IEC ELECTRONICS CORP
Form SC 13D
February 13, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13D

Under the Securities Exchange Act of 1934

(Amendment No.)*

IEC Electronics Corp.

(Name of Issuer)

Common Stock, par value $0.01 per share

(Title of Class of Securities)

44949L105

(CUSIP Number)

Vintage Capital Management, LLC

4705 S. Apopka Vineland Road, Suite 210

Orlando, FL 32819

(407) 909-8015

With a copy to:

Bradley L. Finkelstein

Wilson Sonsini Goodrich & Rosati

Professional Corporation

650 Page Mill Road

Palo Alto, CA 94304

(650) 493-9300

(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

February 4, 2014

(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition which is the subject of this Schedule 13D, and is filing this schedule because of §§ 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box: ¨

Note. Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See § 240.13d-7 for other parties to whom copies are to be sent.

* The remainder of this cover page shall be filled out for a reporting person s initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 (Act) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, *see* the Notes).

CUSIP No. 44949L105 13D

(1) NAMES OF REPORTING PERSONS

Vintage Capital Management, LLC

(2) CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (see instructions)

(a) ¨ (b) ¨

(3) SEC USE ONLY

(4) SOURCE OF FUNDS (see instructions)

OO

(5) CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) or 2(e)

¨

(6) CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	(7)	SOLE VOTING POWER 0 shares
	(8)	SHARED VOTING POWER 564,828 shares
	(9)	SOLE DISPOSITIVE POWER 0 shares
	(10)	SHARED DISPOSITIVE POWER

564,828 shares

(11) AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

564,828 shares

(12) CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (see instructions)

..

(13) PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

5.6%*

(14) TYPE OF REPORTING PERSON (see instructions)

OO

* Percentage calculated based on 10,042,784 shares of common stock, par value $0.01 per share, outstanding as of February 3, 2014, as reported in the Form 10-Q for the quarterly period ended December 27, 2013 of IEC Electronics Corp.

CUSIP No. 44949L105 13D

(1) NAMES OF REPORTING PERSONS

Kahn Capital Management, LLC

(2) CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (see instructions)

(a) ¨ (b) ¨

(3) SEC USE ONLY

(4) SOURCE OF FUNDS (see instructions)

OO

(5) CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) or 2(e)

¨

(6) CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	(7)	SOLE VOTING POWER 0 shares
	(8)	SHARED VOTING POWER 564,828 shares
	(9)	SOLE DISPOSITIVE POWER 0 shares
	(10)	SHARED DISPOSITIVE POWER

564,828 shares

(11) AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

564,828 shares

(12) CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (see instructions)

..

(13) PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

5.6%*

(14) TYPE OF REPORTING PERSON (see instructions)

OO

* Percentage calculated based on 10,042,784 shares of common stock, par value $0.01 per share, outstanding as of February 3, 2014, as reported in the Form 10-Q for the quarterly period ended December 27, 2013 of IEC Electronics Corp.

CUSIP No. 44949L105 13D

(1) NAMES OF REPORTING PERSONS

Brian R. Kahn

(2) CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (see instructions)

(a) ¨ (b) ¨

(3) SEC USE ONLY

(4) SOURCE OF FUNDS (see instructions)

OO

(5) CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) or 2(e)

¨

(6) CITIZENSHIP OR PLACE OF ORGANIZATION

United States of America

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH		
	(7)	SOLE VOTING POWER 0 shares
	(8)	SHARED VOTING POWER 564,828 shares
	(9)	SOLE DISPOSITIVE POWER 0 shares
	(10)	SHARED DISPOSITIVE POWER

564,828 shares

(11) AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

564,828 shares

(12) CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (see instructions)

..

(13) PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

5.6%*

(14) TYPE OF REPORTING PERSON (see instructions)

IN

* Percentage calculated based on 10,042,784 shares of common stock, par value $0.01 per share, outstanding as of February 3, 2014, as reported in the Form 10-Q for the quarterly period ended December 27, 2013 of IEC Electronics Corp.

Item 1. Security and Issuer.

The securities to which this statement on Schedule 13D (this Statement) relates are the common stock, par value $0.01 per share (the Common Stock), of IEC Electronics Corp., a Delaware corporation (the Issuer). The address of the principal executive offices of the Issuer is 105 Norton Street, Newark, NY 14513.

Item 2. Identity and Background.

(a) *Name*

This Statement is filed by:

(i) Vintage Capital Management, LLC, a Delaware limited liability company (Vintage Capital);

(ii) Kahn Capital Management, LLC, a Delaware limited liability company (Kahn Capital), who serves as a member and majority owner of Vintage Capital; and

(iii) Brian R. Kahn, who serves as (A) the manager and a member of Vintage Capital; and (B) the manager and sole member of Kahn Capital.

Vintage Capital, Kahn Capital and Mr. Kahn are referred to collectively as the Reporting Persons.

Vintage Capital serves as investment adviser to investment funds and managed accounts (collectively, the Accounts), and may be deemed to have beneficial ownership over the shares of Common Stock held for the Accounts.

The Reporting Persons have entered into a joint filing agreement, a copy of which is attached as Exhibit 1.

(b) *Residence or Business Address*

The address of the principal business and principal office of each of the Reporting Persons is 4705 S. Apopka Vineland Road, Suite 210, Orlando, FL 32819.

(c) *Present Principal Occupation or Employment and the Name, Principal Business and Address of any Corporation or Other Organization in Which Such Employment Is Conducted*

The principal business of Vintage Capital is acting as the investment manager of the Accounts.

The principal business of Kahn Capital is acting as a member of Vintage Capital.

The principal occupation of Mr. Kahn is acting as the manager of each of Vintage Capital and Kahn Capital.

(d) *Criminal Convictions*

During the past five years, none of the Reporting Persons has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors).

(e) *Civil Proceedings*
During the past five years, none of the Reporting Persons has been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding such person was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws.

(f) *Citizenship*
Mr. Kahn is a citizen of the United States of America.

Item 3. Source and Amount of Funds or Other Consideration.

All of the shares of Common Stock to which this Statement relates were purchased on behalf of the Accounts using the investment capital of the Accounts. The aggregate purchase price of the 564,828 shares of Common Stock acquired was approximately $2,063,000 (including brokerage commissions and transaction costs).

Item 4. Purpose of Transaction.

The Reporting Persons purchased the shares of Common Stock for investment purposes, and such purchases have been made in the ordinary course of business of the Reporting Persons.

In pursuing such investment purposes, the Reporting Persons may further purchase, hold, vote, trade, dispose or otherwise deal in the Common Stock at times, and in such manner, as they deem advisable to benefit from, among other things, (i) changes in the market prices of the Common Stock; (ii) changes in the Issuer s operations, business strategy or prospects; or (iii) from the sale or merger of the Issuer. To evaluate such alternatives, the Reporting Persons will closely monitor the Issuer s operations, prospects, business development, management, competitive and strategic matters, capital structure, and prevailing market conditions, as well as other economic, securities markets and investment considerations. Consistent with their investment research methods and evaluation criteria, the Reporting Persons may discuss such matters with the management or Board of Directors of the Issuer, other stockholders, industry analysts, existing or potential strategic partners or competitors, investment and financing professionals, sources of credit, and other investors. Such evaluations and discussions may materially affect, and result in, among other things, the Reporting Persons (i) modifying their ownership of Common Stock; (ii) exchanging information with the Issuer pursuant to appropriate confidentiality or similar agreements; (iii) proposing changes in the Issuer s operations, governance or capitalization; (iv) pursuing a transaction that would result in the Reporting Persons acquisition of a controlling interest in the Issuer; or (v) pursuing one or more of the other actions described in subsections (a) through (j) of Item 4 of Schedule 13D.

In addition to the information disclosed in this Statement, the Reporting Persons reserve the right to (i) formulate other plans and proposals; (ii) take any actions with respect to their investment in the Issuer, including any or all of the actions set forth in subsections (a) through (j) of Item 4 of Schedule 13D; and (iii) acquire additional Common Stock or dispose of some or all of the Common Stock beneficially owned by them, in each case in the open market, through privately negotiated transactions or otherwise. The Reporting Persons may at any time reconsider and change their plans or proposals relating to the foregoing.

Item 5. Interest in Securities of the Issuer.

(a) and (b) The responses of the Reporting Persons to rows 7, 8, 9, 10, 11 and 13 on the cover pages of this Statement are incorporated herein by reference. As of the close of business on February 13, 2014, Vintage Capital beneficially owned 564,828 shares of Common Stock, representing approximately 5.6% of the outstanding shares of Common Stock. The percentage in this paragraph relating to beneficial ownership of Common Stock is based on 10,042,784 shares of Common Stock outstanding as of February 3, 2014, as reported in the Form 10-Q for the quarterly period ended December 27, 2013 of the Issuer.

Vintage Capital serves as investment adviser to the Accounts, and may be deemed to have beneficial ownership over the shares of Common Stock held for the Accounts.

Kahn Capital, as a member and the majority owner of Vintage Capital, may be deemed to have the power to direct the voting and disposition of the shares of Common Stock beneficially owned by Vintage Capital, and may be deemed to be the indirect beneficial owner of such shares. Kahn Capital disclaims beneficial ownership of such shares for all other purposes.

Mr. Kahn, as the manager of each of Vintage Capital and Kahn Capital, may be deemed to have the power to direct the voting and disposition of the shares of Common Stock beneficially owned by Vintage Capital, and may be deemed to be the indirect beneficial owner of such shares. Mr. Kahn disclaims beneficial ownership of such shares for all other purposes.

To the knowledge of each of the Reporting Persons, other than as set forth above, none of the persons named in Item 2 is the beneficial owner of any shares of Common Stock.

(c) Except as set forth in Schedule A, none of the Reporting Persons has effected any transactions in the Common Stock in the last 60 days.

(d) No other person is known to the Reporting Persons to have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the shares of Common Stock covered by this Statement.

(e) Not applicable.

Item 6. Contracts, Arrangements, Understandings or Relationships With Respect to Securities of the Issuer.

Except for the joint filing agreement between and among the Reporting Persons attached as Exhibit 1 and other than as described in this Statement, to the knowledge of the Reporting Persons, there are no contracts, arrangements, understandings or relationships (legal or otherwise) among the Reporting Persons or between the Reporting Persons and any other persons with respect to any securities of the Issuer, including but not limited to transfer or voting of any of the securities, finder s fees, joint ventures, loan or option arrangements, puts or calls, guarantees of profits, division of profits or loss, or the giving or withholding of proxies.

Item 7. Material to be Filed as Exhibits.

The following documents are filed as exhibits:

Exhibit Number	**Description**

1 Joint Filing Agreement.

SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: February 13, 2014

VINTAGE CAPITAL MANAGEMENT, LLC

By: /s/ Brian R. Kahn
Name: Brian R. Kahn
Title: Manager

KAHN CAPITAL MANAGEMENT, LLC

By: /s/ Brian R. Kahn
Name: Brian R. Kahn
Title: Manager

/s/ Brian R. Kahn
Brian R. Kahn

Schedule A

Transactions by the Reporting Persons in the Past 60 Days

Beneficial Ownership	Transaction Date	Purchase or Sale	Quantity	Price per Share (excluding commission)	How Effected
Vintage Capital	12/23/13	Purchase	3,600	3.8064	Open Market
Vintage Capital	12/26/13	Purchase	8,000	3.8059	Open Market
Vintage Capital	12/27/13	Purchase	1,324	3.7862	Open Market
Vintage Capital	12/30/13	Purchase	15,000	3.7735	Open Market
Vintage Capital	01/23/14	Purchase	6,576	4.0070	Open Market
Vintage Capital	01/24/14	Purchase	3,000	4.1577	Open Market
Vintage Capital	02/03/14	Purchase	14,175	3.9632	Open Market
Vintage Capital	02/04/14	Purchase	90,000	3.9500	Open Market
Vintage Capital	02/04/14	Purchase	2,100	3.9971	Open Market
Vintage Capital	02/05/14	Purchase	23,500	3.8967	Open Market
Vintage Capital	02/06/14	Purchase	2,900	3.9134	Open Market
Vintage Capital	02/07/14	Purchase	9,653	3.9798	Open Market
Vintage Capital	02/12/14	Purchase	2,500	4.1076	Open Market

EXHIBIT INDEX

Exhibit Number	Description
1	Joint Filing Agreement.

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$400.000
$30.00
30.0000%
$300.000
$20.00
20.0000%
$200.000
$10.00
10.0000%
$100.000
$0.00
0%
$0.000
*Including the final Contingent Coupon, if payable.

Auto-Callable Contingent Coupon Barrier Notes
Linked to the Lesser Performing of Three Equity Securities
Royal Bank of Canada

Hypothetical Examples of Amounts Payable at Maturity

The following hypothetical examples illustrate how the payments at maturity set forth in the table above are calculated, assuming the Notes have not been called.

Example 1: The price of the Lesser Performing Reference Stock increases by 25% from the Initial Stock Price of $100.00 to its Final Stock Price of $125.00. Because the Final Stock Price of the Lesser Performing Reference Stock is greater than its Trigger Price and Coupon Barrier, the investor receives at maturity, in addition to the final Contingent Coupon otherwise due on the Notes, a cash payment of $1,000 per Note, despite the 25% appreciation in the price of the Lesser Performing Reference Stock.

Example 2: The price of the Lesser Performing Reference Stock decreases by 10% from the Initial Stock Price of $100.00 to its Final Stock Price of $90.00. Because the Final Stock Price of the Lesser Performing Reference Stock is greater than its Trigger Price and Coupon Barrier, the investor receives at maturity, in addition to the final Contingent Coupon otherwise due on the Notes, a cash payment of $1,000 per Note, despite the 10% decline in the price of the Lesser Performing Reference Stock.

Example 3: The price of the Lesser Performing Reference Stock decreases by 60% from the Initial Stock Price of $100.00 to its Final Stock Price of $40.00. Because the Final Stock Price of the Lesser Performing Reference Stock is less than its Trigger Price and Coupon Barrier, the final Contingent Coupon will not be payable on the Maturity Date, and we will pay only $400.00 for each $1,000 in the principal amount of the Notes, calculated as follows:

Principal Amount + (Principal Amount x Reference Stock Return of the Lesser Performing Reference Stock)
= $1,000 + ($1,000 x -60.00%) = $1,000 - $600.00 = $400.00

* * *

The Payments at Maturity shown above are entirely hypothetical; they are based on prices of the Reference Stocks that may not be achieved on the Valuation Date and on assumptions that may prove to be erroneous. The actual market value of your Notes on the Maturity Date or at any other time, including any time you may wish to sell your Notes, may bear little relation to the hypothetical Payments at Maturity shown above, and those amounts should not be viewed as an indication of the financial return on an investment in the Notes.

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SELECTED RISK CONSIDERATIONS

An investment in the Notes involves significant risks. Investing in the Notes is not equivalent to investing directly in the Reference Stocks. These risks are explained in more detail in the section "Risk Factors" in the product prospectus supplement. In addition to the risks described in the prospectus supplement and the product prospectus supplement, you should consider the following:

- Principal at Risk — Investors in the Notes could lose all or a substantial portion of their principal amount if there is a decline in the trading price of the Lesser Performing Reference Stock between the Trade Date and the Valuation Date. If the Notes are not automatically called and the Final Stock Price of the Lesser Performing Reference Stock on the Valuation Date is less than its Trigger Price, the amount of cash that you receive at maturity will represent a loss of your principal that is proportionate to the decline in the closing price of the Lesser Performing Reference Stock from the Trade Date to the Valuation Date. Any Contingent Coupons received on the Notes prior to the Maturity Date may not be sufficient to compensate for any such loss.
- The Notes Are Subject to an Automatic Call — If on any Observation Date beginning in February 2019, the closing price of each Reference Stock is greater than or equal to its Initial Stock Price, then the Notes will be automatically called. If the Notes are automatically called, then, on the applicable Call Settlement Date, for each $1,000 in principal amount, you will receive $1,000 plus the Contingent Coupon otherwise due on the applicable Call Settlement Date. You will not receive any Contingent Coupons after the Call Settlement Date. You may be unable to reinvest your proceeds from the automatic call in an investment with a return that is as high as the return on the Notes would have been if they had not been called.
- You May Not Receive Any Contingent Coupons — We will not necessarily make any coupon payments on the Notes. If the closing price of any of the Reference Stocks on an Observation Date is less than its Coupon Barrier, we will not pay you the Contingent Coupon applicable to that Observation Date. If the closing price of any of the Reference Stocks is less than its Coupon Barrier on each of the Observation Dates and on the Valuation Date, we will not pay you any Contingent Coupons during the term of, and you will not receive a positive return on your Notes. Generally, this non-payment of the Contingent Coupon coincides with a period of greater risk of principal loss on your Notes. Accordingly, if we do not pay the Contingent Coupon on the Maturity Date, you will also incur a loss of principal, because the Final Stock Price of the Lesser Performing Reference Stock will be less than its Trigger Price.
- The Notes Are Linked to the Lesser Performing Reference Stock, Even if the Other Reference Stocks Perform Better — If any of the Reference Stocks has a Final Stock Price that is less than its Trigger Price, your return will be linked to the lesser performing of the three Reference Stocks. Even if the Final Stock Prices of the other Reference Stocks have increased compared to their respective Initial Stock Prices, or have experienced a decrease that is less than that of the Lesser Performing Reference Stock, your return will only be determined by reference to the performance of the Lesser Performing Reference Stock, regardless of the performance of the other Reference Stocks. Because each Reference Stock Issuer operates in the pharmaceuticals industry, they each may experience simultaneous and significant declines due to adverse conditions in that industry.
- Your Payment on the Notes Will Be Determined by Reference to Each Reference Stock Individually, Not to a Basket, and the Payment at Maturity Will Be Based on the Performance of the Lesser Performing Reference Stock — The Payment at Maturity will be determined only by reference to the performance of the Lesser Performing Reference Stock, regardless of the performance of the other Reference Stocks. The Notes are not linked to a weighted basket, in which the risk may be mitigated and diversified among each of the basket components. For example, in the case of notes linked to a weighted basket, the return would depend on the weighted aggregate performance of the basket components reflected as the basket return. As a result, the depreciation of one basket component could be mitigated by the appreciation of the other basket components, as scaled by the weighting of that basket component.

However, in the case of the Notes, the individual performance of each of the Reference Stocks would not be combined, and the depreciation of one Reference Stock would not be mitigated by any appreciation of the other Reference Stocks. Instead, your return will depend solely on the Final Stock Price of the Lesser Performing Reference Stock.

- The Call Feature and the Contingent Coupon Feature Limit Your Potential Return — The return potential of the Notes is limited to the pre-specified Contingent Coupon Rate, regardless of the appreciation of the Reference Stocks. In addition, the total return on the Notes will vary based on the number of Observation Dates on which the Contingent Coupon becomes payable prior to maturity or an automatic call. Further, if the Notes are called due to the Call Feature, you will not receive any Contingent Coupons or any other payment in respect of any Observation Dates after the applicable Call Settlement Date. Since the Notes could be called as early as February 2019, the total return on the Notes could minimal. If the Notes are not called, you

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may be subject to the full downside performance of the Lesser Performing Reference Stock even though your potential return is limited to the Contingent Coupon Rate. As a result, the return on an investment in the Notes could be less than the return on a direct investment in the Reference Stocks.

- Your Return May Be Lower than the Return on a Conventional Debt Security of Comparable Maturity — The return that you will receive on the Notes, which could be negative, may be less than the return you could earn on other investments. Even if your return is positive, your return may be less than the return you would earn if you bought a conventional senior interest bearing debt security of Royal Bank.
- Payments on the Notes Are Subject to Our Credit Risk, and Changes in Our Credit Ratings Are Expected to Affect the Market Value of the Notes — The Notes are Royal Bank's senior unsecured debt securities. As a result, your receipt of any Contingent Coupons, if payable, and the amount due on any relevant payment date is dependent upon Royal Bank's ability to repay its obligations on the applicable payment dates. This will be the case even if the prices of the Reference Stocks increase after the Trade Date. No assurance can be given as to what our financial condition will be during the term of the Notes.
- There May Not Be an Active Trading Market for the Notes-Sales in the Secondary Market May Result in Significant Losses — There may be little or no secondary market for the Notes. The Notes will not be listed on any securities exchange. RBCCM and other affiliates of Royal Bank may make a market for the Notes; however, they are not required to do so. RBCCM or any other affiliate of Royal Bank may stop any market-making activities at any time. Even if a secondary market for the Notes develops, it may not provide significant liquidity or trade at prices advantageous to you. We expect that transaction costs in any secondary market would be high. As a result, the difference between bid and asked prices for your Notes in any secondary market could be substantial.
- The Initial Estimated Value of the Notes Will Be Less than the Price to the Public — The initial estimated value set forth on the cover page and that will be set forth in the final pricing supplement for the Notes does not represent a minimum price at which we, RBCCM or any of our affiliates would be willing to purchase the Notes in any secondary market (if any exists) at any time. If you attempt to sell the Notes prior to maturity, their market value may be lower than the price you paid for them and the initial estimated value. This is due to, among other things, changes in the prices of the Reference Stocks, the borrowing rate we pay to issue securities of this kind, and the inclusion in the price to the public of the underwriting discount and the estimated costs relating to our hedging of the Notes. These factors, together with various credit, market and economic factors over the term of the Notes, are expected to reduce the price at which you may be able to sell the Notes in any secondary market and will affect the value of the Notes in complex and unpredictable ways. Assuming no change in market conditions or any other relevant factors, the price, if any, at which you may be able to sell your Notes prior to maturity may be less than your original purchase price, as any such sale price would not be expected to include the underwriting discount and the hedging costs relating to the Notes. In addition to bid-ask spreads, the value of the Notes determined by RBCCM for any secondary market price is expected to be based on the secondary rate rather than the internal funding rate used to price the Notes and determine the initial estimated value. As a result, the secondary price will be less than if the internal funding rate was used. The Notes are not designed to be short-term trading instruments. Accordingly, you should be able and willing to hold your Notes to maturity.
- The Initial Estimated Value of the Notes on the Cover Page of this Terms Supplement and that We Will Provide in the Final Pricing Supplement Are Estimates Only, Calculated as of the Time the Terms of the Notes Are Set — The initial estimated value of the Notes will be based on the value of our obligation to make the payments on the Notes, together with the mid-market value of the derivative embedded in the terms of the Notes. See "Structuring the Notes" below. Our estimates are based on a variety of assumptions, including our credit spreads, expectations as to

dividends, interest rates and volatility, and the expected term of the Notes. These assumptions are based on certain forecasts about future events, which may prove to be incorrect. Other entities may value the Notes or similar securities at a price that is significantly different than we do.

The value of the Notes at any time after the Trade Date will vary based on many factors, including changes in market conditions, and cannot be predicted with accuracy. As a result, the actual value you would receive if you sold the Notes in any secondary market, if any, should be expected to differ materially from the initial estimated value of your Notes.

- Market Disruption Events and Adjustments — The payment at maturity, each Observation Date and the Valuation Date are subject to adjustment as described in the product prospectus supplement. For a description of what constitutes a market disruption event as well as the consequences of that market disruption event, see “General Terms of the Notes—Market Disruption Events” in the product prospectus supplement.
- Our Business Activities May Create Conflicts of Interest — We and our affiliates expect to engage in trading activities related to the Reference Stocks that are not for the account of holders of the Notes or on their behalf. These trading activities

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may present a conflict between the holders' interests in the Notes and the interests we and our affiliates will have in their proprietary accounts, in facilitating transactions, including options and other derivatives transactions, for their customers and in accounts under their management. These trading activities, if they influence the share price of the Reference Stocks, could be adverse to the interests of the holders of the Notes. We and one or more of our affiliates may, at present or in the future, engage in business with the Reference Stock Issuers, including making loans to or providing advisory services. These services could include investment banking and merger and acquisition advisory services. These activities may present a conflict between our or one or more of our affiliates' obligations and your interests as a holder of the Notes. Moreover, we and our affiliates may have published, and in the future expect to publish, research reports with respect to the Reference Stocks. This research is modified from time to time without notice and may express opinions or provide recommendations that are inconsistent with purchasing or holding the Notes. Any of these activities by us or one or more of our affiliates may affect the share price of the Reference Stocks, and, therefore, the market value of the Notes.

- Owning the Notes Is Not the Same as Owning the Reference Stocks — The return on your Notes is unlikely to reflect the return you would realize if you actually owned shares of the Reference Stocks. For instance, you will not receive or be entitled to receive any dividend payments or other distributions on these securities during the term of your Notes. As an owner of the Notes, you will not have voting rights or any other rights that holders of these securities may have. Furthermore, the Reference Stocks may appreciate substantially during the term of the Notes, while your potential return will be limited to the applicable Contingent Coupon payments.
- You Must Rely on Your Own Evaluation of the Merits of an Investment Linked to the Reference Stocks — In the ordinary course of their business, our affiliates may have expressed views on expected movements in the Reference Stocks, and may do so in the future. These views or reports may be communicated to our clients and clients of our affiliates. However, these views are subject to change from time to time. Moreover, other professionals who transact business in markets relating to any Reference Stock may at any time have significantly different views from those of our affiliates. For these reasons, you are encouraged to derive information concerning the Reference Stocks from multiple sources, and you should not rely solely on views expressed by our affiliates.
- There Is No Affiliation Between the Reference Stock Issuers and RBCCM, and RBCCM Is Not Responsible for any Disclosure by the Reference Stock Issuers — We are not affiliated with the Reference Stock Issuers. However, we and our affiliates may currently, or from time to time in the future engage, in business with any Reference Stock Issuer. Nevertheless, neither we nor our affiliates assume any responsibilities for the accuracy or the completeness of any information that any other company prepares. You, as an investor in the Notes, should make your own investigation into the Reference Stocks.

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Royal Bank of Canada

INFORMATION REGARDING THE REFERENCE STOCK ISSUERS

The Reference Stocks are registered under the Securities Exchange Act of 1934 (the "Exchange Act"). Companies with securities registered under that Act are required to file periodically certain financial and other information specified by the SEC. Information provided to or filed with the SEC can be inspected and copied at the public reference facilities maintained by the SEC or through the SEC's website at www.sec.gov. In addition, information regarding the Reference Stocks may be obtained from other sources including, but not limited to, press releases, newspaper articles and other publicly disseminated documents.

The following information regarding the Reference Stock Issuers is derived from publicly available information.

We have not independently verified the accuracy or completeness of reports filed by the Reference Stock Issuers with the SEC, information published by it on its website or in any other format, information about it obtained from any other source or the information provided below.

We obtained the information regarding the historical performance of the Reference Stocks set forth below from Bloomberg Financial Markets.

We have not independently verified the accuracy or completeness of the information obtained from Bloomberg Financial Markets. The historical performance of the Reference Stocks should not be taken as an indication of their future performance, and no assurance can be given as to the market prices of any Reference Stock at any time during the term of the Notes. We cannot give you assurance that the performance of any Reference Stock will not result in the loss of all or part of your investment.

Amgen Inc. ("AMGN")

Amgen Inc. is an independent biotechnology medicines company that discovers, develops, manufactures and markets medicines for grievous illnesses. The company focuses solely on human therapeutics and concentrates on innovating novel medicines based on advances in cellular and molecular biology.

The company's common stock is listed on the Nasdaq Global Select Market ("Nasdaq") under the ticker symbol "AMGN."

Celgene Corporation ("CELG")

Celgene Corporation is a biopharmaceutical company. The company focuses on the discovery, development, and commercialization of therapies designed to treat cancer and immune-inflammatory related diseases.

The company's common stock is listed on the Nasdaq Global Select Market under the ticker symbol "CELG."

Gilead Sciences, Inc. ("GILD")

Gilead Sciences, Inc. is a research-based biopharmaceutical company that discovers, develops, and commercializes therapeutics to advance the care of patients suffering from life-threatening diseases. The company primary areas of focus include HIV, AIDS, liver disease, and serious cardiovascular and respiratory conditions.

The company's common stock is listed on the Nasdaq under the ticker symbol "GILD."

Auto-Callable Contingent Coupon Barrier Notes
Linked to the Lesser Performing of Three Equity Securities
Royal Bank of Canada

HISTORICAL INFORMATION

The graphs below set forth the information relating to the historical performance of the Reference Stocks. In addition, below the graphs are tables setting forth the intra-day high, intra-day low and period-end closing prices of the Reference Stocks. The information provided in these tables is for the period from January 1, 2008 through August 1, 2018.

We obtained the information regarding the historical performance of the Reference Stocks in the graphs and tables below from Bloomberg Financial Markets.

We have not independently verified the accuracy or completeness of the information obtained from Bloomberg Financial Markets. The historical performance of any Reference Stock should not be taken as an indication of its future performance, and no assurance can be given as to the prices of the Reference Stocks at any time. We cannot give you assurance that the performance of the Reference Stocks will not result in the loss of all or part of your investment.

Auto-Callable Contingent Coupon Barrier Notes
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Historical Information for Amgen Inc. ("AMGN")
Below is a table setting forth the intra-day high, intra-day low and period-end closing prices of this Reference Stock. The information provided in the table is for the period from January 1, 2008 through August 1, 2018.

Period-Start Date	Period-End Date	High Intra-Day Price of this Reference Stock ($)	Low Intra-Day Price of this Reference Stock ($)	Period-End Closing Price of this Reference Stock ($)
1/1/2008	3/31/2008	48.91	39.16	41.78
4/1/2008	6/30/2008	47.41	41.25	47.16
7/1/2008	9/30/2008	66.51	46.86	59.27
10/1/2008	12/31/2008	62.45	45.00	57.59
1/1/2009	3/31/2009	60.14	45.74	49.52
4/1/2009	6/30/2009	53.84	44.97	52.94
7/1/2009	9/30/2009	64.50	50.65	60.23
10/1/2009	12/31/2009	61.85	51.72	57.52
1/1/2010	3/31/2010	60.39	54.66	59.76
4/1/2010	6/30/2010	61.26	50.34	52.60
7/1/2010	9/30/2010	56.84	50.26	55.11
10/1/2010	12/31/2010	58.74	52.19	55.53
1/1/2011	3/31/2011	58.19	50.61	53.45
4/1/2011	6/30/2011	61.53	52.76	58.35
7/1/2011	9/30/2011	58.44	47.75	54.95
10/1/2011	12/31/2011	65.00	52.86	64.21
1/1/2012	3/31/2012	70.00	63.30	67.99
4/1/2012	6/30/2012	73.73	65.38	73.04
7/1/2012	9/30/2012	85.27	72.99	84.32
10/1/2012	12/31/2012	90.81	82.93	86.32
1/1/2013	3/31/2013	102.61	81.56	102.51
4/1/2013	6/30/2013	114.95	94.23	98.66
7/1/2013	9/30/2013	117.89	95.05	111.94
10/1/2013	12/31/2013	119.65	105.76	114.16
1/1/2014	3/31/2014	128.96	113.12	123.34
4/1/2014	6/30/2014	127.25	108.24	118.37
7/1/2014	9/30/2014	144.46	115.18	140.46
10/1/2014	12/31/2014	173.14	127.67	159.29
1/1/2015	3/31/2015	172.36	147.43	159.85
4/1/2015	6/30/2015	173.00	150.88	153.52

7/1/2015	9/30/2015	181.74	130.09	138.32
10/1/2015	12/31/2015	165.23	135.64	162.33
1/1/2016	3/31/2016	160.20	139.04	149.93
4/1/2016	6/30/2016	164.70	143.83	152.15
7/1/2016	9/30/2016	176.85	152.25	166.81
10/1/2016	12/31/2016	168.68	133.64	146.21
1/1/2017	3/31/2017	184.20	147.17	164.07
4/1/2017	6/30/2017	175.45	152.16	172.23
7/1/2017	9/30/2017	191.08	166.53	186.45
10/1/2017	12/31/2017	190.00	168.15	173.90
1/1/2018	3/31/2018	201.23	168.33	170.48
4/1/2018	6/30/2018	187.51	163.31	184.59
7/1/2018	8/1/2018	197.49	182.80	195.84

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

Auto-Callable Contingent Coupon Barrier Notes
Linked to the Lesser Performing of Three Equity Securities
Royal Bank of Canada

The graph below illustrates the performance of this Reference Stock from January 1, 2008 to August 1, 2018, assuming an Initial Stock Price of $195.84, which was the closing price of this Reference Stock on August 1, 2018. The red line represents a hypothetical Coupon Barrier and Trigger Price of $117.50, which is equal to 60.00% of its closing price on August 1, 2018, rounded to two decimal places. The actual Coupon Barrier and Trigger Price will be based on the closing price of this Reference Stock on the Trade Date.

Auto-Callable Contingent Coupon Barrier Notes
Linked to the Lesser Performing of Three Equity Securities
Royal Bank of Canada

Historical Information for Celgene Corporation (“CELG”)
Below is a table setting forth the intra-day high, intra-day low and period-end closing prices of this Reference Stock. The information provided in the table is for the period from January 1, 2008 through August 1, 2018.

Period-Start Date	Period-End Date	High Intra-Day Price of this Reference Stock ($)	Low Intra-Day Price of this Reference Stock ($)	Period-End Closing Price of this Reference Stock ($)
1/1/2008	3/31/2008	31.09	23.04	30.65
4/1/2008	6/30/2008	32.95	28.44	31.94
7/1/2008	9/30/2008	38.70	28.00	31.64
10/1/2008	12/31/2008	33.25	22.73	27.31
1/1/2009	3/31/2009	28.30	19.66	22.20
4/1/2009	6/30/2009	24.38	18.45	23.92
7/1/2009	9/30/2009	29.16	22.64	27.95
10/1/2009	12/31/2009	28.90	24.88	28.06
1/1/2010	3/31/2010	32.90	27.02	30.98
4/1/2010	6/30/2010	32.00	24.78	25.41
7/1/2010	9/30/2010	29.50	24.01	28.81
10/1/2010	12/31/2010	31.73	27.12	29.72
1/1/2011	3/31/2011	30.45	24.46	28.77
4/1/2011	6/30/2011	30.85	27.42	30.16
7/1/2011	9/30/2011	32.93	25.85	30.96
10/1/2011	12/31/2011	34.13	29.67	33.80
1/1/2012	3/31/2012	39.42	33.15	38.76
4/1/2012	6/30/2012	40.21	29.27	32.08
7/1/2012	9/30/2012	39.00	30.95	38.20
10/1/2012	12/31/2012	41.39	35.63	39.36
1/1/2013	3/31/2013	58.48	40.04	57.96
4/1/2013	6/30/2013	65.90	55.27	58.46
7/1/2013	9/30/2013	78.01	59.09	76.97
10/1/2013	12/31/2013	86.88	71.05	84.48
1/1/2014	3/31/2014	87.33	69.51	69.80
4/1/2014	6/30/2014	87.37	66.87	85.88
7/1/2014	9/30/2014	96.50	82.90	94.78
10/1/2014	12/31/2014	119.84	83.17	111.86
1/1/2015	3/31/2015	129.03	109.49	115.28
4/1/2015	6/30/2015	121.47	106.48	115.74

7/1/2015	9/30/2015	140.69	92.98	108.17
10/1/2015	12/31/2015	128.39	105.67	119.76
1/1/2016	3/31/2016	119.59	93.06	100.09
4/1/2016	6/30/2016	111.90	94.42	98.63
7/1/2016	9/30/2016	117.87	98.35	104.53
10/1/2016	12/31/2016	127.00	96.93	115.75
1/1/2017	3/31/2017	127.61	111.07	124.43
4/1/2017	6/30/2017	135.18	113.63	129.87
7/1/2017	9/30/2017	146.12	126.86	145.82
10/1/2017	12/31/2017	147.13	94.56	104.36
1/1/2018	3/31/2018	109.97	84.95	89.21
4/1/2018	6/30/2018	92.96	74.14	79.42
7/1/2018	8/1/2018	90.61	78.15	90.19

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

P-15 RBC Capital Markets, LLC

Auto-Callable Contingent Coupon Barrier Notes
Linked to the Lesser Performing of Three Equity Securities
Royal Bank of Canada

The graph below illustrates the performance of this Reference Stock from January 1, 2008 to August 1, 2018, assuming an Initial Stock Price of $90.19, which was the closing price of this Reference Stock on August 1, 2018. The red line represents a hypothetical Coupon Barrier and Trigger Price of $54.11, which is equal to 60.00% of its closing price on August 1, 2018, rounded to two decimal places. The actual Coupon Barrier and Trigger Price will be based on the closing price of this Reference Stock on the Trade Date.

Auto-Callable Contingent Coupon Barrier Notes
Linked to the Lesser Performing of Three Equity Securities
Royal Bank of Canada

Historical Information for Gilead Sciences, Inc. (“GILD”)
Below is a table setting forth the intra-day high, intra-day low and period-end closing prices of this Reference Stock. The information provided in the table is for the period from January 1, 2008 through August 1, 2018.

Period-Start Date	Period-End Date	High Intra-Day Price of this Reference Stock ($)	Low Intra-Day Price of this Reference Stock ($)	Period-End Closing Price of this Reference Stock ($)
1/1/2008	3/31/2008	25.83	21.08	25.77
4/1/2008	6/30/2008	28.48	24.79	26.48
7/1/2008	9/30/2008	28.82	21.22	22.79
10/1/2008	12/31/2008	25.71	17.80	25.67
1/1/2009	3/31/2009	26.64	20.31	23.16
4/1/2009	6/30/2009	24.21	20.66	23.42
7/1/2009	9/30/2009	25.00	21.94	23.29
10/1/2009	12/31/2009	23.76	21.16	21.74
1/1/2010	3/31/2010	24.75	21.35	22.74
4/1/2010	6/30/2010	23.31	16.43	17.14
7/1/2010	9/30/2010	18.38	15.87	17.81
10/1/2010	12/31/2010	20.37	17.63	18.13
1/1/2011	3/31/2011	21.45	18.22	21.22
4/1/2011	6/30/2011	21.47	19.40	20.71
7/1/2011	9/30/2011	21.75	17.64	19.40
10/1/2011	12/31/2011	21.49	17.23	20.47
1/1/2012	3/31/2012	28.25	20.68	24.43
4/1/2012	6/30/2012	27.38	22.67	25.64
7/1/2012	9/30/2012	34.04	24.80	33.17
10/1/2012	12/31/2012	38.56	32.08	36.73
1/1/2013	3/31/2013	49.48	36.94	48.93
4/1/2013	6/30/2013	58.06	46.53	51.21
7/1/2013	9/30/2013	64.73	51.42	62.84
10/1/2013	12/31/2013	76.09	58.81	75.15
1/1/2014	3/31/2014	84.85	67.64	70.86
4/1/2014	6/30/2014	84.44	63.50	82.91
7/1/2014	9/30/2014	110.64	83.32	106.45
10/1/2014	12/31/2014	116.83	85.95	94.26
1/1/2015	3/31/2015	107.76	93.18	98.13
4/1/2015	6/30/2015	123.36	95.40	117.08

7/1/2015	9/30/2015	120.37	86.00	98.19
10/1/2015	12/31/2015	111.10	94.37	101.19
1/1/2016	3/31/2016	100.67	81.89	91.86
4/1/2016	6/30/2016	103.09	77.92	83.42
7/1/2016	9/30/2016	88.84	76.67	79.12
10/1/2016	12/31/2016	80.00	70.85	71.61
1/1/2017	3/31/2017	76.98	65.38	67.92
4/1/2017	6/30/2017	72.16	63.76	70.78
7/1/2017	9/30/2017	86.26	68.55	81.02
10/1/2017	12/31/2017	84.22	70.06	71.64
1/1/2018	3/31/2018	89.53	71.74	75.39
4/1/2018	6/30/2018	76.25	64.27	70.85
7/1/2018	8/1/2018	79.03	70.30	77.90

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

Auto-Callable Contingent Coupon Barrier Notes
Linked to the Lesser Performing of Three Equity Securities
Royal Bank of Canada

The graph below illustrates the performance of this Reference Stock from January 1, 2008 to August 1, 2018, assuming an Initial Stock Price of $77.90, which was the closing price of this Reference Stock on August 1, 2018. The red line represents a hypothetical Coupon Barrier and Trigger Price of $46.74, which is equal to 60.00% of its closing price on August 1, 2018. The actual Coupon Barrier and Trigger Price will be based on the closing price of this Reference Stock on the Trade Date.

Auto-Callable Contingent Coupon Barrier Notes
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SUPPLEMENTAL DISCUSSION OF
U.S. FEDERAL INCOME TAX CONSEQUENCES

The following disclosure supplements, and to the extent inconsistent supersedes, the discussion in the product prospectus supplement dated January 8, 2016 under "Supplemental Discussion of U.S. Federal Income Tax Consequences." The discussions below and in the accompanying product prospectus supplement do not address the tax consequences applicable to holders subject to Section 451(b) of the Code.

Under Section 871(m) of the Code, a "dividend equivalent" payment is treated as a dividend from sources within the United States. Such payments generally would be subject to a 30% U.S. withholding tax if paid to a non-U.S. holder. Under U.S. Treasury Department regulations, payments (including deemed payments) with respect to equity-linked instruments ("ELIs") that are "specified ELIs" may be treated as dividend equivalents if such specified ELIs reference an interest in an "underlying security," which is generally any interest in an entity taxable as a corporation for U.S. federal income tax purposes if a payment with respect to such interest could give rise to a U.S. source dividend. However, the IRS has issued guidance that states that the U.S. Treasury Department and the IRS intend to amend the effective dates of the U.S. Treasury Department regulations to provide that withholding on dividend equivalent payments will not apply to specified ELIs that are not delta-one instruments and that are issued before January 1, 2019. Based on our determination that the Notes are not delta-one instruments, non-U.S. holders should not be subject to withholding on dividend equivalent payments, if any, under the Notes. However, it is possible that the Notes could be treated as deemed reissued for U.S. federal income tax purposes upon the occurrence of certain events affecting the Reference Stocks or the Notes, and following such occurrence the Notes could be treated as subject to withholding on dividend equivalent payments. Non-U.S. holders that enter, or have entered, into other transactions in respect of the Reference Stocks or the Notes should consult their tax advisors as to the application of the dividend equivalent withholding tax in the context of the Notes and their other transactions. If any payments are treated as dividend equivalents subject to withholding, we (or the applicable withholding agent) would be entitled to withhold taxes without being required to pay any additional amounts with respect to amounts so withheld.

SUPPLEMENTAL PLAN OF DISTRIBUTION (CONFLICTS OF INTEREST)

We expect that delivery of the Notes will be made against payment for the Notes on or about August 1, 2018, which is the third (3rd) business day following the Trade Date (this settlement cycle being referred to as "T+3"). See "Plan of Distribution" in the prospectus dated January 8, 2016. For additional information as to the relationship between us and RBCCM, please see the section "Plan of Distribution—Conflicts of Interest" in the prospectus dated January 8, 2016. We expect to deliver the Notes on a date that is greater than two business days following the Trade Date. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes more than two business days prior to the original Issue Date will be required to specify alternative arrangements to prevent a failed settlement.

In the initial offering of the Notes, they will be offered to investors at a purchase price equal to par, except with respect to certain accounts as indicated on the cover page of this document.

The value of the Notes shown on your account statement may be based on RBCCM's estimate of the value of the Notes if RBCCM or another of our affiliates were to make a market in the Notes (which it is not obligated to do). That estimate will be based upon the price that RBCCM may pay for the Notes in light of then prevailing market conditions, our creditworthiness and transaction costs. For a period of approximately three months after the issue date of the Notes, the value of the Notes that may be shown on your account statement may be higher than RBCCM's estimated value of the Notes at that time. This is because the estimated value of the Notes will not include the underwriting discount and our hedging costs and profits; however, the value of the Notes shown on your account statement during that period may initially be a higher amount, reflecting the addition of RBCCM’s underwriting discount and our estimated costs and profits from hedging the Notes. This excess is expected to decrease over time until the end of this period. After this period, if RBCCM repurchases your Notes, it expects to do so at prices that reflect their estimated value.

We may use this terms supplement in the initial sale of the Notes. In addition, RBCCM or another of our affiliates may use this terms supplement in a market-making transaction in the Notes after their initial sale. Unless we or our agent informs the purchaser otherwise in the confirmation of sale, this terms supplement is being used in a market-making transaction.

No Prospectus (as defined in Directive 2003/71/EC (as amended, the “Prospectus Directive”)) will be prepared in connection with the Notes. Accordingly, the Notes may not be offered to the public in any member state of the European Economic Area (the “EEA”), and any purchaser of the Notes who subsequently sells any of the Notes in any EEA member state must do so only in accordance with the requirements of the Prospectus Directive, as implemented in that member state.

The Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the EEA. For these purposes, the expression “offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, and a "retail investor" means a person who is one (or more) of: (a) a retail client, as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or (b) a customer, within the meaning of Insurance Distribution Directive 2016/97/EU, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (c) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared, and therefore, offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

STRUCTURING THE NOTES

The Notes are our debt securities, the return on which is linked to the performance of the Reference Stocks. As is the case for all of our debt securities, including our structured notes, the economic terms of the Notes reflect our actual or perceived creditworthiness at the time of pricing. In addition, because structured notes result in increased operational, funding and liability management costs to us, we typically borrow the funds under these Notes at a rate that is more favorable to us than the rate that we might pay for a conventional fixed or floating rate debt security of comparable maturity. Using this relatively lower implied borrowing rate rather than the secondary market rate, is a factor that is likely to reduce the initial estimated value of the Notes at the time their terms are set. Unlike the estimated value included in this terms supplement or in the final pricing supplement, any value of the Notes determined for purposes of a secondary market transaction may be based on a different funding rate, which may result in a lower value for the Notes than if our initial internal funding rate were used.

In order to satisfy our payment obligations under the Notes, we may choose to enter into certain hedging arrangements (which may include call options, put options or other derivatives) on the issue date with RBCCM or one of our other subsidiaries. The terms of these hedging arrangements take into account a number of factors, including our creditworthiness, interest rate movements, the volatility of the Reference Stocks, and the tenor of the Notes. The economic terms of the Notes and their initial estimated value depend in part on the terms of these hedging arrangements.

The lower implied borrowing rate is a factor that reduces the economic terms of the Notes to you. The initial offering price of the Notes also reflects the underwriting commission and our estimated hedging costs. These factors result in the initial estimated value for the Notes on the Trade Date being less than their public offering price. See "Selected Risk Considerations—The Initial Estimated Value of the Notes Will Be Less than the Price to the Public" above.