

Solutions for a Fresh New World

KEY TECHNOLOGY



ANNUAL
REPORT

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DEAR FELLOW SHAREHOLDERS,

The evolution of Key Technology accelerated in 2011, and this acceleration will increase again in 2012. Why do I say “evolution”? Throughout our long history, our passion has been to provide solutions, not just equipment, to customers. Innovation and problem-solving are the life-blood of our corporate culture—an ethos that energizes and motivates our employees. From our first inventions that revolutionized the pea processing industry in 1948 to the high-speed machine vision processing solutions of today, our business has been an evolution through innovation.

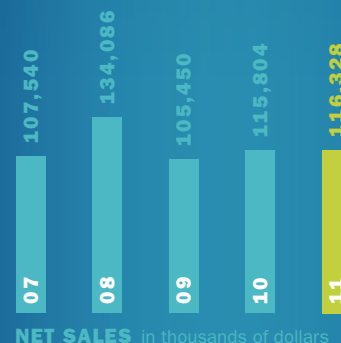
Innovation is a fast-moving game. And the pace quickens each year, driven by ever-increasing customer demands to meet higher quality standards, to eke out every fractional percentage of yield efficiency, to achieve more strictly-defined product consistency, and to ensure safe product with a greater degree of accuracy. Our response to this is to focus our product development on solutions that are disruptive to the current market offerings, and invest in the resources that fuel these activities—optical and engineering expertise, design creativity, and deep process knowledge banked through years of experience.

To do what we are passionate about—providing solutions for customers—and to be profitable while doing it, we must continually evolve.

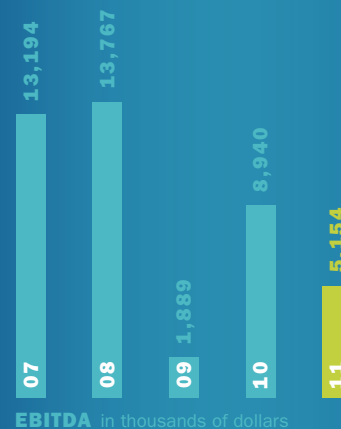
During the past four years, Key spent 6-8% of our annual revenue delivering new product offerings to our global markets. We believe this is a strong statement about our serious commitment to our customers and shareholders. We plan to maintain this level of investment in research and development activity for the foreseeable future.

During fiscal 2011, our commitment to product development was demonstrated through the following actions:

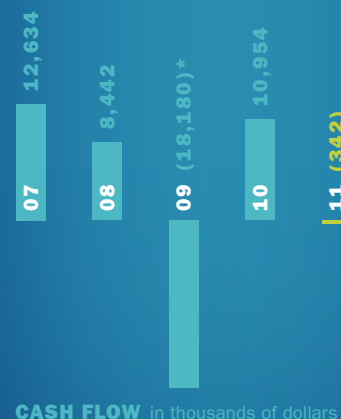
- **We invested in the development of software products and sorter process diagnostics** that will address the new food and pharmaceutical safety regulations introduced by the U.S. Food Safety Modernization Act of 2010. Leveraging the technology currently used in our Symetix® product line, we will continue in 2012 to develop solutions that will ensure safer food and pharmaceuticals with quality-monitoring and processing data-acquisition functions.
- **We added staff in our Integrated Solutions Group**, including project management and design engineering. This team of engineering and sales staff designs complete processing lines, integrating Key equipment with that of other suppliers. Our design and integration expertise is a unique offering that is unmatched by any competitor. We completed several complex projects during 2011, primarily in developing countries where the need for our engineering and process integration expertise is high.
- **We co-developed Aerosort**, with Hauni, our strategic partner in the tobacco market. Aerosort is the first sorter to offer an all-in-one sorting solution for shredded tobacco by pairing Key's high-resolution camera technology and Hauni's state-of-the-art pneumatic transport method. This product has



NET SALES in thousands of dollars

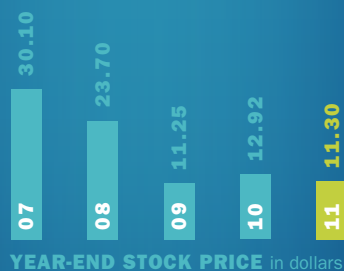
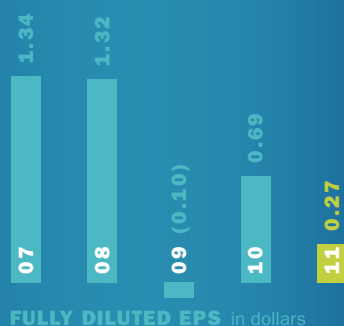
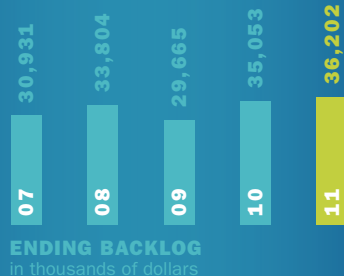
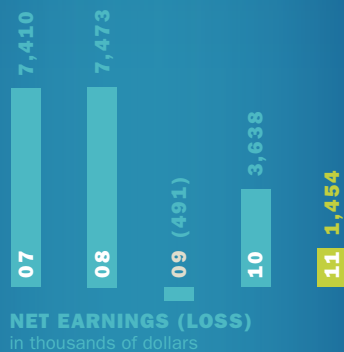


EBITDA in thousands of dollars



CASH FLOW in thousands of dollars

* Includes \$10 million used in the repurchase of the Company's stock during Dec./Jan 2009.



demonstrated the highest defect removal performance ever obtained in the tobacco-processing industry.

- **We developed a revolutionary solution called ADRFirst™** that places our exclusive ADR® (Automatic Defect Removal) system ahead of the sorter in french fry processing lines. We installed two of these systems during 2011, solving a significant customer problem by producing top-quality finished product from extremely poor-quality raw product.
- **We launched PROliance™**, our suite of customer support services that offers performance-optimizing service plans, access to interactive on-line training, and our industry-leading RemoteMD™. Through RemoteMD, customers around the globe have access to real-time, Web-based monitoring and diagnostics tools for analyzing the condition of their sorters and ADRs.
- **We developed and brought to market Veo™**, a revolutionary, modular optical sorting solution designed to meet the needs of customers who are new to optical sorting technology or need a complete process solution. Based on extensive market research, we targeted seed-corn processors for our initial market foothold, completing a multi-unit installation with a major processor in this industry. With multiple market opportunities available for Veo, we are prioritizing additional targets to pursue in the next year.
- **We brought to market Horizon™**, a new horizontal-motion conveyer technology specifically designed to address the needs of customers who process fragile and



Executive Management Team in the new Innovation and Solutions Center in Walla Walla,
(left to right): Randy Unterseher, John Boutsikaris, Jack Ehren, David Camp, and Mike Nichols.

seasoned or coated products, such as chips, salty snacks, and frozen french fries and vegetables. The Horizon solution is less complex and significantly more flexible than competitive offerings in the market because it is custom-designed as a total processing solution based on the customer's specific needs. It can gently transport product distances over 30 meters/100 feet with a simple drive system and multiple distribution gates.

The message is simple: Key is committed to continual research and development to create equipment and software solutions for processors of fresh and processed foods,

tobacco, and pharmaceuticals around the globe. We believe our customers need systems that are more robust and provide a higher level of self-diagnostics than any current offering in the market. And, we believe committing to this level of development will result in higher margins and higher profitability.

For the last three years, we have faced increased price competition pressures in our industry that have resulted in reduced margins. As I mentioned in last year's Letter to Shareholders, a portion of this pressure is the result of continued excess manufacturing capacity in the industry that developed

during the 2008 recession. Commoditization of a number of product solutions and requirements by some customers to have multiple, competing suppliers are other contributing factors.

Another aspect of this competitive environment, however, is that our products need to be more modular, simple and flexible, and cost-reduced to meet current marketplace requirements. We are making strides to address these requirements with the solutions we brought to market in 2011, and with those we are developing for introduction in 2012. For example, we are:

- **Developing products, like Veo**, that have flexibility within an integrated processing line and are simple to install, use, and maintain;
- **Designing products for maximum manufacturing cost efficiency**, and continuing to evaluate further manufacturing cost reductions over the life of our products;
- **Manufacturing and sourcing globally** to be close to our customers and to benefit from lower-cost conditions and reduced logistics costs;

Innovation and problem-solving are the life-blood of our corporate culture—an ethos that energizes and motivates our employees.

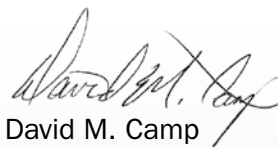
- **Stepping into new application markets** with product offerings that our traditional competitors do not have; and
- **Entering new geographic markets**, where customers need entry-level solutions, with lower-capacity, lower price points, and a smaller footprint.

The last three years have presented difficult challenges both globally and domestically. Navigating a business through these challenges

requires a clear vision, rigorous analysis, solid resolve, and the strength to make difficult decisions. For example, in late 2008 as the economy began to falter, we could have reduced our research and development spending and improved the bottom line results for 2009. Key's management team, however, decided that the better path, albeit the more difficult one, was to study our markets and invest R&D resources in developing solutions that were not being offered.

Continuing to evolve quickly, as market needs change, has been, and will continue to be, our formula for success.

We believe this strategy will sustain us during difficult economies and help us succeed against competitive challenges. As the pace continues to accelerate, so will our response.



David M. Camp
President and CEO



Customers Test Drive Technology The new Innovation and Solutions Center provides a showcase for Key's full line of products, where customers can see sorting performance on their product to their specifications. In this large facility, Key can work with multiple customers at one time, and provide a private area for factory acceptance testing prior to delivery.

Corporate Headquarters, Walla Walla, Washington

Opportunity Knocks With New Crush Pad Solution

The creation of a complete Crush Pad Solution gives Key the opportunity to enter the wine grape industry. Key's grape receiving and inspection systems, now in place at numerous wineries, replace manual labor and ensure only the highest-quality grapes are used in the making of premium wines.

Washington and California

Veo™ Opens New Optical Sorting Market Multiple Veo optical sorters were installed at major U.S. seed-corn companies, providing a solution that recycles cobs with residual husk back to the husker and can also remove rogue and diseased ears. Key's new technology taps an unserved market in an industry that relies heavily on manual sorting.

Undisclosed Location



Integrated Solutions Group Serves Developing World

The Integrated Solutions Group, a dedicated team of Key engineering and sales staff, works with strategic partners to create integrated processing line solutions. This unique new offering brings highly needed expertise to customers in developing countries around the globe.



Developing Countries

SOLUTIONS FOR A FRESH NEW WORLD

OUR VISION To be the premier provider of global optical and process solutions.

North Carolina, and Guntur,
Andra Pradesh, India



Joint Aerosort Product Development Sets New Standard Key, a world leader in sorting technology, joined forces with tobacco processing leader Hauni to create the all-in-one Areosort sorting system. Key's high-resolution optical sorting platform was a perfect fit for Hauni's pneumatic transport method. The product has demonstrated the highest defect removal performance ever obtained in tobacco processing.



More Firsts for Symetix The first installation of the VeriSym/P SL system for softgel capsule inspection was also Key's first Symetix installation in Italy.

Cortemaggiore, Italy

ADROnly™ Debuts in China The successful start-up of China's first ADROnly line proved its capability of delivering not only high quality finished product but lower labor costs.

China

United States, Belgium, France, Brazil, Canada, and Australia



PROliance™ Delivers Worldwide Service and Support PROliance, Key's new suite of customer support services, includes sorter optimizations, access to online training, and Key's industry-leading RemoteMD™. Customers save time and money through RemoteMD's real-time, web-based monitoring and diagnostics tools for their sorters and ADR's.

Undisclosed Location

ADRFIRST™ Yields Top-Quality Results A major multinational french fry processor found a revolutionary solution in Key's ADRFIRST, which places the ADR system ahead of the sorter and produces top-quality finished product when presented with extremely poor incoming potato quality.

Horizon™ Opens New Horizons Key's new horizontal motion conveyor brings new, gentle drive technology to the processing of frozen french fries and other seasoned, coated and fragile products. And, custom sizing provides a new flexibility in processing line design not previously available.

North America, India, and New Zealand



DIRECTORS AND OFFICERS

David M. Camp, Director, President and Chief Executive Officer

John J. Ehren, Senior Vice President and Chief Financial Officer

James R. Brausen, Principal Accounting Officer, Corporate Controller

Louis C. Vintro, Senior Vice President of Business Development and Global Operations

Charles H. Stonecipher,^{1,3} Chairman of the Board
Managing Director, Trilogix 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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975 SW First Street
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Planta Alta. Int. 01
Zona Centro. 76000
Querétaro, Querétaro
México

**STOCK LISTING**

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

CORPORATE INFORMATION**Legal Counsel**

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Seattle, WA USA

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Operations Center
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Shareholder Automated Phone

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SHAREHOLDER INFORMATION**Key Technology Inc. Investor Relations**

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Walla Walla, WA 99362 USA
Web site: www.key.net
Email: investor.info@key.net

Annual Meeting of Shareholders

8:00 a.m., Wednesday, February 8, 2012
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 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, 2011.



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