It’s what people around the world expect of the food products they serve to their families. Not only do they expect their food to be safe and free of defects, but they demand that it meet the highest standard of quality at an acceptable price.

As a leading supplier of advanced process automation technology, we offer intelligent machine solutions that allow our customers to deliver products that meet these tough requirements in all kinds of markets—from food and plastics to wood chips and tobacco.

So whether it’s sorting out imperfect strawberries or making certain that no defective potato chips make it into the bag, our advanced technologies are used to ensure that only the purest products reach your table. If it’s perfect, there’s a good chance we’ve helped to make that possible.

In a world where quality standards are constantly being raised, we hold the key to excellence.

Our Mission
Supplying process automation systems that enable our customers around the world to ensure the quality, affordability, and safety of products for consumers.
Key Technology enters fiscal year 2003 with renewed optimism and excitement about the future. Entering fiscal 2002, we were faced with challenges on several fronts: We had reported a significant loss in the prior year, carried a debt load of $20.3 million, and were faced with a $14.1 million obligation to redeem preferred securities and warrants. In addition, the economic conditions in our core markets were difficult, the capital equipment market remained tight, and the stock market was turbulent. We are pleased to report that we met these challenges head-on.

Financial Results
Our 2002 business plan set us on a mission toward financial recovery. While our revenues and earnings fell short of our expectations for fiscal year 2002, Key did return to moderate profitability. We also made significant progress in improving the balance sheet, working capital performance, and managing costs.

- Net earnings from continuing operations were $2.8 million, or $0.46 per diluted share, on revenues of $70.2 million, compared to a net loss from continuing operations of $2.3 million, or $0.69 per diluted share, on revenues of $73.0 million for the prior year.

- We significantly strengthened our balance sheet through cash generation and diligent asset management. Cash generated from operating activities increased 300% to $11.2 million and free cash flow increased 390% to $10.6 million compared to fiscal 2001.

- The aggressive management of cash allowed us to reduce debt by $8.4 million and redeem warrants and Series B convertible preferred stock totaling another $10.1 million.

- In a year in which many stocks lost ground, Key Technology’s common stock price increased by 70%.

While today’s economic climate remains challenging for all businesses, we believe that exciting opportunities do exist for Key and that we have positioned ourselves for earnings growth over the next several years.

Customer Solutions
Key has an expanding product portfolio that builds on our long history of innovation in process automation. After one year in the marketplace, Optyx®, our compact optical sorter, has exceeded our expectations for sales volume and sorting performance. The inspection system has been adopted by both large and small processors in a wide variety of market applications including vegetables, tobacco, and blueberries. Optyx has also been installed in several customer plants.
where it is being used as a quality monitoring system, or process control tool. We expect even greater success and market penetration of this product in 2003.

One of the critical components of our growth plan is an increased investment in the development of process automation solutions. Our customers are hungry for technology that gives them better information about their processes and allows them to make better decisions through which they can achieve consistent, high quality products at the lowest operating cost. Our talented team of engineers is developing advanced new products that will broaden Key’s capabilities in this area.

As we look for creative ways to expand our technical capability and manage our costs, we have formed several strategic alliances with both outside research firms and our customers. These partnerships offer an opportunity for Key to optimize our resources and enhance our scope of products, without increasing our fixed expense level. We expect to introduce exciting new products resulting from these efforts later this fiscal year.

While we believe that investment in product development is crucial for our Company’s growth, we also believe that significant value exists in Key’s installed base of optical sorters, which now numbers more than two thousand systems. Key’s incumbent position in these installations will provide substantial sales opportunities as our customers make investment decisions for new and replacement equipment in the years to come.

Our customer relationships are the strongest in our industry—built on value, performance excellence, and trust. It is the power of these relationships and our unmatched knowledge of our customers’ processes that will bring us success. We are focused on realizing the benefits of incumbency and developing products and solutions to bring intelligence and better information to our customers’ plant floor.

Looking Ahead
Our Company’s financial position was strengthened considerably during 2002 and we look forward to the years ahead with great anticipation. We applaud the dedication of our employees, who worked hard to restore Key to profitability in 2002 and who are determined to propel the Company to even greater levels of financial performance in the future.

We believe that we have created the right mission, the right business model, and the right strategy to serve our customers’ needs, and ultimately, increase the value of our shareholders’ investment.

We thank you for your continuing support.

Sincerely,

Thomas C. Madsen  
Chairman and  
Chief Executive Officer

Kirk W. Morton  
President and  
Chief Operating Officer
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, 2002.