



(TRANSLATION FOR REFERENCE ONLY)

July 14, 2023

To Our Shareholders:

Corporate Name: PROTO CORPORATION
Representative: Kenji Kamiya, President
Securities Code: 4298
(TSE Prime, NSE Premier)
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Notice Regarding the Disposal of Treasury Stock for Restricted Stock Compensation

PROTO CORPORATION (“the Company”) hereby announces that it has decided, at the board of directors meeting held on July 14, 2023, it resolved to dispose of its treasury stock (the “Disposal of Treasury Stock” or the “Disposal”), as the restricted stock compensation shown below.

1. Overview of the Disposal

(1) Disposal date	August 10, 2023
(2) Class and number of shares to be disposed of	Common stock of the company: 40,500 stocks
(3) Disposal price	1,210 yen per stock
(4) Total disposal price	49,005,000 yen
(5) Allottees and number thereof, and number of stocks to be disposed of	Directors of the company (excluding outside directors.) 8 directors 29,700 stocks Executive Officers of the company 9 officers 8,100 stocks Directors of the company’s subsidiaries 3 director 2,700 stocks
(6) Other	The company has submitted the Securities Report for the disposal of treasury stocks in compliance with the Financial Instruments and Exchange Act.

2. Purpose and reason of disposal

The company decided to adopt the restricted stock-based compensation system (hereinafter referred to as “the system”) as a new compensation system at the board of directors meeting held on May 14, 2019, for its directors (excluding outside directors; hereinafter referred to as “the target directors”) and directors of the company’s subsidiaries (hereinafter referred to as “the target directors, etc.”) in order to provide them with medium-to-long-term incentives and share the shareholder value. Further, the company obtained approval at the 41st ordinary general meeting of shareholders held on June 26, 2019 for providing monetary compensation claim of 300 million yen or less annually to the target directors as monetary compensation to become properties contributed for acquisition of restricted stock (hereinafter referred to as “the restricted stock-based compensation”) and letting the board of directors of the company set the transfer-restricted period of the restricted stocks at 3 to 30 years.

The outline of the system is as explained below.

[Outline of the system]

The target directors, etc. pay all the monetary compensation claim they received from the company or the company’s subsidiaries in the form of properties contributed in kind based on this system, and common stocks of the company are issued or disposed of. In addition, the total number of common stocks that the company will issue or dispose of for the target directors in the system will be 300,000 or less, and the payment amount for each stock will be decided by the board of directors within the range of amount that will not especially benefit the target directors, etc., who will be subscribing for the common stocks, and based on the closing price of the company’s common stock on the Tokyo Stock Exchange on the previous business day of the board of directors meeting (in case of no trade on the day, closing price of the nearest trading day prior to the concerned day will be considered).

Also, the Restricted Stock Allocation Agreement will be made between the company and the target directors, etc. for issuance or disposal of the company's common stocks in the system, which will include clauses such as (1) the target directors, etc. cannot transfer, establish security interests, etc., for the company's common stocks for a fixed period of time as stated in the Restricted Stock Allocation Agreement, and (2) the company may acquire the concerned common stock for free under certain circumstances.

Also, the company decided to allot stocks with restriction on transfer to the operating officers who do not concurrently serve as a director of the company in addition to the target directors and others (hereinafter collectively referred to as "the allottees") in order to realize the sharing of shareholder value in the long term, which is the objective of the system. The transfer-restricted period is 30 years. Considering the purposes of this system, the business situation of the company, the scope of duties of the allottees, and general circumstances, the company decided to allot a total of 49,295,400 yen of monetary compensation claim (hereinafter referred to as "the monetary compensation claim") and 36,300 common stocks to the allottees.

As for the disposal of treasury stocks, 20 allottees, to whom the stocks will be allocated, will pay all the monetary compensation claim to the company or the company's subsidiaries in the form of properties contributed in kind, and the company's common stocks (hereinafter referred to as "the allocated stocks") will be disposed of. The outline of the Restricted Stock Allocation Agreement (hereinafter referred to as "the allocation agreement") between the company and the allottees is as mentioned in the following section 3.

3. Outline of the allocation agreement

(1) Transfer-restricted period: August 10, 2023 to August 9, 2053

(2) Condition for lifting the restriction of transfer

The restriction of transfer of all of the allocated stocks will be lifted at the time of expiration of the transfer-restricted period, given that the allottees continue to be in the position of directors of the company (position of operating officers of the company in case the allottees are operating officers who do not concurrently serve as directors, or position of the subsidiaries' directors, in case the allottees are the directors of the company's subsidiaries) throughout the transfer-restricted period.

(3) Treatment of resignation of the allottees due to expiration of term of office or other legitimate reasons during the transfer-restricted period

① Timing of the lifting of the restriction of transfer

In case of resignation of the allottees from their positions of the company's directors (position of operating officers of the company in case the allottees are operating officers who do not concurrently serve as directors, or position of the subsidiaries' directors, in case the allottees are the directors of the company's subsidiaries) due to expiration of term of office or other legitimate reasons (excluding the resignation due to death), the restriction of transfer will be lifted right after their resignation. In case of resignation due to death, the restriction will be lifted at the time separately specified by the board of directors.

② The number of stocks whose transfer restriction will be lifted

It is calculated by multiplying the number of the allocated stocks (any fractions of less than 1 stock resulting shall be rounded down) held at the time of resignation as stated under ① by the number of months from the month following the month when the 45th ordinary general meeting of shareholders took place (or the first month of the 46th fiscal year, in case the allottees are operating officers who do not concurrently serve as directors) to the month including the day of approval of the concerned matter, divided by 12 (the number is considered 1 if it exceeds 1).

(4) Free acquisition by the company

The company will rightfully acquire the allocated stocks for which the restriction of transfer has not been lifted at the time of expiration of the restricted period or lifting of the restriction of transfer as stated under (3), for free.

(5) Management of stocks

The allocated stocks will be managed in the exclusive account of Nomura Securities Co., Ltd. to avoid their transfer, establishment of security interests, etc. during the restricted period. The company has made a contract with Nomura Securities Co., Ltd. regarding the management of the account for the allocated stocks held by each allottee, in order to ensure effectiveness of the restriction of transfer, etc. of the allocated stocks. Also, the allottees shall agree to the content of management of the concerned account.

(6) Treatment of reorganization, etc.

In case the matters related to reorganization, merger agreement in which the company becomes extinct, share exchange agreement where the company becomes a wholly owned subsidiary, share transfer plan, etc. are approved at the general meeting of shareholders of the company (or the board of directors meeting, in case the approval is not required in the general meeting of shareholders regarding the concerned reorganization, etc.) during the restricted period, the restriction related to the number of allocated stocks (any fractions of less than 1 stock resulting shall be rounded down) held at the concerned point of time multiplied by the number of months from the month following the month when the 45th ordinary general meeting of shareholders took place (or the first month of the 46th fiscal year, in case the allottees are operating officers who do not concurrently serve as directors) to the month including the day of approval of the concerned matter divided by 12 (the number is considered 1 if it exceeds 1) will be lifted right before the previous business day of the effective date of reorganization, etc., based on the resolution of the board of directors. Also, the company will rightfully acquire all the allocated stocks, for which the restriction of transfer has not been lifted, right after the lifting of the above restriction of transfer for free.

4. Basis for calculation of the payment amount and its details

The disposal of treasury shares will be conducted with properties contributed being the monetary compensation claim provided as the company's restricted stock-based compensation in the 46th fiscal year based on this system. The disposal price is set at 1,210 yen, which is the closing price of the company's common stock on the Prime of the Tokyo Stock Exchange on July 13, 2023 (the previous business day of the board of directors meeting), in order to make it free of arbitrariness. The company considers this price as rational and not advantageous as it is the market price right before the board of directors meeting.