

KEY TECHNOLOGY ANNUAL REPORT 2010

*Profitability, Innovation and Performance from
the World's Leader in Food Processing Technologies*



The vegetables on your plate. The fruit in your bowl. The pill in your palm. You cook, slice or swallow them with confidence, and your peace of mind owes much to the contributions of Key Technology.

With products at work on six continents, Key Technology helps food and pharmaceutical processors make the products we consume safer, purer and better. Through more than six decades of innovation, the Company has introduced scores of technological advancements—holding 53 current patents and launching six sophisticated new solutions this year alone.

A LETTER *to Our* SHAREHOLDERS

Fiscal 2010 was a challenging year for Key, primarily due to the difficulty in forecasting our customers' response to the economic environment. In light of this uncertainty, we reduced our operating spending by controlling costs in every aspect of the business. As a result of these actions, we are pleased to report that the Company ended the year profitably.

OUR 2010 ACHIEVEMENTS

We delivered improved performance. | Net earnings in fiscal 2010 improved by \$4.1 million compared to 2009. Our orders were up by 19 percent over the previous year and revenues increased by over 9 percent. Our cash flow was positive by nearly \$11 million, our operating income was positive by over \$5 million, and our year-end backlog was an all-time end-of-year record of more than \$35 million.

We can credit a large part of these results to the many new products that we introduced in 2009. For example, in fiscal 2010 we shipped a significant number of Manta® 1600 sorters to vegetable and potato processors and sold several VeriSym® sorters into the pharmaceutical industry. We also won numerous Online Training contracts, and our FMAAlert™ software is becoming the standard for multinational customers in their worldwide locations.

We lowered our costs. | In 2008, our annual Operating Expenses were \$43 million. In 2009, we reduced Operating Expenses to just under \$40 million, and in fiscal 2010, we further reduced them to \$35 million. The effect of these reductions was spread across the Company, with research and development expenses down by \$2 million and general and administrative expenses down by more than \$2.3 million.

OPERATING EXPENSES 2008-2010

08	\$43,000,000			
09	\$40,000,000			
10	\$35,000,000			

While reducing Operating Expenses received significant management attention in 2010, we also launched programs to reduce our Cost of Sales and maximize product uptime for our customers. We focused engineering resources on redesigning for manufacturing efficiencies, improved reliance and in-field diagnostic capabilities, and reduced material and component cost by developing new vendor-sourcing strategies.

We delivered new product solutions. | In 2009, we delivered 17 new product solutions to the marketplace. Even with an increased focus on lowering costs and re-designing for efficiencies, we still delivered six new product solutions in 2010. These included:

- The Manta 1630.
- A redesigned Compact Dryer for the fresh-cut market.
- An additional Online Training module for our ADR® product line.
- The VeriSym SL sorter for low-volume pharmaceutical processors.



As the world's leader in food processing technologies, we see new opportunities for inspection that begin in the field where products are harvested and end where products are sealed and packaged for consumers—from field to fork.

- Several special-use application software packages.
- The onCore[®] system that has become the product of choice for fresh-cut processors to remove core from romaine and iceberg lettuce.

During 2010, our research and development team also completed preliminary development for a large number of new product solutions strategically planned for release in 2011.

We solicited feedback from our customers. | To ensure that we continue to meet the expectations of our customers, we conducted a global customer survey in 2010. We found that Key continues to earn high marks from our customers for our dedicated commitment to supporting their needs. The survey revealed an increased demand for training and an increasing reliance on Key's in-plant service offerings as customers reduce their internal maintenance staff in response to the current soft economy. We are responding to these trends with more focus on customer training and service products.

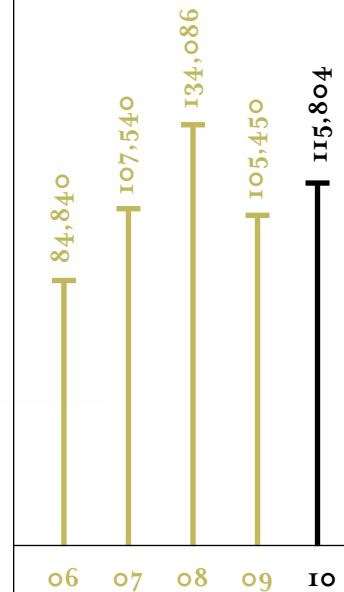
The survey results also confirmed our conviction that international customers want a local presence. As we enter new geographic markets, we plan to continue to position our sales and service network in these regions to be near our customers.

We strengthened our strategic partnerships and alliances. | In the pharmaceutical and nutraceutical industries, we established a cross-selling agreement with Proditex, the inspection-system manufacturing company in which Key retains a 15 percent ownership. This agreement enables us to leverage the sales and distribution channel strengths of both companies.

We continue to grow the original equipment manufacturer (OEM) alliance with Hauni, our marketing and sales partner in the tobacco industry. As the exclusive supplier of optical sorters to Hauni, we co-developed AeroSort[™], an innovative foreign-material-detection and material-handling system, employing a novel conveying method that delivers sorting performance never before achieved.

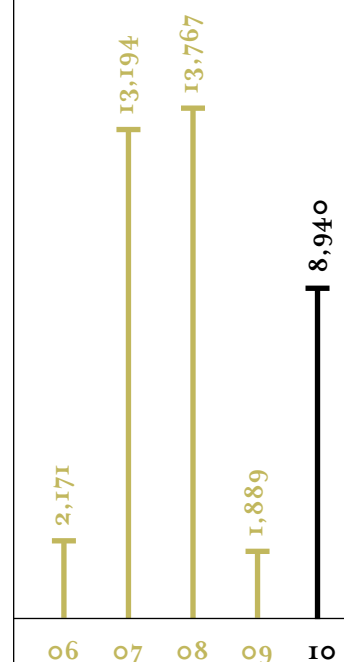
NET SALES

in thousands of dollars



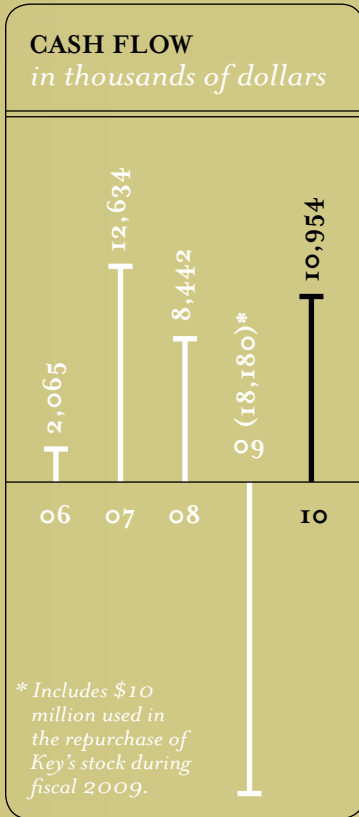
EBITDA

in thousands of dollars





In response to global economic uncertainty, Key acted decisively to control costs and ensure profitability.



And, our strategic manufacturing partnership with Pymesa continues to aid in the development of Key's presence in the fresh produce market in Mexico and other fruit and vegetable markets in Latin America.

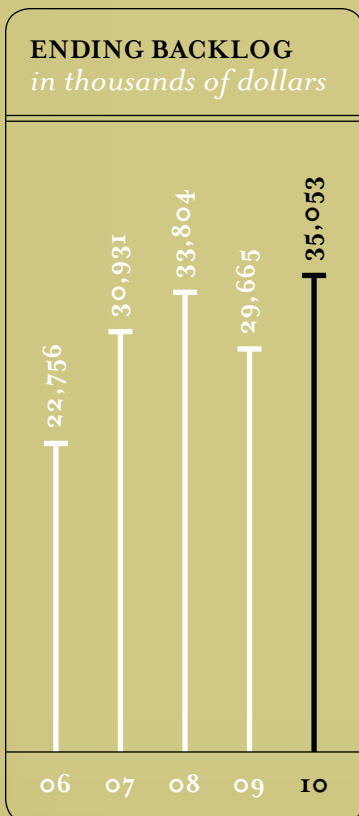
We adjusted to a changing marketplace. | In response to a growing customer need to provide whole-line solutions, we formed an Integrated Solutions Group that will design complete production lines, incorporating equipment from both Key and other suppliers. This concept has already met with very positive customer response, particularly in geographies that do not have deep food processing expertise.

In addition, to strengthen our position in Latin America, Australia, New Zealand, and Eastern Asia, we have added an InterContinental Region Sales manager focused on leading our international sales team to respond more rapidly to our customers in these growing markets.

We added new elements to our strategy. | For many years, Key was almost entirely focused on food, tobacco and pharmaceutical processors in North America and Western Europe. In these regions, market needs are directed toward improvements in food safety, quality, productivity, yield and sustainability—areas where Key is very well-positioned and successful. We will unabatedly continue to respond to the needs of these markets.

In addition, we are increasing our emphasis on fresh produce, fruit and vegetable, and potato markets in emerging marketplaces. The needs of these markets are directed toward labor reduction, lower-volume and lower-cost products, and whole-line solutions. They also rely heavily on the process expertise of their equipment suppliers. Because some of our existing products will not be competitive in these new geographies, we must expand our product lines to include offerings that are simplified for the user, sophisticated and robust in operation and, most importantly, appropriately priced and specifically designed for these markets. We have allocated additional resources to meet the needs of these markets and believe this strategy will allow us to rapidly and successfully penetrate these emerging markets, resulting in potential revenue growth.

Beyond these strategies, we are taking a fresh look at Key's role in the food industry. We have come to realize that the earlier in the food preparation process we can remove contaminants or poor-quality product, the more effectively we can help to reduce waste, increase yield, and improve the quality of foods offered on the grocer's shelves. With this broadened view, we see new opportunities for inspection that begin in the field where products are harvested and end where products are sealed and packaged for consumers—from *field to fork*. Our future strategy will include development of products for these new opportunities.



OUR 2011 STRATEGY

The economic downturn that began to impact Key in the first quarter of fiscal 2009 continued to affect our business throughout 2010. It forced Key to make difficult decisions that have made the Company leaner, faster and more focused—but we must become *even better*. We must:

- Get products to our marketplaces more rapidly and with improved capabilities and diagnostics.
- Reduce our costs by designing robust products that can be efficiently produced.
- Use our cash to make strategic and tactical investments that improve shareholder value and support our strategic plan.

More than just getting a product solution to market, these goals require efficient processes that keep our costs down, compress our delivery schedules, and delight our customers.

The demand for purer, safer and fresher products continues to grow. Our opportunity horizon is wide open.

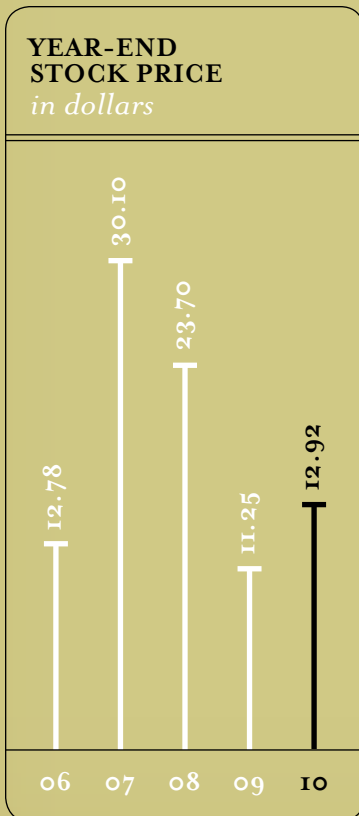
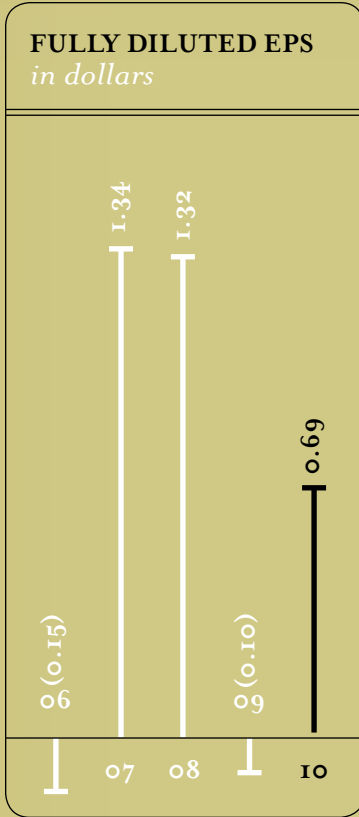
EXECUTIVE MANAGEMENT
TEAM: (left to right)
John Boutsikaris, Joel Bustos,
David Camp and Jack Ehren



Photographed near Walla Walla, Washington, where the Company's world headquarters reside.



Net earnings and orders grew substantially, and backlog hit record levels.



OUR 2011 GOALS

Our primary objective for 2011 is to provide excellent returns to our shareholders, obtained through a clear vision, crisp strategy, detailed tactical execution, accountability, and respect for our customers. We will accomplish this by achieving specific goals.

Our goals in our core markets are to:

- Invest in software products and equipment diagnostics that address regulatory and food/pharmaceutical safety requirements.
- Continue to launch new optical upgrades that extend the lives of our installed base and minimize the cost of ownership for our customers.
- Staff and support our Integrated Solutions Group with project management and OEM relationships.
- Develop new aftermarket offerings that deliver value and optimized system performance for our customers.

Our goals in our emerging markets are to:

- Offer new optical products that meet the specific needs of targeted emerging markets.
- Use our Integrated Solutions Group to offer complete process solutions, including training and extensive process expertise.
- Assemble products in-country, where possible, to reduce import and product costs and to increase "local" content.

In addition, we plan to:

- Continue to develop and strengthen our relationship with Proditec and invest in new products as pharmaceutical market requirements change due to increasing regulation.
- Support our Hauni alliance with investment in tobacco-processing product development.
- Continue development of OEM relationships that increase revenue from existing products by expanding into new market channels.
- Evaluate investments that open new market channels or add to Key's vault of available technologies.

The demand for purer, safer and fresher products continues to increase. As a world leader in food and pharmaceutical processing technologies, our opportunity horizon is wide open. With the support of our shareholders, customers and employees, we enthusiastically head into the challenges and opportunities of 2011.

David M. Camp
President and CEO

DIRECTORS AND OFFICERS

DAVID M. CAMP
Director
President and Chief Executive Officer

JOHN J. EHREN
Senior Vice President and
Chief Financial Officer

JOHN C. BOUTSIKARIS
Senior Vice President of
Global Sales and Aftermarket

JAMES R. BRAUSEN
Principal Accounting Officer
Corporate Controller

JOEL S. BUSTOS
Senior Vice President of
Global Operations

CHARLES H. STONECIPHER ^{1,3}
Managing Director,
Trilogy Partnership

RICHARD LAWRENCE ^{1,2,3}
Director
Independent Consultant

JOHN E. PELO ^{1,3}
Director
President and Chief Executive Officer,
Swire Coca-Cola, USA

MICHAEL L. SHANNON ^{2,3}
Director
Principal, The General Counsel
Law Firm

DONALD A. WASHBURN ^{1,2,3}
Director
Director, Amedisys, Inc.
Director, The Greenbrier Companies
Trustee, LaSalle Hotel Properties

RONALD L. GREENMAN
Corporate Secretary
Partner, Tonkon Torp LLP

¹ Member of the Audit Committee of the Board of Directors

² Member of the Compensation and Management
Development Committee of the Board of Directors

³ Member of the Nominating and Corporate Governance
Committee of the Board of Directors

CORPORATE HEADQUARTERS

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(509) 529-2161
www.key.net

OTHER LOCATIONS

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Singapore 069694



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Dandenong South, Victoria 3175
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4112 NE Beusichem
The Netherlands

Key Technology Inc.
975 SW First Street
Redmond, OR 97756 USA

Key Technology (Shanghai) Trading
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No. 88 Taigu Road
Waigaoqiao Free Trade Zone
Shanghai 200131
China

Productos Key Mexicana,
S. de R.L. de C.V.
Av. Tecnológico No. 30 Sur
Planta Alta. Int. 01
Zona Centro 76000
Querétaro, Qro.
México

STOCK LISTING

Key Technology Inc. common stock
trades on the NASDAQ Global
Market[®] under the symbol KTEC.

CORPORATE INFORMATION

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Auditors
Grant Thornton LLP
Seattle, WA USA

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www.amstock.com

Shareholder Automated Phone
Toll free: 800-937-5449
Local: 718-921-8124

*With clear vision, crisp
strategy and detailed
tactical execution, we
will achieve our primary
objective for 2011—
excellent returns to our
shareholders.*

SHAREHOLDER INFORMATION

Key Technology Inc.
Investor Relations
150 Avery Street
Walla Walla, WA 99362 USA
Web site: www.key.net
Email: investor.info@key.net

Annual Meeting of Shareholders
8:00 a.m., Friday, February 11, 2011
Offices of Tonkon Torp LLP
1600 Pioneer Tower
888 S.W. Fifth Avenue
Portland, OR

FORM 10-K

The Company files an annual report with the
Securities and Exchange Commission on Form
10-K pursuant to the Securities Exchange Act
of 1934. Additional copies of the Company's
Form 10-K may be obtained without charge by
contacting the Investor Relations Department.

Comments included in this document may
include "forward-looking statements" within the
meaning of the federal securities laws, including
statements as to anticipated future results that
are based on current expectations and subject to
a number of risks and uncertainties.

It is important to note that the Company's
actual results could differ materially from
those projected in such forward-looking
statements. Additional information concerning
factors that could cause actual results to differ
materially from those in such forward-looking
statements is contained from time to time in
the Company's SEC filings, including, but not
limited to the Company's report on Form 10-K
for the year ended September 30, 2010.



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Walla Walla, WA 99362
USA

(509) 529-2161
www.key.net

OUR VISION

Supplying process automation systems that enable our customers around the world to ensure the quality, affordability and safety of products for consumers.