WE’RE BREAKING RECORDS
Record earnings. Record sales. Record stock price.
Key Technology closes the year with record earnings, record sales and a record stock price. A Governor’s Award. And the fastest concept-to-market introduction of a product in our history.

But perhaps the most important part of our story is not about 2007, but about the future. Never before has there been such public demand for safe food and high quality consumable products as a growing global community seeks to export products to the U.S. and other countries that expect the highest standards of safety and quality. Added to this demand is an increasing international shortage of labor for inspection and sorting.

This is the booming market to which Key brings some of the most advanced technologies in the world. As designers and manufacturers of conveying and inspection products, Key is uniquely positioned as the only public company that supplies both of these critical technologies to the world’s food and pharmaceutical processing industries.

So while 2007 has been a year of records, we believe the decade ahead holds unparalleled opportunity for growth and expansion.

We invite you to partner with us as we provide the world’s most advanced technologies to bring increased peace of mind to tables and homes around the globe.

2007 Accomplishments

Sales increased by 26.8%
Earnings increased by $8.2 million
Stock reached record high of $30.95
While 2007 has been a year of records, we believe the decade ahead holds unparalleled opportunity for growth and expansion.
In fiscal 2007, Key Technology achieved record orders, shipments, net income, backlog volume exiting the fiscal year and the highest earnings per share (EPS) in the company’s history. We are very proud of these accomplishments because they are indicative of the trust that our customers have in the solutions that we provide. We are also very pleased by the performance, commitment and professionalism demonstrated daily by Key employees around the world.

GROWTH DRIVERS: Three Forces
Three primary forces are driving Key’s growth:

• increased consumer concerns and fears about food safety and quality,
• inability of food and pharmaceutical processors to obtain cost-effective labor for their manufacturing operations,
• and Key’s expansion into Mexico, Latin America, China and other developing economies.

Consumer Concerns About Food Safety and Quality
Key is the only public company that combines the technologies of advanced material handling systems with lasers, visible light, infrared light and high-speed computer processing to identify and remove defects and undesired foreign materials from the products of our customers. Our technology not only detects defects that are a fraction of the size visible to the human eye, it also identifies and removes small animals, animal droppings, insects, wilted or spoiled products, and wood and plastic that might be carriers of viruses and pathogens in process streams. And while Key’s current technology cannot prevent the recent, highly-publicized food contamination events that have resulted in suffering and death, the probability of microbial contamination is reduced by processors who use Key’s Tegra®, Optyx®, Raptor and FluoRaptor™ sorting solutions.

Worldwide Labor Shortage
Food processors in Mexico find it increasingly more difficult to locate cost-effective labor to perform defect removal and quality control for peppers, lettuce and beans. Much of this available labor has gone to large cities or to other countries in search of higher wages. Food processors of fruits and vegetables in China have experienced a mass exodus from the agricultural western and central regions as higher wage jobs have become available in the eastern cities of Beijing, Shanghai and Guangzhou. The nut, fruit and potato processors in Eastern Europe are facing the same pressures as their labor migrates to Western Europe and the United States. Our analysis indicates that these trends and migrations will continue.

Poised to Serve an International Market
In 2007, more than 46% of Key’s revenue came from customers outside of the United States. As our global markets continue to develop, we believe that our
revenues from outside the United States will grow at a higher percentage rate than those from within the United States. Key now has operations in Europe, Australia, Mexico and China, and has plans to open more operations in Asia in 2008.

THE FUTURE: Continue A Proven Strategy for Success
The primary reason for our record performance is that we have the right strategies for a global marketplace. We estimate the potential international annual market for our products is more than $1 billion, of which only $200 to $300 million is currently being served by process automation and conveying equipment.

To succeed in this worldwide market, our strategy is to:
• Grow and support our core business in the United States and Western Europe.
• Invest in research based on a market-driven technology road map to provide new product introductions as required by our customers.
• Focus on four primary industries: potatoes, fresh-cut produce, processed fruits and vegetables and pharmaceutical/nutraceutical (SYMETIX™).
• Invest in developing regions in China, Latin America, Eastern Europe, and the Middle East.

We continue to forge our future based on the strategy outlined last year. In the 2006 Shareholder Letter, I stated that we believed that our strategy would deliver a strong bottom line, and it has. Additionally, we have met other important commitments that were included in last year's Shareholder Letter. At that time, we affirmed our commitment to Aftermarket, SYMETIX and China.

• In 2007, our Aftermarket business, which provides upgrades for our large installed base, was one of our most profitable business opportunities.
• In this past year, SYMETIX met its order objectives and we are confident that SYMETIX will be profitable in 2008 as well.
• Our China business has continued to grow throughout 2007 and is on target to meet our three-year strategic plan.

Additionally, we are continuing to focus on reducing the time-to-market for new products. We are working on significantly fewer new developments now than we were a year ago. By doing so, we are able to greatly concentrate our resources and achieve our objective of reducing our time-to-market by more than 50%.

A year ago, I discussed strengthening our business analysis and research areas. We have embarked on a three-year Enterprise Resource Planning (ERP) project that will provide us with information and tools to more effectively analyze our business and re-engineer our fundamental business processes. I also discussed increasing our focus and funding of technology, and we have accomplished this as well.

A Capable and Experienced MANAGEMENT TEAM
Our successes, of course, would not be possible without an exceptional team, and we are fortunate to have an experienced and dedicated executive team to lead our company.

John Boutsikaris, Senior Vice President of Sales and Marketing, joined Key two years ago from executive positions at Pemstar, Inc., Hewlett-Packard Company and Agilent Technologies, Inc. John has brought great experience, insight and energy to our entire global sales effort, has reshaped our marketing efforts, and has driven our geographic expansion.

Gordon Wicher, Senior Vice President of Global Operations, has been working at Key for 27 years in several roles—from finance to general management to operations. Gordon is driving the operations strategies that have enabled our capacity increases and shipment growth this year by implementing lean manufacturing, supply chain management and hiring a strong team of professionals.

Key is uniquely positioned as the only public company that supplies both conveying and inspection technologies to the world's food and pharmaceutical processing industries.
Craig Miller, Senior Vice President of Aftermarket and SYMETIX, has been with Key nearly three years, joining us after working in executive positions with Fluke Corp., a Danaher company, and Tektronix, Inc. Craig’s vision has been central to the success of our G6 upgrades business in Aftermarket.

Jim Ruff, Vice President of Research and Technology, has been with us for 14 years, coming to Key from engineering management positions at The Boeing Company. Jim has an acute sense of what it takes to get product developments to market because of his previous experience as Managing Director of Key Technology BV.

Jim Brausen, Corporate Controller and Principal Financial and Accounting Officer, came to Key a year ago from Boise Cascade LLC. With the February departure of our CFO, Jim has stepped in to provide capable leadership in this area and has performed brilliantly.

Dennis Hopwood, Director of Human Resources, has been at Key for six months, bringing with him over 25 years of experience as a human resources executive with Verbatim Corp., Spectra-Physics, Credence Systems and Standard Insurance Co. In his short tenure with Key, Dennis has already made significant contributions to the company by introducing a strategic perspective to succession planning and leadership development, compensation structure, and recruiting.

**Positioned for SUCCESS**

Duplicating the performance of 2007 won’t be easy.

- Our market capitalization increased from $65 million to $170 million.
- We achieved an historic milestone when our orders and shipments exceeded $100 million.
- Our total backlog at the end of 2007 is 36% greater than it was at the end of 2006.
- Our backlog for SYMETIX has increased by more than 600% year-over-year.
- Our newest product, FluoRaptor, which we delivered in record time, is meeting enthusiastic marketplace acceptance, and we expect that we will see a measurable contribution from its sales in 2008.
- In addition to our record financial performance, Key was awarded the “Washington State Trader of the Year” Award from Governor Christine Gregoire. Key became the first eastern Washington company to win this award, joining other notable recipients such as Microsoft, Starbucks and Costco. This award is given to companies that have significant international business exports.

These events, taken individually, are significant. Key accomplished them all in 2007, and they position us well as we enter 2008.

**THANK YOU for Your Continued Trust**

When I wrote the shareholder’s letter a year ago, I had been at Key for only one month. Even then, I had already come to recognize that I was working with a remarkably talented group of people. These initial impressions have been affirmed numerous times over the past year.

The professionals at Key work daily to make our business stronger and more competitive. The opportunities are vast. But as this year has shown, I am confident that our worldwide team of professionals will create a successful future as we make those difficult decisions regarding where to employ the resources with which you, as a shareholder, have entrusted us.

Never before has there been such public demand for safe food and consumable products.
Directors & Officers

JOHN C. BOUTSIKARIS
Senior Vice President of Sales and Marketing

JAMES R. BRAUSEN
Corporate Controller
Principal Financial and Accounting Officer

DAVID M. CAMP
Director
President and Chief Executive Officer

RICHARD LAWRENCE1, 2, 3
Director
Independent Consultant

CRAIG T. J. MILLER
Senior Vice President of Aftermarket and SYMETIX

JOHN E. PELO1, 3
Director
President and Chief Executive Officer, Swire Coca-Cola USA

MICHAEL L. SHANNON2, 3
Director
Principal, Concerto Development LLC

CHARLES H. STONECIPHER1, 3
Chairman of the Board
Former Executive Vice President of Product Development and Strategy, Advanced Digital Information Company

DONALD A. WASHBURN1, 2, 3
Director
Private Investor
Director, Amedisys, Inc.
Director, The Greenbrier Companies
Trustee, LaSalle Hotel Properties

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Secretary
Senior Vice President of Global Operations

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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 Form 10-K for the year ended September 30, 2007.

1Member of the Audit Committee of the Board of Directors
2Member of the Compensation Committee of the Board of Directors
3Member of the Nominating and Corporate Governance Committee of the Board of Directors

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Stock Listing
Key Technology, Inc. common stock trades on the Nasdaq Global Market under the symbol KTEC.

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Annual Meeting of Shareholders
8:00 a.m. | Wednesday, February 6, 2008
Key Technology Corporate Headquarters
OUR VISION

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