Fresh ideas. Firm resolve. Ripe opportunities.
With products at work on six continents, **KEY TECHNOLOGY IS A LEADER** in helping food and pharmaceutical processors make their products safer, purer and better.

Through more than six decades of innovation, the Company has introduced scores of **TECHNOLOGICAL ADVANCEMENTS**—holding 52 current patents and launching 16 sophisticated new solutions this year alone.

Despite the challenges of the worldwide economic crisis, Key Technology remains stable and agile, poised to capitalize on its **LEADERSHIP POSITION** as the market recovers.
When I think about the 61 years that Key Technology has been in business, the word “adaptive” comes to mind. Beginning in 1948, from a small Oregon packing shed, the Key brothers and a group of local businessmen supplied equipment that dramatically improved the productivity of pea harvesting. In the early 1980s, Key revolutionized the potato and vegetable processing world by introducing automated sorting technology. For its entire history, through many ups and downs, the Company has adapted to market changes and blazed new paths of innovation—growing into a world leader in food processing technologies.

Fiscal 2009 required Key to once again adapt to a complex and changing environment. The global economic downturn that began late in fiscal 2008 had a significant effect on our markets, which we began to experience in fiscal 2009. We responded decisively to align the Company’s cost structure with the revised revenue outlook, reducing our operating expenses significantly from the first fiscal quarter of 2009. Though difficult, our aggressive measures helped strengthen our foundation for the coming years.
sorting capability, new online training, wireless diagnostics, three-way sorting and product-specific software applications. These new product offerings are a direct result of Key's ongoing research and development efforts, spurred by our continued focus on innovation and industry leadership.

While many of these investments will require pay-back periods longer than one year, our analysis is that our customers will reward value-creating innovation. A number of important orders in the fourth quarter of 2009 provide ample evidence that our customers are responding favorably, and we anticipate that they will continue to do so.

Some of these new product orders were for:

- Manta® 1600 camera/laser sorter—part of an $8.2 million order from a major vegetable processor
- Optyx® WPS—the first camera/laser sorter with three-way ejection technology for whole potatoes
- SmartArm™—a wireless monitoring system for Key's Iso-Flo® vibratory conveyors that improves uptime on both new and installed systems
- VeriSym®—the first sorter specifically designed to operate in laboratory and clean room environments for nutraceutical and pharmaceutical applications
- Online Training—an interactive multimedia curriculum covering Key's optical inspection systems and vibratory conveyors
- FMAlert™—a software application for our G6 sorters that alerts operators when specific types of foreign material are present in the process stream
Focused on the Future

In last year’s Letter to Shareholders, I stated, “The largest challenges we see on the horizon for 2009 are the global liquidity crisis, changing market economics and the volatility of the euro against the dollar. These factors may yet affect our customers and our profitability as events unfold.” Clearly, that prognostication was and continues to be correct, and I do not believe the market will recover to pre-2009 conditions in 2010.

During this economic downturn, Key has launched several initiatives to improve our performance and provide for the Company’s long-term competitive strength and sustainable growth. We went “live” with a new global Enterprise Resource Planning (ERP) system, implemented programs to develop high-potential employees for future leadership roles, instituted an incentive system for management and executives that is heavily tied to achieving annual and three-year income objectives, and made organizational changes allowing us to respond quickly to market and competitive challenges.

By taking these
actions, we believe we have positioned the Company advantageously for the future.

Our markets are changing at an increasing rate, a trend we expect to continue in 2010. Excess capacity in our industry has made competition in our sector fierce. The next few years could likely bring consolidation, and the companies that ultimately survive must be agile and competitive.

Our customers are seeking to partner with Key to develop technologies and processes specifically for them that help attain their strategic objectives. We continue to strengthen our customer relationships by providing a wealth of knowledge and expertise that they have come to rely on. In our installed customer base, we see a growing number of customers searching for entire process solutions, not just individual pieces of equipment. To respond to their needs, we are adding to the engineering and project management services we offer.

Going forward, we will continue to cultivate our critical strengths—the knowledge to correctly interpret the forces shaping our markets, the patience to value long-term growth over shortsighted gains and, most importantly, the ability to adapt. For more than six decades Key has not only adapted, but has thrived in a shifting marketplace.

We are confident in our ability to respond to inevitable future changes and to capitalize on the many opportunities that lie ahead.

Sustainable Growth and Value

In weathering the storm and maintaining our market leadership position, we’ve become leaner, faster, and even more focused on making the Company more competitive and efficient. We have cash on the balance sheet, no operating debt, and significant borrowing capacity. Our margins are stronger than those of many other suppliers to the global food processing market because we continue to adapt and bring higher-value, specialized products to the marketplace. In considering the cost-reduction actions taken during the year, we carefully preserved the critical skills that ensure our capacity to grow.

We believe our continued success and growth will result from delivering long-term, sustainable value to our customers and investors. As our markets recover, Key stands at the front of the line with innovative new products and technologies, positioning the Company to take advantage of the future opportunities that we believe exist.

Our ability to recognize and respond to changing markets, our willingness to make difficult decisions, our disciplined approach to business, and our single-minded clarity of focus are the drivers that have made the Company a success over time. These qualities will allow us to emerge from the current economic environment even stronger.

Sincerely,

David M. Camp
President and Chief Executive Officer
January 4, 2010
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, 2009.

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”
Our Vision

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