



(TRANSLATION FOR REFERENCE ONLY)

May 14, 2019

To Our Shareholders:

Corporate Name: PROTO CORPORATION
Representative: Kenji Kamiya, President
Securities Code: 4298 (TSE 1st Section)
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Notice Regarding Introduction of a Restricted Stock Compensation Plan

At the Board of Directors meeting held on May 14, 2019, PROTO CORPORATION (“the Company”) reviewed the executive compensation plan, resolved to introduce a restricted stock compensation plan (hereinafter referred to as the “Plan”), and decided to discuss the proposal regarding this Plan at the 41st Ordinary General Meeting of Shareholders (hereinafter referred to as the “General Meeting of Shareholders”) scheduled to be held on June 26, 2019. The details are as below.

1. Purposes, etc. of introducing the Plan

(1) Purposes of introducing the Plan

The Plan targets the Board of Directors of the Company (excluding External Directors. Hereinafter referred to as the “Eligible Director(s)”) to provide an incentive to continuously improve the corporate value of the Company and promote more value sharing with the shareholders.

(2) Conditions for introducing the Plan

The amount of compensation for the Board of Directors of the Company shall be within 1,000 million yen per year, which was approved at the 22nd Ordinary General Meeting of Shareholders held on June 28, 2000.

Since this Plan will provide monetary claims (hereinafter referred to as the “Monetary Compensation Claims”) as compensation to grant restricted stocks to the Eligible Directors, it will be installed only if the payment of the compensation is approved by the shareholders at the General Meeting of Shareholders. The total amount of the Monetary Compensation Claims to be provided to the Eligible Directors under this Plan is up to 300 million yen per year as an inner limit of the above-mentioned predetermined compensation limit (but not including salary of the employees concurrently serving as directors). The amount of remuneration of the directors combined with the amount of compensation for granting restricted stocks to be approved this time will be within 1,000 million yen, which is the same as the current amount of compensation.

2. Overview of the Plan

The Eligible Directors will pay all of the Monetary Compensation Claims provided by the Company under the Plan as a stock equity asset, and the Company’s common shares will be issued or disposed of.

As stated above, the total amount of the Monetary Compensation Claims to be provided to the Eligible Directors through this Plan is up to 300 million yen per year (but not including salary of the employees serving concurrently as directors). The Board of Directors will decide the specific payment timing and allocation for each Eligible Director.

Under this Plan, the total number of common shares newly issued or disposed of by the Company shall not exceed 150,000 per year (however, if the share split or consolidation of the Company's common shares (including free allotment of the Company's common shares) is carried out with the effective date after the resolution of the General Meeting of Shareholders, the total number will be adjusted within a reasonable range as necessary according to the split ratio, consolidation ratio, etc. after the effective date). Please note that at the Board of Directors meeting held on May 14, 2019, the Company passed a resolution to carry out a 2-for-1 share split with June 30, 2019 as the reference date and July 1, 2019 as the effective date. Through this share split, the total number will be adjusted within 300,000 a year. For details of this matter, please refer to the "Notice Regarding Share Split and Partial Amendment to Articles of Incorporation Associated with the Share Split" announced on May 14, 2019.

The paid-in amount per share is determined at a Board of Directors meeting based on the closing price of the Company's common share on the Tokyo Stock Exchange on the business day prior to the day of resolution of each Board of Directors meeting (if no transaction has been concluded on the same day, it will be the closing price on the most immediate transaction day), to the extent that the amount is not particularly favorable to the Eligible Directors who are accepting the common shares.

Furthermore, the issuance or disposal of the Company's common shares through this Plan (hereinafter referred to as the "Shares") shall be on the following conditions between the Company and the Eligible Directors who are intending to receive the provision of the compensation of restricted stocks: (a) to prohibit the transfer of the Shares to a third party, the setting of a security right to Shares, or any other disposal of Shares for a fixed period (hereinafter referred to as the "Transfer Restriction Period"), and (b) to conclude an agreement on the allotment of restricted stock, including the statement that the Company will acquire the Shares without charge in case of an occurrence of certain matters. The Shares will be managed under special accounts established by the Eligible Directors in Nomura Securities Co., Ltd. during the Transfer Restriction Period, so that the transfer, the setting of security rights or disposal of the shares cannot be made.

Under this Plan, in addition to the Eligible Directors, the Board of Directors of the Company's subsidiaries are also eligible to receive the restricted stocks that are similar to those for the Eligible Directors based on the resolution of the Board of Directors, and new shares of the Company's common stock will be issued or disposed of.