

KEYSTONE AUTOMOTIVE INDUSTRIES INC  
Form DEF 14A  
July 17, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

**SCHEDULE 14A**

**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 Rule 14a-11(c) or Rule 14a-12

KEYSTONE AUTOMOTIVE INDUSTRIES, INC.

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

☒ No fee required.

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(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

**KEYSTONE AUTOMOTIVE INDUSTRIES, INC.**

**700 East Bonita Avenue**

**Pomona, California 91767**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held on Tuesday, August 19, 2003**

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Keystone Automotive Industries, Inc. will be held at the Sheraton Suites Fairplex, 601 West McKinley Avenue, Pomona, California 91768 at 10:00 a.m. (California Time) on August 19, 2003, for the following purposes:

- (1) To elect the members of the Board of Directors to serve until the next annual meeting of stockholders;
- (2) To ratify the appointment of Ernst & Young LLP as the Company's independent public accountants; and
- (3) To transact such other business as may properly come before the meeting or any adjournments thereof.

These items are more fully described in the accompanying Proxy Statement. If you were a stockholder of record at the close of business on July 3, 2003, you are entitled to vote at the meeting.

Accompanying this Notice are a Proxy and Proxy Statement. IF YOU WILL NOT BE ABLE TO ATTEND THE MEETING TO VOTE IN PERSON, PLEASE COMPLETE, SIGN AND DATE THE ACCOMPANYING PROXY AND RETURN IT PROMPTLY IN THE ENCLOSED POSTAGE PAID ENVELOPE. The Proxy may be revoked at any time prior to its exercise at the meeting.

By Order of the Board of Directors,

Ronald G. Foster

Chairman of the Board

Pomona California

July 18, 2003

## **KEYSTONE AUTOMOTIVE INDUSTRIES, INC.**

**700 East Bonita Avenue**

**Pomona, California 91767**

### **PROXY STATEMENT**

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**Annual Meeting Of Stockholders to be held August 19, 2003**

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### **INFORMATION ABOUT THE ANNUAL MEETING AND VOTING**

#### **Why Did You Send Me this Proxy Statement?**

We sent you this proxy statement and the enclosed proxy card because our board of directors is soliciting your proxy to vote at the 2003 annual meeting of stockholders. This proxy statement summarizes the information you need to know to cast a vote at the annual meeting. However, you do not need to attend the annual meeting to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card.

#### **Who is Entitled to Vote?**

We will begin sending this proxy statement, the attached notice of annual meeting and the enclosed proxy card on or about July 18, 2003, to all stockholders entitled to vote. Stockholders who owned Keystone common stock at the close of business on July 3, 2003, are entitled to vote. On this record date, there were 14,821,470 shares of Keystone common stock, no par value, outstanding. Keystone's common stock is our only class of voting stock. We are also authorized to issue up to 3,000,000 shares of preferred stock, no par value, and no shares are presently issued and outstanding. We are also sending along with this proxy statement, Keystone's 2003 Annual Report, which includes our financial statements.

#### **What Constitutes a Quorum?**

The holders of a majority of the outstanding shares of Keystone's common stock entitled to vote at the meeting must be present, in person or by proxy, in order to constitute a quorum. We can conduct the business of the meeting only if a quorum has been established. We will include proxies marked as abstentions and broker non-votes in determining the number of shares present at the meeting.

### How Many Votes Do I Have?

Each share of Keystone common stock that you own entitles you to cast one vote. The proxy card indicates the number of shares of Keystone common stock that your own.

### How Do I Vote By Proxy?

Whether you plan to attend the annual meeting or not, we urge you to complete, sign and date the enclosed proxy card and to return it promptly in the postage-prepaid envelope provided. Returning the proxy card will not affect your right to attend the annual meeting and vote.

If you properly fill in your proxy card and send it to us in time to vote, your proxy (*one of the individuals named on your proxy card*) will vote your shares as you have directed. If you sign the proxy card but do not make specific choices, your proxy will vote your shares as recommended by the board of directors as follows:

**FOR** the election of all seven nominees for director (see page 10)

**FOR** ratification of the appointment of Ernst & Young LLP as the Company's independent public accountants (see page 21)

If any other matter is presented, your proxy will vote in accordance with the recommendation of the board of directors or, if no recommendation is given, in his or her own discretion. At the time this proxy statement went to press, we knew of no matter which needed to be acted on at the annual meeting, other than the election of directors and the ratification of the appointment of Ernst & Young LLP.

### **May I Change My Vote After I Return My Proxy?**

Yes. If you give a proxy, you may change your vote at any time before it is exercised. You may change your vote in any one of three ways:

You may send our Corporate Secretary another proxy with a later date.

You may notify our Corporate Secretary in writing before the annual meeting that you have revoked your proxy.

You may attend the annual meeting and vote in person.

### **How Do I Vote in Person?**

If you plan to attend the annual meeting and vote in person, we will give you a ballot form when you arrive. However, if your shares are held in the name of your broker, bank or other nominee, you must bring the proxy card, an account statement or a letter from the nominee indicating that you were the beneficial owner of the shares on July 3, 2003, the record date for voting, and a written instruction from the nominee authorizing you to vote the shares.

### **What Vote is Required to Approve Each Proposal?**

#### **Proposal 1:**

*Elect Seven Directors*

The seven nominees for director who receive the most votes will be elected. So, if you do not vote for a particular nominee, or you indicate **WITHHOLD AUTHORITY** to vote for a particular nominee on your proxy card, your vote will not count either for or against the nominee.

#### **Proposal 2:**

*Ratification of Ernst & Young LLP*

The affirmative vote of a majority of the shares of Common Stock represented and voted at the annual meeting is required to ratify the appointment of Ernst & Young LLP as the Company's independent public accountants.

#### **The Effect of Broker Non-Votes**

If your broker holds your shares in its name, the broker will be entitled to vote your shares on Proposals 1 and 2 even if it does not receive instructions from you.

If your broker does not vote your shares on either Proposal 1 or 2, such broker non-votes will have no effect on the outcome since only a plurality of votes actually cast is required to elect a director and ratify the appointment of Ernst & Young LLP.

**What are the Costs of Soliciting these Proxies?**

We will pay all the costs of soliciting these proxies. In addition to mailing proxy soliciting material, our directors, officers and employees also may solicit proxies in person, by telephone or by other electronic means of communications for which they will receive no compensation. We will ask banks, brokers and other institutions, nominees and fiduciaries to forward the proxy material to their principals and to obtain authority to execute proxies. We will then reimburse them for their reasonable expenses. In addition, we may pay for and use the

services of individuals or companies that we do not regularly employ in connection with the solicitation of proxies if the board of directors determines this is advisable.

**How Do I Obtain an Annual Report on Form 10-K?**

If you would like a copy of our Annual Report on Form 10-K for the year ended March 28, 2003, that we filed with the Securities and Exchange Commission, we will send you one without charge. Please write to:

Keystone Automotive Industries, Inc.

700 East Bonita Avenue

Pomona, California 91767

Attn: Corporate Secretary

You can also view a copy of the Annual Report on Form 10-K at the SEC's website at <http://www.sec.gov> or on the Company's website at <http://www.keystone-auto.com>.

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**INFORMATION ABOUT KEYSTONE S COMMON STOCK OWNERSHIP**
**Which Stockholders Own at Least 5% of Keystone?**

The following table shows, to the knowledge of the Company, as of July 3, 2003, all persons or entities we know to be beneficial owners of more than five percent of our common stock. The information on the persons listed below is based on Schedule 13G reports filed with the SEC. If you wish, you may obtain a copy of these reports from the SEC or view them online.

| <b>Name and Address of Beneficial Owner</b> | <b>Number of Shares<br/>of Common Stock(6)</b> | <b>Percent of Class</b> |
|---------------------------------------------|------------------------------------------------|-------------------------|
| FMR Corp.(1)                                | 2,194,390                                      | 14.8%                   |
| T. Rowe Price Associates, Inc.(2)           | 1,444,800                                      | 9.8                     |
| Dimensional Fund Advisors Inc.(3)           | 942,180                                        | 8.3                     |
| Wasatch Advisors, Inc.(4)                   | 900,482                                        | 6.1                     |
| Chilton Investment Company, Inc.(5)         | 897,478                                        | 6.1                     |

- (1) The address of FMR Corp. is 82 Devonshire Street, Boston, Massachusetts 02109.
- (2) The business address of T. Rowe Price Associates, Inc. is 100 East Pratt Street, Baltimore, Maryland 21202. These securities are owned by various individual and institutional investors which T. Rowe Price Associates, Inc. (Price Associates) serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange Act of 1934, as amended, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.
- (3) The business address of Dimensional Fund Advisors, Inc. is 1299 Ocean Avenue, 11th Floor, Santa Monica, California 90401.
- (4) The address of Wasatch Advisors, Inc. is 150 Social Hall Avenue, Salt Lake City, Utah 84111.
- (5) The address of Chilton Investment Company, Inc. is 1266 East Main Street, 7th Floor, Stamford, Connecticut 06902.
- (6) Beneficial ownership is a technical term broadly defined by the SEC to mean more than ownership in the usual sense. So, for example, you beneficially own Keystone common stock not only if you hold it directly, but also if you directly or indirectly (through a relationship, a position as a director or trustee, or a contract or understanding), have (or share) the power to vote the stock, to invest it, to sell it, or you currently have the right to acquire it or the right to acquire it within 60 days of July 3, 2003.

**How Much Stock is Owned by Directors and Executive Officers?**

The following table shows, as of July 3, 2003, the Keystone common stock that our directors, and the executive officers named in the Summary Compensation Table under "How Do We Compensate Executive Officers?", beneficially own and those shares of common stock owned by all persons who were executive officers and directors at July 3, 2003 as a group.

| <u>Name of Beneficial Owner(1)</u>                               | <u>Number of Shares of<br/>Common Stock(2)(14)</u> | <u>Percent of Class(3)</u> |
|------------------------------------------------------------------|----------------------------------------------------|----------------------------|
| Ronald G. Brown(4)                                               | 359,256                                            | 2.4%                       |
| Charles J. Hogarty(5)                                            | 274,578                                            | 1.8                        |
| Kim D. Wood(6)                                                   | 153,465                                            | 1.0                        |
| John M. Palumbo(7)                                               | 88,773                                             | *                          |
| Carl Hartman(8)                                                  | 81,250                                             | *                          |
| Al A. Ronco(9)                                                   | 70,782                                             | *                          |
| Christopher Northup(10)                                          | 55,450                                             | *                          |
| Currey Hall(11)                                                  | 38,750                                             | *                          |
| Ronald G. Foster(12)                                             | 33,853                                             | *                          |
| Keith M. Thompson(12)                                            | 27,853                                             | *                          |
| Timothy C. McQuay(12)                                            | 17,853                                             | *                          |
| George E. Seebart (12)                                           | 17,853                                             | *                          |
| All directors and executive officers as a group (12 persons)(13) | 1,119,301                                          | 7.3                        |

\* Less than one percent.

(1) The business address of each beneficial owner is 700 East Bonita Avenue, Pomona, California 91767.

(2) Each person has sole voting and investment power over the shares of Common Stock shown as beneficially owned, subject to community property laws where applicable.

(3) Shares of Common Stock which the person (or group) has the right to acquire within 60 days after July 3, 2003 are included in the table and are deemed to be outstanding in calculating the percentage ownership of the person (or group) but are not deemed to be outstanding as to any other person (or group).

(4) Includes 7,853 shares issuable upon exercise of currently exercisable stock options.

(5) Includes 152,500 shares issuable upon exercise of currently exercisable stock options and excludes 107,500 shares subject to options which are not exercisable within 60 days of July 3, 2003.

(6) Mr. Wood resigned as an executive officer of the Company in January 2003. Includes 18,850 shares issuable upon exercise of currently exercisable stock options and excludes 33,750 shares subject to options which are not exercisable within 60 days of July 3, 2003.

(7) Includes 88,750 shares subject to currently exercisable stock options and excludes 68,750 shares subject to options which are not exercisable within 60 days of July 3, 2003.

(8) Includes 46,250 shares subject to currently exercisable stock options and excludes 48,750 shares subject to options which are not exercisable within 60 days of July 3, 2003.

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- (9) Includes 12,929 shares held by the Ronco Family Trust and 57,853 shares issuable upon exercise of currently exercisable stock options.
- (10) Includes 45,950 shares issuable upon exercise of currently exercisable stock options and excludes 48,750 shares subject to options which are not exercisable within 60 days of July 3, 2003.
- (11) Includes 38,750 shares issuable upon exercise of currently exercisable stock options and excludes 48,750 shares subject to options which are not exercisable within 60 days of July 3, 2003.
- (12) Consists solely of shares issuable upon the exercise of currently exercisable stock options to the named individual.
- (13) Includes 588,368 shares subject to currently exercisable stock options held by all directors and executive officers and excludes 373,750 shares subject to stock options which are not exercisable within 60 days of July 3, 2003.
- (14) See footnote 5 to table under "Which Stockholders Own at Least 5% of Keystone?" above, for the definition of "beneficial ownership."

## SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act, as amended, requires insiders including our executive officers, directors and beneficial owners of more than 10% of our common stock, to file reports of ownership and changes in ownership of our common stock with the SEC and the NYSE, and to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of copies of such forms received by us, we believe that our insiders complied with all applicable Section 16(a) filing requirements during fiscal 2003, except for the following filings: (1) Each of the nonemployee directors was granted options having a value of \$30,000 on September 20, 2002, based upon the price of the Company's Common Stock on that date. In early December 2002 using Black & Scholes methodology, it was determined that each option would be exercisable as to 7,853 shares of Common Stock. Form 4s for each of the directors were filed with the SEC on December 4, 2002; (2) Messrs. Hartman, Lockwood and Wood each sold shares of the Company's Common Stock in June 2002 and filed their respective Form 4s in August 2002 after the 10th of that month; (3) Mr. Brown was late in filing a Form 4 for a gift of shares to a charity made in early January 2003; (4) Mr. Thompson was late filing a Form 4 with respect to a sale of shares of the Company's Common Stock in February 2003; and (5) Mr. Hogarty was late in filing a Form 4 for a purchase of shares of Common Stock in November 1999.

## INFORMATION ABOUT DIRECTORS AND EXECUTIVE OFFICERS

### The Board of Directors

The Board of Directors oversees the business and affairs of Keystone and monitors the performance of your management. In accordance with established Company corporate governance principles, the Board does not involve itself in day-to-day operations.

The Board met 10 times during fiscal 2003. Each director attended at least 75% of the total number of board and committee meetings of which the director was a member, held in fiscal 2003.

### The Committees of the Board

The Board has audit, compensation and nominating committees.

#### *The Audit Committee*

The audit committee monitors our corporate financial reporting and internal and external audits. Directors McQuay, Seebart and Ronco serve as members of the audit committee. The audit committee met eight times during fiscal 2003.

The Board adopted and approved a charter for the audit committee in May 2000, a copy of which was attached to our 2001 proxy statement on file with the Securities and Exchange Commission. The Board has determined that all members of the audit committee are independent as that term is defined in Rule 4200 of the listing standards of the National Association of Securities Dealers.

#### *The Compensation Committee*

The compensation committee makes recommendations regarding our employee stock plan, salaries and bonuses for Keystone's executive officers. Directors Thompson, McQuay and Seebart currently serve as members of the compensation committee. The compensation committee met four times

during fiscal 2003.

*The Nominating Committee*

The nominating committee met one time in fiscal 2003. It considers and proposes to the full Board, director nominees for election at the Annual Meeting; selects candidates to propose to fill Board vacancies as they may occur; makes recommendations to the Board regarding Board committee memberships; and performs any other functions or duties deemed appropriate by the Board. Directors Brown, McQuay and Thompson serve as members of the nominating committee.

The nominating committee will accept for consideration stockholders' nominations for directors if made in writing. The nominee's written consent to the nomination and sufficient background information on the candidate must be included to enable the Committee to make proper judgments as to his or her qualifications. Nominations must be addressed to the Secretary of the Company at the Company's headquarters and must be received no later than May 21, 2004 in order to be considered for the next annual election of directors.

**How Do We Compensate Directors?**

Effective September 1, 2003, Board members, who are not also employees, will receive \$30,000 per annum as compensation for serving on the Board and any committees and will receive that number of restricted shares of Common Stock having a value of \$30,000 on that date. The shares may not be sold until September 1, 2004. During the last year, directors who were not also employees, were compensated at the rate of \$30,000 per year for all meetings of the Board of Directors and committees thereof; and also received options to purchase 7,853 shares of Common Stock. Such options had an exercise price equal to the market price of such shares on December 3, 2002, the date of grant, were immediately exercisable and expire on August 19, 2007. Directors are also reimbursed for all reasonable and documented expenses incurred as Board members.

**Compensation Committee Interlocks and Insider Participation**

No interlocking relationship exists between Keystone's executive officers, board of directors or compensation committee and any executive officer or member of the board of directors or compensation committee of any other company, nor has any such interlocking relationship existed in the past.

**Certain Relationships and Related Transactions**

The Company entered into a lease dated January 5, 1995, with V-JAC Properties, Ltd. for an 8,000 square foot warehouse facility in Ontario, California, with a term of three years, for a monthly rent of \$3,494. Upon the expiration of the term, the Company entered into a five year lease (with an option to renew for an additional five years), on the same terms as the earlier lease, approved by unanimous vote of the disinterested directors in February 1998. V-JAC Properties, Ltd. is a partnership whose interests are held equally by Virgil K. Benton, Sr., and John G. Jordan, former directors of the Company, and Al A. Ronco and Charles J. Hogarty, who are currently directors of the Company. Mr. Benton died during 2000. This lease was terminated by mutual agreement effective July 1, 2003.

The Company also entered into a lease dated January 5, 1995, with V-JAC Properties, Ltd. for a 10,000 square foot warehouse facility in Palmyra, New Jersey, with a term of three years, for a monthly rent of \$2,985. Upon the expiration of the term, the Company entered into a five year lease (with an option to renew for an additional five years), with a 5% increase in the monthly rent, approved by the unanimous vote of the disinterested directors in February 1998. The Company exercised its option to renew for an additional five years at a monthly rent of \$3,295.



On January 1, 1995, North Star Plating Company ( North Star ) entered into a ten-year lease agreement with a partnership owned by the spouses of Ronald G. Brown and Kim D. Wood to lease property occupied by North Star's East Peoria, Illinois service center. The initial base rent under the lease was \$6,975 per month, which is subject to increase on each anniversary of the lease term by the percentage increase in the Consumer Price Index during the preceding year. In addition to the base rent, North Star pays real estate taxes, maintenance, utilities and insurance costs associated with the property. North Star was merged with the Company in 1997 at which time Mr. Brown became a director of the Company and Mr. Wood was elected a Vice President. Kim D. Wood resigned as a Vice President of the Company in January 2003. North Star was recently renamed Keystone Automotive Industries MN, Inc.

On January 1, 1995, North Star entered a ten-year lease agreement with a partnership owned by the spouse of Raymond Wood, a former stockholder, officer and director of North Star, and the spouse of Ronald G. Brown to lease the property occupied by North Star's Brainerd, Minnesota chrome bumper plating center. The initial base rent under the lease was \$23,600 per month, which is subject to increase on each anniversary of the lease term by the percentage increase in the Consumer Price Index during the preceding year. In addition to the base rent, North Star pays real estate taxes, maintenance, utilities and insurance costs associated with the property. Pursuant to the lease agreement, North Star is responsible for certain occurrences on the premises, including any environmental contamination. Upon the demise of the spouse of Raymond Wood in 2001, her partnership interest devolved to Woodhaven Investments, a partnership in which Kim D. Wood is a partner.

On January 1, 1995, North Star entered into a ten-year lease agreement with a partnership owned by Kim D. Wood and Richard Monson, the general manager of North Star's Brainerd, Minnesota chrome bumper manufacturing and recycling center to lease the property occupied by North Star's St. Cloud, Minnesota service center. The initial base rent under the lease was \$5,000 per month, which is subject to increase on each anniversary of the lease term by the percentage increase in the Consumer Price Index during the preceding year. In addition to the base rent, North Star pays real estate taxes, maintenance, utilities and insurance costs associated with the property.

On May 20, 1996, North Star entered into a ten-year lease agreement with a partnership owned by the spouses of Ronald G. Brown and Kim D. Wood and the Brown Family Limited Partnership to lease property occupied by North Star's headquarters and Minneapolis, Minnesota service center hub. The initial base rent under the lease was \$12,000 per month, which is subject to increase on the anniversary of the lease term by the percentage increase in the Consumer Price Index during the preceding year. In addition to the base rent, North Star pays real estate taxes, maintenance utilities and insurance costs associated with the property. In an amendment to the lease dated September 23, 1996, the partnership agreed to construct a 37,260 square foot addition to the existing building. North Star began occupying the addition in January 1997 and, accordingly, the base rent increased to \$25,627 per month.

The Company believes that the terms and conditions of the above leases with affiliated parties are no less favorable to the Company than could have been obtained from unaffiliated parties in arm's length transactions at the time such leases were entered into.

## ELECTION OF DIRECTORS

### Nominees

A board of seven directors is to be elected at the Annual Meeting. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the Company's seven nominees named below, all of whom are presently directors of the Company. If any nominee of the Company is unable or declines to serve as a director at the time of the annual meeting, the proxies will be voted for the nominee designated by the present board of directors to fill the vacancy. It is not expected that any nominee will be unable or will decline to serve as a director. The term of office of each person elected as a director will continue until the next annual meeting and until a successor has been elected and qualified.

**The Board of Directors unanimously recommends that the stockholders vote **FOR** the nominees listed below:**

### Information Concerning Nominees

Set forth below is certain information with respect to the nominees standing for election to the Board of Directors.

| Name                       | Age | Position with the Company                         | Director Since |
|----------------------------|-----|---------------------------------------------------|----------------|
| Ronald G. Foster           | 61  | Chairman of the Board                             | 2000           |
| Charles J. Hogarty         | 62  | President, Chief Executive Officer and a Director | 1987           |
| Ronald G. Brown(3)         | 66  | Director                                          | 1997           |
| Timothy C. McQuay(1)(2)(3) | 51  | Director                                          | 1996           |
| Al A. Ronco(1)             | 67  | Director                                          | 1987           |
| George E. Seebart(1)(2)    | 74  | Director                                          | 1996           |
| Keith M. Thompson(2)(3)    | 62  | Director                                          | 1999           |

(1) Member of Audit Committee

(2) Member of Compensation Committee

(3) Member of the Nominating Committee

RONALD G. FOSTER has been a consultant since he left the automotive division of Tenneco, Inc. in October 1993, specializing in acquisitions, joint ventures, turnaround situations and quality systems such as QS9000. For the prior 25 years, he had held various positions within the automotive division, most recently as the Senior Vice President of Tenneco Automotive and General Manager of Monroe Auto Equipment Company, the world's largest manufacturer of ride control systems.

CHARLES J. HOGARTY served as the President, Chief Operating Officer and a director of the Company since 1987 and was appointed the Chief Executive Officer of the Company in May 1997. From his joining the Company in 1960 until 1987, Mr. Hogarty held various positions, including salesman, sales manager, general manager and regional manager. Mr. Hogarty served as a director of the Aftermarket Body Parts Association from 1984 to 1993, President in 1989 and Chairman in 1990.

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RONALD G. BROWN was elected a director of the Company upon completion of the North Star merger in March 1997 (the North Star merger ) and was elected as Chairman of the Board of Directors in May 1997. Mr. Brown served as Chairman of the Board of the Company from March 1997 until he resigned in August 2000. Mr. Brown served as President of North Star from its founding in 1968 until the North Star merger, when he became Vice President Manufacturing. He retired from that position in March 2002. Mr. Brown has served as a member of the Board of Directors and a Vice President of the Bumper Recycling Association of North America.

TIMOTHY C. MCQUAY was appointed a director of the Company upon the completion of its initial public offering in June 1996. Mr. McQuay joined A. G. Edwards & Sons, Inc. as a Senior member of its Investment Banking Department in July 1997, where he is currently a Managing Director. From October 1994 to July 1997, Mr. McQuay was Managing Director Corporate Finance with Crowell, Weedon & Co. From May 1993 to October 1994, Mr. McQuay was Vice President, Corporate Development with Kerr Group, Inc., a NYSE-listed plastics manufacturing company. From May 1990 to May 1993, Mr. McQuay was Managing Director Merchant Banking with Union Bank. Mr. McQuay is a director of Meade Instruments Corp., a publicly held company.

AL A. RONCO served as the Executive Vice President of the Company from 1987 until he retired in August 1998. He also served as Secretary of the Company from 1987 until he resigned that office in May 1997. From his joining the Company in 1959 until 1987, Mr. Ronco held various positions, including salesman, production manager, general manager and regional manager.

GEORGE E. SEEBART was appointed a director of the Company upon the completion of its initial public offering in June 1996. From 1964 until his retirement in 1993, Mr. Seebart was employed in various executive positions with Farmers Group, Inc., including as Senior Vice President, Field Operations and Vice President, Sales and Marketing. Additionally, from 1987 to 1993, Mr. Seebart was President of Mid-Century Insurance Company, a subsidiary of Farmers Group, Inc.

KEITH M. THOMPSON was the President and Chief Executive Officer of Republic Automotive Parts, Inc. ( Republic ) from 1986 until he resigned and retired on November 30, 1998. Republic was acquired by the Company in June 1998. Mr. Thompson was elected a director of the Company in March 1999.

In connection with the North Star merger, the Company agreed to use its best efforts to maintain Ronald G. Brown as a member of the board of directors and each of Messrs. Hogarty, Ronco and Palumbo (Vice President, Treasurer and Chief Financial Officer) have agreed to vote all shares of the Company's Common Stock as to which they have sole or shared voting power in favor of the election of Mr. Brown as a member of the board of directors. Other than as described above, there are no arrangements or understandings between any director, or any nominee, or any other person pursuant to which such director or nominee is or was nominated to serve as a director. There is no family relationship among any directors or executive officers of the Company.

## EXECUTIVE OFFICERS

The following table sets forth certain information regarding the executive officers of the Company.

| <u>Name</u>         | <u>Age</u> | <u>Position</u>                                        | <u>Years<br/>Employed<br/>by Company</u> |
|---------------------|------------|--------------------------------------------------------|------------------------------------------|
| Ronald G. Foster    | 61         | Chairman of the Board                                  | 2                                        |
| Charles J. Hogarty  | 62         | President, Chief Executive Officer and Director        | 42                                       |
| John M. Palumbo     | 47         | Vice President, Treasurer, and Chief Financial Officer | 7                                        |
| D. Currey Hall      | 37         | Vice President(1)                                      | 14(2)                                    |
| Carl F. Hartman     | 49         | Vice President(1)                                      | 23(3)                                    |
| Christopher Northup | 43         | Vice President(1)                                      | 20                                       |
| James C. Lockwood   | 65         | Vice President General Counsel and Secretary           | 6                                        |

(1) Operating officers are listed alphabetically.

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- (2) Includes years of service at Fenders & More, Inc., acquired by the Company in 1999.
- (3) Includes years of service at Midwest Bumper Company, acquired by the Company in 1999.

RONALD G. FOSTER was elected a director of the Company in August 2000 and was elected as Chairman of the Board of Directors in August 2000. Mr. Foster has been a consultant since he left the automotive division of Tenneco, Inc. in October 1993, specializing in acquisitions, joint ventures, turnaround situations and quality systems such as QS9000. For the prior 25 years, he had held various positions within the automotive division, most recently as the Senior Vice President of Tenneco Automotive and General Manager of Monroe Auto Equipment Company, the world's largest manufacturer of ride control systems.

CHARLES J. HOGARTY has served as the President, Chief Operating Officer and a director of the Company since 1987 and was appointed the Chief Executive Officer of the Company in May 1997. From his joining the Company in 1960 until 1987, Mr. Hogarty held various positions, including salesman, sales manager, general manager and regional manager. Mr. Hogarty served as a director of the Aftermarket Body Parts Association from 1984 to 1993, President in 1989 and Chairman in 1990.

JOHN M. PALUMBO joined the Company as Vice President and Treasurer in March 1996 and was appointed Chief Financial Officer in May 1997. From 1988 until he joined the Company in 1996, Mr. Palumbo served as Chief Financial Officer, Treasurer and Corporate Secretary of American United Global, Inc., a public company engaged in the manufacture of certain automotive parts.

D. CURREY HALL was elected a Vice President of the Company in August 2000. Mr. Hall was a Vice President of Fenders & More, Inc. from May 1989 to July 1997, when he became President of that company, a position which he occupies at the present time. Mr. Hall has been a member of the Board of Directors of the Aftermarket Body Parts Association since 1997.

CARL F. HARTMAN was elected a Vice President of the Company in May 2001. Mr. Hartman was employed by Midwest Bumper Company and related companies from September 1979 until it was acquired by the Company in March 1999. He occupied various positions with those companies, beginning as a sales manager and immediately prior to the acquisition he was Vice President and General Manager. Mr. Hartman served on the Board of Directors of the Aftermarket Body Parts Association for 17 years and the Bumper Recyclers Association of North America for 3 years. He was a member of the CAPA Technical Committee for 9 years and is currently an advisor to that Committee.

CHRISTOPHER NORTHUP has served as a Vice President of the Company since October 1996. From 1987 until October 1996, Mr. Northup served as the National Marketing Director. From his joining the Company in 1983 until 1987, Mr. Northup held the position of Publications Manager.

JAMES C. LOCKWOOD joined the Company in April 1997 and was appointed Vice President General Counsel and Secretary in May 1997. From July 1985 until he joined the Company in April 1997, Mr. Lockwood was a member of the law firm of Troy & Gould Professional Corporation.

**How Do We Compensate Executive Officers?**

The following table sets forth all compensation paid by Keystone during each of the fiscal years ended in 2003, 2002 and 2001 to (1) our Chief Executive Officer and (2) the four other most highly compensated executive officers who held these offices at the end of fiscal 2003.

**SUMMARY COMPENSATION TABLE**

| Name and Principal Position                                   | Year | Annual Compensation |            |                                   | Long-Term Compensation           |                                |
|---------------------------------------------------------------|------|---------------------|------------|-----------------------------------|----------------------------------|--------------------------------|
|                                                               |      | Salary(\$)          | Bonus(\$)  | Other Annual Compensation (\$)(1) | Securities Underlying Options(#) | All Other Compensation (\$)(2) |
| Charles J. Hogarty<br>President and Chief Executive Officer   | 2003 | \$ 313,433          | \$ 299,520 | \$ 7,118                          | 40,000                           | \$ 8,445                       |
|                                                               | 2002 | 298,030             | 81,000     | 7,020                             | 40,000                           | 6,295                          |
|                                                               | 2001 | 285,260             |            | 14,616                            | 70,000                           | 7,284                          |
| Kim D. Wood(3)<br>Vice President                              | 2003 | 225,000             | 153,563    | 10,881                            | 20,000                           | 17,629                         |
|                                                               | 2002 | 213,865             | 46,400     | 11,233                            | 20,000                           | 10,717                         |
|                                                               | 2001 | 204,817             | 5,500      | 11,749                            | 35,000                           | 5,559                          |
| John M. Palumbo<br>Vice President and Chief Financial Officer | 2003 | 241,503             | 216,000    | 9,903                             | 25,000                           | 15,500                         |
|                                                               | 2002 | 222,821             | 54,540     | 10,036                            | 25,000                           | 12,366                         |
|                                                               | 2001 | 208,984             |            | 10,036                            | 50,000                           | 8,146                          |
| Christopher Northup<br>Vice President                         |      |                     |            | 5,669                             |                                  |                                |
|                                                               | 2003 | 196,695             | 134,316    |                                   | 20,000                           | 9,995                          |
|                                                               | 2002 | 183,831             | 39,960     |                                   | 20,000                           | 8,224                          |
|                                                               | 2001 | 173,407             |            |                                   | 15,000                           | 9,591                          |
| Currey Hall<br>Vice President                                 | 2003 | 208,132             | 154,790    | 13,789                            | 20,000                           | 5,500                          |
|                                                               | 2002 | 175,519             | 39,960     | 13,931                            | 20,000                           | 5,448                          |
|                                                               | 2001 | 174,711             |            | 13,931                            | 15,000                           | 7,550                          |
| Carl Hartman<br>Vice President                                |      |                     |            |                                   |                                  | 2,543                          |
|                                                               | 2003 | 194,231             | 114,660    | 9,298                             | 20,000                           |                                |
|                                                               | 2002 | 177,115             | 37,800     | 9,298                             | 20,000                           |                                |
|                                                               | 2001 | 185,865             | 26,250     | 9,298                             | 15,000                           |                                |

(1) Consists of automobile lease and related expenses.

(2) Consists of reimbursement of medical and dental expenses not covered by insurance plans provided to employees generally, Keystone contributions to the Section 401K savings plan and excess group term life insurance.

(3) Mr. Wood resigned as a Vice President of the Company and the President of Keystone Automotive Industries MN, Inc. (formerly North Star) in January 2003. He remains an employee of the Company through January 2004.

Mr. Hogarty had an employment agreement with the Company, which would have terminated on June 19, 2003 and which was subject to automatic renewal for additional two year terms unless written notice of termination was given by either party 90 days prior to the end of the term. Mr. Hogarty's employment agreement was terminated by mutual agreement effective April 15, 2002 in consideration for his entering into a Key Employee Salary Continuation Agreement with the Company on that date. See below for a brief description of the Key Employee Salary Continuation Agreement. For fiscal 2004, Mr. Hogarty's base salary will be \$325,000.

In December 1999, Mr. Palumbo, a Vice President and the Chief Financial Officer of the Company, entered into a three-year employment agreement with the Company, as approved by the Board of Directors. The agreement automatically renews for additional two-year terms unless written notice is given by either party at least 90 days prior to the end of the term. Mr. Palumbo's employment agreement was terminated by mutual

agreement effective October 21, 2002 in consideration for his entering into a Key Employee Salary Continuation Agreement. For fiscal 2004, Mr. Palumbo's base salary will be \$250,000.

All executive officers of the Company have entered into Key Employee Salary Continuation Agreements.

Each Key Employee Salary Continuation Agreement provides that in the event of a change in control of the Company followed by an involuntary termination of the executive within one year following the change in control, the executive is entitled to certain benefits. An involuntary termination includes a termination by the executive if there has been a reduction in base pay, material reduction in fringe benefits, a forced relocation, a material decrease in responsibilities or authority or any other material adverse change in the condition of employment. The benefits include a continuation of the annual base salary and fringe benefits for two years and an accelerated vesting of all stock options held by the executive.

### Individual Option Grants to Executive Officers During Fiscal Year 2003

The following table sets forth certain information regarding stock options granted during fiscal 2003 to the individuals named in the Summary Compensation Table.

| Name                | Individual Grants                         |                                                                 |                |                 | Potential Realizable Value at Assumed Annual Rate of Stock Price Appreciation for |              |
|---------------------|-------------------------------------------|-----------------------------------------------------------------|----------------|-----------------|-----------------------------------------------------------------------------------|--------------|
|                     | Shares of Common Stock Underlying Options | Percentage of Total Options Granted to Employees in Fiscal Year | Exercise Price | Expiration Date | Option Term                                                                       |              |
|                     |                                           |                                                                 |                |                 | 5%                                                                                | 10%          |
| Charles J. Hogarty  | 40,000(1)                                 | 12.5%                                                           | \$ 19.30       | June 10, 2012   | \$ 425,600                                                                        | \$ 1,048,800 |
| John M. Palumbo     | 25,000(1)                                 | 7.8                                                             | \$ 19.30       | June 10, 2012   | 266,000                                                                           | 655,500      |
| Christopher Northup | 20,000(1)                                 | 6.3                                                             | \$ 19.30       | June 10, 2012   | 212,800                                                                           | 524,400      |
| Currey Hall         | 20,000(1)                                 | 6.3                                                             | \$ 19.30       | June 10, 2012   | 212,800                                                                           | 524,400      |
| Carl Hartman        | 20,000(1)                                 | 6.3                                                             | \$ 19.30       | June 10, 2012   | 212,800                                                                           | 524,400      |
| Kim D. Wood         | 20,000(1)                                 | 6.3                                                             | \$ 19.30       | June 10, 2012   | 212,800                                                                           | 524,400      |

(1) The options vest in four equal annual installments, with the first installment having vested in June 2003.

**Aggregate Option Exercises in Fiscal 2003 and Year-End Option Values**

The following table sets forth for each of the individuals named in the Summary Compensation Table, certain information concerning the number of shares subject to both exercisable and unexercisable stock options as of March 28, 2003. Also reported are values for in-the-money options that represent the positive spread between the respective exercise prices of outstanding options and the fair market value of Keystone common stock as of March 28, 2003.

| <u>Name</u>         | <u>Shares<br/>Acquired<br/>On Exercise</u> | <u>Value(1)<br/>Realized</u> | <u>Number of Shares of<br/>Common Stock<br/>Underlying Unexercised<br/>Options at Year-End<br/>Exercisable/Unexercisable</u> | <u>Value of Unexercised In-<br/>the-Money Options at<br/>Year-End(2)<br/>Exercisable/Unexercisable</u> |
|---------------------|--------------------------------------------|------------------------------|------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| Charles J. Hogarty  | 0                                          | 0                            | 107,500/112,500                                                                                                              | \$ 618,088/\$653,868                                                                                   |
| John M. Palumbo     | 0                                          | 0                            | 57,500/75,000                                                                                                                | 284,344/314,094                                                                                        |
| Christopher Northup | 3,750                                      | \$ 36,638                    | 28,450/46,250                                                                                                                | 173,329/209,231                                                                                        |
| Currey Hall         | 0                                          | 0                            | 27,500/47,500                                                                                                                | 172,250/213,200                                                                                        |
| Carl Hartman        | 0                                          | 0                            | 27,500/47,500                                                                                                                | 127,250/213,200                                                                                        |
| Kim D. Wood         | 0                                          | 0                            | 73,750/56,250                                                                                                                | 340,044/326,931                                                                                        |

(1) Value represents the difference between the option price and the market value at the date of exercise.

(2) Value represents the difference between the option price and the market value at fiscal year-end.

**Equity Compensation Plan Information**

The following table provides aggregate information regarding the shares of Common Stock that may be issued upon exercise of options, warrants and rights under all of the Company's equity compensation plans as of March 28, 2003.

|                                                            | <u>March 28, 2003</u>                                                                                          |                                                                                                         |                                                                                                                                                                           |
|------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                            | <u>(a)</u>                                                                                                     | <u>(b)</u>                                                                                              | <u>(c)</u>                                                                                                                                                                |
|                                                            | <u>Number of securities to<br/>be issued upon exercise of<br/>outstanding options,<br/>warrants and rights</u> | <u>Weighted-<br/>average<br/>exercise price of<br/>outstanding<br/>options, warrants<br/>and rights</u> | <u>Number of securities<br/>remaining available for<br/>future issuance under<br/>equity compensation<br/>plans (excluding<br/>securities reflected in<br/>column(a))</u> |
| Equity compensation plans approved by security holders     | 1,559,143                                                                                                      | \$ 11.93                                                                                                | 566,207                                                                                                                                                                   |
| Equity compensation plans not approved by security holders | 160,000(1)(2)                                                                                                  | \$ 9.52                                                                                                 |                                                                                                                                                                           |
| <b>TOTAL</b>                                               | <b>1,719,143</b>                                                                                               |                                                                                                         | <b>566,207</b>                                                                                                                                                            |

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- (1) In February 2000, the Company issued a warrant to purchase 100,000 of Keystone Common Stock with an exercise price of \$6.50 per share (the Warrant ). The Warrant was issued as part of a transaction in which the Company agreed to purchase substantially all of the warrantholders alloy wheel cores and the warrantholder agreed to purchase certain remanufactured alloy wheels from the Company. The Warrant became exercisable in February 2001 and expires in February 2005. If the contractual relationship between the Company and the warrantholder is terminated before February 2004, the expiration date of the Warrant becomes one year following such termination. The Warrant is subject to standard anti-distribution protections.
- (2) The balance of the securities which may be issued pursuant to equity compensation plans not approved by security holders represents non-qualified stock options granted to four non-employee directors in 2001, 2000, 1999 and 1998. As of July 3, 2003, options to purchase 35,000 shares of Common Stock remained outstanding.

**Employee Defined Benefit Pension Plan**

*General.* The Board of Directors adopted the Employee Defined Benefit Pension Plan (the "Pension Plan"), originally effective as of April 1, 1978, for the benefit of the eligible employees of the Company. Since the implementation of the Pension Plan, the Company has amended the Pension Plan from time to time. The primary purpose of the Pension Plan was to provide a retirement benefit for participating employees who continue in the employ of the Company until their retirement. Effective April 30, 1997, the Pension Plan was suspended with no further benefits to accrue on behalf of any participant or beneficiary and no further contributions, except as may be required by law, to be made. It is anticipated that the Pension Plan will be terminated and that the termination will not have a material adverse impact on the financial condition of the Company upon that event. The Pension Plan has been replaced with the 401(k) Savings Plan described below.

*Estimated Monthly Benefits.* The following table sets forth the estimated monthly benefit under the Pension Plan based on the current benefit structure.

**PENSION PLAN TABLE**

| Remuneration | Years of Service |          |          |          |          |
|--------------|------------------|----------|----------|----------|----------|
|              | 15               | 20       | 25       | 30       | 35       |
| \$125,000    | \$ 1,172         | \$ 1,563 | \$ 1,953 | \$ 2,344 | \$ 2,734 |
| 150,000      | 1,407            | 1,875    | 2,344    | 2,813    | 3,281    |
| 175,000      | 1,407            | 1,875    | 2,344    | 2,813    | 3,281    |
| 200,000      | 1,407            | 1,875    | 2,344    | 2,813    | 3,281    |
| 225,000      | 1,407            | 1,875    | 2,344    | 2,813    | 3,281    |
| 250,000      | 1,407            | 1,875    | 2,344    | 2,813    | 3,281    |
| 300,000      | 1,407            | 1,875    | 2,344    | 2,813    | 3,281    |
| 400,000      | 1,407            | 1,875    | 2,344    | 2,813    | 3,281    |
| 450,000      | 1,407            | 1,875    | 2,344    | 2,813    | 3,281    |
| 500,000      | 1,407            | 1,875    | 2,344    | 2,813    | 3,281    |

The compensation covered by the Pension Plan includes basic salary or wages, overtime payments, bonuses, commissions and all other direct current compensation, but does not include contributions by the Company to Social Security, benefits from stock options (whether qualified or not), contributions to this or any other retirement plans or programs, or the value of any other fringe benefits provided at the expense of the Company. For benefit calculation purposes, a highest-five-year average of compensation is used. Benefits are paid as straight-life annuities with no subsidies or offsets. The compensation covered by the Pension Plan for all of the Named Executive Officers was limited to \$150,000 in April 1997 when the Pension Plan was suspended, in accordance with Section 401(a)(17) of the Internal Revenue Code of 1986, as amended.

The years of credited service for each Named Executive who participates in the Pension Plan are as follows:

| Name                | Years |
|---------------------|-------|
| Charles J. Hogarty  | 39    |
| John M. Palumbo     | 3     |
| Christopher Northup | 16    |

Currey Hall

6

**401(k) Savings Plan**

Effective April 1, 1997, the Section 401(k) Savings Plan (the Savings Plan ) in effect at North Star was amended to make the Savings Plan available to employees of the Company. Pursuant to the amendment, the

Company became the Savings Plan sponsor and North Star became an adopting employer. All employees of the Company as of April 1, 1997, became participants in the Savings Plan and the amendment had no affect upon those persons who were employed at North Star on April 1, 1997. Persons becoming employees of the Company subsequent to April 1, 1997 are not eligible to participate until they complete one year of service and are at least 21 years of age.

Under the terms of the Savings Plan, participants can contribute, by way of payroll deductions, up to 50% of their pre-tax compensation annually, subject to certain legal limitations. The Savings Plan also provides for a matching contribution by the Company equal to 50% of the first 6% of a participant's contribution. For purposes of determining the amount of contributions and matching contributions to be allocated to a participant's account, compensation is defined as the annual income amount reportable by the Company for federal income tax purposes, including overtime, commissions and bonuses.

A participant is always 100% vested in his own Savings Plan contributions. A participant becomes 100% vested in the matching contributions allocated to his account upon the earliest to occur of four years of service, normal retirement age (age 65), disability while employed by the Company, his death while employed by the Company or the termination or complete discontinuance of contributions to the Savings Plan.

If a participant terminates employment with the Company for any other reason, a participant vests 25% in his benefits after one year of service, and 25% each year thereafter, with 100% vesting after four or more years of service.

**REPORTS OF THE COMPENSATION COMMITTEE**

**AND AUDIT COMMITTEE**

*The following Compensation Committee's Report on Executive Compensation and Audit Committee's Report shall not be deemed to be soliciting material or to be filed with the SEC or subject to Regulations 14A or 14C of or to the liabilities of Section 18, of the Securities Exchange Act of 1934, as amended (the Exchange Act), and shall not be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, notwithstanding any general incorporation by reference of this proxy statement into any other document.*

**The Report of the Compensation Committee on Executive Compensation**

**General**

The Compensation Committee of the Board of Directors (the Compensation Committee) is responsible for establishing and administering the policies that govern executive compensation and benefit practices. All decisions of the Compensation Committee are submitted to Keystone's board of directors for ratification. The Compensation Committee is currently comprised of Messrs. Thompson, McQuay and Seebart.

**Compensation Philosophy**

The Company's executive compensation program is designed to: (1) provide levels of compensation that integrate pay and incentive plans with the Company's strategic goals, so as to align the interests of executive management with the long-term interests of the Company's stockholders, (2) attract, motivate and retain executive talent capable of achieving the strategic business goals of the Company and (3) recognize outstanding individual contributions. The Company's executive compensation program consists of three main elements: base salary, annual cash bonus under the Bonus Plan and long-term incentives in the form of stock options. The executive compensation program is reviewed each year by the Compensation Committee and recommendations of the Compensation Committee as to base salary adjustments, bonuses and stock option awards are acted upon by the Board.

**Base Salary**

In the case of base salary adjustments, the Compensation Committee subjectively considers the performance and contributions of each executive officer as measured against formal and informal goals and objectives with respect to the total Company performance, as appropriate for the respective responsibilities of each officer. From a quantitative perspective, specific measures of performance considered in dealing with compensation in the aggregate include net earnings, cash flow and return on investment. From a qualitative point of view, objectives have included the quality of long-term planning and progress in organizational and management development.

At the same time, the Compensation Committee takes into account the relationship of the compensation of the Company's executive officers to the compensation of individuals occupying comparable positions in other similar organizations of like size to the Company, with a view to ensuring that executives are fairly compensated and thus appropriately motivated and are retained in the employment of the Company. Base pay

levels for the executive officers are generally in the middle of a competitive range of salaries.

#### **Annual Cash Bonuses**

In the case of the Bonus Plan, the amount available each year for awards is based solely on a formula tied to the increase in earnings of the Company over the prior year, before income taxes and after deducting such awards. The Compensation Committee establishes a target bonus level for each participant in the Bonus Plan which represents a specified percentage of the participant's base salary which will be awarded as a bonus if the

Company's earnings exceed a target level set by the Committee for the year, which is generally the prior year's earnings. The maximum percentages of base salary range from 84% to 96%. Certain adjustments to earnings for events deemed to be beyond the reasonable control of the executive officers may be made to the earnings. Additionally, the awards are increased or decreased based upon a formula tied to the change in return on net assets from the prior year. Cash awards under the Bonus Plan were earned in fiscal 2003 by all but one of the executive officers.

### **Long-Term Incentives**

The Compensation Committee provides the Company's executive officers with long-term incentive compensation primarily through grants of stock options under the Plan. The Compensation Committee is responsible for selecting the executive officers to whom grants should be made, the time of grants, the determination of the per share exercise price and the number of shares subject to each option awarded. The Compensation Committee believes that stock options provide the Company's executive officers with the opportunity to purchase and maintain an equity interest in the Company and to share in the appreciation of the value of the Common Stock. The Compensation Committee believes that stock options directly motivate an executive to maximize long-term stockholder value. The options incorporate vesting periods in order to encourage key employees to continue in the employ of the Company. All executive officers received stock option grants in fiscal 2003.

### **CEO**

In making a salary increase of approximately 4.2% to Mr. Hogarty, President and CEO of the Company effective March 29, 2003, the Compensation Committee subjectively evaluated specific measures of performance of the Company, including quantitative factors such as percent increase in net earnings, return on stockholders' equity and return on assets and qualitative factors such as his progress in developing a strategic plan for the Company. For fiscal 2003, Mr. Hogarty received awards under the Company's Bonus Plan and stock options.

### **Summary**

The Compensation Committee believes that its executive compensation philosophy of paying its executive officers by means of base salaries, annual cash bonuses and long-term incentives, as described in this Report, is in the best interests of the Company and its stockholders.

### **Submitted By The Compensation Committee:**

Keith M. Thompson

Timothy C. McQuay

George E. Seebart

**The Report of the Audit Committee on Keystone's Audited Financial Statements**

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The Audit Committee of the board of directors (the "Audit Committee") developed a charter for the Audit Committee, which was approved by the Board in May 2000. The complete text of the charter was attached to the 2001 Proxy Statement filed with the SEC. During fiscal 2004, the Board of Directors intends to review and revise, to the extent necessary, the existing charter to ensure it is fully compliant with the requirements of the Sarbanes-Oxley Act of 2002 and the NASDAQ corporate governance listing standards.

The following is the report of the Audit Committee with respect to the Company's audited financial statements for the fiscal year ended March 28, 2003, which include its consolidated balance sheets as of March 28, 2003 and March 29, 2002 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended March 28, 2003 and the notes thereto.

The Audit Committee is responsible for overseeing the Company's financial reporting process on behalf of the Board of Directors. Management of the Company has the primary responsibility for the Company's financial reporting process, principles and internal controls as well as preparation of its financial statements. The Company's independent auditors are responsible for performing an audit of the Company's financial statements and expressing an opinion as to the conformity of such financial statements with accounting principles generally accepted in the United States.

The Audit Committee has reviewed and discussed the Company's audited financial statements as of and for the year ended March 28, 2003 with management and the independent auditors. The Audit Committee has discussed with the independent auditors the matters required to be discussed under auditing standards generally accepted in the United States, including those matters set forth in Statement on Auditing Standards No. 61 (Communication with Audit Committees), as currently in effect. The independent auditors have provided to the Audit Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as currently in effect, and the Audit Committee has discussed with the auditors their independence from the Company. The Audit Committee has also considered whether the independent auditors' provision of information technology and other non-audit services to the Company is compatible with maintaining the auditors' independence. The Audit Committee has concluded that the independent auditors are independent from the Company and its management.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements be included in its Annual Report on Form 10-K for the fiscal year ended March 28, 2003.

#### Submitted by The Audit Committee

Timothy C. McQuay

Al A. Ronco

George E. Seebart

#### Audit and Non-Audit Fees

For the fiscal year ended March 28, 2003 fees for services provided by Ernst & Young LLP were as follows:

|       |                                                                                                     |                  |
|-------|-----------------------------------------------------------------------------------------------------|------------------|
| A.    | Audit fees, including review of financial statements included in the Company's reports on Form 10-Q | \$337,415        |
| B.    | Financial Information Systems Design and Implementation                                             | 0                |
| C.    | All other fees, primarily income tax related                                                        | 195,180          |
| Total |                                                                                                     | <u>\$532,595</u> |

**RATIFICATION OF APPROVAL OF INDEPENDENT PUBLIC ACCOUNTANTS**

Ernst & Young LLP has audited the Company's financial statements since the fiscal year ended in March 1977.

The Audit Committee and the Board of Directors has approved Ernst & Young LLP as independent public accountants for the Company for the fiscal year ending March 26, 2004. The Audit Committee approves all audit and non-audit services provided to the Company by Ernst & Young LLP. Although not required to be voted upon by the stockholders, the Board of Directors deems it appropriate for the approval to be submitted for ratification by the stockholders. The persons named in the accompanying proxy will vote the Common Stock represented by the proxy for ratification of the approval of Ernst & Young LLP, unless a contrary choice has been specified in the proxy. If the stockholders do not ratify the approval of Ernst & Young LLP by a majority vote, the approval of independent public accountants will be considered by the Audit Committee and the full Board of Directors, although the Company will not be required to retain different independent public accountants. The Audit Committee retains the authority to approve another firm as independent public accountants for the Company to replace a firm whose approval was ratified by the stockholders in the event the Audit Committee and the Board of Directors determines that the best interest of the Company warrants a change of its independent public accountants. A representative of Ernst & Young LLP is expected to be present at the annual meeting and will have the opportunity to make a statement if he or she desires to do so. Such representative is expected to be available to respond to appropriate questions.

**The Board of Directors has approved the appointment of Ernst & Young LLP as independent public accounts for the Company for Fiscal Year 2004 and unanimously recommends a vote FOR ratification of such appointment.**

### PERFORMANCE GRAPH

Set forth below is a line graph comparing the annual percentage change in the cumulative return to the holders of the Company's Common Stock with the cumulative return of the NASDAQ Stock Market (US Companies) Index and the following group of peer companies (the "Peer Group"): Autozone, Inc., Finishmaster, Inc., Genuine Parts Co., O'Reilly Automotive, Inc. and Pep Boys - Manny, Moe & Jack, for the period commencing with June 21, 1996, the date the Company's Common Stock began trading on the NASDAQ National Market and ending March 28, 2003. The information contained in the performance graph shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates it by reference into such filing. The stock price performance on the following graph is not necessarily indicative of future stock price performance. The graph assumes that the value of the investment in the Company's Common Stock, the NASDAQ Market Index and the peer group of companies was each \$100 on June 21, 1996 and that all dividends were reinvested.

### COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

AMONG KEYSTONE AUTOMOTIVE INDUSTRIES, INC.,

THE NASDAQ STOCK MARKET (U.S.) INDEX AND A PEER GROUP

\* \$100 Invested on 3/27/98 in stock or index including reinvestment of dividends.  
Fiscal year ending March 28.

**INFORMATION ABOUT STOCKHOLDER PROPOSALS**

Stockholders are advised that any stockholder proposal intended for inclusion in the Company's proxy materials for the 2004 Annual Meeting of Stockholders must be received by the Company on or before March 22, 2004. Any nominations to the Board of Directors, whether or not included in the proxy materials, must be received by the Company on or before May 21, 2004. Stockholders submitting proposals or nominating directors should submit them to the Company, c/o James C. Lockwood, Secretary of the Company, and utilize certified mail, return-receipt requested in order to ensure timely delivery.

By Order of the Board of Directors,

James C. Lockwood

*Secretary*

**PROXY**

**KEYSTONE AUTOMOTIVE INDUSTRIES, INC.**

**700 East Bonita Avenue**

**Pomona, California 91767**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned hereby appoints Charles J. Hogarty, John M. Palumbo and James C. Lockwood, and each of them, the attorneys and proxies of the undersigned with full powers of substitution to vote as indicated herein, all of the common stock ( Keystone Common Stock ), no par value, of Keystone Automotive Industries, Inc. ( Keystone ) held of record by the undersigned at the close of business on July 3, 2003, at the Annual Meeting of Keystone Stockholders to be held on August 19, 2003, at 10:00 a.m., Pacific Daylight Savings Time at the Sheraton Fairplex, 601 West McKinley Avenue, Pomona, California 91768, or at any postponements or adjournments thereof, with all the powers the undersigned would possess if then and there personally present.

THIS PROXY WILL BE VOTED FOR ALL NOMINEES LISTED IN PROPOSAL 1 AND FOR PROPOSAL 2 WHEN NO CHOICE IS INDICATED. In their discretion, the proxy holders are authorized to vote upon such other business as may properly come before the Meeting or any adjustment or postponement thereof.

**SIGN, DATE AND RETURN THE PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE**

**PLEASE MARK YOUR CHOICE LIKE THIS x IN BLACK OR BLUE INK.**

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE**

**FOR ALL NOMINEES LISTED BELOW AND FOR PROPOSAL 2.**

**1. ELECTION OF DIRECTORS**

Vote withheld from the following nominees:

☐ **FOR** all nominees listed below  
(except as marked to the contrary)

☐ **WITHHOLD AUTHORITY** to  
vote for all nominees listed below.

|                                                |                                               |
|------------------------------------------------|-----------------------------------------------|
| <input type="checkbox"/> Ronald G. Brown       | <input type="checkbox"/> Al A. Ronco          |
| <input type="checkbox"/> Ronald G. Foster      | <input type="checkbox"/> George E.<br>Seebart |
| <input type="checkbox"/> Charles J.<br>Hogarty | <input type="checkbox"/> Keith M.<br>Thompson |
| <input type="checkbox"/> Timothy C.<br>McQuay  |                                               |

**2. PROPOSAL TO RATIFY THE  
APPOINTMENT OF ERNST & YOUNG LLP  
AS THE COMPANY'S INDEPENDENT  
PUBLIC ACCOUNTANTS**

☐ For ☐ Against ☐ Abstain

**THIS PROXY IS CONTINUED ON THE REVERSE SIDE. PLEASE DATE, SIGN AND RETURN PROMPTLY.**

**THE UNDERSIGNED HEREBY ACKNOWLEDGES RECEIPT OF THE NOTICE OF ANNUAL MEETING AND PROXY STATEMENT OF  
KEYSTONE AUTOMOTIVE INDUSTRIES, INC.**

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(Signature should be exactly as name or names appear on this proxy. If stock is held jointly each holder should sign. If signature is by attorney, executor, administrator, trustee or guardian, please give full title.)

Dated: \_\_\_\_\_, 2003

Signature

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Signature if held jointly

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I plan to attend the meeting: YES " NO "