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Company name: Tamagawa Holdings Co., Ltd.
Representative: Toru Masuzawa, President
(JASDAQ Code 6838)
Contact: Akihiro Ushiroda, Director
Telephone: +81-3-6435-6933

Tamagawa Holdings Announces Issuance of Stock Warrants (Stock Options with Charge)

Tamagawa Holdings announces in accordance with a resolution by its board of directors' meeting convened on April 15, 2016, predicated on the provisions of the Companies Act, Article 236, Article 238, and Article 240, the issuance of stock warrants for acquisition by corporate officers and employees of Tamagawa Holdings and its subsidiaries, with details as follows. Notably, the stock warrants will be offered for a consideration at fair value and are not subject to acquisition at preferential conditions. Issuance will therefore be instituted without seeking the approval of the general meeting. In addition, these stock warrants shall not be deemed as compensation to the applicable parties for grants, but their subscription shall be based on the individual investment judgment of each subscriber.

I. Purpose and reason of stock warrant offering

With the aim of expanding earnings and raising corporate value over the medium- to long-term and for the purpose of improving the motivation and morale of corporate officers and employees as well as strengthening the cohesive power of the company, Tamagawa Holdings will issue stock warrants with charge to company officers and employees of the company and its subsidiaries.

If all stock warrants are exercised, the increase in the total shares of the common stock of the company will be equivalent to 3% of total shares issued. However, the stock warrant mechanism is structured such that if the price of the company's stock falls to a certain value, then the exercise of all remaining stock warrants will become mandatory and the applicable parties for grants shall bear a certain obligation with respect to the falling stock price. Through use of this mechanism, company officers and employees will share the risk of stock price volatility with the company's shareholders and thereby contribute to the increase of the company's corporate value. Therefore, the issuance of these stock warrants is in our view reasonable in its effect upon share dilution.

An additional objective is to enhance the sense of commitment with respect to the stock price by making the exercise of these rights mandatory if the market price for the stock falls and not having these stock warrants preconditioned on achieving earnings goals. Therefore, special restrictions on the exercise period have not been established. For this reason, the issuance of the stock warrants can be viewed from the medium- to long-term perspective as a contribution to the gains of the company's existing shareholders and can be considered reasonable in its effect upon share dilution.

II. Major points of the issuance of stock warrants

1. Number of stock warrants

1,277 warrants

The total number of shares for which delivery can be received through the exercise of these stock warrants shall be 1,277,000 shares, and if the number of grant shares for these stock warrants is adjusted in accordance with 3.(1) below, then the total shall be the number of grant shares after adjustment multiplied by the number of stock warrants.

2. Funds paid in exchange for these stock warrants

The issued price per stock warrant shall be 1,200 yen. Note that the amount has been determined in reference to the result (1,200 yen per warrant) computed by Plutus Consulting Co., Ltd., a third-party valuation organization, through use of a Monte Carlo simulation (a general option pricing model) based on the following: (a) a closing price of 95 yen per share on the Tokyo Stock Exchange on the trading day preceding the day of the board of directors' meeting that resolved to issue these stock warrants, (b) stock price volatility of 57.39%, (c) dividend yield of 1.05%, (d) a risk-free rate of -0.219%, and (e) the conditions specified for the issuance of these stock warrants (exercise price of 95 yen per share, exercise period of five years, conditions for exercise stated in 3.(6) below).

3. Details of the stock warrants

(1) Type and number of shares that are the object of the stock warrants

The number of shares (hereinafter, "grant shares") that are the object of one stock warrant shall be 1,000 shares of common stock.

If the company conducts a share split (including a gratis allocation, the same shall apply hereinafter) or reverse share split after the allotment date of the stock warrants, then the grant shares will be adjusted according to the following formula. However, such adjustment shall be conducted on the number of shares that are the objects of the stock warrants, among the stock warrants in this offering, that have not been exercised at the corresponding time, and any fractional number of shares arising from this adjustment shall be discarded.
Grant shares after adjustment = grant shares before adjustment x split (or reverse split) ratio

In addition, after the allotment date of the stock warrants, if the company is involved in a merger or company split or if the amount of capital stock is decreased, or if an adjustment to grant shares is needed in accordance with these circumstances, the number of grant shares shall be appropriately adjusted within a reasonable range.

(2) Value of assets contributed to the exercise of stock warrants and its method of calculation

The value of assets contributed to the exercise of stock warrants shall be the value paid per share (hereinafter, the "exercise price") multiplied by the number of grant shares.

The exercise price shall be 95 yen.

If Tamagawa Holdings conducts a stock split or reverse stock split after the allotment date of stock warrants, then the exercise price shall be adjusted according to the following formula, any fractional parts of one yen that arise from the adjustment shall be raised to one yen.

$$\begin{array}{l} \text{Exercise price} \\ \text{after the adjustment} \end{array} = \begin{array}{l} \text{Exercise price} \\ \text{before the adjustment} \end{array} \times \frac{1}{\text{Split (or merger) ratio}}$$

In addition, after the allotment date of the stock warrants, if the company issues new shares at price that is less than the market value of the company's common stock or if it disposes of treasury stock (except for the case of either issuance of new shares or disposition of treasury stock based on the exercise of stock warrants of the case of transfer of treasury stock by a stock swap), then the exercise price shall be adjusted according to the following formula and any fractional parts of one yen that arise from the adjustment shall be raised to one yen.

$$\text{Exercise price after the adjustment} = \text{Exercise price before the adjustment} \times \frac{\text{Previously issued shares} + \frac{\text{Newly issued shares} \times \text{Amount paid per share}}{\text{Market price per newly issued share}}}{\text{Previously issued shares} + \text{Newly issued shares}}$$

Note that the "previously issued shares" in the formula above shall be the result of subtracting the number of treasury shares of the company's common stock from the total shares issued of the company's common stock, and if treasury shares of the company's common stock are disposed of, then the "newly issued shares" shall be read as "the number of treasury shares disposed of" in this formula.

Furthermore, apart from what is stated above, if, after the allotment date of the stock warrants, the company merges with another company or undergoes a company split, or if an adjustment of the exercise price is required in accordance with these circumstances, then the company can make an appropriate adjustment to the exercise price within a reasonable range.

(3) Valid period for the exercise of stock warrants

The valid period for the exercise of stock warrants (hereinafter, "exercise period") shall be from May 11, 2016 to May 10, 2021.

(4) Increase in capital stock and legal capital surplus

(a) The value of the increase in capital stock of any shares issued through the exercise of stock warrants shall be one-half of the increase limit of capital stock, etc., as computed in accordance with Article 17, Paragraph 1 of the Ordinance on Company Accounting. Any fractional parts of one yen that arise as a result of this calculation shall be raised to one yen.

(b) The value of the additional legal capital surplus of any shares issued through the exercise of stock warrants shall be the value determined by subtracting the value of the increase in capital stock as specified in (a) above from the increase limit of capital stock, etc., as stated in (a) above.

(5) Restrictions on the acquisition of stock warrants through transfer

Acquisition of stock warrants through transfer shall require approval by a resolution of the company's board of directors.

(6) Conditions for exercise of stock warrants

(a) If during the period from the date of allocation to the end of the exercise period, the average closing price in common trading of the company's common stock on a financial instruments exchange over a period of one month (21 trading days including the applicable date) falls even once below the value of 50% times the warrant exercise price (provided, however, that this price shall be appropriately adjusted by the board of directors in accordance with 3.(2) above), then all warrant-holders must exercise their remaining stock warrants before the expiration of the exercise period. However, this shall

not apply to the cases cited below.

- (i) Information disclosed by the company has been judged to be a material misstatement.
 - (ii) The company has been judged to have failed to conduct appropriate disclosure of material facts that it is obliged to disclose in accordance with laws and ordinances or with regulations of a financial instruments exchange.
 - (iii) The company has been delisted from a stock exchange, has filed for bankruptcy, or has undergone other material changes in its situation as presumed on the date of issuance of the stock warrants.
 - (iv) The company has otherwise engaged in actions that are objectively recognized as undermining the trust of the holders of the stock warrants.
- (b) If, during a period of appointment as a director of the company or one of its subsidiaries, a holder of a stock warrant conducts a transaction to which Article 356, Paragraph 1, Items 1 to 3 of the Companies Act is applicable but does not follow the procedures specified in the Companies Act or in the company's article of incorporation or internal regulations, and if the board of directors resolves that the exercise of a stock warrant by the corresponding warrant-holder will not be accepted, then the stock warrant cannot be exercised following this transaction.
- (c) If, when employed at the company or one of its subsidiaries, the holder of a stock warrant receives a fine or punishment from a court of law as specified in the working regulations of the company or one of its subsidiaries and if the company's board of directors resolves not to accept the exercise of a stock warrant by the corresponding warrant-holder, then after the corresponding fines or punishment has been issued the warrant-holder will not be able to exercise the stock warrant.
- (d) The exercise of a stock warrant by the heir of a warrant-holder shall not be accepted.
- (e) If by the exercise of a stock warrant the total number of shares issued by the company comes to exceed the authorized number of shares at the corresponding time, then the applicable stock warrant cannot be exercised.
- (f) Individual stock warrants that are less than one full unit cannot be exercised.
4. Allotment date of the stock warrants
- May 11, 2016
5. Acquisition of stock warrants
- If approval is granted by a general meeting of shareholders (or by the board of directors if approval by a general meeting of shareholders is not required) for a merger agreement in which the company becomes an expired company, an agreement or plan for splitting the company in which the company becomes a demerged corporation, or a plan in which the company becomes a wholly owned subsidiary through a stock swap agreement or a stock transfer agreement, then the company can acquire all stock warrants free of charge on the date of the event as separately determined by the board of directors.
6. Handling of stock warrants in an organizational restructuring action
- If the company is involved in a merger (limited to the case in which the company is expired as a result of the merger), absorption-type company split, an incorporation-type company split, or a stock swap or stock transfer (hereinafter collectively called "organizational restructuring actions"), then on the effective date of the organizational restructuring action the respective granting of stock warrants to warrant-holders for the respective actions will be implemented based on the following conditions for the joint stock company (hereinafter called "the

reorganized company") as stated in Article 236, Paragraph 1, Items 8.a to 8.e of the Companies Act. However, in line with the conditions described below, this is limited to the case in which the intent of the reorganized company to grant stock warrants has been specified in an agreement for an absorption-type merger, an agreement for an incorporation-type company split, an agreement for an absorption-type company split, official plans for an incorporation-type company split, or official plans for a stock swap or stock transfer.

- (1) Number of stock warrants for grant by the reorganized company
The same number of stock warrants as the number held by the warrant-holders will be respectively granted.
 - (2) Type of the reorganized company's shares that are the object of the stock warrants
The type of shares shall be the common stock of the reorganized company.
 - (3) Number of the reorganized company's shares that are the object of the stock warrants
The number of shares shall be determined in accordance with 3.(1) above after consideration of the conditions for the organizational restructuring action.
 - (4) Value of assets contributed to the exercise of stock warrants
The value of assets contributed to the exercise of stock warrants shall be the value obtained, after consideration of the conditions for the organizational restructuring action, by multiplying the exercise price after restructuring, as obtained by adjusting the exercise price as specified in 3.(2) above by the number of the reorganized company's shares that are the object of the corresponding stock warrants as determined in accordance with 6.(3) above.
 - (5) Valid period for the exercise of stock warrants
The valid period shall be from the later of either the first day of the exercise period, as specified in 3.(3) above, or the effective date of the organizational restructuring action until the final date of the exercise period as specified in 3.(3) above.
 - (6) Increase in capital stock and legal capital surplus for the case in which shares are issued through exercise of stock warrants
Determined in accordance with 3.(4) above.
 - (7) Restrictions on the acquisition of stock warrants through transfer
Acquisition of stock warrants through transfer shall require the approval by resolution of the board of directors of the reorganized company.
 - (8) Conditions for exercise of stock warrants
Determined in accordance with 3.(6) above.
 - (9) Cause and conditions for the acquisition of stock warrants
Determined in accordance with 5 above.
 - (10) Any other conditions shall be determined in accordance with the conditions of the reorganized company.
7. Certificates for the stock warrants
The company shall not issue certificates for the stock warrants.
 8. Date for payment of funds in exchange for stock warrants
July 31, 2016
 9. Final subscription date
April 28, 2016
 10. Type and number of subscribers to the allotment of stock warrants
23 employees and corporate officers of Tamagawa Holdings and its subsidiaries; 1,277 warrants