Important Information about Initial Public Offerings

Baird has prepared this document to help you understand the characteristics and risks associated with investing in initial public offerings ("IPOs"), so that you can make an informed decision when buying securities in an IPO. IPOs can be speculative investments and involve significant risks. As a result, IPO investments may not be suitable for all clients. Your Baird Financial Advisor can further explain the features, characteristics and risks of any particular security being offered to you in an IPO. The Securities and Exchange Commission (SEC) has issued an Investor Bulletin, "Investing in an IPO," that provides useful information about IPOs, which can be found at www.sec.gov/investor/alerts/ipo-investorbulletin.pdf.

Characteristics of IPOs

An initial public offering, or IPO, refers to the first time a company offers and sells its stock to the general public. Typically, the company selects an underwriter or group of underwriters to make offers and sales of the stock to the public. The underwriters buy the stock from the company at a discount from the price at which the stock is offered to the public. This discount is called the "underwriting discount" and for many IPOs it is 7%. Thus, when Baird serves as an underwriter for an IPO, Baird will receive an underwriting discount, providing Baird with an incentive to sell the stock to its clients.

An IPO must be registered with the Securities and Exchange Commission (SEC). The company files a registration statement with the SEC, and the registration statement is reviewed by the SEC staff. The registration statement includes a prospectus, which is the document delivered or made available to investors in the IPO. The prospectus describes the company, the securities being offered, the terms of the offering, and other information that is important for investors to know when deciding to buy stock in the IPO.

While the registration statement is being reviewed by the SEC staff, the company and the underwriters may offer (but not sell) the shares to potential buyers to obtain indications of interest. If any offers are made in writing, the company and the underwriters may generally only do so by means of a preliminary prospectus (or other documents permitted by law). During its review, the SEC staff may provide comments to the company and require the company to make changes or additions to the prospectus in order to comply with disclosure requirements. Once the SEC staff's comments have been addressed, the SEC will declare the registration

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statement effective. At that time, the company will determine the IPO price (the initial price offered to the public) after consultations and negotiations with the underwriters who will provide their perspectives based on market conditions, analyses and indications of interest received. Once the IPO prices, sales to investors will be made at that price. Please note that the declaration by the SEC of the effectiveness of the registration statement does not mean that the SEC has approved the merits of the IPO or that the SEC has determined the prospectus to be accurate or complete.

Before deciding to invest in an IPO an investor should receive a copy of the preliminary prospectus, which will omit certain price-related information. After agreeing to buy the shares offered in the IPO, investors will either receive the final prospectus or a notice informing them how to obtain the final prospectus. Investors will also receive a confirmation of the trade, which may contain the notice on how to obtain the final prospectus.

Following the IPO, the company's stock will be listed on an exchange, such as the New York Stock Exchange or NASDAQ. The IPO stock can then be traded in the secondary market, subject to applicable trading volumes that may affect liquidity, and the price of the stock will trade at a market price which is likely to vary from the IPO price based on supply and demand and other factors. The exchanges impose certain obligations on listed companies, including governance requirements. In addition, the company will become a reporting company, which means it will be required to make certain filings with the SEC and deliver certain reports to shareholders. These filings and reports include current reports (Form 8-K), quarterly reports (Forms 10-Q), annual reports (Forms 10-K) and proxy statements. Reporting companies are also subject to other requirements under the Securities Exchange Act of 1934.

Obtaining information about the IPO

A company pursuing an IPO is required to file a registration statement, which includes a prospectus, as well as any amendments to the registration statement. The company will also be required to file the final prospectus with the SEC. The registration statement, any amendments to the registration statement and the final prospectus are publicly available on the SEC's EDGAR database at www.sec.gov. Additionally, the underwriters are required to deliver a preliminary prospectus. You can also obtain a copy of the preliminary prospectus from an underwriter.

The preliminary prospectus and final prospectus for an IPO contain information that is important to consider before investing in the IPO. You should read the preliminary prospectus carefully and ask your Baird Financial Advisor any questions you may have. The prospectus is divided into various sections, including the following:

- Prospectus summary – Briefly summarizes information disclosed in more detail in the prospectus.

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- Risk factors – This section describes relevant risks associated with an investment in the company and the securities being offered.
- Use of proceeds – Specifies how the company plans to use the proceeds it receives from the IPO.
- Dividend policy – This describes the company's history of paying dividends and what its intentions are in that regard.
- Dilution – This section compares the price that investors are paying for the stock in the IPO to the book value of the stock and the average price paid by existing shareholders. Often, there is a meaningful disparity in this comparison.
- Capitalization – A table describes the company's outstanding indebtedness and securities on a pro forma basis (assuming completion of the IPO).
- Selected financial data – This section shows certain key financial and other data in a summary tabular format. Its purpose is to enable investors to focus on key information and to identify trends. Normally this data is provided for the prior five fiscal years, plus any interim quarterly periods.
- Management's discussion and analysis – In this section, the company's management provides its narrative perspective on the company's financial results, condition, liquidity and capital resources, and contains an explanation for changes in the company's financial results from year to year.
- Business – This section describes the company's products, services, markets, strategies, competition, properties and litigation.
- Management – This section includes biographical information about the company's directors and executive officers, as well as an employment or related contracts and other relationships with them.
- Principal Shareholders – This provide information on the ownership of the company's stock by its officers, directors and principal shareholders.
- Financial statements – This section, found in the back of the prospectus, provides financial statements on the company's financial condition and performance, and notes to the financial statements. Typically, the

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financial statements cover the past three fiscal years, except for emerging growth companies and smaller reporting companies which report for the past two fiscal years, which financial statements are audited and include the auditor's report. The financial statements may also include interim financial results through the quarter preceding the IPO.

Risks and other factors to consider when investing in an IPO

IPOs can be speculative investments and involve special risks and other considerations which are important to take into account when making a purchase decision. Some of those risks and considerations are described below. The prospectus for each IPO will contain a "Risk Factors" section that describes the specific risks applicable to that IPO, including risks associated with the company and the common stock.

- Offering price. The public offering or IPO price is determined by the company in consultation and negotiation with the underwriters, taking into account market condition, analyses of possible valuations and the underwriters' order book. The order book is a compilation of investors' indications of interest, showing how many shares each investor would be willing to buy and at what price. The public offering price is not a reflection of the market price, as no market price has been established prior to the IPO. It is important to understand that competing interests affect the determination of the public offering price. On the one hand, the company seeks to maximize the public offering price because the higher the price the more capital it can raise without having to issue more shares. Underwriters are interested in a high price in order to meet the company's objectives, but at the same time they want a price that is attractive to investors. Underwriters thus have an incentive to price an IPO that will increase demand and enable the underwriters to sell all of the shares. Often, the market or trading price of shares that were offered in an IPO may vary dramatically from the IPO price, even shortly after the IPO is completed. The market price can be higher or lower than the IPO price.

- Market risk. The market price of shares issued in the IPO will move up or down based on various factors, including macro-economic conditions, governmental policies, prevailing interest rates, movements in the stock markets generally, consumer and investor sentiment, conditions or developments affecting the industry or sector in which the company operates, and conditions, events or developments that are specific to the company.

- Price volatility and liquidity risk. The market price of shares issued in an IPO may fluctuate significantly, particularly in the brief period of time after the IPO. The market price may also be affected by a limited supply of shares in the market following the IPO. The shares that are traded in the early days after the IPO are generally only those that were sold in the IPO. Other outstanding shares, such as those held by founders, early investors and employees that have not been included in the IPO, may not be sold in the

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public market because they have resale restrictions or limitations or may be subject to lock-up agreements. Although shares issued in an IPO may be listed on a national exchange and be freely saleable, trading volumes may be limited because of supply and demand which may create challenges in selling the shares in sufficient quantities or at attractive prices.

- Market overhang. When a company does an IPO it is only registering and selling a certain number of shares. The company will have other shares outstanding which are not included in the IPO. Many of the outstanding shares may be restricted from trading at the time of the IPO, with those restrictions lapsing or expiring at certain points in time. As any restrictions lapse or expire on outstanding shares, the market price may decline because of a potential increase in the supply of shares that can be sold. The company will describe the number of its outstanding shares and the applicable restrictions on the resale of those shares in the prospectus for the IPO.

- Company history; stage of development; emerging growth companies. Many IPOs feature high-profile or highly developed or seasoned companies, including those that have a long history and years of consistent earnings. However, some IPO companies may be in earlier stages of development, have short operating histories or lack earnings, which causes an investment in those companies to be more speculative and the stock prices to be more volatile. In addition, certain companies may be "emerging growth companies," which are companies with revenues of less than $1 billion. Emerging growth companies are eligible for relief from some of the requirements that apply to other public companies, such as reduced financial disclosures, delayed adoption of financial accounting standards, an exemption from auditor attestations relating to the company's internal control over financial reporting, scaled-back executive compensation information, and exemptions from say-on-pay shareholder advisory votes.

- Market capitalization. Some IPO companies may have smaller market capitalizations. A company's market capitalization is determined by multiplying the market price of its commons stock by the number of outstanding shares. Companies with smaller market capitalizations involve greater risk than larger companies. Stocks of smaller companies tend to be more volatile and less liquid than larger companies. The frequency and volume of trading of smaller company stocks may be substantially less than is typical of larger companies. Smaller company stocks are more likely to be adversely affected by poor economic or market conditions. Smaller companies may also lack management depth and experience, financial resources and product or customer diversification, making them more susceptible to market pressure and business failure.

- Common stock rights; takeover defenses. Some companies engaging in IPOs may create separate classes of common stock, with one class having greater voting power than the class being sold in the IPO. This structure is often used when the current owners (such as the family or founders) wish to continue to exercise control by retaining super-voting stock. The holders of the common stock issued to the public in

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the IPO thus have little influence over management and the decisions it makes. Additionally, many IPO companies adopt various takeover defenses, such as staggered boards, control share limitations and others, making it more difficult for change of control transactions to occur.

- Specific company risk. Any investment in an IPO involves risks specific to the company and its business, products, strategies and prospects. Such risks are described in more detail in the prospectus for that company.

Before investing in an IPO, it is important to understand and discuss with your Baird Financial Advisor the terms of the offering and company's business and the potential risks. Investors in IPOs should have a high tolerance for risk, including the willingness and ability to accept significant price volatility, potential lack of liquidity and potential loss of their investment. Before buying shares in an IPO, you should obtain and read the prospectus carefully.

For more information on investing in IPOs, please see the SEC Investor Bulletin, "Investing in an IPO," located on the SEC's website at http://www.sec.gov/investor/alerts/ipo-investorbulletin.pdf.

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