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White Paper - September 2010

Direct Listings: A More Certain Path to Nasdaq

Executive Summary

A structurally compromised IPO market has prevented many deserving companies from going public and enjoying the many benefits associated with having public company status, such as higher valuations, superior access to capital and a stock currency for acquisitions. It needn't be this way. For public-ready companies, there is an alternative to the traditional IPO that is not fraught with the uncertainty that by definition characterizes a firm commitment initial public offering. That alternative is a so-called "direct listing." Unlike the IPO, which combines a public offering and an exchange listing in a single step, the direct listing separates the going public process into two discrete steps – an exchange listing and a subsequent follow-on or alternative registered offering. The direct listing process provides a relatively quick, certain and cost effective way to get access to these capital raising options – all of which can be completed using what is known as a shelf registration – where shares are SEC registered in advance and then sold "off the shelf" when market conditions are most favorable. This white paper explains what a direct listing is, how it works, why it should be considered as an IPO alternative, what capital raising options are available to exchange-listed companies, including and especially those companies that go public through a direct listing, and how today's volatile capital markets are more receptive than ever to registered offerings by already public companies.

White Paper - August 2010

Aftermarket Support: How to Create a Liquid Public Stock

Executive Summary

Public companies can enjoy many benefits, particularly significantly higher valuations and superior access to capital, compared to privately owned businesses. These benefits are conditional on the existence of a "liquid" market for the company's shares. Illiquidity can prevent the stock of a smaller public issuer from achieving the higher valuations enjoyed by its peers, thereby negating one of the primary benefits of being public. The goal of any publicly traded company, therefore, should be to have its stock become widely held, actively traded, fully valued and covered by at least one research analyst. But what exactly do these things mean? This white paper creates a framework for objectively defining and quantifying these terms and outlines a path to the holy grail of liquidity.

White Paper - July 2010

Why Go Public? The \$100 Million Question

Executive Summary

Entrepreneurs seeking capital to monetize and maximize enterprise value have always faced a pivotal choice: either sell out or go public. Once upon a time in America, the default choice for a venture capitalist or entrepreneur worth his salt was straightforward: go for the IPO. In the last decade or so,

however, the IPO has now become the exception rather than the rule. This turnaround has profoundly adverse implications for American jobs, growth and ultimately competitiveness. The stakes couldn't be higher. This white paper will argue that the benefits of going public—especially for smaller companies—vastly outweigh the costs and can represent as much as \$100 million or more in foregone value for a typical small company.

White Paper - November 2009

The Yale Endowment Model of Investing Is Not Dead

Executive Summary

For many years, the Ivy League has been known for its traditions, its gothic buildings, and, until recently, the mystique of its mammoth-sized endowments that consistently generated incredibly high returns in bull and bear markets alike. Ivy League and other large endowments, weighing in at billions of dollars, were able to achieve these extraordinary results by following what is often called the “Yale Model” for endowments developed by Yale University’s Chief Investment Officer, David Swensen, under which they invested heavily in alternatives such as private equity and hedge funds. Until very recently, it seemed to some that the Yale Model was invincible.

This all came to a grinding halt, however, in the past year when the largest university endowments—those of Harvard and Yale—stunned the investment world when they announced losses of 27% and 25%, respectively, for the fiscal year ended June 30, 2009. This shocking news led many to declare that modern portfolio theory, the intellectual underpinning of the Yale Model, was dead. Upon closer inspection, however, it becomes clear that the problem is with neither modern portfolio theory nor asset allocation, but rather with the endowments’ policies of holding shockingly small amounts of cash in their portfolios relative to the amounts needed to finance the day-to-day operations of their respective universities.

This white paper will argue that the melt down at certain endowments had nothing to do with purported flaws in modern portfolio theory. Instead, the breakdown was caused by a failure to model for truly extreme events. Given the enormous obligations of many Ivy League endowments to fund general university operations, their portfolios were positioned on the wrong point of the efficient frontier. In other words, given their liabilities, they simply invested far *too little* in cash and liquid assets rather than *too much* in alternatives like private equity.

White Paper - September 2009

Mining the Gems in Private Equity

Executive Summary

Shortly after the Sarbanes-Oxley Act of 2002 was implemented, it suddenly became very unfashionable to be public—particularly for smaller companies. Out went the emerging growth underwriters of the 1990s (Montgomery, Robertson Stephens, Hambrecht & Quist, to name a few), and in came the leveraged buyout artists to take companies to the promised land of being private...before going public again. So now that enough time has passed, how has it all worked out? That depends. If you were a private company or a limited partner in a private equity fund, the track record has been mixed, at best.

If, however, you were a private equity sponsor, chances are that in the era of cheap money that recently ended (and by charging fees for every activity imaginable) you probably did pretty well.

Because of the enormous amounts of leverage associated with private equity investments, along with the lack of a benchmark index for comparison purposes, it can be extremely difficult to accurately evaluate investment performance. The goal of this white paper is to provide financial advisers and their investor clients with a framework to effectively assess potential private equity fund investment opportunities that can play a valuable, return-enhancing role in a well-constructed portfolio. We believe that a value-added private equity fund should possess the following three key characteristics: (i) an identifiable source of “alpha” [see related white paper on this subject]; (ii) the ability to add value to portfolio companies in ways other than through pure financial engineering; and (iii) the use of little or no leverage. There are gems to be found in the world of private equity—the trick is knowing what to look for and where to mine.

White Paper - December 2008

True Alpha – Does It Exist?

Executive Summary

Traditionally, investors have focused on portfolios consisting of the three primary asset classes: stocks, bonds and cash. Many financial models often recommend allocations to non-traditional asset classes and strategies that have a low correlation to the market. Although a number of these strategies failed to deliver under the extreme stress test of 2008, alpha can still be found in a number of strategies. As investors prepare to reposition their portfolios, absolute return strategies with genuine sources of alpha should be part of the equation. But investors and advisers seeking this alpha should be careful to only select strategies that are easy to understand, are capable of generating absolute returns without the benefit of leverage, provide diversification and low correlation to the stock market, are transparent and, if at all possible, are packaged in the form of liquid investments.

About Keating Investments:

Keating Investments, LLC is a Denver-based SEC registered investment adviser founded in 1997, and is the investment adviser to Keating Capital, Inc. (www.KeatingCapital.com). Keating Capital is a business development company that specializes in making pre-IPO investments in innovative, high growth private companies that are committed to becoming public. Keating Capital provides individual investors with the ability to participate in a unique fund that invests in a private company’s late stage, pre-IPO financing round — an opportunity that has historically been reserved for institutional investors.

About the author:

Timothy J. Keating is the founder and President of Keating Investments. Previously, he held senior management positions in the equity and equity derivative departments of Bear Stearns, Nomura and Kidder, Peabody in both London and New York. He is a 1985 *cum laude* graduate of Harvard College with an A.B. in economics. He can be reached at (720) 889-0131 or at tk@keatinginvestments.com.