



(TRANSLATION FOR REFERENCE ONLY)

July 12, 2019

To Our Shareholders:

Corporate Name: PROTO CORPORATION  
Representative: Kenji Kamiya, President  
Securities Code: 4298 (TSE 1st Section)  
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## Notice of Issuance of New Stocks as Restricted Stock-Based Compensation

PROTO CORPORATION (“the Company”) hereby announces that it has decided, at the board of directors meeting held on July 12, 2019, to issue new stocks (hereinafter referred to as “the new stocks”) as mentioned below.

### 1. Issuance Summary

|   |   |
|---|---|
| (1) Payment date  | August 9, 2019  |
| (2) Types and number of stocks to be issued   | Common stock of the company: 45,300stocks   |
| (3) Issue price   | 1,086yen per stock  |
| (4) Total issuance amount   | 49,195,800yen   |
| (5) Target persons of allocation of stocks, their number and number of stocks to be allocated | Directors of the company (excluding outside directors.) 9 directors 39,900stocks<br>Directors of the company’s subsidiaries 3 directors 5,400stocks |
| (6) Other   | The company has submitted the Securities Report for the issuance of the new stocks in compliance with the Financial Instruments and Exchange Act.   |

### 2. Objective and reasons for issuance

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 41<sup>st</sup> 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.

This time, the company allotted a total of 49,195,800 yen of monetary compensation claim (hereinafter referred to as "the monetary compensation claim") and 45,300 common stocks in order to improve the motivation level of each target director, etc. by taking into account the system's objective, business conditions of the company, range of responsibilities of each target director and various other circumstances. Also, the transfer-restricted period is set at 30 years this time in order to realize the sharing of shareholder value in the long term, which is the objective of the system.

As for the issuance of the new stocks, 12 target directors, 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 be issued the company's common stocks (hereinafter referred to as "the allocated stocks") based on the system. The outline of the Restricted Stock Allocation Agreement (hereinafter referred to as "the allocation agreement") between the company and the target directors, etc. is as given below.

### 3. Outline of the allocation agreement

(1) Transfer-restricted period: August 9, 2019 - August 8, 2049

(2) Condition for cancelling the restriction of transfer

The restriction of transfer of all of the allocated stocks will be canceled at the time of expiration of the transfer-restricted period, given that the target directors, etc. continue to be in the position of directors of the company (position of the subsidiaries' directors, in case the target directors, etc. are the directors of the company's subsidiaries) throughout the transfer-restricted period.

(3) Treatment of resignation of the target directors, etc. due to expiration of term of office or other legitimate reasons during the transfer-restricted period

① Cancellation period of the restriction of transfer

In case of resignation of the target directors, etc. from their positions of the company's directors (positions of the subsidiaries' directors, in case the target directors, etc. 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 cancelled right after their resignation. In case of resignation due to death, the restriction will be cancelled at the time decided by the board of directors later.

② The number of restricted stocks to be cancelled

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 multiplied by the number of months, from the month following the month when the 41<sup>st</sup> ordinary general meeting of shareholders took place 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 cancelled.

(4) Free acquisition by the company

The company will rightfully acquire the allocated stocks for which the restriction of transfer has not been cancelled at the time of expiration of the restricted period or cancellation 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 target director, etc., in order to ensure effectiveness of the restriction of transfer, etc. of the allocated stocks. Also, the target directors, etc. 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 41<sup>st</sup> ordinary general meeting of shareholders took place 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 cancelled 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 cancelled, right after the cancellation of the above restriction of transfer for free.

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

The new stocks will be issued to the planned parties with properties contributed being the monetary compensation claim provided as the company's restricted stock-based compensation in the 42<sup>nd</sup> fiscal year based on the system. The issue price is set at 1,086 yen, which is the closing price of the company's common stock on the First Section of the Tokyo Stock Exchange on July 11, 2019 (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.