

KNOTT DAVID M  
Form SC 13G  
April 29, 2005

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**SCHEDULE 13G**

**INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT  
TO RULES 13d-1(b), (c) AND (d) AND AMENDMENTS THERETO FILED  
PURSUANT TO RULE 13d-2(b)**

**(Amendment No. \_\_)<sup>1</sup>**

Arrowhead Research Corp.

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**(Name of Issuer)**

Common Stock \$0.001 Par Value

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**(Title of Class of Securities)**

042797100

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**(CUSIP Number)**

April 21, 2005

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**(Date of Event Which Requires Filing of this Statement)**

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Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

☐ Rule 13d-1(b)

☒ Rule 13d-1(c)

☐ Rule 13d-1(d)

<sup>1</sup> 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 the disclosures provided in a prior cover page.

The information required in 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 (the "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. 042797100

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Page 2 of 6 Pages

## 1. NAME OF REPORTING PERSONS

**David M. Knott**

I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS (ENTITIES ONLY)

## 2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP\*

(a) ..

(b) x

## 3. SEC USE ONLY

## 4. CITIZENSHIP OR PLACE OF ORGANIZATION

**United States of America**

## 5. SOLE VOTING POWER:

NUMBER OF 934,225

SHARES

## 6. SHARED VOTING POWER:

## BENEFICIALLY

OWNED BY

59,700

EACH

## 7. SOLE DISPOSITIVE POWER:

## REPORTING

PERSON

993,925

WITH

## 8. SHARED DISPOSITIVE POWER:

0

## 9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON:

993,925

## 10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES\*

..

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

6.3%

12. TYPE OF REPORTING PERSON\*

IN

\* SEE INSTRUCTIONS BEFORE FILLING OUT!

CUSIP No. 042797100

13G

Page 3 of 6 Pages

## 1. NAME OF REPORTING PERSONS

**Dorset Management Corporation**

I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS (ENTITIES ONLY)

11-2873658

## 2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP\*

(a) ☐(b) ☒

## 3. SEC USE ONLY

## 4. CITIZENSHIP OR PLACE OF ORGANIZATION

**United States of America**

## 5. SOLE VOTING POWER:

NUMBER OF 934,225

SHARES

## 6. SHARED VOTING POWER:

BENEFICIALLY

OWNED BY

59,700

EACH

## 7. SOLE DISPOSITIVE POWER:

REPORTING

PERSON

993,925

WITH

## 8. SHARED DISPOSITIVE POWER:

0

## 9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON:

Edgar Filing: KNOTT DAVID M - Form SC 13G

993,925

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES\*

..

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

6.3%

12. TYPE OF REPORTING PERSON\*

CO

\* SEE INSTRUCTIONS BEFORE FILLING OUT!

**Item 1 (a) Name of Issuer:**

Arrowhead Research Corp.

**Item 1 (b) Address of Issuer's Principal Executive offices:**

1118 East Green Street

Pasadena, California 91106

**Item 2 (a) Name of Person(s) Filing:**

David M. Knott; Dorset Management Corporation

**Item 2 (b) Address of Principal Business Office or, if none, residence:**

485 Underhill Boulevard, Suite 205

Syosset, New York 11791

**Item 2 (c) Citizenship or Place of Organization**

David M. Knott - United States of America;

Dorset Management Corporation New York

**Item 2 (d) Title of Class of Securities:**

Common Stock \$0.001 Par Value

**Item 2 (e) CUSIP Number:**

042797100

**Item 3 If this statement is filed pursuant to Rules 13d-1(b), or 13d-2(b) or (c), check whether the person filing is a:**

- (a) .. Broker or dealer registered under Section 15 of the Exchange Act;
- (b) .. Bank as defined in Section 3(a)(6) of the Exchange Act;
- (c) .. Insurance company as defined in Section 3(a)(19) of the Exchange Act;
- (d) .. Investment company registered under Section 8 of the Investment Company Act;
- (e) .. An investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E);
- (f) .. An employee benefit plan, or endowment fund in accordance with rule 13d-1(b)(1)(ii)(F);
- (g) .. A parent holding company, or control person, in accordance with Rule 13d-1(b)(1)(ii)(G);
- (h) .. A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act;
- (i) .. A church plan that is excluded from the definition of an investment company under Section 3(c)(14) of the Investment Company Act;
- (j) .. Group, in accordance with Rule 13d-1(b)(1)(ii)(J).

**Item 4 Ownership:**

David M. Knott; Dorset Management Corporation

See Rows 5 through 9 and 11 on pages 2 and 3.

**Item 5 Ownership of Five Percent or Less of a Class**

N/A

**Item 6 Ownership of More than Five Percent on Behalf of Another Person**

Persons, other than the Reporting Persons hereunder, have the right to receive or the power to direct the receipt of dividends, or the proceeds from the sale, of securities reported herein.

**Item 7 Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company**

N/A

**Item 8 Identification and Classification of Members of the Group Group.**

N/A

**Item 9 Notice of Dissolution of Group**

N/A

**Item 10 Certification**

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.



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.

April 29, 2005

Date

/s/ David M. Knott

Signature

DORSET MANAGEMENT CORPORATION

By: /s/ David M. Knott

David M. Knott, President

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- Certain costs are likely to adversely affect the value of the notes. — Absent any changes in market conditions, any secondary market prices of the notes will likely be lower than the price to public. This is because any secondary market prices will likely take into account our then-current market credit spreads, and because any secondary market prices are likely to exclude all or a portion of the agent's commission and the hedging profits and estimated hedging costs that are included in the price to public of the notes and that may be reflected on your account statements. In addition, any such price is also likely to reflect a discount to account for costs associated with establishing or unwinding any related hedge transaction, such as dealer discounts, mark-ups and other transaction costs. As a result, the price, if any, at which BMOCM or any other party may be willing to purchase the notes from you in secondary market transactions, if at all, will likely to be lower than the price to public. Any sale that you make prior to the maturity date could result in a substantial loss to you.
- You will not have any shareholder rights and will have no right to receive any shares of any company included in the Underlying Asset at maturity. — Investing in your notes will not make you a holder of any shares of any company included in the Underlying Asset. Neither you nor any other holder or owner of the notes will have any voting rights, any right to receive dividends or other distributions or any other rights with respect to those securities.
- Changes that affect the Underlying Asset will affect the market value of the notes and the amount you will receive at maturity. — The policies of STOXX Limited ("STOXX"), the sponsor of the Underlying Asset, concerning the calculation of the Underlying Asset, additions, deletions or substitutions of the components of the Underlying Asset and the manner in which changes affecting those components, such as stock dividends, reorganizations or mergers, may be reflected in the Underlying Asset and, therefore, could affect the level of the Underlying Asset, the amount payable on the notes at maturity and the market value of the notes prior to maturity. The amount payable on the notes and their market value could also be affected if STOXX changes these policies, for example, by changing the manner in which it calculates the Underlying Asset, or if STOXX discontinues or suspends the calculation or publication of the Underlying Asset.

- We have no affiliation with STOXX and will not be responsible for any actions taken by STOXX. — STOXX is not an affiliate of ours or will not be involved in the offering of the notes in any way. Consequently, we have no control over the actions of STOXX, including any actions of the type that would require the calculation agent to adjust the payment to you at maturity. STOXX has no obligation of any sort with respect to the notes. Thus, STOXX has no obligation to take your interests into consideration for any reason, including in taking any actions that might affect the value of the notes. None of our proceeds from the issuance of the notes will be delivered to STOXX.
- An investment in the notes is subject to risks associated with foreign securities markets. — The Underlying Asset tracks the value of certain European equity securities. You should be aware that investments in securities linked to the value of foreign equity securities involve particular risks. The foreign securities markets comprising the Underlying Asset may have less liquidity and may be more volatile than U.S. or other securities markets and market developments may affect foreign markets differently from U.S. or other securities markets. Direct or indirect government intervention to stabilize these foreign securities markets, as well as cross-shareholdings in foreign companies, may affect trading prices and volumes in these markets. Also, there is generally less publicly available information about foreign companies than about those U.S. companies that are subject to the reporting requirements of the U.S. Securities and Exchange Commission, and foreign companies are subject to accounting, auditing and financial reporting standards and requirements that differ from those applicable to U.S. reporting companies.

Prices of securities in Europe are subject to political, economic, financial and social factors that apply in that market. These factors, which could negatively affect those securities markets, include the possibility of recent or future changes in European economic and fiscal policies, the possible imposition of, or changes in, currency exchange laws or other laws or restrictions applicable to European companies or investments in European equity securities and the possibility of fluctuations in the rate of exchange between currencies, the possibility of outbreaks of hostility and political instability and the possibility of natural disaster or adverse public health development in the region. Moreover, European economies may differ favorably or unfavorably from the U.S. economy in important respects such as growth of gross national product, rate of inflation, capital reinvestment, resources and self-sufficiency.

- Lack of liquidity. — The notes will not be listed on any securities exchange. BMOCM may offer to purchase the notes in the secondary market, but is not required to do so. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the notes easily. Because other dealers are not likely to make a secondary market for the notes, the price at which you may be able to trade your notes is likely to depend on the price, if any, at which BMOCM is willing to buy the notes.
- Hedging and trading activities. — We or any of our affiliates may carry out hedging activities related to the notes, including purchasing or selling securities included in the Underlying Asset, or futures or options relating to the Underlying Asset, or other derivative instruments with returns linked or related to changes in the performance of the Underlying Asset. We or our affiliates may also engage in trading relating to the Underlying Asset from time to time. Any of these hedging or trading activities on or prior to the Pricing Date and during the term of the notes could adversely affect our payment to you at maturity.

- Many economic and market factors will influence the value of the notes. — In addition to the level of the Underlying Asset and interest rates on any trading day, the value of the notes will be affected by a number of economic and market factors that may either offset or magnify each other, and which are described in more detail in the product supplement.
- You must rely on your own evaluation of the merits of an investment linked to the Underlying Asset. — In the ordinary course of their businesses, our affiliates from time to time may express views on expected movements in the level of the Underlying Asset or the securities held by the Underlying Asset. One or more of our affiliates have published, and in the future may publish, research reports that express views on the Underlying Asset or these securities. However, these views are subject to change from time to time. Moreover, other professionals who deal in the markets relating to the Underlying Asset at any time may have significantly different views from those of our affiliates. You are encouraged to derive information concerning the Underlying Asset from multiple sources, and you should not rely on the views expressed by our affiliates.

Neither the offering of the notes nor any views which our affiliates from time to time may express in the ordinary course of their businesses constitutes a recommendation as to the merits of an investment in the notes.

- Significant aspects of the tax treatment of the notes are uncertain. — The tax treatment of the notes is uncertain. We do not plan to request a ruling from the Internal Revenue Service or from any Canadian authorities regarding the tax treatment of the notes, and the Internal Revenue Service or a court may not agree with the tax treatment described in this pricing supplement.

The Internal Revenue Service has issued a notice indicating that it and the Treasury Department are actively considering whether, among other issues, a holder should be required to accrue interest over the term of an instrument such as the notes even though that holder will not receive any payments with respect to the notes until maturity and whether all or part of the gain a holder may recognize upon sale or maturity of an instrument such as the notes could be treated as ordinary income. The outcome of this process is uncertain and could apply on a retroactive basis.

Please read carefully the section entitled “U.S. Federal Tax Information” in this pricing supplement, the section entitled “Supplemental Tax Considerations—Supplemental U.S. Federal Income Tax Considerations” in the accompanying product supplement, the section “United States Federal Income Taxation” in the accompanying prospectus and the section entitled “Certain Income Tax Consequences” in the accompanying prospectus supplement. You should consult your tax advisor about your own tax situation.

## Hypothetical Return on the Notes at Maturity

The following table and examples illustrate the hypothetical return at maturity on a \$1,000 investment in the notes. The “return,” as used in this section is the number, expressed as a percentage, which results from comparing the payment at maturity per \$1,000 in principal amount of the notes to \$1,000. The hypothetical total returns set forth below are based on the hypothetical Initial Level of 3,000.00, a Buffer Percentage of 10% (the Buffer Level is 90% of the Initial Level), an Upside Leverage Factor of 200%, a Cap of 9% (a percentage change in the Underlying Asset of 9% results in a maximum return on the notes of 18.00%), and a Maximum Redemption Amount of \$1,180. The hypothetical returns set forth below are for illustrative purposes only and may not be the actual returns applicable to investors in the notes. The numbers appearing in the following table and in the examples below have been rounded for ease of analysis.

| Hypothetical Final Level | Percentage Change | Return on the Notes |
|--------------------------|-------------------|---------------------|
| 0.00                     | -100.00%          | -90.00%             |
| 1,500.00                 | -50.00%           | -40.00%             |
| 2,100.00                 | -30.00%           | -20.00%             |
| 2,400.00                 | -20.00%           | -10.00%             |
| 2,700.00                 | -10.00%           | 0.00%               |
| 2,850.00                 | -5.00%            | 0.00%               |
| 3,000.00                 | 0.00%             | 0.00%               |
| 3,150.00                 | 5.00%             | 10.00%              |
| 3,210.00                 | 7.00%             | 14.00%              |
| 3,270.00                 | 9.00%             | 18.00%              |
| 3,300.00                 | 10.00%            | 18.00%              |
| 3,600.00                 | 20.00%            | 18.00%              |
| 4,500.00                 | 50.00%            | 18.00%              |
| 6,000.00                 | 100.00%           | 18.00%              |

## Hypothetical Examples of Amounts Payable at Maturity

The following examples illustrate how the returns set forth in the table above are calculated.

Example 1: The level of the Underlying Asset decreases from the hypothetical Initial Level of 3,000.00 to a hypothetical Final Level of 1,500.00, representing a Percentage Change of -50%. Because the Percentage Change is negative and the hypothetical Final Level of 1,500.00 is less than the Initial Level by more than the Buffer Percentage of 10%, the investor receives a payment at maturity of \$600 per \$1,000 in principal amount of the notes, calculated as follows:

$$\$1,000 + [\$1,000 \times (-50\% + 10\%)] = \$600$$

Example 2: The level of the Underlying Asset decreases from the hypothetical Initial Level of 3,000.00 to a hypothetical Final Level of 2,850.00, representing a Percentage Change of -5%. Although the Percentage Change is negative, because the hypothetical Final Level of 2,850.00 is less than the Initial Level by not more than the Buffer Percentage of 10%, the investor receives a payment at maturity of \$1,000 per \$1,000 in principal amount of the notes.

Example 3: The level of the Underlying Asset increases from the hypothetical Initial Level of 3,000.00 to a hypothetical Final Level of 3,150.00, representing a Percentage Change of 5%. Because the hypothetical Final Level of 3,150.00 is greater than the Initial Level and the Percentage Change of 5% does not exceed the Cap, the investor

receives a payment at maturity of \$1,100 per \$1,000 in principal amount of the notes, calculated as follows:

$$\$1,000 + [\$1,000 \times (5\% \times 200\%)] = \$1,100$$

Example 4: The level of the Underlying Asset increases from the hypothetical Initial Level of 3,000.00 to a hypothetical Final Level of 3,600.000, representing a Percentage Change of 20%. Because the hypothetical Final Level of 3,600.00 is greater than the Initial Level and the Percentage Change of 20% exceeds the Cap, the investor receives a payment at maturity of \$1,180.00 in principal amount of the notes, the Maximum Redemption Amount.

## U.S. Federal Tax Information

By purchasing the notes, each holder agrees (in the absence of a change in law, an administrative determination or a judicial ruling to the contrary) to treat each note as a pre-paid cash-settled derivative contract for U.S. federal income tax purposes. However, the U.S. federal income tax consequences of your investment in the notes are uncertain and the Internal Revenue Service could assert that the notes should be taxed in a manner that is different from that described in the preceding sentence. Please see the discussion (including the opinion of our counsel Morrison & Foerster LLP) in the product supplement under “Supplemental Tax Considerations—Supplemental U.S. Federal Income Tax Considerations,” which applies to the notes.

The Treasury Department has issued final regulations and a notice affecting the legislation enacted on March 18, 2010 and discussed in the product supplement under “Supplemental Tax Considerations—Supplemental U.S. Federal Income Tax Considerations—Legislation Affecting Taxation of Notes Held By or Through Foreign Entities.” Pursuant to the notice, withholding requirements with respect to the notes will generally begin no earlier than July 1, 2014. Additionally, the withholding tax will not be imposed on payments pursuant to obligations outstanding on July 1, 2014. Account holders subject to information reporting requirements pursuant to the legislation may include holders of the notes. Foreign financial institutions and non-financial foreign entities located in jurisdictions that have an intergovernmental agreement with the United States governing the legislation may be subject to different rules. Holders are urged to consult their own tax advisors regarding the implications of this legislation and subsequent guidance on their investment in the notes.

#### Supplemental Plan of Distribution (Conflicts of Interest)

BMOCM will purchase the notes from us at a purchase price reflecting the commission set forth on the cover page of this pricing supplement. BMOCM has informed us that, as part of its distribution of the notes, it will reoffer the notes to other dealers who will sell them. Each such dealer, or further engaged by a dealer to whom BMOCM reoffers the notes, will purchase the notes at an agreed discount to the initial price to public.

We own, directly or indirectly, all of the outstanding equity securities of BMOCM, the agent for this offering. In accordance with FINRA Rule 5121, BMOCM may not make sales in this offering to any of its discretionary accounts without the prior written approval of the customer.

We reserve the right to withdraw, cancel or modify the offering of the notes and to reject orders in whole or in part. You may cancel any order for the notes prior to its acceptance.

You should not construe the offering of the notes as a recommendation of the merits of acquiring an investment linked to the Underlying Asset or as to the suitability of an investment in the notes.

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

BMOCM may, but is not obligated to, make a market in the notes. BMOCM will determine any secondary market prices that it is prepared to offer in its sole discretion.

We may use this pricing supplement in the initial sale of the notes. In addition, BMOCM or another of our affiliates may use this pricing supplement in market-making transactions in any notes after their initial sale. Unless BMOCM or we inform you otherwise in the confirmation of sale, this pricing supplement is being used by BMOCM in a market-making transaction.

For a period of approximately three months following issuance of the notes, the price, if any, at which we or our affiliates would be willing to buy the notes from investors, and the value that BMOCM may also publish for the notes through one or more financial information vendors and which could be indicated for the notes on any brokerage account statements, will reflect a temporary upward adjustment from our estimated value of the notes that would otherwise be determined and applicable at that time. This temporary upward adjustment represents a portion of (a) the hedging profit that we or our affiliates expect to realize over the term of the notes and (b) the selling concessions paid in connection with this offering. The amount of this temporary upward adjustment will decline to zero on a straight-line basis over the three-month period.

#### Additional Information Relating to the Estimated Initial Value of the Notes

Our estimated initial value of the notes on the date of this preliminary pricing supplement, and that will be set forth on the cover page of the final pricing supplement relating to the notes, equals the sum of the values of the following hypothetical components:

- a fixed-income debt component with the same tenor as the notes, valued using our internal funding rate for structured notes; and

- one or more derivative transactions relating to the economic terms of the notes.

The internal funding rate used in the determination of the initial estimated value generally represents a discount from the credit spreads for our conventional fixed-rate debt. The value of these derivative transactions are derived from our internal pricing models. These models are based on factors such as the traded market prices of comparable derivative instruments and on other inputs, which include volatility, dividend rates, interest rates and other factors. As a result, the estimated initial value of the notes on the pricing date will be determined based on market conditions at that time.



## The Underlying Asset

All disclosures contained in this pricing supplement regarding the Underlying Asset, including, without limitation, its make up, method of calculation, and changes in its components, have been derived from publicly available sources. The information reflects the policies of, and is subject to change by, STOXX. STOXX, which owns the copyright and all other rights to the Underlying Asset, has no obligation to continue to publish, and may discontinue publication of, the Underlying Asset. The consequences of STOXX discontinuing publication of the Underlying Asset are discussed in the section of the product prospectus supplement entitled “General Terms of the Notes—Unavailability of the Level of the Underlying Asset on a Valuation Date.” Neither we nor BMOCM accepts any responsibility for the calculation, maintenance or publication of the Underlying Asset or any successor index.

The Underlying Asset was created by STOXX, a joint venture between Deutsche Börse AG and SIX Group AG. Publication of the Underlying Asset began in February 1998, based on an initial Index level of 1,000 at December 31, 1991. On March 1, 2010, STOXX announced the removal of the “Dow Jones” prefix from all of its indices, including the Underlying Asset. Additional information about the Underlying Asset is available on the STOXX Limited website: <http://www.stoxx.com>. However, information included in that website is not included or incorporated by reference in this pricing supplement.

## Underlying Asset Composition and Maintenance

For each of the 19 EURO STOXX regional supersector indices, the stocks are ranked in terms of free-float market capitalization. The largest stocks are added to the selection list until the coverage is close to, but still less than, 60% of the free-float market capitalization of the corresponding supersector index. If the next highest-ranked stock brings the coverage closer to 60% in absolute terms, then it is also added to the selection list. All current stocks in the index are then added to the selection list. All of the stocks on the selection list are then ranked in terms of free-float market capitalization to produce the final index selection list. The largest 40 stocks on the selection list are selected; the remaining 10 stocks are selected from the largest remaining current stocks ranked between 41 and 60; if the number of stocks selected is still below 50, then the largest remaining stocks are selected until there are 50 stocks. In exceptional cases, STOXX’s management board can add stocks to and remove them from the selection list.

The index stocks are subject to a capped maximum index weight of 10%, which is applied on a quarterly basis.

The Underlying Asset is composed of 50 component stocks of market sector leaders from within the 19 EURO STOXX® Supersector indices, which represent the Eurozone portion of the STOXX Europe 600® Supersector indices. The index stocks have a high degree of liquidity and represent the largest companies across a wide range of market sectors.

## Composition and Maintenance of the Underlying Asset

The composition of the Underlying Asset is reviewed annually, based on the closing stock data on the last trading day in August. Changes in the composition of the Underlying Asset are made to ensure that it includes the 50 market sector leaders from within the EURO STOXX Index.

The free float factors for each component stock used to calculate the Underlying Asset, as described below, are reviewed, calculated, and implemented on a quarterly basis and are fixed until the next quarterly review.

The Underlying Asset is subject to a “fast exit rule.” The index stocks are monitored for any changes based on the monthly selection list ranking. A stock is deleted from the Underlying Asset if: (a) it ranks 75 or below on the monthly selection list and (b) it has been ranked 75 or below for a consecutive period of two months in the monthly

selection list. The highest-ranked stock that is not already an index stock will replace it. Changes will be implemented on the close of the fifth trading day of the month, and are effective the next trading day.

The Underlying Asset is also subject to a “fast entry rule.” All stocks on the latest selection lists and initial public offering (IPO) stocks are reviewed for a fast-track addition on a quarterly basis. A stock is added, if (a) it qualifies for the latest STOXX blue-chip selection list generated end of February, May, August or November and (b) it ranks within the “lower buffer” on this selection list.

The Underlying Asset is also reviewed on an ongoing basis. Corporate actions (including initial public offerings, mergers and takeovers, spin-offs, delistings, and bankruptcy) that affect the Underlying Asset composition are immediately reviewed. Any changes are announced, implemented, and effective in line with the type of corporate action and the magnitude of the effect.

#### Calculation of the EURO STOXX 50® Index

The Underlying Asset is calculated with the “Laspeyres formula,” which measures the aggregate price changes in the index stocks against a fixed base quantity weight. The formula for calculating the Underlying Asset value can be expressed as follows:

$$\text{Index} = \frac{\text{free float market capitalization of the index at the time}}{\text{divisor of the index at the time}}$$

The “free float market capitalization of the index” is equal to the sum of the products of the closing price, number of shares, free float factor and the weighting cap factor for each component company as of the time that the Underlying Asset is being calculated.

The divisor of the Underlying Asset is adjusted to maintain the continuity of the Underlying Asset’s values across changes due to corporate actions, such as the deletion and addition of stocks, the substitution of stocks, stock dividends, and stock splits.

#### License Agreement

We have entered into a non-exclusive license agreement with STOXX, which grants us a license in exchange for a fee to use the Underlying Asset in connection with the issuance of certain securities, including the notes.

STOXX and its licensors (the “Licensors”) have no relationship with us or BMOCM, other than the licensing of the Underlying Asset and the related trademarks for use in connection with the notes.

STOXX and its Licensors do not:

- sponsor, endorse, sell or promote the notes.
- recommend that any person invest in the notes or any other securities.
- have any responsibility or liability for or make any decisions about the timing, amount or pricing of the notes.
- have any responsibility or liability for the administration, management or marketing of the notes.
- consider the needs of the notes or the owners of the notes in determining, composing or calculating the Underlying Asset or have any obligation to do so.

STOXX and its Licensors will not have any liability in connection with the notes. Specifically,

- STOXX and its Licensors do not make any warranty, express or implied, and disclaim any and all warranty about:

§ the results to be obtained by the notes, the owner of the notes or any other person in connection with the use of the Underlying Asset and the data included in the Underlying Asset;

§ the accuracy or completeness of the Underlying Asset and its data;

§ the merchantability and the fitness for a particular purpose or use of the Underlying Asset or its data;

- STOXX and its Licensors will have no liability for any errors, omissions or interruptions in the Underlying Asset or its data; and
- any lost profits or indirect, punitive, special or consequential damages or losses, even if STOXX knows that they might occur.

The licensing agreement among us, BMOCM and STOXX is solely for the benefit of the parties thereto and not for the benefit of the owner of the notes or any other third parties.

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## Historical Information of the Underlying Asset

The following table sets forth the quarter-end high and low closing levels for the Underlying Asset from the first quarter of 2010 through November 27, 2013.

The historical levels of the Underlying Asset are provided for informational purposes only. You should not take the historical levels of the Underlying Asset as an indication of its future performance, which may be better or worse than the levels set forth below.

## Closing Levels of the Underlying Asset

|      |  | High (\$) | Low (\$) |
|------|--|-----------|----------|
| 2010 | First Quarter                              | 3,017.85  | 2,631.64 |
|      | Second Quarter                             | 3,012.65  | 2,488.50 |
|      | Third Quarter                              | 2,827.27  | 2,507.83 |
|      | Fourth Quarter                             | 2,890.64  | 2,650.99 |
| 2011 | First Quarter                              | 3,068.00  | 2,721.24 |
|      | Second Quarter                             | 3,011.25  | 2,715.88 |
|      | Third Quarter                              | 2,875.67  | 1,995.01 |
|      | Fourth Quarter                             | 2,476.92  | 2,090.25 |
| 2012 | First Quarter                              | 2,608.42  | 2,286.45 |
|      | Second Quarter                             | 2,501.18  | 2,068.66 |
|      | Third Quarter                              | 2,594.56  | 2,151.54 |
|      | Fourth Quarter                             | 2,659.95  | 2,427.32 |
| 2013 | First Quarter                              | 2,749.27  | 2,570.52 |
|      | Second Quarter                             | 2,835.87  | 2,511.83 |
|      | Third Quarter                              | 2,936.20  | 2,570.76 |
|      | Fourth Quarter (through November 27, 2013) | 3,082.65  | 2,902.12 |