ECHELON CORP
Form PRE 14A
September 15, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant **[**X**]**

Filed by a Party other than the Registrant **[ ]**

Check the appropriate box:

[X**]** Preliminary Proxy Statement
[ ] Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[ ] Definitive Proxy Statement
[ ] Definitive Additional Materials
[ ] Soliciting Material Pursuant to §240.14a-12

ECHELON CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X**]** No fee required.
[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it is determined)

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

[ ] Fee paid previously with preliminary proxy materials.
[ ]

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement no.:

(3) Filing Party:

(4) Date Filed:

PRELIMINARY PROXY STATEMENT SUBJECT TO COMPLETION

[Company Logo]

[ ], 2015

Dear Stockholder:

You are cordially invited to attend a special meeting of the stockholders of Echelon Corporation (Echelon), which will be held at Echelon s offices located at 550 Meridian Avenue, San Jose, California 95126 on November 17, 2015, at 10:00 a.m. Pacific Time.

The purpose of the meeting is to approve an amendment to Echelon s amended and restated certificate of incorporation to effect (i) a reverse stock split of all of the outstanding shares of our common stock and those shares held by Echelon in treasury stock, at a ratio of 1-for-10, and (ii) a corresponding reduction in the total number of authorized shares of our common stock from 100,000,000 to 10,000,000. Upon obtaining the requisite approval of our stockholders, the Board of Directors will have the discretion to cause the amendment to the amended and restated certificate of incorporation to be filed with the Secretary of State of the State of Delaware to effect the reverse stock split.

As you know, our common stock is currently listed on The Nasdaq Global Market (Nasdaq). In order to remain listed on Nasdaq, our common stock must meet certain listing standards, including a minimum closing bid price of at least $1.00 per share. Through the date of this letter, our common stock has not satisfied the minimum closing bid requirement since May 12, 2015. As a result, on June 25, 2015, we received a notice of deficiency from Nasdaq indicating that if we do not comply with the minimum bid price rules by December 22, 2015, Nasdaq may delist our stock. The Board of Directors has determined that, absent an increase in the price of our common stock, our common stock likely will be delisted from Nasdaq.

The Board of Directors, with input from senior management, regularly reviews and evaluates Echelon s business and prospects, including the performance of our common stock, with the goal of maximizing stockholder value. On August 6, 2015, we announced that the Board of Directors has authorized its strategic committee of independent directors to identify, evaluate and pursue the feasibility and relative merits of various financial strategies. The Company has not set a definitive timetable for completing this strategic review process and the Board of Directors has determined that the Company should simultaneously proceed with the actions necessary to continue Echelon as a standalone entity. In so doing, the Board of Directors has determined that the proposed reverse stock split is necessary for execution of Echelon s standalone business plan, including the continued listing of our common stock on Nasdaq, and to enhance the desirability and marketability of our common stock to the financial community and investing public.

We believe that the delisting of our common stock would adversely affect Echelon and its stockholders. Among other things, we believe delisting may negatively impact the liquidity, marketability and trading price of our common stock. The Board of Directors has determined that a reverse stock split would help regain compliance with Nasdaq s minimum bid price requirement and potentially provide a number of benefits to Echelon and its existing stockholders, including, but not limited to, increasing interest by brokers and institutional investors and decreasing transaction costs. For these reasons and as described in greater detail in the enclosed proxy statement, the Board of Directors is seeking your approval of the reverse stock split and reduction in the total number of authorized shares of our common stock. You should carefully review the information contained in the proxy statement before making a decision whether to grant proxies to vote your shares in favor of the proposals set forth in the proxy statement.

On behalf of the Board of Directors of Echelon, I would like to express our appreciation for your continued interest in Echelon.

Sincerely,

Ronald A. Sege

President and Chief Executive Officer
Echelon Corporation

Enclosure

PRELIMINARY PROXY STATEMENT SUBJECT TO COMPLETION

[Company Logo]

[ ], 2015

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON NOVEMBER 17, 2015

TO THE STOCKHOLDERS OF ECHELON CORPORATION:

NOTICE IS HEREBY GIVEN that a Special Meeting of Stockholders (the Special Meeting) of Echelon Corporation, a Delaware corporation (Echelon or the Company), will be held on November 17, 2015, at 10:00 a.m. Pacific Time, at our principal executive offices, located at 550 Meridian Avenue in San Jose, California 95126, for the following purposes, as more fully described in the proxy statement accompanying this notice:

1. To approve an amendment to the Company s Amended and Restated Certificate of Incorporation, to effect, at the discretion of the Board of Directors:

   (i) a reverse stock split of all of the outstanding shares of the Company s common stock and those shares held by the Company in treasury stock, whereby each ten (10) shares would be combined, converted and changed into one (1) share of common stock, and

   (ii) a reduction in the total number of authorized shares of common stock from 100,000,000 to 10,000,000, with the effectiveness or abandonment of such amendment to be determined by the Board of Directors as permitted under Section 242(c) of the Delaware General Corporation Law; and

2. To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

The items of business are more fully described in the proxy statement accompanying this Notice of Special Meeting.

Only stockholders of record at the close of business on September 24, 2015 are entitled to vote at the Special Meeting. A list of stockholders entitled to vote at the Special Meeting will be available for inspection at our principal executive offices.

All stockholders are cordially invited to attend the meeting in person. Whether or not you plan to attend, please sign and return the proxy in the envelope enclosed for your convenience, or vote your shares by telephone or by the Internet as promptly as possible. Telephone and Internet voting instructions can be found on the attached proxy. Should you receive more than one proxy because your shares are registered in different names and addresses, each proxy should be signed and returned to assure that all your shares will be voted. You may revoke your proxy at any time prior to the Special Meeting. If you attend the Special Meeting and vote, your proxy will be revoked automatically and only your vote at the Special Meeting will be counted.

Sincerely,

Alicia J. Moore

Senior Vice President, General Counsel and Secretary,

Chief Administrative Officer

San Jose, California
[ ], 2015

YOUR VOTE IS VERY IMPORTANT, REGARDLESS OF THE NUMBER OF SHARES YOU OWN. PLEASE READ THE ATTACHED PROXY STATEMENT CAREFULLY, AND VOTE YOUR SHARES BY TELEPHONE, BY THE INTERNET OR BY COMPLETING, SIGNING AND DATING THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE AND RETURNING IT IN THE ENCLOSED ENVELOPE.

ECHELON CORPORATION

550 Meridian Avenue

San Jose, CA 95126

PROXY STATEMENT

FOR THE SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON NOVEMBER 17, 2015

The Board of Directors of Echelon Corporation is soliciting proxies for the 2015 Special Meeting of Stockholders. This proxy statement contains important information for you to consider when deciding how to vote on the matters brought before the meeting. Please read it carefully.

Our Board of Directors has set September 24, 2015 as the record date for the meeting. Stockholders who owned our common stock at the close of business on September 24, 2015 are entitled to vote at and attend the meeting, with each share entitled to one vote. On the record date, there were [ ] shares of our common stock outstanding and [ ] shares held by the Company in treasury stock. On the record date, the closing sale price of our common stock on The Nasdaq Global Market was $[ ] per share.

General

The enclosed proxy is solicited on behalf of the Board of Directors of Echelon Corporation, a Delaware corporation (Echelon or the Company), for use at the Special Meeting of Stockholders to be held on Tuesday, November 17, 2015 (the Special Meeting). The Special Meeting will be held at 10:00 a.m. Pacific Time at our principal executive offices, located at 550 Meridian Avenue, San Jose, California 95126. These proxy solicitation materials are first being sent or made available on or about [ ], 2015, to all stockholders entitled to vote at our Special Meeting.

Voting

The specific proposals to be considered and acted upon at our Special Meeting are to approve an amendment to the Company s Amended and Restated Certificate of Incorporation (the Amended and Restated Certificate) to effect, at the discretion of the Board of Directors, (i) a reverse stock split of all of the outstanding shares of the Company s common stock and those shares held by the Company in treasury stock, whereby each ten (10) shares would be combined, converted and changed into one (1) share of common stock, and (ii) a reduction in the total number of authorized shares of common stock from 100,000,000 to 10,000,000, with the effectiveness or abandonment of such amendment to be determined by the Board of Directors as permitted under Section 242(c) of the Delaware General Corporation Law. On September 24, 2015, the record date for determination of stockholders entitled to notice of, and to vote at, the Special Meeting (the Record Date), there were [ ] shares of our common stock outstanding, [ ] shares held by the Company in treasury stock, and no shares of our preferred stock outstanding.

Each stockholder is entitled to one (1) vote for each share of common stock held by such stockholder on the Record Date. The presence, in person or by proxy, of holders of a majority of our shares entitled to vote is necessary to constitute a quorum at the Special Meeting. The affirmative vote of a majority of the shares outstanding and entitled to vote as of the Record Date is required to approve amendments to the Amended and Restated Certificate to effect the reverse stock split and reduce the number of authorized shares of common stock. As a result, abstentions, broker non-votes and the failure to submit a proxy or vote in person at the Special Meeting will have the same effect as a vote against the proposal.

All votes will be tabulated by the inspector of election appointed for the Special Meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes. Abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum for the transaction of business.

Notice of Internet Availability of Proxy Materials

Pursuant to rules adopted by the Securities and Exchange Commission, or the SEC, we have chosen to provide access to our proxy materials over the Internet. We are sending a Notice of Internet Availability of Proxy Materials (the Notice) to our stockholders of record and our beneficial owners. All stockholders will have the option to access the proxy materials on a website referred to in the Notice, or to request a printed set of the proxy materials. Instructions on how to access the proxy materials over the Internet or to request a printed copy of the proxy materials are included in the Notice. You may also request to receive proxy materials in printed form by mail or electronically by e-mail on an ongoing basis.

Proxies

If the form of proxy card is properly signed and returned or if you properly follow the instructions for telephone or Internet voting, the shares represented thereby will be voted at the Special Meeting in accordance with the instructions specified thereon. If you sign and return your proxy without specifying how the shares represented thereby are to be voted, the proxy will be voted as recommended by the Board of Directors. You may revoke or change your proxy at any time before the Special Meeting by filing with our Corporate Secretary at our principal executive offices at 550 Meridian Avenue, San Jose, CA 95126, a notice of revocation or another signed proxy with a later date. You may also revoke your proxy by attending the Special Meeting and voting in person.

Costs of Proxy Solicitation

We will pay the costs and expenses of soliciting proxies from stockholders. We have engaged The Proxy Advisory Group, LLC® to assist in the solicitation of proxies and provide related advice and informational support, for a services fee and the reimbursement of customary disbursements that are not expected to exceed $15,000 in the aggregate. Certain of our directors, officers, employees, and representatives may solicit proxies from the Company s stockholders in person or by telephone, email, or other means of communication. Our directors, officers, employees, and representatives will not be additionally compensated for any such solicitation, but may be reimbursed for reasonable out-of-pocket expenses they incur. Arrangements will be made with brokerage houses, custodians, and other nominees for forwarding of proxy materials to beneficial owners of shares of our common stock held of record by such nominees and for reimbursement of reasonable expenses they incur.

Deadline for Receipt of Stockholder Proposals for 2016 Annual Meeting

Requirements for stockholder proposals to be considered for inclusion in the Company s proxy materials.

Pursuant to Rule 14a-8 of the Securities Exchange Act of 1934, as amended, proposals of our stockholders that are intended to be presented by such stockholders at our 2016 annual meeting and that such stockholders desire to have included in our proxy materials relating to such meeting must be received by us at our offices at 550 Meridian Avenue in San Jose, California 95126, Attn: Corporate Secretary, no later than December 10, 2015, which is 120 calendar days prior to the anniversary of the mail date of the proxy statement relating to our 2015 annual meeting. Such proposals must be in compliance with applicable laws and regulations in order to be considered for possible inclusion in the proxy statement and form of proxy for that meeting.

Requirements for stockholder proposals to be brought before an annual meeting.

The Company s bylaws establish an advance notice procedure with regard to specified matters to be brought before an annual meeting of stockholders. In general, written notice must be received by the Secretary of the Company not less than twenty (20) days nor more than sixty (60) days prior to an annual meeting and must contain specified information concerning the matters to be brought before such meeting and concerning the stockholder proposing such matters. Therefore, to be presented at the Company s 2016 annual meeting, such a proposal must be received by the Company no earlier than sixty (60) days nor later than twenty (20) days prior to the 2016 annual meeting of stockholders. If less than thirty (30) days notice or prior public disclosure of the date of the annual meeting is given or made to stockholders, notice by the stockholder, in order to be timely, must be so received not later than the close of business on the tenth (10^{th}) day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. Our Amended and Restated Bylaws also specify requirements as to the form and content of a stockholder s notice.

The chairman of the annual meeting may refuse to acknowledge the introduction of any stockholder proposal if it is not made in compliance with the applicable notice provisions.

QUESTIONS AND ANSWERS

Although we encourage you to read the enclosed proxy statement in its entirety, we include this Question and Answer section to provide some background information and brief answers to several questions you might have about the Special Meeting.

Q: When and where is the Special Meeting of Stockholders?

A: The Special Meeting of Stockholders is being held on November 17, 2015 at 10:00 a.m., Pacific Time, at our headquarters, located at 550 Meridian Avenue, San Jose, California 95126.

Q: Why am I receiving this proxy statement?

A: This proxy statement describes the proposal on which we would like you, as a stockholder, to vote. It also gives you information on this issue so that you can make an informed decision.

Q: What is the Notice of Internet Availability?

A: In accordance with rules and regulations adopted by the SEC, instead of mailing a printed copy of our proxy materials to all stockholders entitled to vote at the Special Meeting, we are furnishing the proxy materials to our stockholders over the Internet. If you received a Notice by mail, you will not receive a printed copy of the proxy materials. Instead, the Notice will instruct you as to how you may access and review the proxy materials and submit your vote via the Internet. If you received a Notice by mail and would like to receive a printed copy of the proxy materials, please follow the instructions included in the Notice for requesting such materials.

We mailed the Notice on or about [ ], 2015, to all stockholders entitled to vote at the Special Meeting. On the date of mailing of the Notice, all stockholders and beneficial owners will have the ability to access all of our proxy materials on a website referred to in the Notice. These proxy materials will be available free of charge.

Q: What proposal am I being asked to consider at the upcoming Special Meeting of Stockholders?

A. We are seeking approval of one proposal: the approval of an amendment to our Amended and Restated Certificate of Incorporation to effect (i) a reverse stock split of all of the outstanding shares of our common stock and those shares held by us in treasury stock, whereby each ten (10) shares would be combined, converted and changed into one (1) share of common stock, and (ii) a reduction in the total number of authorized shares of common stock from 100,000,000 to 10,000,000, with the effectiveness or abandonment of such amendment to be determined by the Board of Directors as permitted under Section 242(c) of the Delaware General Corporation Law. Approval of the proposal would give the Board of Directors discretionary authority to implement the reverse stock split.

We will also transact any other business that properly comes before the meeting.

Q. If the stockholders approve this proposal, when would the Company implement the reverse stock split?

A. We currently expect that the reverse stock split will be implemented as soon as practicable after the receipt of the requisite stockholder approval. However, our Board of Directors will have the discretion to abandon the reverse stock split if it does not believe it to be in the best interests of Echelon and our stockholders.

Q. Why is Echelon seeking to implement a reverse stock split?

A. The reverse stock split is being proposed to increase the market price of our common stock to satisfy the $1.00 minimum closing bid price required to avoid the delisting of our common stock from The Nasdaq Global Market. In addition, a higher stock price may, among other things, increase the attractiveness of our common stock to the investment community.

Q. What are the consequences of being delisted from The Nasdaq Global Market?

A. If we do not effect the reverse stock split, it is likely that we will not be able to meet the $1.00 minimum closing bid price continued listing requirement of The Nasdaq Global Market and, consequently, our common stock would be delisted from The Nasdaq Global Market. If we are delisted from The Nasdaq Global Market, we may be forced to seek to be traded on the OTC Bulletin Board or the pink sheets, which would require our market makers to request that our common stock be so listed. There are a number of negative consequences that could result from our delisting from The Nasdaq Global Market, including, but not limited to, the following:

- The liquidity and market price of our common stock may be negatively impacted and the spread between the bid and asked prices quoted by market makers may be increased.
- Our access to capital may be reduced, causing us to have less flexibility in responding to our capital requirements.
- Our institutional investors may be less interested or prohibited from investing in our common stock, which may cause the market price of our common stock to decline.
- We will no longer be deemed a covered security under Section 18 of the Securities Act of 1933, as amended, and, as a result, we will lose our exemption from state securities regulations. This means that granting stock options and other equity incentives to our employees will be more difficult.
- If our stock is traded as a penny stock, transactions in our stock would be more difficult and cumbersome.

Q. What would be the principal effects of the reverse stock split?

A. The reverse stock split will have the following effects:

- the market price of our common stock immediately upon effect of the reverse stock split will increase substantially over the market price of our common stock immediately prior to the reverse stock split;
- the number of outstanding shares of common stock will be reduced to one-tenth (1/10) of the number of shares currently outstanding (except for the effect of eliminating fractional shares);
- the number of shares held by us in treasury stock will be reduced to one-tenth (1/10) of the number of shares currently held in treasury stock; and
- the number of authorized shares of our common stock will be reduced to one-tenth (1/10) of the number of shares currently authorized from 100,000,000 to 10,000,000 shares.

Q. Are my pre-split stock certificates still good after the reverse stock split? Do I need to exchange them for new stock certificates?

A. As of the effective date of the amendment to our Amended and Restated Certificate of Incorporation, each certificate representing pre-split shares of common stock will, until surrendered and exchanged, be deemed to

represent only the relevant number of post-split shares of common stock and the right to receive the amount of cash for any fractional shares as a result and at the time of the reverse stock split. As soon as practicable after the effective date of the reverse stock split, our transfer agent, Computershare, will mail you a letter of transmittal. Upon receipt of your properly completed and executed letter of transmittal and your stock certificate(s), you will be issued the appropriate number of shares of the Company s common stock either as stock certificates (including legends, if appropriate) or electronically in book-entry form, as determined by the Company.

Q. What if I hold some or all of my shares electronically in book-entry form? Do I need to take any action to receive post-split shares?

A. If you hold shares of our common stock in book-entry form (that is, you do not have stock certificates evidencing your ownership of our common stock but instead received a statement reflecting the number of shares registered in your account), you do not need to take any action to receive your post-split shares or, if applicable, your cash payment in lieu of any fractional share interest. If you are entitled to post-split shares, a transaction statement will be sent automatically to your address of record indicating the number of shares you hold. However, if you hold any shares in certificated form, you must still surrender and exchange your stock certificates for those shares and provide a properly completed and executed letter of transmittal.

Q. What happens to any fractional shares resulting from the reverse stock split?

A. If you would be entitled to receive fractional shares as a result of the reverse stock split because you hold a number of shares of common stock before the reverse stock split that is not evenly divisible (in other words, it would result in a fractional interest following the reverse split), you will be entitled, upon surrender of certificate(s) representing your shares, to a cash payment in lieu of the fractional shares without interest.

Q. What happens to equity awards under the Company s 1997 Stock Plan as a result of the reverse stock split?

A. All shares of the Company s common stock subject to the outstanding equity awards (including stock options, performance shares and stock appreciation rights) under the Company s 1997 Stock Plan will be converted upon the effective date of the reverse stock split into one-tenth (1/10) of the number of such shares immediately preceding the reverse stock split (subject to adjustment for fractional interests). In addition, the exercise price of outstanding equity awards (including stock options and stock appreciation rights) will be adjusted to ten (10) times the exercise price specified before the reverse stock split. As a result, the approximate aggregate exercise price will remain the same following the reverse stock split. No fractional shares will be issued pursuant to the Company s 1997 Stock Plan following the reverse stock split. Therefore, if the number of shares subject to the outstanding equity awards immediately before the reverse stock split is not evenly divisible (in other words, it would result in a fractional interest following the reverse stock split), the number of shares of common stock issuable pursuant to such equity awards (including upon exercise of stock options and stock appreciation rights) will be rounded up to the nearest whole number.

Q. Who can vote at the Special Meeting?

A. Our Board of Directors has set September 24, 2015 as the record date for the Special Meeting. All stockholders who owned Echelon common stock at the close of business on September 24, 2015 may attend and vote at the Special Meeting. Each stockholder is entitled to one vote for each share of common stock held as of the record date on all matters to be voted on. Stockholders do not have the right to cumulate votes. On September 24, 2015, there were [ ] shares of our common stock outstanding. Shares held as of the record date include shares that are held directly in your name as the stockholder of record and those shares held for you as a beneficial owner through a broker, bank or other nominee.

Q. What is the difference between holding shares as a stockholder of record and as a beneficial owner?

A: Most stockholders of Echelon hold their shares through a broker, bank or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Stockholders of record If your shares are registered directly in your name with Echelon s transfer agent, Computershare, you are considered the stockholder of record with respect to those shares and the Notice has been sent directly to you. As the stockholder of record, you have the right to grant your voting proxy directly to Echelon or to vote in person at the Special Meeting.

Beneficial owners If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name, and the Notice has been forwarded to you by your broker, bank or other nominee who is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker, bank or other nominee on how to vote and are also invited to attend the Special Meeting. However, since you are not the stockholder of record, you may not vote these shares in person at the Special Meeting unless you request a legal proxy from the broker, bank or other nominee who holds your shares, giving you the right to vote the shares at the Special Meeting.

Q: Who counts the votes?

A: Voting results are tabulated and certified by Broadridge Financial Solutions, Inc.

Q. How can I vote my shares in person at the Special Meeting?

A. Shares held directly in your name as the stockholder of record may be voted in person at the Special Meeting. If you choose to vote in person, please bring your proxy card or proof of identification to the Special Meeting. Even if you plan to attend the Special Meeting, Echelon recommends that you vote your shares in advance as described below so that your vote will be counted if you later decide not to attend the Special Meeting. If you hold your shares in street name, you must request a legal proxy from your broker, bank or other nominee in order to vote in person at the Special Meeting.

Q: How can I vote my shares without attending the Special Meeting?

A: Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct how your shares are voted without attending the Special Meeting. If you are a stockholder of record, you may vote by submitting a proxy; please refer to the voting instructions in the Notice or below. If you hold shares beneficially in street name, you may vote by submitting voting instructions to your broker, bank or other nominee; please refer to the voting instructions provided to you by your broker, bank or other nominee.

Internet Stockholders of record with Internet access may submit proxies by following the Vote by Internet instructions on the Notice until 11:59 p.m., Eastern Time, on November 16, 2015, or by following the instructions at www.proxyvote.com. Most of our stockholders who hold shares beneficially in street name may vote by accessing the website specified in the voting instructions provided by their brokers, banks or other nominees. A large number of banks and brokerage firms are participating in Broadridge Financial Solutions, Inc. s online program. This program provides eligible stockholders the opportunity to vote over the Internet or by telephone. Voting forms will provide instructions for stockholders whose bank or brokerage firm is participating in Broadridge s program.

Telephone If you request a printed set of the proxy materials, you will be eligible to submit your vote by telephone.

Mail If you request a printed set of the proxy materials, you may indicate your vote by completing, signing and dating the proxy card or voting instruction form where indicated and by returning it in the prepaid envelope that will be provided.

Q. What happens if I do not cast a vote?

A. *Stockholders of record* If you are a stockholder of record and you do not cast your vote, no votes will be cast on your behalf on any of the items of business at the Special Meeting. However, if you submit a signed proxy card with no further instructions, the shares represented by that proxy card will be voted as recommended by our Board of Directors.

Beneficial owners If you hold your shares in street name and you do not cast your vote, your bank, broker or other nominee will have discretion to vote any uninstructed shares on the reverse stock split (Proposal One). We believe that Proposal One is considered a routine matter and, thus, we do not expect to receive any broker non-votes on this proposal.

Q. How can I change or revoke my vote?

A. Subject to any rules your broker, bank or other nominee may have, you may change your proxy instructions at any time before your proxy is voted at the Special Meeting.

Stockholders of record If you are a stockholder of record, you may change your vote by (1) filing with our Senior Vice President, General Counsel and Secretary, prior to your shares being voted at the Special Meeting, a written notice of revocation or a duly executed proxy card, in either case dated later than the prior proxy relating to the same shares, or (2) attending the Special Meeting and voting in person (although attendance at the Special Meeting will not, by itself, revoke a proxy). Any written notice of revocation or subsequent proxy card must be received by our Senior Vice President, General Counsel and Secretary prior to the taking of the vote at the Special Meeting. Such written notice of revocation or subsequent proxy card should be hand delivered to our Senior Vice President, General Counsel and Secretary or should be sent so as to be delivered to our principal executive offices, Attention: General Counsel.

Beneficial owners If you are a beneficial owner of shares held in street name, you may change your vote by (1) submitting new voting instructions to your broker, bank or other nominee, or (2) attending the Special Meeting and voting in person if you have obtained a legal proxy giving you the right to vote the shares from the broker, bank or other nominee who holds your shares.

In addition, a stockholder of record or a beneficial owner who has voted via the Internet or by telephone may also change his, her or its vote by making a timely and valid later Internet or telephone vote no later than 11:59 p.m., Eastern Time, on November 16, 2015.

Q: What is a proxy card?

A: The proxy card enables you to appoint Alicia J. Moore and C. Michael Marszewski, with full power of substitution, who we refer to as the proxyholders, as your representatives at the Special Meeting. By completing and returning the proxy card, you are authorizing the proxyholders to vote your shares at the meeting, as you have instructed them on the proxy card. Even if you plan to attend the meeting, it is a good idea to complete, sign and return your proxy card or vote by proxy via the Internet or telephone in advance of the meeting just in case your plans change. You can vote in person at the meeting even if you have already sent in your proxy card.

If a proposal comes up for vote at the meeting that is not on the proxy card, the proxyholders will vote your shares, under your proxy, according to their best judgment.

Q. What if I return my proxy card but do not provide voting instructions?

A. Proxies that are signed and returned but do not contain instructions will be voted FOR the proposal in this proxy statement.

Q. If I hold shares through a broker, how do I vote them?

A. Your broker should have forwarded instructions to you regarding the manner in which you can direct your broker as to how you would like your shares to be voted. If you have not received these instructions or have questions about them, you should contact your broker directly.

Q. What does it mean if I receive more than one proxy card?

A. It means that you have multiple accounts with brokers and/or our transfer agent, Computershare. Please vote all of these shares. We recommend that you contact your broker and/or our transfer agent to consolidate as many

accounts as possible under the same name and address.

Q: How may I obtain a separate Notice or a separate set of proxy materials?

A: If you share an address with another stockholder, each stockholder may not receive a separate Notice or a separate copy of the proxy materials. Stockholders who do not receive a separate Notice or a separate copy of the proxy materials may request to receive a separate Notice or a separate copy of the proxy materials by contacting our Investor Relations department (i) by mail at 550 Meridian Avenue, San Jose, California 95126, (ii) by calling us at 408-938-5252, or (iii) by sending an email to mlarsen@echelon.com. Alternatively, stockholders who share an address and receive multiple Notices or multiple copies of our proxy materials may request to receive a single copy by following the instructions above.

Q: What is a broker non-vote ?

A: A broker non-vote occurs when a broker holding shares in street name does not vote on a particular proposal because the broker does not have discretionary voting power with respect to that proposal and has not received instructions from the beneficial owner. In order to effect the reverse stock split, Delaware law requires the approval of the holders of a majority of Echelon s outstanding shares of common stock, and not merely the approval of a majority of the shares represented in person and by proxy at the Special Meeting. Therefore, a broker non-vote will count as a vote against the proposal.

Q. How can I attend the meeting?

A. The Special Meeting is open to all holders of Echelon common stock. The meeting will be held at Echelon s headquarters located at 550 Meridian Avenue, San Jose, CA 95126, and directions may be found on our website at www.echelon.com.

Q. How many votes must be present to hold the meeting?

A. Your shares are counted as present at the meeting if you attend the meeting and vote in person or if you properly return a proxy by Internet, telephone or mail. In order for us to conduct the meeting, a majority of our outstanding shares of common stock as of September 24, 2015 must be present in person or by proxy at the meeting. This is referred to as a quorum.

Q. How are different votes treated for purposes of establishing a quorum and determining whether the proposal has passed?

A. Shares that are voted FOR, AGAINST or ABSTAIN are treated as being present at the meeting for purposes of establishing a quorum and are also treated as shares entitled to vote at the meeting with respect to the proposal. Abstentions will have the same effect as a vote against the proposal. Broker non-votes are counted for the purpose of determining the presence or absence of a quorum, and will have the same effect as a vote against the proposal.

Q. Why is my vote important?

A. Your vote is important because the proposal must receive the affirmative vote of a majority of shares outstanding in order to pass. Also, unless a majority of the shares outstanding as of the Record Date are voted or present at the meeting, we will not have a quorum, and we will be unable to transact any business at the Special Meeting. In that event, we would need to adjourn the meeting until such time as a quorum can be obtained.

Q: Who is soliciting my vote?

A: We will pay the costs and expenses of soliciting proxies from stockholders. Broadridge Financial Solutions, Inc. will tabulate the votes and act as inspector of the election. We have engaged The Proxy Advisory Group, LLC® to assist in the solicitation of proxies and provide related advice and informational support, for a services fee and the reimbursement of customary disbursements that are not expected to exceed $15,000 in the aggregate. Certain of our directors, officers, employees, and representatives may solicit proxies from the Company s stockholders in person or by telephone, email, or other means of communication. Our directors, officers, employees, and representatives will not be additionally compensated for any such solicitation, but may be reimbursed for reasonable out-of-pocket expenses they incur. Arrangements will be made with brokerage houses, custodians, and other nominees for forwarding of proxy materials to beneficial owners of shares of our common stock held of record by such nominees and for reimbursement of reasonable expenses they incur.

9

PROPOSAL ONE

APPROVAL OF A PROPOSED AMENDMENT TO

THE AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

TO EFFECT A REVERSE STOCK SPLIT AND REDUCE THE

TOTAL NUMBER OF AUTHORIZED SHARES OF COMMON STOCK

OVERVIEW

The Board of Directors of Echelon Corporation (Echelon or the Company) has unanimously adopted resolutions approving and recommending to the stockholders for their approval a proposed amendment to the Company s Amended and Restated Certificate of Incorporation (the Amended and Restated Certificate) that would, at the discretion of the Board of Directors, effect:

- a reverse stock split of all of the outstanding shares of the Company s common stock and those shares held by the Company in treasury stock, whereby each ten (10) shares would be combined, converted and changed into one share of the Company s common stock, and

- a reduction in the total number of authorized shares of the Company s common stock from 100,000,000 to 10,000,000.

Under the proposed amendment, each ten (10) shares of the Company s common stock currently outstanding, reserved for issuance or held by the Company in treasury stock would be combined, converted and changed into one (1) share of common stock. At the same time, the total number of authorized shares of the Company s common stock would be reduced from 100,000,000 to 10,000,000. The par value per share of the Company s common stock would remain unchanged at $0.01 per share after the reverse stock split. Please see the table below under the section heading Principal Effects of the Reverse Stock Split for an illustration of the effects of the proposed amendment to the Company s Amended and Restated Certificate (which is referred to in this proxy statement as the reverse stock split).

The text of the proposed form of Certificate of Amendment to the Amended and Restated Certificate to effect the reverse stock split and reduce the total number of authorized shares of common stock is attached to this proxy statement as Appendix A-1. However, such text is subject to amendment to include such changes as may be required by the office of the Secretary of State of the State of Delaware or as the Board of Directors deems necessary and advisable to effect the reverse stock split. The effectiveness or abandonment of such amendment will be determined by the Board of Directors.

The Board of Directors has recommended that the proposed amendment be presented to the Company s stockholders for approval. Upon receiving stockholder approval of the proposed amendment, the Board of Directors will have the sole discretion, until the 2016 Annual Meeting, to elect, as it determines to be in the best interests of the Company and its stockholders, whether to effect the reverse stock split. As described in greater detail below, the reverse stock split is proposed to be effected to increase the price of the Company s common stock to, among other things, meet the $1.00 minimum closing bid price requirement for continued listing on The Nasdaq Global Market. The reduction in the total number of shares of the Company s authorized common stock is designed to maintain approximately the same proportion of the total number of authorized shares that are not issued or outstanding following the reverse stock split.

If the Board of Directors determines to effect the reverse stock split by causing the amendment to the Amended and Restated Certificate to be filed with the Secretary of State of the State of Delaware, the Amended and Restated Certificate would be amended accordingly. Approval of the reverse stock split will authorize the Board of Directors in its discretion to effectuate the reverse stock split and the reduction in authorized common stock as described above, or not to effect the reverse stock split. As noted, the Board of Directors will have the discretion to abandon the reverse stock split if it no longer believes it to be in the best interests of the Company and its stockholders, including if the Board of Directors determines that the reverse stock split will not impact the Company s ability to meet the continued listing requirements of The Nasdaq Global Market or if such objective is no longer necessary or desirable, or for any other reason in the business judgment and discretion of the Board of Directors. The Company currently expects that the Board of Directors will cause the Company to effect the reverse stock split as soon as practicable after the receipt of the requisite stockholder approval.

If the Board of Directors elects to effect the reverse stock split following stockholder approval, the number of issued and outstanding shares of the Company s common stock and those shares held by the Company in treasury stock would be

reduced in accordance with the reverse stock split ratio. Except for adjustments that may result from the treatment of fractional shares, each stockholder will hold the same percentage of the outstanding common stock immediately following the reverse stock split as such stockholder held immediately prior to the reverse stock split. As described in greater detail below, as a result of the reverse stock split, stockholders who hold less than ten (10) shares of the Company s common stock will no longer be stockholders of the Company on a post-split basis.

The Board of Directors, with input from senior management, regularly reviews and evaluates the Company s business, strategic plans and prospects, including the performance of the Company s common stock, with the goal of maximizing stockholder value. On August 6, 2015, the Company announced that the Board of Directors has authorized its strategic committee of independent directors to identify, evaluate and pursue the feasibility and relative merits of various financial strategies. The strategic committee plans to consider a wide range of available options, including, among other things, partnerships, strategic business model alternatives, recapitalization, disposition of one or more corporate assets, or a possible business combination or sale of Echelon, in addition to continued pursuit of the Company as a standalone entity. The Company has engaged Goldman Sachs as the Company s financial advisor in support of these activities.

The Company has not set a definitive timetable for completing the strategic review process, which is ongoing and could result in a variety of outcomes including a sale or a merger of the Company or a determination by the Board of Directors that Echelon remain an independent company. Therefore, the Board of Directors has determined that the Company should simultaneously proceed with the actions necessary to continue Echelon as a standalone entity. In so doing, the Board of Directors has determined that the proposed reverse stock split is necessary for execution of the Company s standalone business plan, including the continued listing of Echelon s common stock on The Nasdaq Global Market. In addition, the Board of Directors believes the reverse stock split will provide a number of other benefits to the Company and its stockholders, including enhancing the desirability and marketability of the Company s common stock to the financial community and the investing public.

The Board of Directors does not intend for this transaction to be the first step in a series of plans or proposals of a going private transaction within the meaning of Rule 13e-3 of the Securities Exchange Act of 1934, as amended (the Exchange Act).

REASONS FOR THE REVERSE STOCK SPLIT

Nasdaq Listing. The Company s common stock is currently listed on The Nasdaq Global Market under the symbol ELON. Among other requirements, the listing maintenance standards established by The Nasdaq Stock Market LLC (Nasdaq) require the Company s common stock to have a minimum closing bid price of at least $1.00 per share. Pursuant to the Nasdaq Marketplace Rules, if the closing bid price of the Company s common stock is not equal to or greater than $1.00 for thirty (30) consecutive business days, Nasdaq will send a deficiency notice to the Company. Thereafter, if the Company s common stock does not close at a minimum bid price of $1.00 or more for ten (10) consecutive trading days within 180 calendar days of the deficiency notice, Nasdaq may determine to delist the Company s common stock.

Through the date of filing this proxy statement, the last date the closing bid price of the Company s common stock satisfied the $1.00 minimum closing bid price requirement was May 12, 2015. As a result, on June 25, 2015, the Company received a notice of deficiency from Nasdaq indicating that if the Company does not comply with the minimum bid price rules by December 22, 2015, Nasdaq may delist the Company s common stock. Consequently, the Board of Directors has determined that, absent approval by the Company s stockholders of the reverse stock split, the Company will likely be unable to meet the $1.00 minimum closing bid price requirement for continued listing on The Nasdaq Global Market.

If the stockholders do not approve the reverse stock split proposal and the closing price of the Company s common stock does not otherwise meet the $1.00 minimum closing bid price requirement, the Board of Directors expects that the Company s common stock will be delisted from The Nasdaq Global Market. If, however, the Company s common stock satisfies applicable listing criteria for listing on The Nasdaq Capital Market (other than compliance with the minimum closing bid price requirement), the Company s common stock might be eligible for transfer to The Nasdaq Capital Market. Because the Nasdaq Marketplace Rules also require a $1.00 minimum closing bid price for continued listing on The Nasdaq Capital Market, in the event the Company s common stock is transferred to The Nasdaq Capital Market, the Company will be afforded an additional 180 calendar days to comply with the minimum bid price requirement.

In the event the Company s common stock is no longer eligible for continued listing on either The Nasdaq Global Market or The Nasdaq Capital Market, the Company would be forced to seek to be traded on the OTC Bulletin Board or in the pink sheets. These alternative markets are generally considered to be less efficient than, and not as broad as, The Nasdaq Global Market or The Nasdaq Capital Market, and therefore less desirable. Accordingly, the Board of Directors believes delisting of the Company s common stock would likely have a negative impact on the liquidity and market price of the Company s common stock and may increase the spread between the bid and asked prices quoted by market makers.

The Board of Directors has considered the potential harm to the Company of a delisting from The Nasdaq Global Market and believes that delisting could, among other things, adversely affect (i) the trading price of the Company s common stock and (ii) the liquidity and marketability of shares of the Company s common stock, reducing the ability of holders of the Company s common stock to purchase or sell shares of the Company s common stock as quickly and as inexpensively as they have done historically. Delisting could also adversely affect the Company s relationships with vendors and customers who may perceive the Company s business less favorably, which would have a detrimental effect on the Company s relationships with these entities.

Furthermore, if the Company s common stock was no longer listed on The Nasdaq Global Market, it may reduce the Company s access to capital and cause the Company to have less flexibility in responding to the Company s capital requirements. Certain institutional investors may also be less interested or prohibited from investing in the Company s common stock, which may cause the market price of the Company s common stock to decline.

In addition, the Company would no longer be deemed a covered security under Section 18 of the Securities Act of 1933, as amended, and therefore would lose its exemption from state securities regulations. As a result, the Company would need to comply with various state securities laws with respect to issuances of its securities, including equity award grants to employees. As a public company, Echelon, however, would not have the benefit of certain exemptions applicable to privately held entities, which would make granting equity awards to the Company s employees more difficult.

Potential Increased Investor Interest. The Board of Directors believes that the reverse stock split will provide a number of benefits to the Company and its existing stockholders, which may lead to an increase in investor interest, including:

1. *Reduced Short-Term Risk of Illiquidity.* The Board of Directors understands that a higher stock price may increase investor confidence by reducing the short-term risk of illiquidity and lack of marketability of the Company s common stock that may result from the delisting of the Company s common stock from The Nasdaq Global Market.

2. *Decreasing Transaction Costs.* Investors may also be dissuaded from purchasing stocks below certain prices because the brokerage commissions, as a percentage of the total transaction value, tend to be higher for such low-priced stocks.

3. *Stock Price Requirements.* The Board of Directors understands that some brokerage houses and institutional investors may have internal policies and practices that either prohibit them from investing in low-priced stocks or tend to discourage individual brokers from recommending low-priced stocks to their customers or by restricting or limiting the ability to purchase such stocks on margin. In addition, analysts at brokerage firms may not monitor the trading activity or otherwise provide coverage of lower priced

stocks.

Other Potential Benefits. The Board of Directors believes that a higher stock price would help Echelon attract and retain employees and other service providers. It is the view of the Board of Directors that some potential employees and service providers are less likely to work for a company with a low stock price, regardless of the size of the company s market capitalization. Accordingly, if the reverse stock split successfully increases the per share price of the Company s common stock, the Board of Directors believes this increase will enhance the Company s ability to attract and retain employees and service providers.

REASONS FOR THE REDUCTION IN THE TOTAL NUMBER OF AUTHORIZED SHARES OF COMMON STOCK

As a matter of Delaware law, implementation of the reverse stock split does not require a change in the total number of shares of the Company s common stock authorized under the Amended and Restated Certificate. However, the proposed reduction in the total number of authorized shares of the Company s common stock is designed to maintain approximately the same proportion of the total number of authorized shares that are not issued or outstanding following the reverse stock split. The proposed reduction from 100,000,000 to 10,000,000 authorized shares of the Company s common stock is intended to conform to the requirements of certain entities that make recommendations to stockholders regarding proposals submitted by the Company and to ensure that the Company does not have what some stockholders might view as an unreasonably high number of authorized but unissued shares of common stock. In addition, the Board of Directors believes that the reduction in the number of authorized shares of the Company s common stock may also reduce certain of the Company s costs, such as annual franchise taxes paid to the State of Delaware.

THE REVERSE STOCK SPLIT MAY NOT RESULT IN AN INCREASE IN THE PER SHARE PRICE OF THE COMPANY S COMMON STOCK; THERE ARE OTHER RISKS ASSOCIATED WITH THE REVERSE STOCK SPLIT

The Board of Directors expects that a reverse stock split of the outstanding common stock will increase the market price of the Company s common stock. However, the Company cannot be certain whether the reverse stock split would lead to a sustained increase in the trading price or the trading market for the Company s common stock. The history of similar stock split combinations for companies in like circumstances is varied. There is no assurance that:

- the market price per share of the Company s common stock after the reverse stock split will rise in proportion to the reduction in the number of pre-split shares of common stock outstanding before the reverse stock split;
- the reverse stock split will result in a per share price that will attract brokers and investors, including institutional investors, who do not trade in lower priced stocks;
- the reverse stock split will result in a per share price that will increase the Company s ability to attract and retain employees and other service providers;
- the market price per post-split share will remain in excess of the $1.00 minimum closing bid price as required by the Nasdaq Marketplace Rules or that the Company would otherwise meet the requirements of Nasdaq for continued inclusion for trading on The Nasdaq Global Market (or The Nasdaq Capital Market); and
- the reverse stock split will increase the trading market for the Company s common stock, particularly if the stock price does not increase as a result of the reduction in the number of shares of common stock available in the public market.

The market price of the Company s common stock will also be based on the Company s performance and other factors, some of which are unrelated to the number of shares outstanding. If the reverse stock split is consummated and the trading price of the Company s common stock declines, the percentage decline as an absolute number and as a

percentage of the Company s overall market capitalization may be greater than would occur in the absence of the reverse stock split. Furthermore, the liquidity of the Company s common stock could be adversely affected by the reduced number of shares that would be outstanding after the reverse stock split and this could have an adverse effect on the price of the Company s common stock. If the market price of the Company s shares of common stock declines subsequent to the effectiveness of the reverse stock split, this will detrimentally impact the Company s market capitalization and the market value of the Company s public float.

EFFECTIVE DATE

Assuming the Board of Directors exercises its discretion to effect the reverse stock split, the reverse stock split and the reduction in the total number of authorized shares of the Company s common stock will become effective as of the date and time (the Effective Date) that the certificate of amendment to the Amended and Restated Certificate to effect the foregoing is filed with the Secretary of State of the State of Delaware in accordance with the Delaware General Corporation Law (the DGCL), without any further action on the part of the Company s stockholders and without regard to the date that any stockholder physically surrenders the stockholder s certificates representing pre-split shares of common stock for certificates representing post-split shares. The Board of Directors, in its discretion, may delay or decide against effecting the reverse stock split and the filing of the certificate of amendment to the Amended and Restated Certificate to effect the reverse stock split without resoliciting stockholder approval. It is currently anticipated that if stockholder approval is obtained for the reverse stock split and reduction in the total number of authorized shares of the Company s common stock described in this proposal, the Board of Directors would cause the Company to effect the foregoing as soon as practicable after obtaining such stockholder approval.

PRINCIPAL EFFECTS OF THE REVERSE STOCK SPLIT

After the Effective Date, each stockholder will own a reduced number of shares of the Company s common stock. However, the Company expects that the market price of the Company s common stock immediately after the reverse stock split will increase substantially above the market price of the Company s common stock immediately prior to the reverse stock split. The proposed reverse stock split will be effected simultaneously for all of the Company s common stock and shares held in treasury stock, and the ratio for the reverse stock split will be the same for all of the Company s common stock and shares held in treasury stock. The reverse stock split will affect all of the Company s stockholders uniformly and will not affect any stockholder s percentage ownership interest in the Company (except to the extent that the reverse stock split would result in any of the stockholders owning a fractional share as described below). Likewise, the reverse stock split will affect all holders of outstanding equity awards under the Company s 1997 Stock Plan (including stock options, performance shares and stock appreciation rights) substantially the same (except to the extent that the reverse stock split would result in a fractional interest as described below). Proportionate voting rights and other rights and preferences of the holders of common stock will not be affected by the proposed reverse stock split (except to the extent that the reverse stock split would result in any stockholders owning a fractional share as described below). For example, a holder of 2% of the voting power of the outstanding shares of common stock immediately prior to the reverse stock split would continue to hold approximately 2% of the voting power of the outstanding shares of common stock immediately after the reverse stock split. The number of stockholders of record also will not be affected by the proposed reverse stock split (except to the extent that the reverse stock split would result in any stockholders owning only a fractional share as described below).

On the Effective Date, the total number of authorized shares of the Company s common stock will be reduced from 100,000,000 to 10,000,000. The par value per share of the Company s common stock would remain unchanged at $0.01 per share after the reverse stock split. Based on the number of shares of the Company s common stock issued or reserved for issuance under the Company s 1997 Stock Plan as of September 24, 2015, approximately [ ] shares of common stock will be issued or reserved for issuance following the reverse stock split, leaving approximately [ ] shares unissued and unreserved for issuance. The Company will continue to have 5,000,000 million shares of authorized but unissued preferred stock.

The proposed reverse stock split will reduce the number of shares of common stock available for issuance under the Company s 1997 Stock Plan. All shares of the Company s common stock subject to outstanding equity awards (including stock options, performance shares and stock appreciation rights) under the Company s 1997 Stock Plan and the number of shares of common stock which have been authorized for issuance under the Company s 1997 Stock Plan but as to which no equity awards have yet been granted or which have been returned to the Company s 1997 Stock Plan upon cancellation or expiration of such equity awards will be converted on the Effective Date into one-tenth

(1/10) of the number of such shares immediately preceding the reverse stock split (subject to adjustment for fractional interests). In addition, the exercise price of outstanding stock options and stock appreciation rights will be adjusted to ten (10) times the exercise price specified before the reverse stock split. This will result in approximately the same aggregate price being required to be paid as immediately preceding the reverse stock split. No fractional shares with respect to the shares subject to the outstanding equity awards (including stock options, performance shares and stock appreciation rights) under the Company s 1997 Stock Plan will be issued following the reverse stock split. Therefore, if the number of shares subject to any outstanding equity award under the Company s 1997 Stock Plan immediately before the reverse stock split is not evenly divisible (in other words, it would result in a fractional interest following the reverse stock split), the number of shares of common stock subject to such equity award

(including upon exercise of stock options and stock appreciation rights) will be rounded up to the nearest whole number. For additional information on the treatment of any fractional interest that may arise as a result of the reverse stock split relating to equity awards under the Company s 1997 Stock Plan, please see the section below under the heading Effect of the Reverse Stock Split on Equity Awards.

The effects of the proposed amendment to the Amended and Restated Certificate are illustrated in the below table as of September 24, 2015, including (A) the approximate percentage reduction in the outstanding number of shares of common stock, (B) the approximate number of shares of common stock that would be (i) authorized, (ii) issued and outstanding, (iii) issued but held by the Company in treasury stock, (iv) authorized but reserved for issuance upon exercise of outstanding equity awards pursuant to the Company s 1997 Stock Plan, (v) authorized but reserved for issuance under the Company s 1997 Stock Plan (but not subject to outstanding equity awards), and (vi) authorized but not issued or outstanding, or reserved for issuance under the Company s 1997 Stock Plan, and (C) the approximate percentage of authorized shares not issued or outstanding, or reserved for issuance under the Company s 1997 Stock Plan:

	Pre-Reverse Stock Split	**Amendment (see Appendix A-1)**
Reverse Stock Split Ratio	--	1:10
Percentage Reduction of Shares Outstanding Post-Reverse Stock Split	--	90.0%
Authorized Shares of Common Stock	100,000,000	10,000,000
Shares Outstanding	[ ]	[ ]
Issued But Not Outstanding (Held by the Company in Treasury Stock)	[ ]	[ ]
Reserved for Issuance Upon Exercise of Outstanding Equity Awards Under the 1997 Stock	[ ]	[ ]

Plan		
Reserved for Issuance Under the 1997 Stock Plan (but not Subject to Outstanding Equity Awards)	[ ]	[ ]
Authorized but not Issued or Outstanding, or Reserved for Issuance Under the 1997 Stock Plan	[ ]	[ ]
Percentage of Authorized Shares not Issued or Outstanding, or Reserved for Issuance Under the 1997 Stock Plan	[ ]%	[ ]%

As illustrated in the above table, the proposed reduction in the total number of shares of the Company s authorized common stock for the 1-for-10 reverse stock split is designed to maintain approximately the same proportion of the total number of authorized shares that are not issued or outstanding, or reserved for issuance under the Company s 1997 Stock Plan, following the reverse stock split. However, the rounding up to the nearest whole number of fractional interests that would otherwise result feft">(1)the relevant percentage contribution of a security included in the equity index or any successor equity index to the level of such index will be based on a comparison of (x) the portion of the level of such index attributable to that security to (y) the overall level of such index, in each case using the official opening weightings as published by the relevant index sponsor as part of the market opening data;

(2) the scheduled closing time of any relevant stock exchange or related futures or options exchange on any trading day means the scheduled weekday closing time of such relevant stock exchange or related futures or options exchange on such trading day, without regard to after hours or any other trading outside the regular trading session hours; and

(3) an exchange business day means any trading day on which (i) the relevant index sponsor publishes the level of the equity index or any successor equity index and (ii) each related futures or options exchange is open for trading during its regular trading session, notwithstanding any related futures or options

exchange closing prior to its scheduled closing time.

Postponement of a Calculation Day as a Result of a Market Disruption Event

If a market disruption event occurs or is continuing with respect to a market measure that is a single equity index on a calculation day, then such calculation day will be postponed to the first succeeding trading day on which a market disruption event has not occurred and is not continuing; however, if such first succeeding trading day has not occurred as of the eighth trading day after the originally scheduled calculation day, that eighth trading day shall be deemed to be the applicable calculation day. If a calculation day has been postponed eight trading days after the originally scheduled calculation day and a market disruption event occurs or is continuing with respect to the market measure on such eighth trading day, the calculation agent will determine the closing level of the market measure on such eighth trading day in accordance with the formula for and method of calculating the closing level of the market measure last in effect prior to commencement of the market disruption event, using the closing price (or, with respect to any relevant security, if a market disruption event has occurred with respect to such security, its good faith estimate of the value of such security at (i) if the market measure is not a multiple exchange index, the scheduled closing time of the relevant stock exchange for such security or, if earlier, the actual closing time of the regular trading session of such relevant stock exchange or (ii) if the market measure is a multiple exchange index, the time at which the official closing level of the market measure is calculated and published by the relevant index sponsor) on such date of each security included in the market measure. As used herein, closing price means, with respect to any security on any date, the relevant stock exchange traded or quoted price of such security as of (i) if the

market measure or basket component, as applicable, is not a multiple exchange index, the scheduled closing time of the relevant stock exchange for such security or, if earlier, the actual closing time of the regular trading session of such relevant stock exchange or (ii) if the market measure or basket component, as applicable, is a multiple exchange index, the time at which the official closing level of the market measure or basket component, as applicable, is calculated and published by the relevant index sponsor.

If a market disruption event occurs or is continuing with respect to a basket component on a calculation day, then such calculation day for such basket component will be postponed to the first succeeding trading day for such basket component on which a market disruption event for such basket component has not occurred and is not continuing; however, if such first succeeding trading day has not occurred as of the eighth trading day for such basket component after the originally scheduled calculation day for such basket component, that eighth trading day shall be deemed to be the applicable calculation day. If a calculation day has been postponed eight trading days for a basket component after the originally scheduled calculation day for such basket component and a market disruption event occurs or is continuing with respect to such basket component on such eighth trading day, the calculation agent will determine the closing level of such basket component on such eighth trading day in accordance with the formula for and method of calculating the closing level of such basket component last in effect prior to commencement of the market disruption event, using the closing price (or, with respect to any relevant security, if a market disruption event has occurred with respect to such security, its good faith estimate of the value of such security at (i) if the basket component is not a multiple exchange index, the scheduled closing time of the relevant stock exchange for such security or, if earlier, the actual closing time of the regular trading session of such relevant stock exchange or (ii) if the basket component is a multiple exchange index, the time at which the official closing level of the basket component is calculated and published by the relevant index sponsor) on such date of each security included in such basket component. Notwithstanding a postponement of a calculation day for a particular basket component due to a market disruption event with respect to such basket component, the originally scheduled calculation day will remain the calculation day for any basket component not affected by a market disruption event.

Adjustments to a Market Measure

If at any time the method of calculating an equity index, or the closing level thereof, is changed in a material respect, or if an equity index is in any other way modified so that such equity index does not, in the opinion of the calculation agent, fairly represent the level of such equity index had those changes or modifications not been made, then the calculation agent will, at the close of business in New York, New York, on each date that the closing level of such equity index is to be calculated, make such calculations and adjustments as, in the good faith judgment of the calculation agent, may be necessary in order to arrive at a level of an equity index comparable to such equity index as if those changes or modifications had not been made, and the calculation agent will calculate the closing level of such equity index with reference to such equity index, as so adjusted. Accordingly, if the method of calculating an equity index is modified so that the level of such equity index is a fraction or a multiple of what it would have been if it had not been modified (*e.g.*, due to a split or reverse split in such equity index), then the calculation agent will adjust such equity index in order to arrive at a level of such equity index as if it had not been modified (*e.g.*, as if the split or reverse split had not occurred).

Discontinuance of a Market Measure

If a sponsor or publisher of an equity index (each, an index sponsor) discontinues publication of an equity index to which an issue of notes is linked, and such index sponsor or another entity publishes a successor or substitute equity index that the calculation agent determines, in its sole discretion, to be comparable to such equity index (a successor equity index), then, upon the calculation agent s notification of that determination to the trustee and Wells Fargo, the calculation agent will substitute the successor equity index as calculated by the relevant index sponsor or any other entity and calculate the average ending level as described above. Upon any selection by the calculation agent of a successor equity index, Wells Fargo will cause notice to be given to holders of the notes.

In the event that an index sponsor discontinues publication of an equity index prior to, and the discontinuance is continuing on, any calculation day and the calculation agent determines that no successor equity index is available at such time, the calculation agent will calculate a substitute closing level for the equity index in accordance with the formula for and method of calculating the equity index last in effect prior to the discontinuance,

but using only those securities that comprised the equity index immediately prior to that discontinuance. If a successor equity index is selected or the calculation agent calculates a level as a substitute for an equity index, the successor equity index or level will be used as a substitute for that equity index for all purposes, including the purpose of determining whether a market disruption event exists.

If on any calculation day the index sponsor of an equity index fails to calculate and announce the level of the equity index, the calculation agent will calculate a substitute closing level of the equity index in accordance with the formula for and method of calculating the equity index last in effect prior to the failure, but using only those securities that comprised the equity index immediately prior to that failure; *provided* that, if a market disruption event occurs or is continuing on such day, then the provisions set forth above under Postponement of a Calculation Day as a Result of a Market Disruption Event shall apply in lieu of the foregoing.

Notwithstanding these alternative arrangements, discontinuance of the publication of, or the failure by the index sponsor to calculate and announce the level of, an equity index to which your notes are linked may adversely affect the value of the notes.

Calculation Agent

Wells Fargo Securities, LLC, one of our subsidiaries, will act as initial calculation agent for the notes and may appoint agents to assist it in the performance of its duties. Pursuant to the calculation agency agreement, we may appoint a different calculation agent without your consent and without notifying you.

The calculation agent will determine the redemption amount you receive at stated maturity. In addition, the calculation agent will, among other things:

- determine whether a market disruption event has occurred; see Definitions of Trading Day and Market Disruption Event and Related Definitions;
- determine if adjustments are required to the closing level of a market measure or basket component under various circumstances; see Adjustments to a Market Measure; and
- if publication of a market measure or basket component is discontinued, select a successor equity index or, if no successor equity index is available, determine the closing level of the market measure or basket component; see Discontinuance of a Market Measure.

All determinations made by the calculation agent will be at the sole discretion of the calculation agent and, in the absence of manifest error, will be conclusive for all purposes and binding on us and you. The calculation agent will have no liability for its determinations.

Events of Default and Acceleration

If an event of default with respect to an issue of notes has occurred and is continuing, the amount payable to a holder of a note upon any acceleration permitted by such notes, with respect to each note, will be equal to the redemption amount, calculated as provided herein and in the applicable pricing supplement. The redemption amount will be calculated using (i) the closing level(s) for the market measure or each basket component, as the case may be, ascertained on the calculation day(s) that occurred before the date of acceleration and (ii) the closing level(s) for the market measure or each basket component, as the case may be, ascertained on each of the trading days for such market

measure or such basket component, as the case may be, leading up to and including the date of acceleration in such number equal to the number of calculation days scheduled to occur on or after the date of acceleration.

BENEFIT PLAN INVESTOR CONSIDERATIONS

Each fiduciary of a pension, profit-sharing or other employee benefit plan to which Title I of the Employee Retirement Income Security Act of 1974 (ERISA) applies (a plan), should consider the fiduciary standards of ERISA in the context of the plan s particular circumstances before authorizing an investment in the notes. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the plan. When we use the term holder in this section, we are referring to a beneficial owner of the notes and not the record holder.

Section 406 of ERISA and Section 4975 of the Code prohibit plans, as well as individual retirement accounts and Keogh plans to which Section 4975 of the Code applies (also plans), from engaging in specified transactions involving plan assets with persons who are parties in interest under ERISA or disqualified persons under the Code (collectively, parties in interest) with respect to such plan. A violation of those prohibited transaction rules may result in an excise tax or other liabilities under ERISA and/or Section 4975 of the Code for such persons, unless statutory or administrative exemptive relief is available. Therefore, a fiduciary of a plan should also consider whether an investment in the notes might constitute or give rise to a prohibited transaction under ERISA and the Code.

Employee benefit plans that are governmental plans, as defined in Section 3(32) of ERISA, certain church plans, as defined in Section 3(33) of ERISA, and foreign plans, as described in Section 4(b)(4) of ERISA (collectively, non-ERISA arrangements), are not subject to the requirements of ERISA, or Section 4975 of the Code, but may be subject to similar rules under other applicable laws or regulations (similar laws).

We and our affiliates may each be considered a party in interest with respect to many plans. Special caution should be exercised, therefore, before the notes are purchased by a plan. In particular, the fiduciary of the plan should consider whether statutory or administrative exemptive relief is available. The U.S. Department of Labor has issued five prohibited transaction class exemptions (PTCEs) that may provide exemptive relief for direct or indirect prohibited transactions resulting from the purchase or holding of the notes. Those class exemptions are:

PTCE 96-23, for specified transactions determined by in-house asset managers;

PTCE 95-60, for specified transactions involving insurance company general accounts;

PTCE 91-38, for specified transactions involving bank collective investment funds;

PTCE 90-1, for specified transactions involving insurance company separate accounts; and

PTCE 84-14, for specified transactions determined by independent qualified professional asset managers.

In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide an exemption for transactions between a plan and a person who is a party in interest (other than a fiduciary who has or exercises any discretionary authority or control with respect to investment of the plan assets involved in the transaction or renders investment advice with respect thereto) solely by reason of providing services to the plan (or by reason of a relationship to such a service provider), if in connection with the transaction the plan receives no less and pays no more, than adequate consideration (within the meaning of Section 408(b)(17) of ERISA).

Any purchaser or holder of the notes or any interest in the notes will be deemed to have represented by its purchase and holding that either:

no portion of the assets used by such purchaser or holder to acquire or purchase the notes constitutes assets of any plan or non-ERISA arrangement; or

the purchase and holding of the notes by such purchaser or holder will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or similar violation under any similar laws.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the notes on behalf of or with plan assets of any plan consult with their counsel regarding the potential consequences under ERISA and the Code of the acquisition of the notes and the availability of exemptive relief.

The notes are contractual financial instruments. The financial exposure provided by the notes is not a substitute or proxy for, and is not intended as a substitute or proxy for, individualized investment management or advice for the benefit of any purchaser or holder of the notes. The notes have not been designed and will not be administered in a manner intended to reflect the individualized needs and objectives of any purchaser or holder of the notes.

Purchasers of the notes have the exclusive responsibility for ensuring that their purchase, holding and subsequent disposition of the notes does not violate the fiduciary or prohibited transaction rules of ERISA, the Code or any similar law. Nothing herein shall be construed as a representation that an investment in the notes would be appropriate for, or would meet any or all of the relevant legal requirements with respect to investments by, plans or non-ERISA arrangements generally or any particular plan or non-ERISA arrangement.

UNITED STATES FEDERAL TAX CONSIDERATIONS

The following is a discussion of the material U.S. federal income and certain estate tax consequences of the ownership and disposition of the notes.

It applies to you only if you purchase a note for cash in the initial offering at the issue price, which is the first price at which a substantial amount of the notes is sold to the public, and hold the note as a capital asset within the meaning of Section 1221 of the Code. It does not address all of the tax consequences that may be relevant to you in light of your particular circumstances, including alternative minimum tax consequences, or if you are an investor subject to special rules, such as:

- a financial institution;
- a regulated investment company ;
- a real estate investment trust ;
- a tax-exempt entity, including an individual retirement account or Roth IRA ;
- a dealer or trader subject to a mark-to-market method of tax accounting with respect to the notes;
- a person holding a note as part of a straddle or conversion transaction or who has entered into a constructive sale with respect to a note;
- a U.S. holder (as defined below) whose functional currency is not the U.S. dollar;
- an entity classified as a partnership for U.S. federal income tax purposes; or
- a taxpayer subject to special tax accounting rules under Section 451(b) of the Code.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds the notes, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partnership holding the notes or a partner in such a partnership, you should consult your tax adviser as to the particular U.S. federal tax consequences of holding and disposing of the notes to you.

We will not attempt to ascertain whether any issuer of a security that is a component of an index included in the market measure (an underlying security) should be treated as a U.S. real property holding corporation (USRPHC) within the meaning of Section 897 of the Code. If the issuer of an underlying security were so treated, certain adverse U.S. federal income tax consequences might apply to you if you are a non-U.S. holder (as defined below) upon the sale, exchange or other disposition of the notes. You should refer to information filed with the Securities and Exchange Commission or another governmental authority by the issuers of the underlying securities and consult your

tax adviser regarding the possible consequences to you if an issuer of an underlying security is or becomes a USRPHC.

This discussion is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date of this product supplement, changes to any of which subsequent to the date of this product supplement may affect the tax consequences described herein, possibly with retroactive effect. This discussion does not address the effects of any applicable state, local or non-U.S. tax laws or the potential application of the Medicare tax on net investment income. You should consult your tax adviser concerning the application of U.S. federal income and estate tax laws to your particular situation, as well as any tax consequences arising under the laws of any state, local or non-U.S. jurisdiction.

This discussion is subject to any additional discussion regarding U.S. federal taxation contained in the applicable pricing supplement. Accordingly, you should also consult the applicable pricing supplement for any additional discussion of U.S. federal taxation with respect to the specific notes offered thereunder.

Tax Treatment of the Notes

Unless otherwise indicated in the applicable pricing supplement, the notes should be treated as contingent payment debt instruments for U.S. federal income tax purposes, and the discussion herein is based on this treatment.

Tax Consequences to U.S. Holders

This section applies only to U.S. holders. You are a U.S. holder if you are a beneficial owner of a note that is, for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

Interest Accruals on the Notes. Pursuant to rules governing the tax treatment of contingent payment debt instruments (the contingent debt regulations), you will be required to accrue interest income on the notes on a constant yield basis, based on a comparable yield as described below, regardless of whether you use the cash or accrual method of accounting for U.S. federal income tax purposes. Accordingly, you will be required to include interest in your taxable income each year in which you hold the notes even though the notes do not provide for a payment until maturity (or earlier retirement).

Under the contingent debt regulations you must accrue an amount of ordinary interest income, as original issue discount (OID) for U.S. federal income tax purposes, for each accrual period prior to and including the maturity date of the notes that equals the product of:

- the adjusted issue price (as defined below) of the notes as of the beginning of the accrual period,
- the comparable yield (as defined below) of the notes, adjusted for the length of the accrual period, and
- a fraction, the numerator of which is the number of days during the accrual period that you held the notes and the denominator of which is the number of days in the accrual period.

The adjusted issue price of a note is generally its issue price increased by any interest income previously accrued.

As used in the contingent debt regulations, the term comparable yield means the greater of (i) the annual yield we would pay, as of the issue date, on a fixed-rate, nonconvertible debt instrument with no contingent payments, but with terms and conditions otherwise comparable to those of the notes and (ii) the applicable federal rate.

The contingent debt regulations require that we provide to U.S. holders, solely for U.S. federal income tax purposes, a schedule of the projected amounts of payments (the projected payment schedule) on the notes. This schedule must

produce a yield to maturity that equals the comparable yield.

We generally will provide the comparable yield and projected payment schedule (or information about where to obtain them) for an offering of notes in the applicable pricing supplement. For U.S. federal income tax purposes, you are required under the contingent debt regulations to use the comparable yield and the projected payment schedule established by us in determining interest accruals and adjustments in respect of a note, unless you timely disclose and justify the use of a different comparable yield and projected payment schedule to the IRS.

The comparable yield and the projected payment schedule will not be used for any purpose other than to determine your interest accruals and adjustments thereto in respect of a note for U.S. federal income tax purposes. They will not constitute a projection or representation by us regarding the actual amount that will be paid on a note.

Fixing of the Contingent Payment at Maturity. Special rules may apply if the contingent payment at maturity becomes fixed more than six months prior to the date such payment is due. For this purpose, a payment will be treated as fixed if the remaining contingencies with respect to it are remote or incidental. Under these rules, you would be required to account for the difference between the originally projected payment and the fixed payment in a reasonable manner over the period to which the difference relates. In addition, you would be required to make adjustments to, among other things, your accrual periods and your tax basis in the notes. The character of any gain or loss on a sale, exchange or retirement of your notes also might be affected. You should consult your tax adviser regarding the application of these rules.

Sale, Exchange or Retirement of Notes. You will recognize taxable gain or loss on the sale, exchange or retirement of a note equal to the difference between the amount received and your adjusted tax basis in the note. Any gain recognized will be treated as ordinary interest income, and any loss will be ordinary loss to the extent of previous interest inclusions and capital loss thereafter. If you are a non-corporate U.S. holder, any loss you recognize will not be treated as a non-deductible miscellaneous itemized deduction. Any capital loss you recognize may be subject to limitations. Moreover, if you recognize a loss that meets certain thresholds you may be required to file a disclosure statement with the IRS.

Your adjusted tax basis in a note generally will be equal to your original purchase price for the note, increased by any interest income you previously accrued.

Tax Consequences to Non-U.S. Holders

This section applies only to non-U.S. holders. You are a non-U.S. holder if you are a beneficial owner of a note that is, for U.S. federal income tax purposes:

- an individual who is classified as a nonresident alien;
- a foreign corporation; or
- a foreign estate or trust.

You are not a non-U.S. holder for purposes of this discussion if you are (i) an individual who is present in the United States for 183 days or more in the taxable year of disposition or (ii) a former citizen or resident of the United States. If you are or may become such a person during the period in which you hold a note, you should consult your tax adviser regarding the U.S. federal tax consequences of an investment in the notes.

Treatment of Income and Gain on the Notes. Subject to the discussions above concerning Section 897 of the Code and below concerning Section 871(m) of the Code and FATCA, you will not be subject to U.S. federal income or withholding tax in respect of the notes, provided that:

you do not own, directly or by attribution, ten percent or more of the total combined voting power of all classes of our stock entitled to vote;

you are not a controlled foreign corporation related, directly or indirectly, to us through stock ownership;

you are not a bank receiving interest under Section 881(c)(3)(A) of the Code; and

you provide to the applicable withholding agent an appropriate IRS Form W-8 on which you certify under penalties of perjury that you are not a U.S. person.

Possible Withholding Under Section 871(m) of the Code

Section 871(m) of the Code and the Treasury regulations thereunder (Section 871(m)) impose a 30% (or lower treaty rate) withholding tax on certain dividend equivalents paid or deemed paid to Non-U.S. holders with respect to certain financial instruments linked to U.S. equities (U.S. underlying equities) or indices that include U.S. underlying equities. Section 871(m) generally applies to specified equity linked instruments (specified ELIs), which are financial instruments that substantially replicate the economic performance of one or more U.S. underlying equities, as determined based on tests set forth in the applicable Treasury regulations and discussed further below. Section 871(m) provides certain exceptions to this withholding regime, in particular for instruments linked to certain broad-based indices that meet requirements set forth in the applicable Treasury regulations (qualified indices) as well as financial instruments that track such indices (qualified index securities).

Although the Section 871(m) regime is effective as of 2017, the regulations and IRS Notice 2017-42 phase in the application of Section 871(m) as follows:

For financial instruments issued before 2019, Section 871(m) will generally apply only to financial instruments that have a delta of one.

For financial instruments issued in 2019 and thereafter, Section 871(m) will apply if either (i) the delta of the relevant financial instrument is at least 0.80, if it is a simple contract, or (ii) the financial instrument meets a substantial equivalence test, if it is a complex contract.

Delta is generally defined as the ratio of the change in the fair market value of a financial instrument to a small change in the fair market value of the number of shares of the U.S. underlying equity. The substantial equivalence test measures whether a complex contract tracks its initial hedge (shares of the U.S. underlying equity that would fully hedge the contract) more closely than would a benchmark simple contract with a delta of 0.80.

The calculations are generally made at the calculation date, which is the earlier of (i) the time of pricing of the note, i.e., when all material terms have been agreed on, and (ii) the issuance of the note. However, if the time of pricing is more than 14 calendar days before the issuance of the note, the calculation date is the date of the issuance of the note. In those circumstances, information regarding our final determinations for purposes of Section 871(m) may be available only after the issuance of the note. As a result, you should acquire such a note only if you are willing to accept the risk that the note is treated as a specified ELI subject to withholding.

If the terms of a note are subject to a significant modification, the note generally will be treated as reissued for this purpose at the time of the significant modification, in which case the notes could become specified ELIs at that time.

If a note is a specified ELI, withholding in respect of dividend equivalents will, depending on the applicable withholding agent s circumstances, generally be required either (i) on the underlying dividend payment date or (ii) when cash payments are made on the note or upon the date of maturity, lapse or other disposition of the note by you, or possibly upon certain other events. Depending on the circumstances, the applicable withholding agent may withhold the required amounts from payments on the note, from proceeds of the retirement or other disposition of the note, or from your other cash or property held by the withholding agent.

The dividend equivalent amount will include the amount of any actual or, under certain circumstances, estimated dividend. If the dividend equivalent amount is based on the actual dividend, it will be equal to the product of: (i) in the case of a simple contract, the per-share dividend amount, the number of shares of a U.S. underlying equity and the delta; or (ii) in the case of a complex contract, the per-share dividend amount and the initial hedge. The dividend

equivalent amount for a specified ELI issued in 2018 that has a delta of one will be calculated in the same manner as (i) above, using a delta of one. The per-share dividend amount will be the actual dividend (including any special dividends) paid with respect to a share of the U.S. underlying equity.

We will not be required to pay any additional amounts in respect of amounts withheld under Section 871(m).

Depending on the terms of a note and whether or not it is issued after 2018, the pricing supplement may contain additional information relevant to Section 871(m), such as whether the note references a qualified index or qualified index security; whether it is a simple contract; the delta and the number of shares multiplied by delta (for a simple contract); and whether the substantial equivalence test is met and the initial hedge (for a complex contract).

Prospective purchasers of the notes should consult their tax advisers regarding the potential application of Section 871(m) to a particular note. Our determination is binding on non-U.S. holders, but it is not binding on the IRS. The Section 871(m) regulations require complex calculations to be made with respect to notes linked to U.S. equities and their application to a specific issue of notes may be uncertain. Accordingly, even if we determine that certain notes are not specified ELIs, the IRS could challenge our determination and assert that withholding is required in respect of those notes. Moreover, your consequences under Section 871(m) may depend on your particular circumstances. For example, if you enter into other transactions relating to a U.S. underlying equity, you could be subject to withholding tax or income tax liability under Section 871(m) even if the notes are not specified ELIs subject to Section 871(m) as a general matter. Non-U.S. holders should consult their tax advisers regarding the application of Section 871(m) in their particular circumstances.

U.S. Federal Estate Tax

Individual non-U.S. holders and entities the property of which is potentially includible in such an individual s gross estate for U.S. federal estate tax purposes (for example, a trust funded by such an individual and with respect to which the individual has retained certain interests or powers) should consider the U.S. federal estate tax implications of an investment in the notes. Absent an applicable treaty benefit, a note will be treated as U.S.-situs property subject to U.S. federal estate tax if payments on the note if received by the decedent at the time of death would have been subject to U.S. federal withholding tax (even if the Form W-8 certification requirement described above were satisfied and not taking into account an elimination of such U.S. federal withholding tax due to the application of an income tax treaty). You should consult your tax adviser regarding the U.S. federal estate tax consequences of an investment in the notes in your particular situation and the availability of benefits provided by an applicable estate tax treaty, if any.

Backup Withholding and Information Reporting

Information returns generally will be filed with the IRS with respect to amounts treated as interest on the notes and may be filed with the IRS in connection with the payment of proceeds from a sale, exchange or other disposition of the notes. If you fail to provide certain identifying information (such as an accurate taxpayer identification number if you are a U.S. holder) or meet certain other conditions, you may also be subject to backup withholding at the rate specified in the Code. If you are a non-U.S. holder that provides an appropriate IRS Form W-8, you will generally establish an exemption from backup withholding. 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 relevant information is timely furnished to the IRS.

FATCA

Legislation commonly referred to as FATCA generally imposes a withholding tax of 30% on payments to certain non-U.S. entities (including financial intermediaries) with respect to certain financial instruments, unless various U.S. information reporting and due diligence requirements have been satisfied. An intergovernmental agreement between the United States and the non-U.S. entity s jurisdiction may modify these requirements. Withholding under these rules (if applicable) applies to payments on the notes of amounts treated as interest and certain dividend equivalents (as defined above) under Section 871(m) and, for dispositions after December 31, 2018, to payments of gross proceeds of the disposition (including upon retirement) of the notes. If withholding applies to the notes, we will not be required to pay any additional amounts with respect to amounts withheld. Both U.S. and non-U.S. holders should consult their tax advisers regarding the potential application of FATCA to the notes.

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