

KEY TECHNOLOGY INC  
Form DEF 14A  
January 02, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant   
Filed by a party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

Key Technology, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - 1 Title of each class of securities to which transaction applies:
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- 1 Amount Previously Paid:
  - 2 Form, Schedule or Registration Statement No.:
  - 3 Filing Party:
  - 4 Date Filed:
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150 Avery Street  
Walla Walla, Washington 99362

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

To be held on February 7, 2013

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To our Shareholders:

The 2013 Annual Meeting of Shareholders of Key Technology, Inc. will be held beginning at 8:00 a.m. Pacific Time on Thursday, February 7, 2013 at the offices of Tonkon Torp LLP, 1600 Pioneer Tower, 888 SW Fifth Avenue, Portland, Oregon, for the following purposes:

1. To elect two directors of the Company;
2. To consider advisory approval of the compensation of the Company's named executive officers;
3. To ratify the selection of the Company's independent registered public accountants for fiscal 2013; and
4. To transact such other business as may properly come before the Annual Meeting.

Only holders of record of the Company's Common Stock at the close of business on December 7, 2012 are entitled to notice of, and to vote at, the Annual Meeting and any adjournments or postponements thereof. Shareholders may vote in person or by proxy. The accompanying form of proxy is solicited by the Board of Directors of the Company.

By order of the Board of Directors,

Ronald L. Greenman  
Secretary

**YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING IN PERSON, PLEASE MARK, SIGN, DATE AND PROMPTLY RETURN YOUR PROXY IN THE ENCLOSED ENVELOPE.**

Walla Walla, Washington  
January 2, 2013

**INTERNET AVAILABILITY OF PROXY MATERIALS**

**\*\*\*\*\* IMPORTANT NOTICE \*\*\*\*\***

Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders

To be held on February 7, 2013

The Proxy Statement and Annual Report to Shareholders are available at

<http://www.proxydocs.com/ktec>

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150 Avery Street  
Walla Walla, Washington 99362

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## PROXY STATEMENT

2013 Annual Meeting of Shareholders

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## QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING

Q: Why am I receiving these proxy materials?

Our Board of Directors is providing these proxy materials to you in order to solicit your proxy (i.e., your permission) to vote your shares of Key Technology, Inc. common stock upon certain matters at the 2013 Annual Meeting of Shareholders to be held on Thursday, February 7, 2013 at 8:00 a.m. Pacific Time.

We will refer to Key Technology, Inc. throughout as "we," "us," the "Company" or "Key."

Q: When did Key send the proxy solicitation materials?

The proxy solicitation materials were first sent on or about January 2, 2013 to all shareholders entitled to vote at the Annual Meeting.

Q: Where is the Annual Meeting?

The Annual Meeting will be held at the offices of Tonkon Torp LLP, 1600 Pioneer Tower, 888 SW Fifth Avenue, Portland, Oregon.

Q: Can I attend the Annual Meeting?

Yes. You are invited to attend the Annual Meeting if you were a shareholder of record as of the close of business on December 7, 2012.

Q: What proposals will be voted on at the Annual Meeting?

At the Annual Meeting, shareholders will be asked to vote on:

Item 1. The election of two directors to hold office until the 2016 annual meeting of shareholders or until their respective successors have been duly elected and qualified;

Item 2. An advisory (non-binding) resolution considering approval of the compensation of our named executive officers;

Item 3. The ratification of the selection of Grant Thornton LLP as our independent registered public accountants for fiscal 2013; and



Item 4. Such other business as may properly come before the Annual Meeting.

Q: What do I need to do now?

First, carefully read this document in its entirety. Then, vote your shares by following the instructions from your broker if your shares are held in "street name," or by one of the following methods:

• Mark, sign, date and return your proxy card in the enclosed envelope as soon as possible; or  
• Attend the shareholder meeting and submit a properly executed proxy or ballot. If a broker holds your shares in "street name," you will need to get a legal proxy from your broker to vote in person at the meeting.

#### VOTING AT THE ANNUAL MEETING

Q: Who is entitled to vote at the Annual Meeting and how many votes do they have?

You may vote if you were a holder of record of our common stock as of the close of business on December 7, 2012, which was the record date for the Annual Meeting. Each share of common stock is entitled to one vote.

As of the record date, there were 5,304,197 shares of common stock outstanding and entitled to vote at the Annual Meeting.

Q: How many shares must be present or represented to conduct business at the Annual Meeting?

The presence of the holders of a majority of the shares of our common stock entitled to vote at the Annual Meeting, or the holders of 2,652,099 shares, is necessary to constitute a quorum for the transaction of business at the Annual Meeting. Such shareholders are counted as present at the meeting if they (1) are present in person at the Annual Meeting or (2) have properly submitted a proxy.

Abstentions and broker non-votes will be counted as present for purposes of determining whether a quorum is present at the Annual Meeting, but will not be counted for or against any proposal.

Q: What is a broker non-vote?

For shares held through a broker or other nominee that is a New York Stock Exchange member organization, if a matter to be voted on is considered routine, the broker has discretion to vote the shares. If the matter to be voted on is determined to be non-routine, the broker may not vote the shares without specific instructions from the shareholder. A broker non-vote occurs when a broker or other nominee holding shares does not vote on a particular proposal because the nominee has not received instructions from the shareholder and does not have discretionary voting power with respect to that item. Broker non-votes will not be counted for or against any proposal.

If a broker or other nominee holds your shares in its name, the broker is permitted to vote your shares on the ratification of the selection of Grant Thornton LLP as our independent registered public accountants even if the broker does not receive voting instructions from you.

Q: Can I vote my shares in person at the Annual Meeting?

Yes. Shares held in your name as the shareholder of record may be voted in person at the Annual Meeting, even if previously voted by another method.

It is important that your shares be represented at the Annual Meeting. Therefore, even if you plan to attend in person, we recommend that you submit your proxy as described below so that your vote will be counted if you later decide not to attend the Annual Meeting.

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Q: How can I vote my shares without attending the Annual Meeting?

You may direct how your shares are voted without attending the Annual Meeting whether you are the shareholder of record or whether your shares are held by a broker or other nominee on your behalf.

Shareholders of Record – If a proxy card in the accompanying form is properly signed, dated and returned prior to the voting at the Annual Meeting, the shares represented will be voted as instructed on the proxy card.

Shares Held by a Broker or Other Nominee on Your Behalf – You may vote by submitting voting instructions to your broker, trustee or nominee; please refer to the voting instructions provided to you by your broker, trustee or nominee.

Q: How will my shares be voted, as a shareholder of record, if I submit a proxy and do not make specific choices?

As a shareholder of record, if you submit a properly signed and dated proxy card but do not provide voting instructions, your shares will be voted “FOR” the election of both nominees to the Board of Directors; “FOR” the proposal regarding the compensation of our named executive officers, and "FOR" the ratification of the appointment of Grant Thornton LLP as the Company’s independent registered public accountants for fiscal 2013.

Q: What if I abstain from voting?

If your shares are represented at the annual meeting, in person or by proxy, but you abstain from voting on a matter, or include instructions in your proxy to abstain from voting on a matter, your shares will be counted for the purpose of determining if a quorum is present, but will not be counted as either an affirmative vote or a negative vote with respect to that matter. With respect to the three items scheduled to be voted on at the meeting, abstentions will have no effect on the outcome of the vote on those proposals, assuming a quorum is present.

Q: What happens if additional matters are presented at the Annual Meeting?

If any other matters are properly presented for consideration at the Annual Meeting, including, among other things, consideration of a motion to adjourn the Annual Meeting to another time or place, the persons named as proxies will use their discretionary authority to vote on such matters in accordance with their best judgment. We do not currently anticipate that any other matters will be raised at the Annual Meeting.

Q: Can I change or revoke my vote?

Yes. Any proxy may be revoked by a shareholder prior to its exercise by (1) filing with the Secretary of the Company, prior to your shares being voted at the Annual Meeting, a written notice of revocation or another duly executed proxy card, in either case dated later than the prior proxy relating to the same shares, or (2) attending the Annual Meeting and voting in person (although attendance at the Annual Meeting will not, by itself, revoke a proxy). Any written notice of revocation or subsequent proxy card must be received by the Secretary of the Company prior to the taking of the vote at the Annual Meeting and should be hand delivered or sent to 150 Avery Street, Walla Walla, Washington 99362.

Q: Who is soliciting votes and will bear the cost of soliciting votes for the Annual Meeting?

The Board of Directors is soliciting votes, and the Company will bear all costs of soliciting proxies. We have retained American Stock Transfer & Trust Company to act as registrar and transfer agent, in return for which we pay a monthly fee of \$1,050. Its services also include the solicitation of voted proxies from brokers, nominees, institutions

and individuals. In addition to solicitation by mail, proxies may be solicited personally, without additional compensation, by our officers and employees or by telephone, facsimile, electronic transmission or express mail. We will reimburse brokerage houses, banks and other custodians, nominees and fiduciaries for their reasonable expenses incurred in forwarding proxies and proxy material to their principals.

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Q: Will a list of shareholders entitled to vote at the Annual Meeting be available?

Yes. In accordance with Oregon law, a list of shareholders entitled to vote at the Annual Meeting will be available for inspection at the Annual Meeting and at our principal executive offices during regular business hours beginning on January 4, 2013 and continuing through the Annual Meeting.

Q: Where can I find the voting results of the Annual Meeting?

We intend to announce preliminary voting results at the Annual Meeting and will disclose final results in a Current Report on Form 8-K filed with the Securities and Exchange Commission within four business days following the Annual Meeting.

#### ADDITIONAL INFORMATION

Q: How may I obtain a separate copy of the proxy materials?

We have adopted a practice called "householding" for mailing this proxy statement in an effort to reduce printing and postage costs. Under this practice, shareholders who share the same address will receive only one copy of our proxy materials and annual report, unless we receive contrary instructions from any shareholder at that address. If you prefer to receive your own copy of our proxy materials and annual report, please contact American Stock Transfer & Trust Company at 800-937-5449. You may also contact the Company or AST if you received multiple copies of the proxy materials and annual report and would prefer to receive a single copy in the future.

Q: Can I access Key's proxy materials and Annual Report on Form 10-K on the Internet?

Yes. You can access this proxy statement and the 2012 Annual Report on our website at [www.key.net](http://www.key.net). You may also obtain a copy of our proxy materials and 2012 Annual Report without charge upon request to: Investor Relations, Key Technology, Inc., 150 Avery Street, Walla Walla, Washington 99362.

In addition, pursuant to rules promulgated by the SEC, we have elected to provide access to our proxy materials both by sending you this full set of proxy materials and by notifying you of the availability of our proxy materials on the Internet. The Proxy Statement and Annual Report to Shareholders are available at <http://www.proxydocs.com/ktec>. In accordance with SEC rules, the materials on the site are searchable, readable and printable and the site does not have "cookies" or other tracking devices which identify visitors.

Q: What is the deadline for receipt of shareholder proposals for the 2014 Annual Meeting of Shareholders?

Shareholders are entitled to present proposals for action and director nominations at the 2013 Annual Meeting of Shareholders only if they comply with the applicable requirements of the proxy rules established by the Securities and Exchange Commission and the applicable provisions of our bylaws. Shareholders must ensure that such proposals and nominations were received no later than September 5, 2012 by the Secretary of the Company at our principal executive offices, 150 Avery Street, Walla Walla, Washington 99362.

Any business intended to be presented by a shareholder at the 2014 Annual Meeting, but not included in the proxy materials, must comply with Key's bylaws. Under our bylaws, notice of the proposed business must be given to the Secretary of the Company in writing on or before the close of business on September 5, 2013. The notice must set forth as to each matter that the shareholder proposes to bring before the meeting (i) a brief description of the matter, (ii) the proposing shareholder's name and record address, (iii) the class or series and number of Key's shares that the

shareholder beneficially owns, (iv) a description of all agreements, arrangements or understandings between the shareholder and any other person(s) (including their names and addresses) in connection with the proposal of such matter and any material interest of the shareholder in such matter, and (v) a representation that the shareholder intends to appear in person or by proxy at the annual meeting to bring the proposed business before the meeting. If the written notice relates to a shareholder nomination of any person to stand for election to the

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Board of Directors, please see page 7 of this Proxy Statement for additional information required to be included in the shareholder's written notice.

Q: How can I communicate with the Board of Directors?

Any shareholder or other interested party desiring to communicate with one or more directors, or a particular committee of the Board of Directors, may do so by addressing their written correspondence to Key Technology, Inc., Board of Directors, c/o Secretary, at our principal executive offices, 150 Avery Street, Walla Walla, Washington 99362. The Secretary of the Company will promptly forward all such communications to the specified addressees, as appropriate.

Q. Who will count the vote?

The Secretary of the Company or his designee will act as Inspector of Election at the Annual Meeting and count the vote.

Q. Where can I obtain more information?

If you have questions about the Annual Meeting or about submitting your proxy, you may contact:

Investor Relations  
Key Technology, Inc.  
150 Avery Street  
Walla Walla, Washington 99362  
(509) 394-3362  
investorinfo@key.net

Requests for copies of the proxy materials and 2012 Annual Report on Form 10-K should be sent to the Investor Relations address above. Notices of shareholder proposals, recommendations for candidates to the Board of Directors, communications to the Board of Directors and any other communications should be sent to the address above to the attention of the Secretary of the Company.

## INFORMATION ABOUT KEY'S BOARD OF DIRECTORS

Q: Who is on Key's Board of Directors?

Our Board of Directors currently has six members: John J. Ehren, Richard Lawrence, John E. Pelo, Michael L. Shannon, Charles H. Stonecipher and Donald A. Washburn.

Q: How often are members elected?

The directors are divided into three classes, each consisting of two directors. One class is elected each year for a three-year term.

Q: What if a nominee is unwilling or unable to serve?

Each nominee listed in this Proxy Statement has agreed to serve as a director, if elected. If for some unforeseen reason a nominee becomes unwilling or unable to serve, proxies will be voted for a substitute nominee designated by the proxy holders or the present Board of Directors.

Q: Which members of Key's Board of Directors are independent?

The Board of Directors has determined that a majority of its directors presently meet the independence standards established under the applicable rules of the Securities and Exchange Commission and the NASDAQ Global Market®. These directors are Messrs. Lawrence, Pelo, Shannon, Stonecipher and Washburn.

Q: How often did the Board of Directors meet in fiscal 2012?

During fiscal 2012, the Board of Directors held eight meetings. No director attended fewer than 88% of the total number of meetings of the Board of Directors and the committees of which he was a member during fiscal 2012.

The Board of Directors does not currently have a policy with regard to the attendance of Board members at the annual meeting of shareholders. All of our current directors attended our 2012 Annual Meeting of Shareholders.

Q: What are the minimum qualifications required to serve on Key's Board of Directors?

Qualifications for consideration as a Board nominee may vary according to the particular areas of expertise being sought as a complement to the existing Board composition. However, minimum qualifications include high-level leadership experience in business activities, breadth of knowledge about issues affecting the company, experience on other boards of directors, preferably public company boards, and time available for meetings and consultation on company matters.

In addition, nominees must possess certain basic personal and professional qualities in order to properly discharge their fiduciary duties to our shareholders, provide effective oversight of our management and monitor our adherence to principles of sound corporate governance. Specifically, nominees for election to our Board of Directors should possess the highest personal and professional ethics, integrity and values. They must also have an inquisitive and objective perspective, practical wisdom, and mature and experienced judgment. Directors must develop an understanding of our business and have a willingness to devote adequate time to carrying out their duties.

Q: How does the Nominating and Corporate Governance Committee identify and evaluate nominees for director?

The Nominating and Corporate Governance Committee seeks a diverse group of candidates who possess the background, skills and expertise to make a significant contribution to the Board, to the Company and to its shareholders. The Nominating and Corporate Governance Committee considers potential candidates who may come to the attention of the Committee through current Board members, shareholders or other persons. In identifying candidates for membership on our Board of Directors, the Nominating and Corporate Governance Committee takes into consideration a number of factors, including: (i) relevant career experience, relevant technical skills, industry knowledge and experience, and financial expertise; (ii) individual qualifications, including strength of character, mature judgment, familiarity with our business

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or industry, independence of thought and the ability to work collegially; and (iii) the extent to which the candidate would fulfill a present need on our Board of Directors.

The Committee evaluates potential nominees by reviewing their qualifications, reviewing results of personal and reference interviews, and reviewing such other information as may be deemed relevant. Candidates whose evaluations are favorable are then chosen by a majority of the members of the Nominating and Corporate Governance Committee to be recommended for selection by the Board of Directors. The Board selects and recommends candidates for nomination as directors for shareholders to consider and vote upon at the annual meeting. We do not currently employ an executive search firm, or pay a fee to any third party, to locate qualified candidates for director positions.

Q: Are director nominees evaluated differently based on whether the nominee is recommended by a security holder or by the Nominating and Corporate Governance Committee?

No. Each candidate brought to the attention of the Nominating and Corporate Governance Committee, regardless of who recommended such candidate and regardless of whether such candidate is recommended by a shareholder, is considered on the basis of the criteria set forth above.

Q: Does the Nominating and Corporate Governance Committee consider diversity in identifying nominees for director candidates?

Although we do not have a formal policy for the consideration of diversity in identifying director nominees, the Nominating and Corporate Governance Committee believes that the backgrounds and qualifications of the directors, considered as a group, should provide a diverse mix of skills, knowledge, attributes and experiences that cover the spectrum of areas that affect our business. In general, the composition of the Board is diversified across the following areas: (i) financial accounting, legal and corporate governance experience, and (ii) experience with our business and industry, including experience in global markets, experience with engineered products, and experience with international legal and regulatory frameworks. Candidates for vacant Board seats are considered in the context of current perceived needs of the Board as a whole. The Nominating and Corporate Governance Committee regularly assesses whether the mix of skills, experience and background of our Board as a whole is appropriate for the Company.

Q: What are the policies and procedures for considering director candidates recommended by shareholders?

A shareholder wishing to nominate a candidate for election to our Board of Directors at any annual meeting at which the Board has determined that one or more directors will be elected shall submit a written notice of his or her nomination of a candidate to our Secretary at our principal executive offices. The submission must be received at our principal executive offices not less than 120 calendar days before the date our proxy statement was released to shareholders in connection with the previous year's annual meeting. For the 2014 annual meeting, this date would be September 5, 2013. However, if we did not hold an annual meeting the previous year, or if the date of this year's annual meeting has been changed by more than 30 days from the date of the previous year's meeting, then the deadline is a reasonable time before we begin to print and mail our proxy materials.

A shareholder's notice to the Secretary in order to be valid must set forth (i) the name and address, as they appear on the company's books, of the shareholder nominating such candidate; (ii) the class and number of shares of the company which are beneficially owned by the shareholder; (iii) the name, age, business address and residence address of each nominee proposed in the notice; (iv) the principal occupation or employment of the nominee; (v) the number of shares of our common stock beneficially owned by the nominee, if any; (vi) a description of all arrangements or understandings between the shareholder and each nominee and any other person pursuant to which the shareholder is

making the nomination; and (vii) any other information required to be disclosed in solicitations of proxies for election of directors or information otherwise required pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, relating to any person that the shareholder proposes to nominate for election or re-election as a director, including the nominee's written consent to being named in the proxy statement as a nominee and to serving as a director if elected.

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Q: Does Key have a code of ethics?

Yes. We have adopted the Key Technology, Inc. Code of Business Conduct and Ethics which applies to all of our directors and employees, including our chief executive officer and senior financial officers. The Code of Business Conduct and Ethics is available on our website at [www.key.net](http://www.key.net) and will be provided without charge to any shareholder upon written request to: Investor Relations, Key Technology, Inc., 150 Avery Street, Walla Walla, Washington 99362. The Code of Business Conduct and Ethics provides that any waiver of its applicability to any director or executive officer may be made only by the Board of Directors or an appropriately designated Board committee and will be publicly disclosed promptly to our shareholders.

Q: Are related-party transactions considered by Key's Board of Directors?

We follow a written policy that all proposed transactions by the Company with directors, officers, five percent shareholders and their affiliates be entered into only if such transactions are on terms no less favorable to the Company than could be obtained from unaffiliated parties, are reasonably expected to benefit the Company and are approved by a majority of the disinterested, independent members of the Board of Directors.

Q: Did the company enter into any related-party transactions during fiscal 2012?

In fiscal 2012, we purchased 25,000 shares of our common stock from David M. Camp, a former Director, President and Chief Executive Officer, under the terms of a separation agreement. The shares were purchased at an average price of \$9.88 based on the daily closing price of our common stock on the NASDAQ Global Market less \$0.03 per share. The total purchase price paid was approximately \$247,000. The aggregate purchase price of the shares repurchased has been reflected as a reduction in shareholder's equity. The share repurchase was approved by a majority of the disinterested, independent members of the Board of Directors.

Q: What are the committees of the Board?

We maintain a standing Audit Committee, Compensation and Management Development Committee and Nominating and Corporate Governance Committee. All of the committees are engaged in their respective areas of responsibility throughout the year, and frequently interact with the President and Chief Executive Officer in furtherance of the Committees' tasks and our goals and objectives.

**Audit Committee.** The Audit Committee consists of three members: Mr. Pelo, Chairman, Mr. Stonecipher, and Mr. Washburn. All of the Audit Committee members are independent, as defined under the rules of the NASDAQ Global Market. The Audit Committee operates under a written charter adopted by the Board of Directors, which is available on the Company's website at [www.key.net](http://www.key.net). The function of the Audit Committee is to review the performance of, and recommend to the Board of Directors the appointment of, the Company's independent registered public accountants; to review and approve the scope and proposed cost of the yearly audit; to review the financial information provided to shareholders and others; to review the Company's internal controls; to consult with and review recommendations made by the Company's independent registered public accountants with respect to financial statements, financial records and internal controls; to discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures; to oversee the Company's risk assessment and risk management policies relating to the financial statements and the financial reporting process; and to make such other recommendations to the Board of Directors as it deems appropriate from time-to-time. The Audit Committee met twelve times during fiscal 2012.

**Compensation and Management Development Committee.** The Compensation and Management Development Committee consists of three members: Mr. Shannon, Chairman, Mr. Lawrence and Mr. Washburn. All of the Compensation and Management Development Committee members are independent, as defined under the rules of the

NASDAQ Global Market. The Committee operates under a written charter adopted by the Board of Directors, which is available on the Company's website at [www.key.net](http://www.key.net). The Committee is charged with reviewing and approving corporate goals and objectives relevant to compensation of the Company's chief executive officer, evaluating the chief executive officer's performance in light of those goals and objectives, and determining and approving the compensation level of the chief executive officer based on this evaluation. The Committee is also charged with, among other matters, considering and making recommendations to the Board of Directors regarding the compensation of the senior executives of the Company, and considering, reviewing and granting awards under the Company's stock incentive plans and cash bonus plans for senior executives administered by the Committee. The Committee also oversees management development and succession plans for the Company. The Committee has delegated to the Chief Executive Officer the authority to make discretionary awards of restricted stock each year up to a pre-determined aggregate number of shares to non-executive managers, individual contributors, and new hires for the purposes

of retention and recruitment. For fiscal 2012, the Committee authorized up to a cumulative total of 45,000 shares that may be awarded under this discretionary program. The Committee met four times during fiscal 2012, and on numerous other occasions during the year Committee members consulted with each other and with management in furtherance of the Committee's business.

**Nominating and Corporate Governance Committee.** The Nominating and Corporate Governance Committee consists of five members: Mr. Washburn, Chairman, Mr. Lawrence, Mr. Pelo, Mr. Shannon and Mr. Stonecipher, all of whom are independent directors as defined under the rules of the NASDAQ Global Market. The Committee operates under a written charter adopted by the Board of Directors, which is available on the Company's website at [www.key.net](http://www.key.net). The Committee is responsible for providing guidance and recommendations with respect to Board education and development, identifying qualified candidates who may become future members of the Board, and developing and monitoring compliance with corporate governance principles. The Committee met four times during fiscal 2012.

The Nominating and Corporate Governance Committee receives suggestions for potential director nominees from many sources, including members of the Board of Directors, advisors, and shareholders. Any such nominations, together with appropriate biographical information, should be submitted to the Committee in accordance with the Company's policies governing submissions of nominees discussed above. Any candidates submitted by a shareholder or shareholder group will be reviewed and considered by the Committee in the same manner as all other candidates.

Q: What is the Board's leadership structure?

Our Board of Directors currently consists of John J. Ehren, President and Chief Executive Officer, and five independent directors. Mr. David M. Camp resigned as a Director, President and Chief Executive Officer in May 2012. The Board appointed Mr. Ehren, as a Director, and President and Chief Executive Officer of the Company, upon Mr. Camp's resignation.

The Board elected to maintain separate chairman and chief executive officer positions to enhance corporate governance and management oversight. In February 2007, Mr. Stonecipher was elected Chairman of the Board. The Board believes that a board leadership structure in which the chairman and chief executive officer positions are separated is most appropriate for Key because it separates the leadership of the Board from the day-to-day leadership of the Company. The Board believes that an independent chairman better positions the Board to evaluate the performance of management and more efficiently facilitates the communication of the views of the independent directors. The Chairman and independent directors meet regularly in executive session and regularly review governance practices. All the Directors believe the separation of the roles of chairman and chief executive officer has contributed to effective corporate governance at Key.

In his role as Chairman, Mr. Stonecipher is specifically responsible for enhancing Board effectiveness, in particular by ensuring the Board works as a cohesive team; ensuring that the Board has adequate resources and is presented with full, timely and relevant information; ensuring that there is a process in place to monitor best practices that relate to the responsibilities of the Board; and by assessing the effectiveness of the overall Board, its committees and individual directors on a regular basis. He is also responsible for Board management, in particular by providing oversight on the agendas for Board and committee meetings; consulting with the President and Chief Executive Officer regarding the membership and the chairs for Board committees and the effectiveness of the committees; ensuring that the independent directors meet regularly without management present to discuss the effectiveness of the Chief Executive Officer and the Board, succession planning and strategic planning; and by chairing Board meetings.

Q: What is the Board's role in risk oversight?

Our senior management team is responsible for day-to-day risk management activities, while our Board of Directors, as a whole and on the committee level, is responsible for the overall supervision and oversight of our risk management activities.

The full Board considers risks among other factors in reviewing our strategy, business plan, budgets and major transactions. Future risks are anticipated and discussed as part of the strategic planning process. The full Board also receives periodic information from management about our risk areas and initiatives for addressing those risks. In addition, our outside counsel reports in person to the Board periodically on an as-needed basis to keep the directors informed concerning legal risks and other legal matters involving the Company.

The Board delegates certain of its risk oversight responsibilities to the committees of the Board. The committees report to the full Board as appropriate regarding their risk oversight activities, which include:

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- **Audit Committee.** The Audit Committee discusses with management on an as-needed basis our major financial risk exposures and the steps management has taken to monitor and control such exposures. The Audit Committee also oversees our risk assessment and risk management policies relating to the financial statements, internal controls and the financial reporting process. At each of its quarterly, in-person meetings, the Audit Committee meets privately with representatives from our independent registered public accounting firm. Finally, the Audit Committee receives quarterly reports from our Disclosure Committee and regular reports regarding our testing and controls implemented in compliance with the requirements of the Sarbanes-Oxley Act of 2002.
- **Compensation and Management Development Committee.** The Compensation and Management Development Committee annually reviews our compensation policies and practices and succession plan, and monitors risks related to compensation and succession planning.
- **Nominating and Corporate Governance Committee.** The Nominating and Corporate Governance Committee oversees risks related to our governance structures and processes.

**Q:** How are directors compensated?

Any member of the Board of Directors who is an employee of the Company is not separately compensated for serving on the Board of Directors. Compensation for independent, non-employee directors has been based upon an annual retainer of \$80,000, consisting of \$20,000 in cash and the equivalent of \$60,000 in restricted stock based upon the current market price of the Company's common stock on the date of grant, subject to the terms of the Company's 2003 Restated Employees' Stock Incentive Plan and 2010 Equity Incentive Plan. In February 2012, the Board elected to revise the standard Board compensation for independent directors by changing the allocation of the annual retainer to \$40,000 in cash and the equivalent of \$40,000 in restricted stock. The cash component of the directors' compensation was increased in 2012 to assure that the directors received sufficient funds to pay the income taxes related to their aggregate annual compensation. For fiscal 2012, the five independent directors were awarded an aggregate of 15,255 shares of restricted stock. These grants vest on the first anniversary of the date of grant. All directors receive reimbursement of their Board-related expenses. The Company does not pay meeting fees.

During fiscal 2012, the non-executive Chairman of the Board received an additional annual cash retainer of \$40,000, the Chairmen of the Audit and the Compensation and Management Development Committees received an additional annual cash retainer of \$10,000, and the Chairman of the Nominating and Corporate Governance Committee received an additional annual cash retainer of \$5,000.

Stock ownership guidelines for the Company's directors adopted by the Board of Directors call for the non-employee directors to own shares of the Company's common stock equal to not less than 33% of the total vested shares issued to the Director as restricted stock during the period of Board service with the Company.

The following table provides information as to compensation for services of the non-employee directors during fiscal 2012, including compensation attributed to them in 2012 as a result of stock option grants and restricted stock awards made in prior years.

#### Director Compensation

Name	Fees Earned or Paid in Cash (\$)	Stock Awards <sup>(1)</sup> <sup>(2)</sup> <sup>(3)</sup> (\$)	Option Awards (\$)	All Other Compensation (\$)	Total (\$)
Richard Lawrence	\$30,000	\$40,000	–	\$21,000	<sup>(4)</sup> \$91,000
John E. Pelo	\$40,000	\$40,000	–	–	\$80,000

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Michael L. Shannon	\$40,000	\$40,000	-	-	\$80,000
Charles H. Stonecipher	\$70,000	\$40,000	-	-	\$110,000
Donald A. Washburn	\$35,000	\$40,000	-	-	\$75,000

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(1) The amounts reported represent the full grant date fair values for awards granted computed in accordance with FASB ASC Topic 718 and do not correspond to the actual value that may be realized by the directors.

(2) On February 8, 2012, each non-employee director then-serving was awarded 3,051 shares of restricted stock, the restrictions on which lapse one year from the grant date. The fair market value of the grant was \$13.11 per share calculated using the closing price reported on the NASDAQ Global Market on the grant date

(3) Each of the non-employee directors owned stock options and unvested restricted shares as of September 30, 2012 as follows:

Name	Stock Options	Restricted Shares
Richard Lawrence	–	3,051
John E. Pelo	15,000	3,051
Michael L. Shannon	10,000	3,051
Charles H. Stonecipher	10,000	3,051
Donald A. Washburn	–	3,051

(4) During fiscal 2012, Mr. Lawrence was retained by the Board of Directors to provide consulting services to the Company.

## ELECTION OF DIRECTORS

## INFORMATION ABOUT KEY'S DIRECTORS, EXECUTIVE OFFICERS AND OTHER SIGNIFICANT EMPLOYEES

(Item 1 on the Proxy Card)

Q: Who are this year's nominees for re-election to Key's Board of Directors and what particular qualifications led the Board to conclude that the person should serve as a director of the Company?

The two nominees recommended by the Nominating and Corporate Governance Committee and nominated by the Board of Directors for election this year to serve until the Annual Meeting of Shareholders in 2016, or until their respective successors are elected and qualified, are John E. Pelo and Charles H. Stonecipher. Messrs. Pelo and Stonecipher are independent directors as defined under the rules of the NASDAQ Global Market.

The table below sets forth the following information as of December 7, 2012 about this year's nominees for re-election to Key's Board of Directors: (i) name and age; (ii) all positions and offices currently held with the Company; (iii) the period of service as a director or officer of the Company; and (iv) the expiration of his current term as a director of the Company.

Name	Age	Positions	Has Been a Director or Officer Since	Expiration of Current Term
John E. Pelo * <sup>c</sup> ‡	56	Director	1998	2013
Charles H. Stonecipher * ‡	51	Chairman	2004	2013

\* Member of the Audit Committee

‡ Member of the Nominating and Corporate Governance Committee

<sup>c</sup> Committee Chair

John E. Pelo. Mr. Pelo has served as a director of the Company since 1998. He has been President and Chief Executive Officer of Swire Coca-Cola USA, a subsidiary of Swire Pacific Ltd., since 1996. Swire Pacific is a diversified holding company with real estate, shipping, airline, trading, and soft drink interests in Asia and North America. Between 1984 and 1996, Mr. Pelo served as General Manager of one of Swire's soft drink operations in the United States.

The Board has concluded that Mr. Pelo should continue to serve as a director of Key based on the following primary qualifications:

Extensive knowledge of Key's business—Mr. Pelo has been a director of our Company for 14 years. Having been involved in the food and beverage business for over 25 years, he has a deep understanding of our business and operations.

Relevant Chief Executive Officer/President experience—Mr. Pelo is the current President and Chief Executive Officer of Swire Coca-Cola USA.

High level of financial literacy—Mr. Pelo has more than 30 years of experience evaluating complex financial statements and internal controls, and participating in audit committee activities.

Charles H. Stonecipher. Mr. Stonecipher has served as a director of the Company since 2004 and as the Board's Chairman since 2007. He is Managing Director of Trilogy Partnership LLC, a private investment firm for whom Mr. Stonecipher has served as an investment professional since 2008. Mr. Stonecipher served as Executive Vice President of Strategy and Corporate Development for Advanced Digital Information Corporation, a supplier of data storage solutions for client server computing networks, from 2005 to 2006, and as Executive Vice President of Product Development and Strategy

from 2004 to 2005. He served as President and Chief Operating Officer of Advanced Digital Information Corporation from 1997 to 2004, and as Senior Vice President and Chief Operating Officer from 1995 to 1997.

The Board has concluded that Mr. Stonecipher should continue to serve as a director of Key based on the following primary qualifications:

**Extensive knowledge of Key's business**—Mr. Stonecipher has been a director of our Company for eight years.

**Relevant executive officer experience**—Mr. Stonecipher is a former President and Chief Operating Officer of Advanced Digital Information Corporation.

**Relevant product development experience**—Mr. Stonecipher has extensive experience in bringing technology products to market.

**Q:** What is the voting requirement to approve the election of directors?

You may vote "FOR" or "WITHHOLD" on each of the nominees for election as director. A properly executed proxy marked "WITHHOLD" with respect to the election of a director will not be voted with respect to such director, although it will be counted for purposes of determining whether there is a quorum present at the Annual Meeting. Proxies received from shareholders of record that do not contain voting instructions will be voted FOR each of the nominees for election as director. If a broker or other nominee holds your shares in its name on your behalf, the broker or nominee is not permitted to vote your shares for the election of directors in the absence of voting instructions from you. Abstentions and broker non-votes will not affect the outcome of the election of directors. The nominees receiving the highest number of votes will be elected to the Board of Directors if a quorum is present.

**Q:** How does the Board of Directors recommend that I vote on this proposal?

The Board of Directors unanimously recommends a vote FOR the election of Messrs. Pelo and Stonecipher.

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**Q:** Which members of Key's Board of Directors are continuing in office and what particular qualifications led the Board to conclude that the person should serve as a director of the Company?

The table below sets forth the following information as of December 7, 2012 about members of Key's Board of Directors who are continuing in office: (i) name and age; (ii) all positions and offices currently held with the Company; (iii) the period of service as a director or officer of the Company; and (iv) the expiration of his current term as a director of the Company.

Name	Age	Positions	Has Been a Director or Officer Since	Expiration of Current Term
John J. Ehren	52	Director, President and Chief Executive Officer	2008	2014
Richard Lawrence † ‡	60	Director	2007	2014
Michael L. Shannon † ‡	62	Director	2000	2015
Donald A. Washburn * † ‡	68	Director	2003	2015

\* Member of the Audit Committee

† Member of the Compensation and Management Development Committee

- ‡ Member of the Nominating and Corporate Governance Committee
- ° Committee Chair

John J. Ehren. Mr. Ehren was appointed President and Chief Executive Officer and a Director of the Company in May 2012. While at Key, Mr. Ehren has held the following positions: Executive Vice President and Chief Operating Officer (December 2011 to May 2012), Senior Vice President and Chief Financial Officer (February 2008 to May 2012), Senior Vice President of Global Operations (2010) and has overseen European Operations (2011 to present). From 2004 to 2008, he served as Vice President of Global Operations of Planar Systems, Inc., a public company that provides flat panel display and system solutions for medical, transportation, industrial and retail applications. From 1997 to 2004, Mr. Ehren held several senior-level financial officer positions with Planar, including Corporate Controller and Treasurer. Between 1990 and 1997, he held Chief Financial Officer and Vice President of Finance and Operations positions with two privately-held manufacturing companies. Mr. Ehren was employed by Ernst & Young, a public accounting firm, from 1985 to 1990, working primarily with high tech, manufacturing and software development clients.

The Board has concluded that Mr. Ehren should serve as a director of Key based on the following primary qualifications.

- Extensive knowledge of Key's business—Since joining the company in 2008 until his appointment as President and Chief Executive Officer, Mr. Ehren held the position of Senior Vice President and Chief Financial Officer while also taking on additional Company responsibilities including Global Operations, European Operations, and business unit General Manager. Further, in 2011, Mr. Ehren was appointed as Executive Vice President and Chief Operating Officer with management responsibilities for all aspects of our business. This extensive exposure to every aspect of Key's business uniquely qualifies Mr. Ehren for his service as a director.

Relevant operations and business experience—In addition to his responsibilities at Key, Mr. Ehren held various senior vice president positions for high technology manufacturing companies where he had domestic and international operations and overall business responsibilities. These positions and their associated domestic and international aspects provide Mr. Ehren with the relevant background that is critical for his current role as a director of Key.

Extensive financial experience—Throughout his career, Mr. Ehren has held multiple Chief Financial Officer positions and other financial officer positions with various companies. This vast experience with the financial workings of both Key and other companies uniquely positions Mr. Ehren to provide financially sound guidance in his role as a director.

Richard Lawrence. Mr. Lawrence has served as a director of the Company since 2007. He is an independent consultant and business advisor specializing in mergers, acquisitions, and joint ventures. From 1996 to 2006, Mr. Lawrence served as Vice President of Worldwide Corporate Development of PepsiCo, Inc. He served in various other management positions with PepsiCo beginning in 1977 in engineering, and advanced into corporate and franchise development in 1985.

The Board has concluded that Mr. Lawrence should serve as a director of Key based on the following primary qualifications:

- Extensive experience in mergers and acquisitions—Mr. Lawrence has extensive experience in planning, implementing and integrating domestic and international mergers and acquisitions, as well as in corporate governance.

- Extensive knowledge of the food industry—Mr. Lawrence has over 30 years of experience in the food processing industry.

- Extensive knowledge of operations and engineering in our industry—Mr. Lawrence has extensive knowledge of the management and leadership of operations and engineering in our industry.

Michael L. Shannon. Mr. Shannon has served as a director of the Company since 2000. Mr. Shannon has served as principal of The General Counsel Law Firm since 1994. From 2006 to 2010, he served as co-founder of Concerto Development LLC, a real estate development firm. From 1995 to 2004, he also served as Chairman and Chief Executive Officer of Data Access Technologies, Inc., a software company. Between 1985 and 1989, Mr. Shannon served as Associate General Counsel for the Santa Fe International Corporation and, from 1989 to 1993, as Senior Vice President, General Counsel and Secretary of that corporation.

The Board has concluded that Mr. Shannon should serve as a director of Key based on the following primary qualifications:

Extensive knowledge of Key's business—Mr. Shannon has been a director of our Company for 12 years.

Knowledge of executive compensation strategies—Mr. Shannon has been the Chairman of the Compensation and Management Development Committee for seven years.

Extensive legal experience—Mr. Shannon has extensive legal and regulatory experience in heavy industry in multiple countries.