

SEVCON, INC.
Form S-1/A
July 29, 2014

As filed with the Securities and Exchange Commission on July 29, 2014

Registration No. 333-197075

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1
TO
FORM S-1

REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

Sevcon, Inc.
(Exact name of registrant as specified in its charter)

Delaware 04-2985631
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

155 Northboro Road, Southborough, Massachusetts 01772
(508) 281-5510

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Paul N. Farquhar
Vice President, Chief Financial Officer and Treasurer
155 Northboro Road, Southborough, Massachusetts 01772
(508) 281-5510

(Name, address including zip code, and telephone number, including area code, of agent for service)

With Copies to:

Matthew C. Dallett
Edwards Wildman Palmer LLP
111 Huntington Avenue, Boston, Massachusetts 02199-7613
(617) 239-0100

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

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If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Non-accelerated filer Accelerated Filer Smaller reporting company

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Transferable subscription rights to purchase Series A Convertible Preferred Stock, \$0.10 par value per share ⁽¹⁾	3,574,765	—	— ⁽²⁾
Shares of Series A Convertible Preferred Stock issuable upon exercise of the transferable subscription rights	465,500	\$ 10,008,250 ⁽³⁾	\$ 1,289.06 ⁽⁴⁾
Shares of Common Stock, \$0.10 par value per share, issuable upon conversion of, or as dividends on outstanding shares of, the Series A Convertible Preferred Stock ⁽⁵⁾	1,675,800	—	—

(1) Includes the resale of subscription rights distributed to and that may be resold by any or all of the registrant's directors and executive officers.

(2) The subscription rights are being distributed without consideration. No separate registration fee is payable with respect to the subscription rights since they are being registered on the same registration statement as the Series A Convertible Preferred Stock offered hereby.

(3) Represents the aggregate gross proceeds from the assumed exercise of all subscription rights to be distributed.

(4) Calculated based on the maximum aggregate offering price of the Series A Convertible Preferred Stock underlying the subscription rights. \$1,288 of the fee was paid in connection with the original filing of this registration statement on June 27, 2014.

(5) Pursuant to Rule 416, there are also deemed covered hereby such additional securities as may be issued to prevent dilution resulting from stock splits, stock dividends or similar transactions. In the event that the registrant is required, as a result of anti-dilution adjustments pursuant to the terms of the Series A Convertible Preferred Stock that are not contemplated by Rule 416, to issue more shares of Series A Convertible Preferred Stock or Common Stock than are registered hereunder and that may not be issued in an exempt transaction, the registrant will file a new registration under the Securities Act of 1933 in respect of such additional shares.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the Securities and Exchange Commission declares our registration statement effective. This prospectus is not an offer to sell these securities, and it is not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JULY 29, 2014

PRELIMINARY PROSPECTUS

3,574,765 Subscription Rights to Purchase Shares of Series A Convertible Preferred Stock at \$21.50 per Share
465,500 Shares of Series A Convertible Preferred Stock
1,675,800 Shares of Common Stock

Sevcon, Inc. is distributing, at no charge, to holders of our common stock transferable subscription rights to purchase up to 465,500 shares of our Series A Convertible Preferred Stock, which we refer to as the Series A Preferred, at a subscription price of \$21.50 per share. The Series A Preferred carries a 4% cumulative annual dividend on the Stated Value of \$24.00 per share and will be convertible into shares of our common stock at an initial conversion price of \$8.00 per share, representing a conversion ratio of three shares of common stock for each share of Series A Preferred held at the time of conversion, subject to adjustment.

You will receive one subscription right for each share of common stock owned at 5:00 p.m., Eastern Daylight Time, on July 25, 2014, the record date for this rights offering. Each subscription right will entitle you to purchase 0.13022 shares of our Series A Preferred at a subscription price of \$21.50 per whole share, which we refer to as the basic subscription right. If you fully exercise your basic subscription right and other stockholders do not fully exercise their basic subscription rights, you may also exercise an over-subscription right to purchase, at the same price, the additional shares of Series A Preferred that remain unsubscribed at the expiration of the rights offering, subject to the availability and pro rata allocation of Series A Preferred among persons exercising this over-subscription right. If all of the basic subscription rights were exercised, the total purchase price of the shares offered in this rights offering would be approximately \$10 million.

The subscription rights will expire if they are not exercised by 5:00 p.m., Eastern Daylight Time, on September 8, 2014, the expiration date for this rights offering, unless we extend the rights offering period. We have the option to extend the rights offering and the period for exercising your subscription rights for a period not to exceed 30 days, although we do not presently intend to do so. You should carefully consider whether to exercise your subscription rights before the expiration date. All exercises of subscription rights are irrevocable, even if the rights offering is extended by our board of directors. Our board of directors may cancel the rights offering at any time before its expiration for any reason. If the rights offering is cancelled, all subscription payments received by the Subscription Agent will be returned, without interest, as soon as practicable.

One of our directors individually and an investment fund of which another director is managing partner have agreed to purchase shares of Series A Preferred not subscribed for by other stockholders up to an aggregate amount of \$1.15 million, less any amount they invest to purchase shares upon exercise of subscription rights. Any such "standby" purchase will be conditioned on the Company's having received subscriptions of a minimum of \$4 million from other investors and will be made in a transaction separate from the rights offering at the same subscription price offered to stockholders. We will pay no fees or other consideration in connection with their commitments.

Our board of directors is making no recommendation regarding your exercise of the subscription rights. However, a majority of the members of our board of directors and senior management have advised us of their intention to exercise their subscription rights.

The closing price of our common stock on July 28, 2014 was \$7.73. Shares of our common stock are traded on the NASDAQ Capital Market under the symbol “SEV.” The subscription rights issued in the rights offering are transferable and we intend to list them for trading on the NASDAQ Capital Market under the symbol “SEVRR” during the course of this rights offering.

The purchase of subscription rights and the exercise of subscription rights for shares of Series A Preferred involve risks. See “Risk Factors” beginning on page 10 of this prospectus as well as the risk factors and other information contained in any documents we incorporate by reference into this prospectus before exercising your subscription rights. See “Incorporation by Reference” and “Available Information” on pages 34 and 35 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is [], 2014.

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ABOUT THIS PROSPECTUS

We have not authorized anyone to provide you with additional or different information from that contained or incorporated by reference in this prospectus. We take no responsibility for, and can provide no assurances as to the reliability of, any other information that you may obtain from other sources. You should assume that the information contained in this prospectus is accurate only as of the date on the front cover of this prospectus and any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference, regardless of the time of delivery of this prospectus or any exercise of the subscription rights.

This prospectus does not offer to sell, or ask for offers to buy, any shares of our Series A Preferred in any state or jurisdiction (within or outside the United States) where it would not be lawful or where the person making the offer is not qualified to do so.

As used in this prospectus, “Sevcon,” “Company,” “we,” “us,” and “our” refer to Sevcon, Inc. and its subsidiaries.

As permitted under the rules of the Securities and Exchange Commission, or the SEC, this prospectus incorporates important business information about Sevcon, Inc. that is contained in documents that we file with the SEC, but that are not included in or delivered with this prospectus. You may obtain copies of these documents, without charge, from the website maintained by the SEC at www.sec.gov, as well as other sources. See “Incorporation by Reference” and “Available Information” in this prospectus.

For Investors in the United Kingdom

This prospectus is directed at existing stockholders of Sevcon, Inc., only. The contents of this prospectus have not been approved by an authorised person within the meaning of the United Kingdom’s Financial Services and Markets Act 2000. This prospectus is exempt from the requirement to be approved by such a person on the ground that it is being communicated to existing stockholders of Sevcon, Inc only. Reliance on this prospectus for the purpose of engaging in any investment activity may expose an individual to a significant risk of losing all of the property or other assets invested. Any person who is in any doubt about the investment to which this prospectus relates should consult an authorised person specialising in advising on investments of the kind in question.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference in this prospectus include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Any statement that is not a statement of historical fact should be considered a forward-looking statement. We often use words or phrases of expectation or uncertainty like “believe,” “anticipate,” “plan,” “expect,” “intent,” “project,” “future,” “may,” “will,” “could,” “would” and similar words to help identify forward-looking statements. Examples of forward-looking statements include statements regarding our future financial results, operating results, business strategies, projected costs, product development or future sales, competitive positions and plans and objectives of management for future operations.

We have based these forward-looking statements on our current expectations and projections about future events. However, they are subject to various risks and uncertainties, many of which are outside our control, including that demand for our products fluctuates significantly because our traditional industrial markets are highly cyclical, the markets for on-road electric vehicles are still developing and are sensitive to disruption for a variety of reasons, our engineering resources may not be adequate to satisfy changing customer requirements, there is competitive pressure on our sales and pricing, we may not be able to recoup increases in material and other production costs in product pricing, the risk of adverse global economic, political and financial conditions, and the circumstances described under the caption “Risk Factors.” Accordingly, our actual results or financial condition could differ materially and adversely

from those discussed in, or implied by, these forward-looking statements.

All later written and oral forward-looking statements attributable to us or a person acting on our behalf are expressly qualified in their entirety by the applicable cautionary statements. Each forward-looking statement speaks only as of the date on which it is made, and, except to the extent required by federal securities laws, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

We caution you not to place undue reliance on our forward-looking statements. You should carefully read this entire prospectus and the documents incorporated by reference in this prospectus, particularly the section entitled “Risk Factors.”

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PROSPECTUS SUMMARY

This summary highlights specific information contained elsewhere. However, this summary is not complete and does not contain all of the information you should consider before investing in the subscription rights or Series A Preferred, and it is qualified in its entirety by the more detailed information included in this prospectus. To understand the rights offering fully, you should carefully read this entire prospectus, including the risks discussed under the “Risk Factors” section, our financial statements and related notes and the other information incorporated by reference herein as described under “Incorporation by Reference.”

The Company	Sevcon is a Delaware corporation that designs and sells motor controllers for zero emission and hybrid electric vehicles, primarily to manufacturers of vehicles for both on-road and off-road applications. We also manufacture special metalized film capacitors. We sell to global customers through wholly-owned subsidiaries located in the United States, England, France, South Korea and Japan. Our principal executive offices are located at 155 Northboro Road, Southborough, Massachusetts 01772, where our telephone number is (508) 281-5510.
Subscription Rights	We are distributing, at no charge, to holders of our common stock transferable subscription rights to purchase up to 465,500 shares of our Series A Preferred. You will receive one subscription right, exercisable for the purchase of 0.13022 shares of Series A Preferred, for each share of common stock you owned on the record date; provided that each holder of common stock will be able to subscribe for at least one share of Series A Preferred.
Securities Offered	Each share of Series A Preferred carries a 4% cumulative annual dividend on the Stated Value of \$24.00 per share; will be convertible into shares of our common stock at an initial conversion price of \$8.00 per share, representing a conversion ratio of three shares of common stock for each share of Series A Preferred held at the time of conversion, subject to adjustment; may be subject to mandatory conversion after five years; and will have a priority upon liquidation equal to the greater of \$24.00 per share and the amount payable on the number of shares of common stock into which a share of Series A Preferred would have been converted. See “Description of Capital Stock—Preferred Stock—Series A Convertible Preferred Stock” on page 26 for more information about the terms of the Series A Preferred. Shares will be issued only in book entry form.
Subscription Price	\$21.50 per whole share of Series A Preferred, payable in cash. To be effective, any payment for the exercise of a right must clear before the expiration of the rights offering.
Basic Subscription Right	Each subscription right will entitle you to purchase 0.13022 shares of our Series A Preferred at a subscription price of \$21.50 per share, which we refer to as the basic subscription right. See “The Rights Offering—The Subscription Rights—Basic Subscription Right” on page 15 for more information.
Over-Subscription Right	If you fully exercise your basic subscription right and other stockholders do not fully exercise their basic subscription rights, you may also exercise an over-subscription right to purchase additional shares of Series A Preferred that remain unsubscribed at the expiration of the rights offering, subject to availability. If the number of unsubscribed shares is not sufficient to satisfy all of the properly exercised over-subscription rights requests, the available shares will be prorated among those who properly exercised over-subscription rights in proportion to their respective basic subscription rights. See “The Rights Offering—The Subscription Rights—Over-Subscription Right” on page 15 for more information.

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Record Date	5:00 p.m., Eastern Daylight Time, on July 25, 2014.
Expiration Date	5:00 p.m., Eastern Daylight Time, on September 8, 2014.
Use of Proceeds	We intend to use the capital raised in the rights offering for general corporate purposes and growth, including but not limited to funding our ongoing research and development and product commercialization initiatives and acquisitions of other businesses. See “Use of Proceeds” on page 14 for more information.
Transferability of Rights	The subscription rights issued in the rights offering are transferable, and we intend to list them for trading on the NASDAQ Capital Market under the symbol “SEVRR” during the course of this rights offering. See “The Rights Offering—Transferability of Rights” on page 20 for more information.
Standby Purchase Commitment	One of our directors individually and an investment fund of which another director is managing partner and an owner have agreed to purchase shares of Series A Preferred not subscribed for by other stockholders up to an aggregate amount of \$1.15 million, less any amount they invest to purchase shares upon exercise of subscription rights. Any such “standby” purchase will be conditioned on the Company’s having received subscriptions of a minimum of \$4 million from other investors and will be made in a transaction separate from the rights offering at the same subscription price offered to stockholders. We will pay no fees or other consideration in connection with their commitments. See “The Rights Offering- Standby Purchase Commitment and Management Participation.”
No Board Recommendation	Our board of directors is making no recommendation regarding your exercise of the subscription rights. You are urged to make your decision based on your own assessment of our business and the rights offering. Please see “Risk Factors” on page 10 for a discussion of some of the risks involved in investing in our common stock.
Intentions of the Company’s Directors and Senior Management	A majority of the members of our board of directors and senior management have advised us they intend to exercise the basic subscription privilege under rights received and that they also may exercise their over-subscription privilege with respect to additional shares that become available for purchase. Their expressed intention does not constitute a binding obligation on their part.
No Revocation	All exercises of subscription rights are irrevocable, even if you later learn information that you consider to be unfavorable to the exercise of your subscription rights and even if the rights offering is extended by our board of directors. You should not exercise your subscription rights unless you are certain that you wish to purchase shares of our Series A Preferred at a subscription price of \$21.50 per share.
U.S. Federal Income Tax Considerations	For U.S. federal income tax purposes, you generally should not recognize income or loss in connection with the receipt or exercise of subscription rights unless the rights offering is part of a “disproportionate distribution” within the meaning of applicable tax law, in which case you may recognize taxable income upon receipt of the subscription rights. We believe that the rights offering should not be part of a disproportionate distribution. The disproportionate distribution rules are complicated, however, and their application is uncertain. This position is not binding on the Internal Revenue Service or the courts and accordingly, it is possible that the IRS could challenge this position. You may be required to allocate a portion of your tax basis in your common stock to the subscription rights we distribute to you in the offering, depending on the value of the subscription rights. For further information, please see “Material U.S. Federal Income

Tax Consequences” beginning on page 29. You are urged to consult your own tax advisor as to your particular tax consequences resulting from the receipt and the disposition or exercise of subscription rights and the receipt, ownership and disposition of Series A Preferred.

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Extension, Cancellation and Amendment	<p>We have the option to extend the rights offering and the period for exercising your subscription rights for a period not to exceed 30 days, although we do not presently intend to do so. If we elect to extend the expiration of the rights offering, we will issue a press release announcing the extension no later than 9:00 a.m., Eastern Daylight Time, on the next business day after the most recently announced expiration of the rights offering. We will extend the duration of the rights offering as required by applicable law or regulation and may choose to extend it if we decide to give investors more time to exercise their subscription rights in this rights offering. Our board of directors may cancel the rights offering at any time before its expiration for any reason. If the rights offering is cancelled, we will issue a press release notifying stockholders of the cancellation and all subscription payments received by the Subscription Agent will be returned, without interest or penalty, as soon as practicable. Our board of directors also reserves the right to amend the terms of the rights offering for any reason, including, without limitation, in order to increase participation in the rights offering. Such amendments may include a change in the subscription price although no such change is presently contemplated. If we should make any fundamental change to the terms set forth in this prospectus, we will file a post-effective amendment to the registration statement in which this prospectus is included, offer potential purchasers who have subscribed for rights the opportunity to cancel such subscriptions and issue a refund of any money advanced by such stockholder and recirculate an updated prospectus after the post-effective amendment is declared effective with the SEC. In addition, upon such event, we may extend the expiration date of this rights offering to allow holders of rights ample time to make new investment decisions and for us to recirculate updated documentation. Promptly following any such occurrence, we will issue a press release announcing any changes with respect to this rights offering and the new expiration date. See “The Rights Offering—Expiration Date, Extension, and Amendments” on page 20 for more information.</p>
Procedures for Exercising Rights	<p>To exercise your subscription rights, you must complete the rights certificate and deliver it to the Subscription Agent, together with full payment for all the subscription rights you elect to exercise under the basic subscription right and over-subscription right. See “The Rights Offering” beginning on page 14 for detailed information on the procedure and requirements for exercising your subscription rights. You may deliver the documents and payments by mail or commercial carrier. If regular mail is used for this purpose, we recommend using registered mail, properly insured, with return receipt requested. If you cannot deliver your rights certificate to the Subscription Agent before the expiration of the rights offering, you may follow the guaranteed delivery procedures described under “The Rights Offering—Guaranteed Delivery Procedures” on page 19.</p>
No Minimum Subscription Requirement	<p>There is no minimum subscription requirement. We will consummate the rights offering regardless of the amount raised from the exercise of basic and over-subscription rights by the expiration date.</p>
Maximum Offering Size	<p>We will raise not more than approximately \$10 million in the rights offering.</p>
Subscription Agent and Information Agent	<p>Broadridge Corporate Issuer Solutions, Inc.</p>
Placement Agent (if requested)	<p>Craig-Hallum Capital Group, LLC</p>

Shares

Outstanding
Before the
Rights
Offering

3,574,765 shares of our common stock were issued and outstanding on the record date. There were no shares of Series A Preferred outstanding on the record date.

Shares

Outstanding
After
Completion
of the Rights
Offering

Assuming that all shares of Series A Preferred offered hereby are issued, we expect 465,500 shares of our Series A Preferred will be outstanding immediately after completion of the rights offering, which would be convertible into 1,396,500 shares of common stock.

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Fees and Expenses	We will pay the fees and expenses we incur related to the rights offering.
NASDAQ Capital Market Trading Symbol of our Common Stock	Shares of our common stock are listed for quotation on the NASDAQ Capital Market under the symbol "SEV."
Questions	If you have any questions about the rights offering, including questions about subscription procedures and requests for additional copies of this prospectus or other documents, please contact the Information Agent, Broadridge Corporate Issuer Solutions, Inc., at (855) 793-5068.
Risk Factors	Before you purchase subscription rights or invest in the rights offering, you should be aware that there are risks associated with these transactions, including the risks described in the section entitled "Risk Factors" beginning on page 10 of this prospectus and the risk factors set forth in our quarterly report on Form 10-Q for the period ending March 29, 2014 and our annual report on Form 10-K for the fiscal year ended September 30, 2013. You should carefully read and consider these risk factors together with all of the other information included in or incorporated by reference into this prospectus before you decide to purchase subscription rights or to exercise your subscription rights to purchase shares of Series A Preferred.

QUESTIONS AND ANSWERS ABOUT THE RIGHTS OFFERING

The following are examples of what we anticipate will be common questions about the rights offering. The answers are based on selected information included elsewhere in this prospectus. The following questions and answers do not contain all of the information that may be important to you and may not address all of the questions that you may have about the rights offering. This prospectus and the documents incorporated by reference contain more detailed descriptions of the terms and conditions of the rights offering and provide additional information about us and our business, including potential risks related to the rights offering, the shares of our Series A Preferred offered hereby and our business. We urge you to read this entire prospectus.

What is the rights offering?

We are distributing to holders of our common stock, at no charge, transferable subscription rights to purchase shares of our Series A Preferred. We have granted to you, as a stockholder on the record date, one subscription right for each share of our common stock you owned at that time. If you hold your shares in the name of a broker, custodian bank, dealer or other nominee who uses the services of the Depository Trust Company, or DTC, DTC will issue one subscription right to the nominee for each share of our common stock you own at the record date. The subscription rights will be evidenced by rights certificates. Each subscription right will entitle the holder to a basic subscription right and an over-subscription right.

Why are we conducting the rights offering?

We are conducting the rights offering to raise capital for general corporate purposes and growth, including but not limited to funding our ongoing research and development and product commercialization initiatives and acquisitions of other businesses. See "Use of Proceeds."

How were the subscription price and conversion price determined?

In determining the subscription price for exercising the rights, as well as the conversion price at which shares of Series A Preferred may be converted to common stock, our board of directors considered a number of factors, including the likely cost of capital from other sources, the price at which our stockholders might be willing to participate in the rights offering, historical and current trading prices of our common stock, the terms of the Series A Preferred and our need for liquidity and capital. The subscription price and the conversion price are not necessarily related to our book value, net worth or any other established criteria of value.

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What is the basic subscription right?

The basic subscription right of each subscription right gives our stockholders the opportunity to purchase 0.13022 shares of our Series A Preferred at a subscription price of \$21.50 per whole share; provided that each holder of common stock will be able to subscribe for at least one share of Series A Preferred. (We will not issue fractional shares of Series A Preferred.) You may exercise the basic subscription right of any number of your subscription rights, or you may choose not to exercise any subscription rights. See “The Rights Offering-The Subscription Rights-Basic Subscription Right.”

What is the over-subscription right?

If you fully exercise your basic subscription right and other stockholders do not fully exercise their basic subscription rights, you may also exercise an over-subscription right to purchase additional shares of Series A Preferred that remain unsubscribed at the expiration of the rights offering, subject to the availability. To the extent the number of unsubscribed shares is not sufficient to satisfy all of the properly exercised over-subscription rights requests, the available shares will be prorated among those who properly exercised over-subscription rights in proportion to their respective basic subscription rights.

In order to properly exercise your over-subscription right, you must deliver the subscription payment for exercise of your over-subscription right before the expiration of the rights offering. Because we will not know the total number of unsubscribed shares before the expiration of the rights offering, if you wish to maximize the number of shares you purchase pursuant to your over-subscription right, you will need to deliver payment in an amount equal to the aggregate subscription price for the maximum number of shares of Series A Preferred available, assuming that no stockholder other than you has purchased any shares of our Series A Preferred pursuant to their basic subscription right and over-subscription right. See “The Rights Offering—The Subscription Rights—Over-Subscription Right.”

Am I required to exercise all of the subscription rights I receive in the rights offering?

No. You may exercise any number of your subscription rights, or you may choose not to exercise any subscription rights. However, if you choose not to exercise your subscription rights in full, your percentage ownership of our common stock will, upon conversion of any shares of Series A Preferred or payment of any dividend thereon in shares of common stock, decrease and your voting and other rights will be diluted further. In addition, if you do not exercise your basic subscription right in full, you will not be entitled to participate in the over-subscription right.

May I transfer my subscription rights?

Yes. The subscription rights issued in the rights offering are transferable, and we intend to list them for trading on the NASDAQ Capital Market under the symbol “SEVRR” during the course of this rights offering. However, we cannot give any assurance that the subscription rights will trade on NASDAQ, that a market for the subscription rights will develop or, if a market does develop, of the prices at which the subscription rights will trade or whether such market will be sustainable throughout the period when the rights are transferable.

How soon must I act to exercise my subscription rights?

The subscription rights may be exercised at any time beginning on the date of this prospectus and before the expiration of the rights offering, which is on September 8, 2014, at 5:00 p.m., Eastern Daylight Time. See “The Rights Offering” beginning on page 14 for detailed information on the procedure and requirements for exercising your subscription rights. If you elect to exercise any rights, the Subscription Agent must actually receive all required documents from you, and your payment must have cleared, before that time. Although we have the option of extending the expiration of the rights offering for a period not to exceed 30 days, we currently do not intend to do so.

How do I exercise my subscription rights? What forms and payment are required to purchase the shares of our Series A Preferred?

If you wish to participate in the rights offering, you must take the following steps:

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deliver payment to the Subscription Agent using one of the methods outlined under “The Rights Offering— Method of Exercising Subscription Rights” and “— Form of Payment” in this prospectus, which payment must have cleared, before 5:00 p.m., Eastern Daylight Time, on September 8, 2014; and deliver a properly completed rights certificate to the Subscription Agent before 5:00 p.m., Eastern Daylight Time, on September 8, 2014.

After I send in my payment and rights certificate, may I cancel my exercise of subscription rights?

No. All exercises of subscription rights are irrevocable, even if you later learn information that you consider to be unfavorable to the exercise of your subscription rights and even if the rights offering is extended by our board of directors. However, if we amend the rights offering to make a material change to the terms set forth in this prospectus, you may cancel your subscription and receive a refund of any money you have advanced. You should not exercise your subscription rights unless you are certain that you wish to purchase shares of our Series A Preferred at a subscription price of \$21.50 per share.

What should I do if I want to participate in the rights offering but my shares are held in the name of my broker, dealer, custodian bank or other nominee?

If you hold your shares of our common stock in the name of a broker, dealer, custodian bank or other nominee, your broker, dealer, custodian bank or other nominee is the “record holder” of the shares you own. The record holder must exercise the subscription rights on your behalf for the shares of our Series A Preferred you wish to purchase.

If you wish to participate in the rights offering and purchase shares of our Series A Preferred, contact the record holder of your shares promptly. You should complete and return to your record holder the form entitled “Beneficial Owner Election Form.” You should receive this form from your record holder with the other rights offering materials.

What will happen if I do not exercise my subscription rights?

If you do not exercise any subscription rights, the number of shares of our common stock you own will not change. However, because each share of Series A Preferred will be convertible into three shares of our common stock, subject to anti-dilution adjustments, the conversion of some or all of the Series A Preferred will dilute the ownership interest of our other common stockholders. Any sales in the public market of our common stock issuable upon such conversion could adversely affect prevailing market prices of the outstanding shares of our common stock.

Are there risks in exercising my subscription rights?

Yes. The exercise of your subscription rights involves risks. Exercising your subscription rights involves the purchase of shares of our Series A Preferred and should be considered as carefully as you would consider any other equity investment. Stockholders who exercise subscription rights risk investment loss on new money invested. We cannot assure you that anyone purchasing Series A Preferred at the subscription price will be able to sell those shares, or the shares of common stock into which the Series A Preferred is convertible, in the future at the same price or a higher price. Among other things, you should carefully consider the risks described under the headings “Risk Factors” in this prospectus and the documents incorporated by reference herein.

When and how will I receive my shares of Series A Preferred?

Shares of Series A Preferred purchased in the rights offering will be issued only in book entry form; i.e., no physical stock certificates will be issued. If you are the holder of record of our common stock (whether you hold share certificates or your shares are maintained in book-entry form by our transfer agent), you will receive a statement of ownership reflecting the shares of Series A Preferred purchased in the offering in the Direct Registration System, or DRS, as soon as practicable after the expiration of the rights offering. If your shares of common stock are registered in “street name,” that is, in the name of a broker, bank or other nominee, your shares of Series A Preferred will be issued to

the same account, and you may request a statement of ownership from the nominee following the expiration of the rights offering.

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If the rights offering is not completed, will my subscription payment be refunded to me?

Yes. The Subscription Agent will hold all funds it receives in a segregated bank account until completion of the rights offering. If the rights offering is not completed, all subscription payments received by the Subscription Agent will be returned, without interest, as soon as practicable. If you own shares in “street name,” the Subscription Agent will return payments to the record holder of the shares.

How do I exercise my subscription rights if I live outside the United States?

Except for stockholders with addresses in the United Kingdom, we will not mail this prospectus or the rights certificates to stockholders whose addresses are outside the United States or who have an army post office or foreign post office address. The Subscription Agent will hold the rights certificates for their account. To exercise subscription rights, our foreign stockholders other than U.K. residents must notify the Subscription Agent and timely follow the procedures described in “The Rights Offering—Foreign Stockholders.”

What fees or charges apply to me if I exercise rights?

We are not charging any fee or sales commission to issue subscription rights to you or to issue shares to you if you exercise your subscription rights. If you exercise your subscription rights through the record holder of your shares, you are responsible for paying any fees your record holder may charge you.

What are the U.S. federal income tax consequences of exercising subscription rights?

For U.S. federal income tax purposes, you generally should not recognize income or loss in connection with the receipt or exercise of subscription rights unless the rights offering is part of a “disproportionate distribution” within the meaning of applicable tax rules (in which case you may recognize taxable income upon receipt of the subscription rights). We believe that the rights offering should not be part of a disproportionate distribution but certain aspects of that determination are unclear. This position is not binding on the Internal Revenue Service (the “IRS”) or the courts, however. You are urged to consult your own tax advisor as to your particular tax consequences resulting from the receipt and exercise of subscription rights and the receipt, ownership and disposition of Series A Preferred. For further information, please see “Material United States Federal Income Tax Consequences.”

Are we requiring a minimum subscription to complete the rights offering?

No.

Are there any conditions to completing the rights offering?

No.

Have any purchase commitments already been made?

Yes. In order to help ensure the success of the financing, Meson Capital LP, whose managing partner is Ryan Morris, one of our directors, and Walter Schenker, another of our directors, have agreed to purchase shares of Series A Preferred not subscribed for by other stockholders up to an aggregate amount of \$1.15 million, less any amount they invest to purchase shares upon exercise of subscription rights, including any rights they have purchased. Any such “standby” purchase will be conditioned on the Company’s having received subscriptions of a minimum of \$4 million from other investors and will be made in a transaction separate from the rights offering at the same subscription price offered to stockholders. We will pay no fees or other consideration in exchange for these standby commitments.

How many shares of common stock will Meson and Mr. Schenker own after the rights offering?

If Meson purchases \$1.0 million of Series A Preferred at the subscription price, it will acquire 46,512 shares. If Mr. Schenker purchases \$150,000 of Series A Preferred at the subscription price, he will acquire 6,977 shares. With the shares they owned on the record date, they would beneficially own 161,724 shares and 23,531 shares, respectively, or a total of approximately 3.7% of the outstanding shares on an as-converted to-common basis, assuming exercise of all other basic subscription rights by our other stockholders.

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Has the Company's board of directors made a recommendation to our stockholders regarding the rights offering?

Our board of directors does not make any recommendation to stockholders regarding the exercise of rights under the rights offering. You should make an independent investment decision about whether or not to exercise your rights.

How much money will the Company receive from the rights offering?

Assuming all the shares of Series A Preferred offered are sold, the gross proceeds from the rights offering will be \$10 million.

Can the Company's board of directors extend, cancel or amend the rights offering?

Yes. We have the option to extend the rights offering and the period for exercising your subscription rights for a period not to exceed 30 days, although we do not presently intend to do so. If we elect to extend the expiration of the rights offering, we will issue a press release announcing such extension no later than 9:00 a.m., Eastern Daylight Time, on the next business day after the most recently announced expiration of the rights offering. We will extend the duration of the rights offering as required by applicable law or regulation and may choose to extend it if we decide to give investors more time to exercise their subscription rights in this rights offering.

Our board of directors may cancel the rights offering at any time before the expiration of the rights offering for any reason. In the event that the rights offering is cancelled, we will issue a press release notifying stockholders of the cancellation and all subscription payments received by the Subscription Agent will be returned, without interest or penalty, as soon as practicable.

Although we do not presently intend to do so, we reserve the right to amend or modify the terms of the rights offering for any reason, including, without limitation, in order to increase participation in the rights offering. Such amendments or modifications may include a change in the subscription price although no such change is presently contemplated. If we should make any fundamental changes to the terms set forth in this prospectus, we will file a post-effective amendment to the registration statement in which this prospectus is included, offer potential purchasers who have subscribed for rights the opportunity to cancel their subscriptions, issue a refund of any money advanced by such stockholder and recirculate an updated prospectus after the post-effective amendment is declared effective by the SEC. In addition, upon such event, we may extend the expiration date of this rights offering to allow holders of rights ample time to make new investment decisions and for us to recirculate updated documentation. Promptly following any such occurrence, we will issue a press release announcing any changes and the new expiration date.

Will there be a trading market for Series A Preferred?

We do not intend to apply to list the Series A Preferred for trading on any stock exchange. There is currently no market for the Series A Preferred and an active trading market is unlikely to develop. Conversion into the underlying shares of our common stock and sale of those shares may be the only way for you to liquidate your investment in any shares of Series A Preferred.

As a holder of Series A Preferred, am I entitled to any rights with respect to the Company's common stock?

Before being converted into our common stock, ownership of Series A Preferred does not entitle you to any rights with respect to the common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock). You will only be entitled to rights on the common stock if and when we deliver shares of common stock to you upon conversion of your Series A Preferred.

Whom should I contact if I have other questions?

If you have other questions or need assistance, please contact the Information Agent, Broadridge Corporate Issuer Solutions, Inc., at (855) 793-5068.

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RISK FACTORS

An investment in our securities involves a high degree of risk. You should carefully consider the risks described below, together with the other information contained or incorporated by reference into this prospectus, including the other risks and information contained in the sections entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operation” in our Annual Report on Form 10-K for 2013 and our Quarterly Report on Form 10-Q for the quarter ended March 29, 2014, respectively, and any risks described in our other filings with the Securities and Exchange Commission before making a decision to invest in the Series A Preferred.

The risks described below and in the documents referred to in the preceding sentence are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations. If any of the following risks actually occurs, our business, results of operations and financial condition could suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

We cannot guarantee that there will be a market for the subscription rights.

Although the subscription rights issued in the rights offering are transferable and we intend to list them for trading on the NASDAQ Capital Market during the course of the rights offering, we cannot give any assurance that the subscription rights will trade on NASDAQ, that an active market for the subscription rights will be maintained during the course of the rights offering, or, if a market does develop, of the prices at which the subscription rights will trade. You may have difficulty selling your subscription rights should you decide to do so. Any market price of our subscription rights may not necessarily bear any relationship to our book value, assets, past operating results, financial condition or any other established criteria of value, and may not be indicative of the market price for shares of our common stock or Series A Preferred in the future.

The subscription price determined for the rights offering is not necessarily an indication of the fair value of our common stock or the Series A Preferred.

In determining the subscription price, our board of directors considered a number of factors, including the likely cost of capital from other sources, the price at which our stockholders might be willing to participate in the rights offering, historical and current trading prices of our common stock, the terms of the Series A Preferred and our need for liquidity and capital. The subscription price is not necessarily related to our book value, net worth or any other established criteria of value.

The conversion price for the Series A Preferred is also not necessarily an indication of the fair value of our common stock.

Each share of Series A Preferred will be convertible into shares of our common stock at an initial conversion price of \$8.00 per share of common stock. That price, which is subject to adjustment, represents a conversion ratio of three shares of common stock for each share of Series A Preferred held at the time of conversion. It was set by our board of directors based on a number of factors and is not necessarily related to our book value, net worth or any other established criteria of value. We can give no assurance that the market price of our common stock will ever exceed the conversion price of the Series A Preferred.

We may cancel the rights offering at any time before its expiration, and neither we nor the Subscription Agent will have any obligation to you except to return your subscription payments.

We may, in our sole discretion, decide to cancel the rights offering before its expiration date. If the rights offering is cancelled, we will issue a press release notifying stockholders of the cancellation and all payments received by the

Subscription Agent for the exercise of subscriptions will be returned, without interest, as soon as practicable. Neither we nor the Subscription Agent will have any further obligation to you in that case, including but not limited to any obligation to reimburse you for any amount you have paid to purchase subscription rights that are no longer exercisable.

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The rights offering does not have a minimum amount of proceeds and there can be no assurance that stockholders will choose to exercise their subscription rights, which means that if you exercise your rights you may be investing in a company that continues to desire additional capital.

There can be no assurance that any stockholders will exercise their subscription rights. There is no minimum amount of proceeds required to complete thg to buy your notes in any secondary market (if any exists) at any time.

Our initial estimated value is not determined by reference to credit spreads or the borrowing rate we would pay for our conventional fixed-rate debt securities. The internal funding rate used in the determination of our initial estimated value of the notes generally represents a discount from the credit spreads for our conventional fixed-rate debt securities and the borrowing rate we would pay for our conventional fixed-rate debt securities. If we were to use § the interest rate implied by the credit spreads for our conventional fixed-rate debt securities, or the borrowing rate we would pay for our conventional fixed-rate debt securities, we would expect the economic terms of the notes to be more favorable to you. Consequently, our use of an internal funding rate for the notes would have an adverse effect on the economic terms of the notes, the initial estimated value of the notes on the pricing date, and the price at which you may be able to sell the notes in any secondary market.

A trading market is not expected to develop for the notes. Neither we nor MLPF&S is obligated to make a market § for, or to repurchase, the notes. There is no assurance that any party will be willing to purchase your notes at any price in any secondary market.

Our business, hedging and trading activities, and those of MLPF&S and our respective affiliates (including trades in § shares of companies included in the Index), and any hedging and trading activities we, MLPF&S or our respective § affiliates engage in for our clients' accounts, may affect the market value and return of the notes and may create conflicts of interest with you.

§ The Index sponsor may adjust the Index in a way that may adversely affect its level and your interests, and the § Index sponsor has no obligation to consider your interests.

§ You will have no rights of a holder of the securities included in the Index, and you will not be entitled to receive § securities or dividends or other distributions by the issuers of those securities.

While we, MLPF&S or our respective affiliates may from time to time own securities of companies included in the § Index, we, MLPF&S and our respective affiliates do not control any company included in the Index, and have not verified any disclosure made by any other company.

§ There may be potential conflicts of interest involving the calculation agent, which is MLPF&S. We have the right to § appoint and remove the calculation agent.

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§ The U.S. federal income tax consequences of the notes are uncertain, and may be adverse to a holder of the notes.

§ See "Summary of U.S. Federal Income Tax Consequences" below.

The conclusion that no portion of the interest paid or credited or deemed to be paid or credited on a note will be "Participating Debt Interest" subject to Canadian withholding tax is based in part on the current published administrative position of the CRA. There cannot be any assurance that CRA's current published administrative practice will not be subject to change, including potential expansion in the current administrative interpretation of Participating Debt Interest subject to Canadian withholding tax. If, at any time, the interest paid or credited or deemed to be paid or credited on a note is subject to Canadian withholding tax, you will receive an amount that is § less than the Redemption Amount. You should consult your own adviser as to the potential for such withholding and the potential for reduction or refund of part or all of such withholding, including under any bilateral Canadian tax treaty the benefits of which you may be entitled. For a discussion of the Canadian federal income tax consequences of investing in the notes, see "Summary of Canadian Federal Income Tax Consequences" below, "Canadian Taxation—Debt Securities" on page 50 of the prospectus dated February 1, 2017, and "Supplemental Discussion of Canadian Federal Income Tax Consequences" on page PS-29 of product prospectus supplement EQUITY INDICES SUN-1.

Additional Risk Factors

The notes are subject to risks associated with small-size capitalization companies.

The stocks composing the Index are issued by companies with small-sized market capitalization. The stock prices of small-size companies may be more volatile than stock prices of large capitalization companies. Small-size capitalization companies may be less able to withstand adverse economic, market, trade and competitive conditions relative to larger companies. Small-size capitalization companies may also be more susceptible to adverse developments related to their products or services.

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The Index

All disclosures contained in this term sheet regarding the Index, including, without limitation, its make-up, method of calculation, and changes in its components, have been derived from publicly available sources. The Index was developed by Russell Investments ("Russell") before FTSE International Limited and Russell combined in 2015 to create FTSE Russell, which is wholly owned by London Stock Exchange Group. The information reflects the policies of, and is subject to change by, FTSE Russell (the "Index sponsor"). The Index sponsor, which licenses the copyright and all other rights to the Index, has no obligation to continue to publish, and may discontinue publication of, the Index. The consequences of the Index sponsor discontinuing publication of the Index are discussed in the section entitled "Description of the Notes—Discontinuance of an Index" beginning on page PS-22 of product prospectus supplement EQUITY INDICES SUN-1. None of us, the calculation agent, or MLPF&S accepts any responsibility for the calculation, maintenance or publication of the Index or any successor index.

General

The Index measures the composite price performance of stocks of 2,000 companies in the U.S. equity market. As of February 28, 2018, the top five Russell Global Sectors were Financial Services, Health Care, Technology, Producer Durables and Consumer Discretionary. (Sector designations are determined by the Index sponsor using criteria it has selected or developed. Index sponsors may use very different standards for determining sector designations. In addition, many companies operate in a number of sectors, but are listed in only one sector and the basis on which that sector is selected may also differ. As a result, sector comparisons between indices with different index sponsors may reflect differences in methodology as well as actual differences in the sector composition of the indices.)

The Index includes approximately 2,000 of the smallest securities that form the Russell 3000® Index. The Russell 3000® Index is comprised of the 3,000 largest companies, or 98% based on market capitalization, of the investable U.S. equity market. The Index is designed to track the performance of the small capitalization segment of the U.S. equity market.

Selection of Constituent Stocks of the Index

The Index is a sub-index of the Russell 3000® Index. To be eligible for inclusion in the Russell 3000® Index, and, consequently, the Index, a company's stocks must be listed on the last trading day of May of a given year and FTSE Russell must have access to documentation verifying the company's eligibility for inclusion. Eligible initial public offerings are added to Russell U.S. Indices at the end of each calendar quarter, based on total market capitalization rankings within the market-adjusted capitalization breaks established during the most recent reconstitution. To be added to any Russell U.S. index during a quarter outside of reconstitution, initial public offerings must meet additional eligibility criteria.

A company is included in the U.S. equity markets and is eligible for inclusion in the Russell 3000® Index, and consequently, the Index, if that company incorporates in, has its headquarters in and also trades with the highest liquidity (as defined by a two-year average daily dollar trading volume from all exchanges) in the United States or its territories. If a company satisfies any one of these criteria and the primary location of that company's assets or its revenue, based on an average of two years of assets or revenues data, is also in the United States, that company will also be considered part of the U.S. equity market. In addition, if there is insufficient information to assign a company to the U.S. equity markets based on its assets or revenue, the company may nonetheless be assigned to the U.S. equity markets if the headquarters of the company is located in certain "benefit-driven incorporation countries," or "BDIs," and that company's most liquid stock exchange is also in the United States. The BDI countries are Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, Bermuda, Bonaire, British Virgin Islands, Cayman Islands, Channel Islands, Cook Islands, Curacao, Faroe Islands, Gibraltar, Guernsey, Isle of Man, Jersey, Liberia, Marshall Islands,

Panama, Saba, Sint Eustatius, Sint Maarten and Turks and Caicos Islands. ADRs and ADSs are not eligible for inclusion in the Index.

Exclusions from the Index

FTSE Russell specifically excludes the following companies and securities from the Index: (i) preferred and convertible preferred stock, redeemable shares, participating preferred stock, warrants, rights, installment receipts and trust receipts; (ii) royalty trusts, U.S. limited liability companies, closed-end investment companies (companies that are required to report Acquired Fund Fees and Expenses, as defined by the SEC, including business development companies), blank check companies, special purpose acquisition companies and limited partnerships; (iii) companies with a total market capitalization less than \$30 million; (iv) companies with only a small portion of their shares available in the marketplace (companies with 5% or less float); (v) bulletin board, pink sheets or over-the-counter traded securities; (vi) companies that generate, or have historically generated, unrelated business taxable income and have not taken steps to block their unrelated business taxable income to equity holders; and (vii) exchange traded funds and mutual funds.

Initial List of Eligible Securities

The primary criterion FTSE Russell uses to determine the initial list of securities eligible for the Russell 3000[®] Index and consequently, the Index, is total market capitalization, which is calculated by multiplying the total outstanding shares for a company times the market price as of the "rank day" (typically the last trading day in May but a confirmed timetable is announced each spring) in May. All common stock share classes are combined in determining market capitalization. If multiple share classes have been combined, the pricing vehicle will be designated as the share class with the highest two-year trading volume as of the rank day in May. In cases where the common stock share classes act independently of each other (e.g., tracking stocks), each class is considered for inclusion separately. Stocks must have a closing price at or above \$1.00 on their primary exchange on the last trading day of May of each year to be eligible for inclusion in the Index. In order to reduce unnecessary turnover, if an existing member's closing price is less than \$1.00 on the last

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trading day of May, it will be considered eligible if the average of the daily closing prices from their primary exchange during the month of May is equal to or greater than \$1.00.

Annual Reconstitution

The Index is reconstituted annually by FTSE Russell to reflect changes in the marketplace. The list of companies is ranked based on total market capitalization on the rank day in May, with the actual reconstitution effective on the first trading day following the final Friday of June each year, unless the final Friday in June is the 29th or 30th, in which case reconstitution will be effective on the preceding Friday. Changes in the constituents are preannounced and subject to change if any corporate activity occurs or if any new information is received prior to release.

Index Calculation and Capitalization Adjustments

As a capitalization-weighted index, the Index reflects changes in the capitalization, or market value, of the underlier stocks relative to the capitalization on a base date. This discussion describes the "price return" calculation of the Index. The current Index value is the compounded result of the cumulative daily (or monthly) return percentages, where the starting value of the Index is equal to the base value (100) and base date (December 31, 1978). Returns between any two dates can then be derived by dividing the ending period index value (IV_1) by the beginning period (IV_0) index value, so that the return equals $[(IV_1 / IV_0) - 1] * 100$. The ending period index value, for purposes of calculating the Index value, on any date is determined by adding the market values of the underlier stocks, which are derived by multiplying the primary closing price of each stock by the number of available shares, to arrive at the total market capitalization of the 2,000 stocks.

Constituent stocks of the Index are weighted in the Index by their free-float market capitalization, which is calculated by multiplying the primary closing price by the number of free-float shares. Free-float shares are shares that are available to the public for purchase as determined by FTSE Russell. FTSE Russell determines shares available to the public for purchase based on information recorded in corporate filings with the SEC and other reliable sources in the event of missing or questionable data. FTSE Russell removes the following types of shares from total market capitalization to arrive at free-float market capitalization:

Officers and directors' holdings — shares held by officers and directors.

Large private holdings — shares held by an individual, a group of individuals acting together or a corporation (that is included in the Index) if such holdings constitute 10% or more of the shares outstanding.

Institutional holdings — shares held by investment companies, partnerships, insurance companies, mutual funds or banks are excluded if the holding is greater than 30%. If a firm has a direct relationship to the company, such as board representation, they are considered strategic holdings and excluded regardless of the size of holding per the officers and directors' exclusion rule.

Publicly listed companies — shares held by publicly listed companies. Holdings considered as Institutional will be considered as available unless the 30% threshold is surpassed, regardless of listing.

ESOP or LESOP shares — shares held by employee stock ownership plans and leveraged employee stock ownership plans.

Initial public offering lock-ups — shares locked-up during an initial public offering are not available to the public and will be excluded from the market value at the time the initial public offering enters the Index.

Government holdings — shareholdings listed as "government of." Shares held by government investment boards and/or investment arms are treated like shares held by large private shareholdings and are excluded if the number of shares is greater than 10% of outstanding shares. Shares held by a government pension plan are considered institutional holdings and will not be excluded unless the holding is greater than 30%.

Corporate Actions Affecting the Index

FTSE Russell adjusts the Index on a daily basis in response to certain corporate actions and events. Therefore, a company's membership in the Index and its weight in the Index can be impacted by these corporate actions. The adjustment is applied based on sources of public information, including press releases and SEC filings. Prior to the completion of a corporate action or event, FTSE Russell estimates the effective date. FTSE Russell will then adjust the anticipated effective date based on public information until the date is considered final. Depending on the time on a given day that an action is determined to be final, FTSE Russell will generally either (1) apply the action before the open on the ex-date or (2) apply the action after providing appropriate notice to its clients regarding the impact of the action and the effective date. FTSE Russell applies the following methodology guidelines when adjusting the Index in response to corporate actions and events:

"No Replacement" Rule — Securities that are deleted from the Index between reconstitution dates, for any reason (e.g., mergers, acquisitions or other similar corporate activity) are not replaced. Thus, the number of securities in the Index over the past year will fluctuate according to corporate activity.

Mergers and Acquisitions — Between constituents: When mergers and acquisitions take place between companies that are both constituents of a Russell index, the target company is deleted and its market capitalization simultaneously moves to the acquiring company's stock. In the absence of an active market for the target company at the time of index implementation, the target company will be deleted from the Index using a synthetic price based on the offer terms. Given sufficient market hours after confirmation, FTSE Russell effects this action after the close on the last day of trade of the target company, or at an appropriate time once the transaction has been deemed to be final (implementation may occur prior to the last day of trade to avoid potential delays with the associated synthetic pricing).

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Between a constituent and a non-constituent: If the target company is a member of the Index, it is deleted from the Index after FTSE Russell determines that the action or event is final. If the acquiring company is a member of the Index, its shares are adjusted by adding the target company's market capitalization (if the increase in shares is greater than 5%). If the target company is not a member of a Russell index shares of the acquiring company will remain unchanged. If a non-index member acquires an index member, the acquired member will be deleted from the Index once the action is final.

Reincorporation — Members of the Index that reincorporate to another country and continue to trade in the United States and companies that reincorporate to the United States during the year are analyzed for assignment by FTSE Russell during annual reconstitution. Members that reincorporate in another country and no longer trade in the United States are immediately deleted from the Russell U.S. indices.

Reclassification of shares (pricing vehicles) — Pricing vehicles will not be assessed or changed outside of a reconstitution period unless the existing class ceases to exist. In the event of extenuating circumstances signaling a necessary pricing vehicle change, proper notification will be made.

Rights Offerings — Rights offered to shareholders are reflected in the Index only if the subscription price of the rights is at a discount to the market price. Provided that FTSE Russell has been alerted to the rights offer prior to the ex-date, it will adjust the price of the stock for the value of the rights and increased shares according to the terms of the offering before the open on the ex-date. Where the Rights Issue / Entitlement offer subscription price remains unconfirmed on the ex-date, an estimated price will be used. FTSE Russell will estimate the subscription price using the value being raised and the offer terms. This treatment applies for both transferable and non-transferable rights. Rights issued as part of a poison pill arrangement or entitlements that give shareholders the right to purchase ineligible securities such as convertible debt are excluded from this treatment.

Changes to Shares Outstanding — Changes to shares outstanding due to buybacks (including Dutch auctions), secondary offerings, and other potential changes are generally updated at the end of each month. FTSE Russell only applies month-end changes to available shares outstanding if the cumulative change in the number of shares outstanding is greater than 5%. Share changes that are confirmed by their vendors and verified by FTSE Russell by use of an SEC filing at least six days prior to month end are implemented and communicated to clients who subscribe at the Premier level five trading days prior to month end. The float factor last determined (either at reconstitution or due to a corporate action implementation) is applied to the new shares. No such changes are made in June due to the most recent annual reconstitution. Month-end changes in November and December will be processed as one event after the close on the third Friday of each December along with fourth quarter initial public offerings additions due to low liquidity in the financial markets at the end of the year and the proximity of a separate November month-end process.

Spin-offs — Spin-offs will be valued using an estimate prior to ex-date. When a spin-off results in an eligible security type being listed on an eligible exchange, the spin-off company will remain in the Index until the next index review, regardless of size. When an index constituent spins off an ineligible security type or the spin-off company is listed on an ineligible exchange only, the security will be added to the Index on the ex-date and subsequently removed with notice at market price once "regular way" trade has commenced.

Tender Offers — A company acquired as a result of a cash tender offer is removed if (i) Where offer acceptances are below 90%, there is reason to believe that the remaining free float is under 5% based on information available at the time; or (ii) Following completion of the offer the acquirer has stated intent to finalize the acquisition via a short-form merger, squeeze-out, top-up option or any other compulsory mechanism; or (iii) Offer acceptances reach 90% (initial, extension or subsequent); and (iv) Shareholders have validly tendered and the shares have been irrevocably accepted for payment; and all pertinent offer conditions have been reasonably met and the acquirer has not explicitly stated that it does not intend to acquire the remaining shares.

Voluntary Exchange Offers — A publicly traded company may offer to exchange or split-off some or all of its ownership in a separate publicly traded company. Once the offer expires, FTSE Russell will decrease the available shares in the offering company, and increase the available shares of 'split-off' company, based on the results of the offering. FTSE Russell will effect this change based on, but not limited to, preliminary results, company filings, and exchange notices.

Bankruptcy and Voluntary Liquidations — Companies that file for a Chapter 7 liquidation bankruptcy or have filed a liquidation plan will be removed from the Index at the time of the bankruptcy filing; whereas companies filing for a Chapter 11 reorganization bankruptcy will remain a member of the Index, unless the company is de-listed from the primary exchange, in which case normal de-listing rules apply. If a company files for bankruptcy, is delisted and it can be confirmed that it will not trade OTC, FTSE Russell may remove the stock at a nominal price of \$0.0001.

Stock Distributions — A price adjustment for stock distributions is applied on the ex-date of the distribution. When the number of shares for the distribution is fixed, FTSE Russell increases the number of shares on the ex-date. When the number of shares is an undetermined amount based on future earnings and profits, FTSE Russell increases the number of shares on the pay-date.

Dividends — FTSE Russell includes gross dividends in the daily total return calculation of the Index on the basis of their ex-dates. If a dividend is payable in stock and cash and the number of shares to be issued cannot be determined by the ex-date, the dividend is treated as all cash. Regular cash dividends are reinvested across the Index at the close on the dividend ex-date, while special cash dividends are subtracted from the price of the stock before the open on the ex-date.

Halted Securities — Halted securities are not removed from the Index until the time they are actually delisted from the exchange. If a security is halted and declared bankrupt without any indication of compensation to shareholders, the last traded price will be adjusted down to zero value and it will subsequently be removed from the Index with T+2 notice. In all other cases, the security will continue to be included in the Index for a period of up to 20 business days at its last traded price. If the security continues to be suspended at the end of a period of up to 20 business days, FTSE Russell will review it to decide whether to remove it at zero value, repeating such

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review as applicable at successive 20 business day intervals until trading recommences or specified time limits expire and the security is removed.

The following graph shows the daily historical performance of the Index in the period from January 1, 2008 through March 27, 2018. We obtained this historical data from Bloomberg L.P. We have not independently verified the accuracy or completeness of the information obtained from Bloomberg L.P. On March 27, 2018, the closing level of the Index was 1,513.566.

This historical data on the Index is not necessarily indicative of the future performance of the Index or what the value of the notes may be. Any historical upward or downward trend in the level of the Index during any period set forth above is not an indication that the level of the Index is more or less likely to increase or decrease at any time over the term of the notes.

Before investing in the notes, you should consult publicly available sources for the levels of the Index.

License Agreement

FTSE Russell has entered into a non-exclusive license agreement with us, granting us, and certain of our affiliates, in exchange for a fee, permission to use the Index in connection with the offer and sale of the notes. We are not affiliated with FTSE Russell; the only relationship between FTSE Russell and us is the licensing of the use of the Russell 2000® Index (a trademark of FTSE Russell) and trademarks relating to the Index. We do not accept any responsibility for the calculation, maintenance or publication of the Index or any successor index.

The notes are not sponsored, endorsed, sold or promoted by FTSE Russell. FTSE Russell makes no representation or warranty, express or implied, to the owners of the notes or any member of the public regarding the advisability of investing in securities generally or in the notes particularly or the ability of the Index to track general stock market performance or a segment of the same.

FTSE Russell's publication of the Index in no way suggests or implies an opinion by FTSE Russell as to the advisability of investment in any or all of the securities upon which the Index is based. FTSE Russell's only relationship to us is the licensing of certain trademarks and trade names of FTSE Russell and of the Index which is determined, composed and calculated by FTSE Russell without regard to us or the notes. FTSE Russell is not responsible for and has not reviewed the notes nor any associated literature or publications and FTSE Russell makes no representation or warranty express or implied as to their accuracy or completeness, or otherwise. FTSE Russell reserves the right, at any time and without notice, to alter, amend, terminate or in any way change the Index. FTSE Russell has no obligation or liability in connection with the administration, marketing or trading of the notes.

FTSE RUSSELL DOES NOT GUARANTEE THE ACCURACY AND/OR THE COMPLETENESS OF THE RUSSELL 2000® INDEX OR ANY DATA INCLUDED THEREIN AND FTSE RUSSELL SHALL HAVE NO LIABILITY FOR ANY ERRORS, OMISSIONS, OR INTERRUPTIONS THEREIN. FTSE RUSSELL MAKES NO WARRANTY, EXPRESS OR IMPLIED, AS TO RESULTS TO BE OBTAINED BY US, INVESTORS, HOLDERS OF THE NOTES, OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE RUSSELL 2000® INDEX OR ANY DATA INCLUDED THEREIN. FTSE RUSSELL MAKES NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE RUSSELL 2000® INDEX OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL FTSE RUSSELL HAVE ANY LIABILITY FOR ANY SPECIAL, PUNITIVE, INDIRECT, OR CONSEQUENTIAL DAMAGES (INCLUDING LOST PROFITS), EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES.

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Supplement to the Plan of Distribution

Under our distribution agreement with MLPF&S, MLPF&S will purchase the notes from us as principal at the public offering price indicated on the cover of this term sheet, less the indicated underwriting discount.

We may deliver the notes against payment therefor in New York, New York on a date that is greater than two business days following the pricing date. Under Rule 15c6-1 of the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, if the initial settlement of the notes occurs more than two business days from the pricing date, purchasers who wish to trade the notes more than two business days prior to the original issue date will be required to specify alternative settlement arrangements to prevent a failed settlement.

The notes will not be listed on any securities exchange. In the original offering of the notes, the notes will be sold in minimum investment amounts of 100 units. If you place an order to purchase the notes, you are consenting to MLPF&S acting as a principal in effecting the transaction for your account.

MLPF&S may repurchase and resell the notes, with repurchases and resales being made at prices related to then-prevailing market prices or at negotiated prices, and these prices will include MLPF&S's trading commissions and mark-ups. MLPF&S may act as principal or agent in these market-making transactions; however, it is not obligated to engage in any such transactions. At MLPF&S's discretion, for a short, undetermined initial period after the issuance of the notes, MLPF&S may offer to buy the notes in the secondary market at a price that may exceed the initial estimated value of the notes. Any price offered by MLPF&S for the notes will be based on then-prevailing market conditions and other considerations, including the performance of the Index and the remaining term of the notes. However, none of us, MLPF&S, or any of our respective affiliates is obligated to purchase your notes at any price or at any time, and we cannot assure you that we, MLPF&S or any of our respective affiliates will purchase your notes at a price that equals or exceeds the initial estimated value of the notes.

The value of the notes shown on your account statement produced by MLPF&S will be based on MLPF&S's estimate of the value of the notes if MLPF&S or another of its affiliates were to make a market in the notes, which it is not obligated to do. That estimate will be based upon the price that MLPF&S may pay for the notes in light of then-prevailing market conditions, and other considerations, as mentioned above, and will include transaction costs. At certain times, this price may be higher than or lower than the initial estimated value of the notes.

The distribution of the Note Prospectus in connection with these offers or sales will be solely for the purpose of providing investors with the description of the terms of the notes that was made available to investors in connection with their initial offering. Secondary market investors should not, and will not be authorized to, rely on the Note Prospectus for information regarding BNS or for any purpose other than that described in the immediately preceding sentence.

An investor's household, as referenced on the cover of this term sheet, will generally include accounts held by any of the following, as determined by MLPF&S in its discretion and acting in good faith based upon information then available to MLPF&S:

- the investor's spouse (including a domestic partner), siblings, parents, grandparents, spouse's parents, children and grandchildren, but excluding accounts held by aunts, uncles, cousins, nieces, nephews or any other family relationship not directly above or below the individual investor;
- a family investment vehicle, including foundations, limited partnerships and personal holding companies, but only if the beneficial owners of the vehicle consist solely of the investor or members of the investor's household as described above; and

a trust where the grantors and/or beneficiaries of the trust consist solely of the investor or members of the investor's household as described above; provided that, purchases of the notes by a trust generally cannot be aggregated together with any purchases made by a trustee's personal account.

Purchases in retirement accounts will not be considered part of the same household as an individual investor's personal or other non-retirement account, except for individual retirement accounts ("IRAs"), simplified employee pension plans ("SEPs"), savings incentive match plan for employees ("SIMPLEs"), and single-participant or owners only accounts (i.e., retirement accounts held by self-employed individuals, business owners or partners with no employees other than their spouses).

Please contact your Merrill Lynch financial advisor if you have any questions about the application of these provisions to your specific circumstances or think you are eligible.

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Structuring the Notes

The notes are our unsecured senior debt securities, the return on which is linked to the performance of the Index. As is the case for all of our debt securities, including our market-linked notes, the economic terms of the notes reflect our actual or perceived creditworthiness at the time of pricing. The internal funding rate we use in pricing the market-linked note is typically lower than the rate we would pay when we issue conventional fixed-rate debt securities of comparable maturity. This generally relatively lower internal funding rate, which is reflected in the economic terms of the notes, along with the fees and charges associated with market-linked notes, typically results in the initial estimated value of the notes on the pricing date being less than their public offering price.

Payments on the notes, including the amount you receive at maturity or upon an automatic call, will be calculated based on the performance of the Index and the \$10 per unit principal amount. In order to meet these payment obligations, at the time we issue the notes, we may choose to enter into certain hedging arrangements (which may include call options, put options or other derivatives) with MLPF&S or one of its affiliates. The terms of these hedging arrangements are determined by seeking bids from market participants, including MLPF&S and its affiliates, and take into account a number of factors, including our creditworthiness, interest rate movements, the volatility of the Index, the tenor of the notes and the tenor of the hedging arrangements. The economic terms of the notes and their initial estimated value depend in part on the terms of these hedging arrangements.

MLPF&S has advised us that the hedging arrangements will include a hedging related charge of approximately \$0.075 per unit, reflecting an estimated profit to be credited to MLPF&S from these transactions. Since hedging entails risk and may be influenced by unpredictable market forces, additional profits and losses from these hedging arrangements may be realized by MLPF&S or any third party hedge providers.

For further information, see "Risk Factors—General Risks Relating to the Notes" beginning on page PS-7 and "Use of Proceeds and Hedging" on page PS-17 of product prospectus supplement EQUITY INDICES SUN-1.

Summary of Canadian Federal Income Tax Consequences

An investor should read carefully the description of principal Canadian federal income tax considerations under "Canadian Taxation" in the accompanying prospectus relevant to a holder (as defined on page 19 of the prospectus) owning debt securities, and the description of principal Canadian federal income tax considerations under "Supplemental Discussion of Canadian Federal Income Tax Consequences" in the applicable product prospectus supplement.

Summary of U.S. Federal Income Tax Consequences

The following is a general description of certain U.S. federal tax considerations relating to the notes. Prospective purchasers of the notes should consult their tax advisors as to the consequences under the tax laws of the country of which they are residents for tax purposes and the tax laws of the U.S. of acquiring, holding and disposing of the notes and receiving payments under the notes. This summary is based upon the law as in effect on the date of this pricing supplement and is subject to any change in law that may take effect after such date. We urge you to read the more detailed discussion in the "Supplemental Discussion of U.S. Federal Income Tax Consequences" section beginning on page PS-30 of product prospectus supplement EQUITY INDICES SUN-1.

No statutory, regulatory, judicial or administrative authority directly discusses how the notes should be treated for U.S. federal income tax purposes. As a result, the U.S. federal income tax consequences of your investment in the notes are uncertain. Accordingly, we urge you to consult your tax advisor as to the tax consequences of your investment in the notes (and of having agreed to the required tax treatment of your notes described below) and as to

the application of state, local or other tax laws to your investment in your notes and the possible effects of changes in federal or other tax laws.

Pursuant to the terms of the notes, BNS and you agree, in the absence of a statutory, regulatory, administrative or judicial ruling to the contrary, to characterize your notes as a pre-paid derivative contract with respect to the Index. If your notes are so treated, you should generally recognize long-term capital gain or loss if you hold your notes for more than one year (and otherwise, short-term capital gain or loss) upon the taxable disposition of your notes in an amount equal to the difference between the amount you receive at such time and the amount you paid for your notes. The deductibility of capital losses is subject to limitations.

However, it is possible that the Internal Revenue Service (the "IRS") could assert that your holding period in respect of your notes should end on the date on which the amount you are entitled to receive upon maturity or automatic call of your notes is determined, even though you will not receive any amounts from the issuer in respect of your notes prior to the maturity or automatic call of your notes. In such case, you may be treated as having a holding period in respect of your notes prior to the maturity or automatic call of your notes, and such holding period may be treated as less than one year even if you receive cash upon the maturity or automatic call of your notes at a time that is more than one year after the beginning of your holding period.

In the opinion of our counsel, Cadwalader, Wickersham & Taft LLP, it would be reasonable to treat your notes in the manner described above. However, because there is no authority that specifically addresses the tax treatment of the notes, it is possible that your notes could alternatively be treated for tax purposes as a single contingent payment debt instrument or pursuant to some other characterization, such that the timing and character of your income from the notes could differ materially from the treatment described above.

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Notice 2008-2. In 2007, the IRS released a notice that may affect the taxation of holders of the notes. According to the notice, the IRS and the U.S. Treasury Department (the "Treasury") are actively considering whether a holder of an instrument such as the notes should be required to accrue ordinary income on a current basis, and they are seeking taxpayer comments on the subject. It is not possible to determine what guidance they will ultimately issue, if any. It is possible, however, that under such guidance, holders of the notes will ultimately be required to accrue income currently and this could be applied on a retroactive basis. The IRS and the Treasury are also considering other relevant issues, including whether additional gain or loss from such instruments should be treated as ordinary or capital, whether foreign holders of such instruments should be subject to withholding tax on any deemed income accruals, and whether the special "constructive ownership rules" of Section 1260 of the Internal Revenue Code of 1986, as amended (the "Code") should be applied to such instruments.

Medicare Tax on Net Investment Income. U.S. holders that are individuals or estates and certain trusts are subject to an additional 3.8% tax on all or a portion of their "net investment income," or "undistributed net investment income" in the case of an estate or trust, which may include any income or gain with respect to the notes, to the extent of their net investment income or undistributed net investment income (as the case may be) that, when added to their other modified adjusted gross income, exceeds \$200,000 for an unmarried individual, \$250,000 for a married taxpayer filing a joint return (or a surviving spouse), \$125,000 for a married individual filing a separate return, or the dollar amount at which the highest tax bracket begins for an estate or trust. The 3.8% Medicare tax is determined in a different manner than the regular income tax. U.S. holders should consult their advisors with respect to the 3.8% Medicare tax.

Specified Foreign Financial Assets. U.S. holders may be subject to reporting obligations with respect to their notes if they do not hold their notes in an account maintained by a financial institution and the aggregate value of their notes and certain other "specified foreign financial assets" (applying certain attribution rules) exceeds an applicable threshold. Significant penalties can apply if a U.S. holder is required to disclose its notes and fails to do so.

Backup Withholding and Information Reporting. The proceeds received from a taxable disposition of the notes will be subject to information reporting unless you are an "exempt recipient" and may also be subject to backup withholding at the rate specified in the Code if you fail to provide certain identifying information (such as an accurate taxpayer number, if you are a U.S. holder) or meet certain other conditions.

Amounts withheld under the backup withholding rules are not additional taxes and may be refunded or credited against your U.S. federal income tax liability, provided the required information is furnished to the IRS.

Non-U.S. Holders. This section applies only if you are a non-U.S. holder. For these purposes, you are a non-U.S. holder if you are the beneficial owner of the notes and are, for U.S. federal income tax purposes:

- a non-resident alien individual;
- a foreign corporation; or
- an estate or trust that, in either case, is not subject to U.S. federal income tax on a net income basis on income or gain from the notes.

If you are a non-U.S. holder, subject to Section 871(m) of the Code and FATCA, discussed below, you should generally not be subject to generally applicable information reporting and backup withholding requirements with respect to payments on your notes if you comply with certain certification and identification requirements as to your foreign status including providing us (and/or the applicable withholding agent) a properly executed and fully completed applicable IRS Form W-8. Subject to Section 897 and Section 871(m) of the Code, discussed below, gain

from the taxable disposition generally will not be subject to U.S. tax unless (i) such gain is effectively connected with a trade or business conducted by you in the U.S. or (ii) you are a non-resident alien individual and are present in the U.S. for 183 days or more during the taxable year of such taxable disposition and certain other conditions are satisfied, (iii) you fail to provide the relevant correct, completed and executed IRS Form W-8, or (iv) you have certain other present or former connections with the U.S.

We will not attempt to ascertain whether the issuer of any underlying equity constituent of the Index would be treated as a "United States real property holding corporation" ("USRPHC") within the meaning of Section 897 of the Code. We also have not attempted to determine whether the Notes should be treated as "United States real property interests" ("USRPI") as defined in Section 897 of the Code. If an issuer of any underlying equity constituent of the Index or the notes were so treated, certain adverse U.S. federal income tax consequences could possibly apply, including subjecting any gain realized by a non-U.S. holder in respect of the notes upon a taxable disposition (including cash settlement) of the notes to U.S. federal income tax on a net basis, and the proceeds from such a taxable disposition to a withholding tax. Non-U.S. holders should consult their tax advisors regarding the potential treatment of any underlying equity constituent for their notes as a USRPHC or the notes as USRPI.

Section 871(m). A 30% withholding tax (which may be reduced by an applicable income tax treaty) is imposed under Section 871(m) of the Code on certain "dividend equivalents" paid or deemed paid to a non-U.S. holder with respect to a "specified equity-linked instrument" that references one or more dividend-paying U.S. equity securities or indices containing U.S. equity securities. The withholding tax can apply even if the instrument does not provide for payments that reference dividends. Treasury regulations provide that the withholding tax applies to all dividend equivalents paid or deemed paid on specified equity-linked instruments that have a delta of one ("delta one specified equity-linked instruments") issued after 2016 and to all dividend equivalents paid or deemed paid on all other specified equity-linked instruments issued after 2018.

Based on our determination that the notes are not "delta-one" with respect to the Index or any U.S. Index components, our counsel is of the opinion that the notes should not be delta one specified equity-linked instruments and thus should not be subject to withholding on

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dividend equivalents. Our determination is not binding on the IRS, and the IRS may disagree with this determination. Furthermore, the application of Section 871(m) of the Code will depend on our determinations made upon issuance of the notes. If withholding is required, we will not make payments of any additional amounts.

Nevertheless, after issuance, it is possible that your notes could be deemed to be reissued for tax purposes upon the occurrence of certain events affecting the Index or Index components or your notes, and following such occurrence your notes could be treated as delta one specified equity-linked instruments that are subject to withholding on dividend equivalents. It is also possible that withholding tax or other tax under Section 871(m) of the Code could apply to the notes under these rules if you enter, or have entered, into certain other transactions in respect of the Index or Index components or the notes. If you enter, or have entered, into other transactions in respect of the Index or Index components or the notes, you should consult your tax advisor regarding the application of Section 871(m) of the Code to your notes in the context of your other transactions.

Because of the uncertainty regarding the application of the 30% withholding tax on dividend equivalents to the notes, you are urged to consult your tax advisor regarding the potential application of Section 871(m) of the Code and the 30% withholding tax to an investment in the notes.

U.S. Federal Estate Tax Treatment of Non-U.S. Holders. A note may be subject to U.S. federal estate tax if an individual non-U.S. holder holds the note at the time of his or her death. The gross estate of a non-U.S. holder domiciled outside the U.S. includes only property situated in the U.S. Individual non-U.S. holders should consult their tax advisors regarding the U.S. federal estate tax consequences of holding the notes at death.

FATCA. The Foreign Account Tax Compliance Act ("FATCA") was enacted on March 18, 2010, and imposes a 30% U.S. withholding tax on "withholdable payments" (i.e., certain U.S.-source payments, including interest (and original issue discount), dividends, other fixed or determinable annual or periodical gain, profits, and income, and on the gross proceeds from a disposition of property of a type which can produce U.S.-source interest or dividends) and "passthru payments" (i.e., certain payments attributable to withholdable payments) made to certain foreign financial institutions (and certain of their affiliates) unless the payee foreign financial institution agrees (or is required), among other things, to disclose the identity of any U.S. individual with an account at the institution (or the relevant affiliate) and to annually report certain information about such account. FATCA also requires withholding agents making withholdable payments to certain foreign entities that do not disclose the name, address, and taxpayer identification number of any substantial U.S. owners (or do not certify that they do not have any substantial U.S. owners) to withhold tax at a rate of 30%. Under certain circumstances, a holder may be eligible for refunds or credits of such taxes.

Pursuant to final and temporary Treasury regulations and other IRS guidance, the withholding and reporting requirements under FATCA will generally apply to certain "withholdable payments" made on or after July 1, 2014, certain gross proceeds on a sale or disposition occurring after December 31, 2018, and certain foreign passthru payments made after December 31, 2018 (or, if later, the date that final regulations defining the term "foreign passthru payment" are published). If withholding is required, we (or the applicable paying agent) will not be required to pay additional amounts with respect to the amounts so withheld. Foreign financial institutions and non-financial foreign entities located in jurisdictions that have an intergovernmental agreement with the U.S. governing FATCA may be subject to different rules.

Investors should consult their own advisors about the application of FATCA, in particular if they may be classified as financial institutions (or if they hold their notes through a non-U.S. entity) under the FATCA rules.

Both U.S. and non-U.S. holders should consult their tax advisors regarding the U.S. federal income tax consequences of an investment in the notes, as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction (including that of BNS).

Where You Can Find More Information

We have filed a registration statement (including a product prospectus supplement, a prospectus supplement, a prospectus addendum and a prospectus) with the SEC for the offering to which this term sheet relates. Before you invest, you should read the Note Prospectus, including this term sheet, and the other documents that we have filed with the SEC, for more complete information about us and this offering. You may get these documents without cost by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, we, any agent, or any dealer participating in this offering will arrange to send you these documents if you so request by calling MLPF&S toll-free at 1-800-294-1322.

Market-Linked Investments Classification

MLPF&S classifies certain market-linked investments (the "Market-Linked Investments") into categories, each with different investment characteristics. The following description is meant solely for informational purposes and is not intended to represent any particular Enhanced Return Market-Linked Investment or guarantee any performance.

Enhanced Return Market-Linked Investments are short- to medium-term investments that offer you a way to enhance exposure to a particular market view without taking on a similarly enhanced level of market downside risk. They can be especially effective in a flat to moderately positive market (or, in the case of bearish investments, a flat to moderately negative market). In exchange for the potential to receive better-than market returns on the linked asset, you must generally accept market downside risk and capped upside potential. As these investments are not market downside protected, and do not assure full repayment of principal at maturity, you need to be prepared for the possibility that you may lose all or part of your investment.

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