first tranche will vest and 188% of the second tranche will vest. See note 12 of our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended July 31, 2017. See the table "Grants of Plan Based Awards."
- (7) Represents fiscal year 2016 awards under our 2016 Long-Term Incentive Plan of Series 1 performance-based restricted stock. Awards vest October 31, 2018 if performance requirements are satisfied. The table reflects our estimate that 200.0% of the Series 1 awards will vest. See note 12 of our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended July 31, 2017.
- (8) Represents fiscal year 2016 awards under our 2016 Long-Term Incentive Plan of Series 3 performance-based restricted stock. Awards vest one-third (1/3) at July 31, 2018, 2019 and 2020 if performance requirements are satisfied. The table reflects our estimate that 133.0% of the Series 3 awards will vest. See note 12 of our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended July 31, 2017.



- (9) Represents fiscal year 2017 awards under our 2016 Long-Term Incentive Plan of time-based restricted stock. Awards vest one third (1/3) on November 1, 2017 and two thirds (2/3) on November 1, 2018. The table reflects our estimate that 100.0% of the time awards will vest. See note 12 of our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended July 31, 2017.

The following table presents information respecting stock vested by NEOs during fiscal year 2017.

Name	Stock Awards	
	Number of Shares Acquired on Vesting (#)	Value Realized On Vesting (\$)
Christopher T. Fraser	124,258	6,152,840
Marcelino Rodriguez	2,250	113,896
Roger C. Jackson	17,876	904,883
Ernest C. Kremling	26,388	1,335,760
Andrew C. Lau	3,206	162,288

#### Potential Payments upon Termination or Change in Control

The following describes the payments and benefits that would be provided to each NEO in the event that this employment is terminated with us for any reason, including death, disability, retirement, voluntary termination, termination for cause and termination without cause, with and without a change in control.

We have an employment agreement that contains severance provisions with Mr. Jackson. At July 31, 2017, four of our NEOs, Mr. Fraser, Mr. Rodriguez, Mr. Handelman and Mr. Kremling, are participants in our Executive Severance Plan (the “ESP”). Under the terms of Mr. Jackson’s employment agreement, if we terminate his employment (other than for cause or due to death or disability) or elect not to extend his term of employment for the renewal term, or if he voluntarily terminates his employment for good reason due to a change of control, then we must pay Mr. Jackson a termination payment equal to 3.0 times his base salary. The termination payments are paid in equal annual payments if the termination is not within one year of a change of control. If the termination or election not to extend the employment agreement by us or voluntary resignation for good reason by the executive occurs within one year of a change of control, then any options to acquire shares of our Common Stock held by the executive becomes fully vested as of the date of termination, and are exercisable for a period of two years. Under the ESP, participants are paid severance equal to a pro-rated portion of annual incentive compensation. Messrs. Rodriguez, Handelman and Kremling also would be paid a lump sum payment of 1.5 times base salary if the termination of employment was not in connection with a change of control, or 2.0 times the sum of base salary and target annual incentive, if it was in connection with a change of control. For Mr. Fraser, the multiples were 2.0 times base salary, or 2.5 times the sum of base salary and target annual incentive. A resignation by the executive for “good reason,” such as our failure to pay any amount due to such executive, demotion, relocation or an uncured breach of the employment agreement by us, can also trigger a severance payment to the executive under the ESP. A “change of control” includes, among other events, the acquisition by an individual or group of beneficial ownership of more than 50% of the combined voting power of our then-outstanding Common Stock.

Performance-based and time-based restricted awards vest on death, total and permanent disability or retirement. On death and total and permanent disability, these restricted stock awards vest proportionally based on months of service in the three-year performance measurement period, but for performance-based awards on performance achieved as of the termination. On retirement, the awards vest 100%, but subject to satisfaction of the performance criteria for performance-based awards at the end of the performance measurement period. Time-based award may also vest proportionally based on months of service in the three-year period, if the termination of employment occurs in the last year of the vesting period and was not for cause or poor performance. Performance-based and time-based awards vest at maximum on a change of control.

The table below presents information respecting amounts payable upon a death, disability, or termination of NEOs, or a change of control, as of July 31, 2017. See “Executive Benefits and Perquisites-Executive Severance Plan.” The table does not include Ms. Lau, who left the Company in February 2017.

Name	Death (\$)	Disability (\$)	Voluntary Termination (\$ (1))	Termination For Cause (\$)	Termination Without Cause But No Change of Control (\$)	Termination Without Cause but with a Change of Control (\$)	Change of Control
<b>Christopher T. Fraser</b>							
Incentive Bonus (2)	—	—	—	—	1,089,950	1,089,950	—
Cash Severance (3)	—	—	—	—	1,472,408	3,496,969	—
Value of Unvested Stock Awards (4)	9,225,417	9,225,417	—	—	—	20,823,195	20,823,195
<b>Marcelino Rodriguez</b>							
Incentive Bonus (2)	—	—	—	—	204,100	204,100	—
Cash Severance (3)	—	—	—	—	390,000	780,000	—
Value of Unvested Stock Awards (4)	197,646	197,646	—	—	—	643,076	643,076
<b>Jeffrey S. Handelman</b>							
Incentive Bonus (2)	—	—	—	—	187,110	187,110	—
Cash Severance (3)	—	—	—	—	186,923	373,845	—
Value of Unvested Stock Awards (4)	409,874	409,874	—	—	—	1,194,834	1,194,834
<b>Roger C. Jackson</b>							
Incentive Bonus (2)	—	—	—	—	224,981	224,981	—
Cash Severance (3)	—	—	—	—	859,800	859,800	—
Value of Unvested Stock Awards (4)	370,910	370,910	—	—	—	1,320,929	1,320,929
<b>Ernest C. Kremling</b>							
Incentive Bonus (2)	—	—	—	—	272,420	272,420	—
Cash Severance (3)	—	—	—	—	516,492	1,032,984	—
Value of Unvested Stock Awards (4)	562,097	562,097	—	—	—	2,000,502	2,000,502

- (1) Any retirement would be treated as a voluntary termination, except for performance-based awards as described above.
- (2) The amount is the actual incentive award for fiscal year 2017.
- (3) Multiple of base salary or the sum of base salary and target incentive bonus for the year in which the termination occurs.
- (4) For unvested stock awards, the service period requirement is prorated as of July 31, 2017 for death and disability, and the performance objectives are estimated as described in notes 6, 7 and 8 to the Outstanding Equity Awards at Fiscal Year-End table. Performance-based and time-based awards vest at maximum on a change of control, and the amount is calculated based on our closing stock price on July 31, 2017 of \$50.62.

The table below presents information respecting compensation paid to directors in fiscal year 2017 who, except for Mr. Fraser, were not NEOs. We also reimburse our directors for travel, lodging and related expenses incurred in attending Board, committee or other business meetings.

### Director Compensation

Name	Fees Earned Or Paid in Cash (\$ (1))	Stock Awards (\$ (2))	Total (\$)
Gerald G. Ermentrout	78,000	74,916	152,916
James F. Gentilcore (3)	22,917	74,916	97,833
George W. Gilman	55,000	74,916	129,916
Robert Harrer	55,000	74,916	129,916
John C. Hunter, III	58,333	74,916	133,249
Fred C. Leonard, III	64,000	74,916	138,916
Karen A. Twitchell	67,000	74,916	141,916

- (1) Each director is paid an annual retainer of \$55,000 per year. The Chair of the Audit Committee is paid a retainer of \$12,000 per year, the Chair of the Compensation Committee is paid a retainer of \$9,000 per year, and the Chair of the Governance Committee is paid a retainer of \$8,000 per year. Mr. Ermentrout was selected as Lead Director in fiscal year 2014. The Lead Director is paid an annual retainer of \$15,000. Annual retainers are paid quarterly. Mr. Hunter served as Chair of the Governance Committee during part of fiscal year 2017, and his fees earned reflect a retainer paid to him for that service. Directors are reimbursed for out-of-pocket expenses incurred in attending meetings and for other expenses incurred in performing in their capacity as directors.
- (2) This amount represents the aggregate grant date fair value, which we expense in our financial statements. See note 12 of our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended July 31, 2017.
- (3) Mr. Gentilcore left the Board of Directors at the conclusion of his term in December 2016.

## PROPOSAL 2:

### RATIFICATION OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2018

The Board of Directors has appointed KPMG LLP as our independent registered public accounting firm and auditors to conduct the annual audit of our financial statements for fiscal year 2018. Although action by the shareholders in this matter is not required, the Board of Directors believes that it is appropriate to seek shareholder ratification of this appointment in light of the important role played by the independent auditors in maintaining the integrity of our financial controls and reporting. If ratification of the appointment is not approved, the Board of Directors will reconsider the appointment. A representative of KPMG LLP will be present at the Annual Meeting and will have the opportunity to respond to appropriate questions.

**The Board of Directors recommends that you vote to ratify the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal year 2018. Unless otherwise indicated, all properly executed proxies received by us will be voted “FOR” such ratification at the Annual Meeting.**

#### Principal Accounting Firm Fees

The aggregate fees billed by our independent registered public accounting firm and auditor, KPMG LLP, for professional services rendered to us for the two fiscal years ended July 31, 2017 were as follows:

	2017	2016
Audit Fees (1)	\$ 1,134,287	\$ 1,717,262
Audit-Related Fees (2)	17,500	10,000
Tax Fees (3)	—	—
All Other Fees (4)	—	11,266
Total	<u>\$ 1,151,787</u>	<u>\$ 1,738,528</u>

- (1) Includes fees and reimbursable expenses for professional services rendered for the audits of our consolidated financial statements, quarterly reviews of the consolidated financial statements included in quarterly reports on Form 10-Q, and audit of internal control over financial reporting.
- (2) Includes fees and reimbursable expenses for assurance and related services that are reasonably related to the performance of the audit or review of the financial statements, including the issuance of consents related to registration statements.
- (3) Includes fees and reimbursable expenses for international tax consulting services.
- (4) Includes fees and reimbursable expenses for certain consulting services.

The policy of the Audit Committee is to pre-approve all audit and non-audit services conducted by our independent registered public accounting firm and auditors. Under the policy, pre-approval is required before the independent accountants are engaged for the particular services. The Audit Committee has considered whether the provision of the services included in other fees is compatible with maintaining the independence of our independent registered accounting firm and auditors.

## PROPOSAL 3:

### ADVISORY (NON-BINDING) VOTE ON EXECUTIVE OFFICER COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and section 14A of the Exchange Act require that shareholders have the opportunity to cast an advisory (non-binding) vote on the compensation of our named executive officers (a so-called “say-on-pay” vote). The advisory vote on executive compensation is not a vote on any specific item of compensation, the compensation of our Board of Directors, or our compensation policies as they relate to risk management, but rather overall philosophy and compensation for our named executive officers. We are also required by law to hold the advisory vote on executive compensation at least once every three years, but we have decided to hold the advisory vote each year.

Our philosophy in setting compensation policies for executive officers has three objectives:

- reward executive officers for long-term strategic management and the enhancement of shareholder value;
- integrate the compensation program with our short and long-term strategic business plans; and
- attract, motivate, reward and retain experienced and highly qualified executive officers.

The Board recommends a vote FOR Proposal 3 which approves of our executive compensation because our Board believes that our compensation policies and practices effectively implement our compensation objectives. Please read the Compensation Discussion and Analysis section of the Proxy Statement and the accompanying executive officer compensation tables and related narrative discussion, which describes in detail our compensation programs and policies for our executive officers and the decisions made by our Compensation Committee for fiscal year 2017, which include:

- all members of our Compensation Committee are independent directors, within the meaning of the New York Stock Exchange listing standards.
- our Compensation Committee engages and receives advice from an independent compensation consultant who benchmarks our executive compensation program against our peer group and advises the Committee on best practices for executive compensation.
- we have substantial stock ownership requirements for executive officers that promote alignment of their interest with those of our shareholders by requiring 3x of base salary in stock ownership for our CEO and 2x for other executive officers.
- the majority of our long-term incentive awards are performance-based and participants only earn their stock awards if pre-determined performance goals are achieved.
- we are sensitive to shareholder dilution and the burn rate by keeping potential dilution from employee stock awards very low.
- we annually review the risk profile of our executive and broad-based employee compensation programs and have significant risk mitigators, such as multiple performance measures for our incentive plan awards, substantial stock ownership guidelines and an executive compensation clawback policy.

The vote on this Proposal 3 is advisory and, therefore, not binding on us, the Board of Directors or the Compensation Committee. Our Board, however, including the Compensation Committee, values the opinions of our shareholders and intends to consider our shareholders’ views. We will evaluate what actions may be appropriate to address those views and disclose in future proxy statements what actions were taken.

Shareholders will be asked at the Annual Meeting to approve the following resolution pursuant to this Proposal 3:

RESOLVED, that the shareholders of KMG Chemicals, Inc. approve, on an advisory basis, the compensation of the Company’s named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, the compensation tables, and the accompanying narrative disclosure contained in this Proxy Statement.

**The Board of Directors recommends a vote FOR the approval of the foregoing advisory resolution on executive compensation.**

## PROPOSAL 4:

### ADVISORY (NON-BINDING) VOTE ON FREQUENCY OF FUTURE SAY-ON-PAY VOTES

We are also required by the Dodd-Frank Act to hold a separate advisory (non-binding) vote to allow shareholders to express their preference regarding the frequency of future say-on-pay votes. Shareholders may indicate whether they would prefer a say-on-pay vote every one, two or three years. The frequency period that receives the most votes (every one, two or three years) will be deemed to be the recommendation of the shareholders. The non-binding frequency vote is required at least once every six years. Our shareholders voted on a similar proposal in 2011 with the majority voting to hold the say-on-pay vote every year.

We believe an annual cycle is the most appropriate. The Board is therefore recommending that shareholders vote for holding the non-binding frequency vote every year.

The Board understands that there are different views as to what is the appropriate frequency on advisory votes on executive compensation. Additionally, in voting on this proposal, you should be aware that you are not voting to approve or disapprove the Board's recommendation. Rather, you are voting on your preferred frequency.

**The Board of Directors recommends an advisory vote FOR a frequency of every 1 YEAR for future executive compensation votes.**

## PROPOSAL 5:

### PROPOSAL TO RATIFY THE INCREASE IN SHARES OF COMMON STOCK ISSUABLE UNDER THE COMPANY'S 2016 LONG-TERM INCENTIVE PLAN

The Company's 2016 Long-Term Incentive Plan (the "Plan") was adopted and approved by its shareholders in January 2016. The Plan was previously filed by the Company as Appendix A to the Company's Definitive Proxy Statement on Schedule 14A on December 1, 2015. The Company initially reserved 500,000 shares of Common Stock for issuance under the Plan.

The purpose of the Plan is to attract, motivate and retain the services of key employees and directors and to align the interests of such persons with our shareholders by providing participants in the Plan with the opportunity to share in any appreciation in value of our Common Stock that their efforts help to bring about. To accomplish these goals, the Plan permits the granting of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalent rights, and other awards. They are administered by the Board of Directors or a committee appointed by the Board of Directors. The Board has designated the Compensation and Development Committee as the administrator of the Plan. Subject to the terms of the Plan, the committee has the sole discretion to select the persons eligible to receive awards, the type and amount of incentives to be awarded, and the terms and conditions of awards. The committee also has the authority to interpret the Plan, and establish and amend regulations necessary or appropriate for their administration. Any employee of the Company or a subsidiary of the Company or a director of the Company whose judgment, initiative, and efforts contributed or may be expected to contribute to the successful performance of the Company is eligible to participate. No executive officer may receive in any calendar year stock options or stock appreciation rights, or awards that are subject to the attainment of performance goals, relating to more than 200,000 shares of common stock under the Plan. At November 1, 2017, there were approximately 7,562 shares available for future grants under the Plan, assuming that currently outstanding non-vested restricted stock awards vest at maximum.

In October 2017, the Board of Directors approved an amendment to the 2016 Plan to increase the maximum number of shares of Common Stock that may be delivered pursuant to awards granted under the 2016 Plan by an additional 250,000 shares. The amendment is to be effective upon its ratification by the Company's shareholders.

The table below shows the number of shares available for future issuance under the Company's 2016 Long-Term Incentive Plan and 2009 Long-Term Incentive Plan as of November 1, 2017.

Plan	Number of Shares of Common Stock Available for Future Issuance
2016 Long-Term Incentive Plan	7,562
2009 Long-Term Incentive Plan	64,530
	72,092
Additional shares requested by this proposal	250,000
Total (1)	322,092

- (1) At November 1, 2017, there were non-vested share restricted stock awards outstanding for approximately 411,440 shares of Common Stock, assuming such awards vest at maximum. If all of these non-vested restricted stock awards vest at maximum, and all of the available shares were issued under our 2016 and 2009 Long-Term Incentive Plans, including the 250,000 shares requested in this Proposal 5, such issuances would represent dilution of 4.8% based on the 15,365,646 shares outstanding as of November 1, 2017.

Shareholders will be asked at the Annual Meeting to approve the following resolution pursuant to this Proposal 5:

RESOLVED, that the 2016 Plan providing for the issuance of up to 500,000 shares of the Company's Common Stock pursuant to awards, options or other grants under the 2016 Plan, be amended to increase that number of shares issuable under the 2016 Plan by 250,000 shares of Common Stock.

**The Board of Directors recommends a vote FOR the ratification of the increase in shares of Common Stock issuable under the Company's 2016 Long-Term Incentive Plan.**



## **Transactions with Related Persons**

### **Review, Approval or Ratification of Transactions with Related Persons**

Our Code of Business Conduct prohibits employees, officers and directors from having a personal, financial or family interest that could in any way prevent the individual from acting in our best interests (a “conflict of interest”) and provides that any conflict of interest waiver relating to Board members or executive officers may only be made after review and approval by the Board. In addition, the Board reviews certain relationships and related party transactions with respect to directors, as part of its assessment of each director’s independence.

### **Transactions with Related Persons**

During fiscal year 2017 there were no related party transactions required to be disclosed under Item 404 of Regulation S-K.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Based solely on a review of Forms 3, 4 and 5 and amendments thereto furnished to us, we know of no failure in Section 16(a) beneficial ownership reporting compliance, except that Form 4s related to shares granted to our non-employee directors for service during the second fiscal quarter were filed late, resulting in each of Mr. Ermentrout, Mr. Gilman, Mr. Harrer, Mr. Hunter, Mr. Leonard and Ms. Twitchell filing one late Form 4 relating to one transaction during the fiscal year.

### **Solicitation of Proxies**

Proxies will be solicited primarily by mail at our cost, but our employees may also solicit proxies in person or by telephone. Arrangements may be made with brokerage firms or other custodians, nominees, and fiduciaries to send proxy materials to the beneficial owners of our common stock for which we have agreed to pay those costs.

### **Shareholder Proposals for 2018 Annual Meeting**

Any shareholder who intends to present a proposal at the 2018 Annual Meeting of shareholders must deliver or mail such proposal to us which must be received at our offices at 300 Throckmorton Street, Fort Worth, Texas 76102, Attention: Corporate Secretary. Applicable SEC rules and regulations govern the submission, and our consideration, of shareholder proposals for inclusion in the 2018 Annual Meeting proxy statement and form of proxy.

Pursuant to our by-laws, in order for any business not included in the notice of meeting for the 2018 Annual Meeting of shareholders to be brought before the meeting by a shareholder entitled to vote at the meeting (including nominations of candidates for director), the shareholder must give timely notice of that business to our Corporate Secretary. To be timely, the notice must not be received any earlier than August 11, 2018 (90 calendar days prior to October 30, 2017), nor any later than August 31, 2018 (60 calendar days prior to October 30, 2017). If the date of the 2018 Annual Meeting of shareholders is changed by more than 30 days from the date of the 2017 Annual Meeting, the deadline for submitting proposals is not later than the close of business on the tenth (10<sup>th</sup>) calendar day following the day on which public announcement of the date of the 2018 Annual Meeting is first made. The notice also must contain the information required by our by-laws. The foregoing by-law provisions do not affect a shareholder’s ability to request inclusion of a proposal in our proxy statement within the procedures and deadlines set forth in Rule 14a-8 of the SEC’s proxy rules and referred to in the paragraph above. A copy of our by-laws is available upon request to: KMG Chemicals, Inc., 300 Throckmorton Street, Fort Worth, Texas 76102, Attention: Corporate Secretary.

The person named in our form of proxy for the 2018 Annual Meeting of shareholders will have discretionary authority to exclude any matter that is not properly presented in accordance with these requirements.

In order to avoid controversy as to the date on which we receive any such proposal, it is suggested that shareholders submit their proposals by certified mail, return receipt requested, or other means that permit them to prove the date of delivery.



### Other Matters

The Board of Directors knows of no matters other than those stated above which are to be brought before the Annual Meeting. However, if any such other matters should be presented for consideration and voting, the persons named in the proxy to vote thereon will do so in accordance with their judgment.

By Order of the Board of Directors,

A handwritten signature in black ink, appearing to be 'Roger C. Jackson', written over a light gray rectangular background.

Roger C. Jackson  
Secretary

