

# KEATING CAPITAL INC

## FORM 10-Q (Quarterly Report)

Filed 05/14/10 for the Period Ending 03/31/10

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Fiscal Year	12/31

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTER ENDED MARCH 31, 2010.

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

COMMISSION FILE NUMBER: 0-53504

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**KEATING CAPITAL, INC.**  
(Exact name of registrant as specified in its charter)

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Maryland  
(State or other jurisdiction of  
incorporation or organization)

26-2582882  
(I.R.S. Employer  
Identification No.)

5251 DTC Parkway, Suite 1000  
Greenwood Village, CO 80111  
(Address of principal executive office)

(720) 889-0139  
(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No  .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No  .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No  .

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

The number of shares of the issuer's Common Stock, \$0.001 par value, outstanding as of May 12, 2010 was 1,066,069.

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**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Keating Capital, Inc .  
Statements of Assets and Liabilities  
(Unaudited)**

	<u>March 31, 2010</u>	<u>December 31, 2009</u>
<b>Assets</b>		
Investments in portfolio company securities at fair value:		
Non-control/non-affiliate investment (cost: \$1,000,000 at March 31, 2010)	\$ 1,550,000	\$ -
Short-term investments at fair value (cost: \$3,600,000 and \$3,000,000 at March 31, 2010 and December 31, 2009, respectively)	3,600,000	3,000,000
Cash and cash equivalents	1,501,216	367,918
Prepaid expenses and other assets	67,817	33,572
Deferred offering costs	434,169	501,897
<b>Total Assets</b>	<u>7,153,202</u>	<u>3,903,387</u>
<b>Liabilities</b>		
Base management fees payable to Investment Adviser	26,548	29,468
Administrative fees payable to Investment Adviser	74,470	67,136
Reimbursable expenses payable to Investment Adviser	9,338	18,063
Accounts payable	30,163	32,113
Accrued expenses and other liabilities	53,111	37,111
<b>Total Liabilities</b>	<u>193,630</u>	<u>183,891</u>
<b>Net Assets</b>	<u>\$ 6,959,572</u>	<u>\$ 3,719,496</u>
<b>Components of Net Assets:</b>		
Common stock, \$0.001 par value; 200,000,000 shares authorized; 914,515 and 569,900 shares issued and outstanding as of March 31, 2010 and December 31, 2009, respectively	\$ 915	\$ 570
Additional paid-in capital	8,243,127	5,243,864
Accumulated net investment loss	(1,834,470)	(1,524,938)
Net unrealized appreciation on investment	550,000	-
<b>Net Assets</b>	<u>\$ 6,959,572</u>	<u>\$ 3,719,496</u>
<b>Common Shares Outstanding</b>	<u>914,515</u>	<u>569,900</u>
<b>Net Asset Value Per Outstanding Common Share</b>	<u>\$ 7.61</u>	<u>\$ 6.53</u>

The accompanying notes are an integral part of these financial statements.

**Keating Capital, Inc.**  
**Statements of Operations**  
**(Unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2010</b>	<b>2009</b>
<b>Investment Income</b>		
Interest and dividend income:		
Certificate of deposit and money market investments	\$ 5,725	\$ 1,231
Other income	10,000	-
	<u>15,725</u>	<u>1,231</u>
<b>Total Investment Income</b>	<u>15,725</u>	<u>1,231</u>
<b>Operating Expenses</b>		
Base management fees	26,548	24,051
Administrative fees	74,470	66,842
Legal and professional fees	137,204	77,564
Directors' fees	26,250	25,250
General and administrative expenses	60,785	21,821
	<u>325,257</u>	<u>215,528</u>
<b>Total Operating Expenses</b>	<u>325,257</u>	<u>215,528</u>
<b>Net Investment Loss</b>	<u>(309,532)</u>	<u>(214,297)</u>
<b>Net Change in Unrealized Appreciation on Investment</b>		
Non-control/non-affiliate investment	550,000	-
	<u>550,000</u>	<u>-</u>
<b>Net Change in Unrealized Appreciation On Investment</b>	<u>550,000</u>	<u>-</u>
<b>Net Increase (Decrease) in Net Assets Resulting From Operations</b>	<u>\$ 240,468</u>	<u>\$ (214,297)</u>
Net Increase (Decrease) in Net Assets Resulting from Operations		
Per Common Share	<u>\$ 0.33</u>	<u>\$ (0.38)</u>
<b>Weighted Average Number of Common Shares Outstanding:</b>		
Basic and Diluted	<u>734,331</u>	<u>569,900</u>

The accompanying notes are an integral part of these financial statements.

**Keating Capital, Inc.**  
**Statements of Changes in Net Assets**  
**(Unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2010</b>	<b>2009</b>
<b>Changes in Net Assets from Operations</b>		
Net investment loss	\$ (309,532)	\$ (214,297)
Net change in unrealized appreciation on investment	550,000	-
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>240,468</b>	<b>(214,297)</b>
<b>Changes in Net Assets from Capital Stock Transactions</b>		
Issuance of common stock in continuous public offering:		
344,615 shares at an average price of \$9.99 per share (1)	3,441,936	-
Offering costs from issuance of common stock	(340,400)	-
Amortization of deferred offering costs	(101,928)	-
<b>Net Increase in Net Assets Resulting From Capital Stock Transactions</b>	<b>2,999,608</b>	<b>-</b>
<b>Net Increase (Decrease) in Net Assets</b>	<b>3,240,076</b>	<b>(214,297)</b>
Net assets at beginning of period	3,719,496	4,715,474
<b>Net Assets at End of Period</b>	<b>\$ 6,959,572</b>	<b>\$ 4,501,177</b>

(1) All shares were sold at a price of either \$9.30 or \$10.00, depending on whether sales commissions were waived by the dealer manager

The accompanying notes are an integral part of these financial statements.

**Keating Capital, Inc.**  
**Statements of Cash Flows**  
**(Unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2010</b>	<b>2009</b>
<b>Cash Flows From Operating Activities</b>		
Net increase (decrease) in net assets resulting from operations	\$ 240,468	\$ (214,297)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities:		
Net change in unrealized appreciation on investment	(550,000)	-
Changes in operating assets and liabilities:		
(Increase) decrease in prepaid expenses and other assets	(34,245)	5,128
Increase (decrease) in base management fees payable	(2,920)	15,058
Increase in administrative fees payable	7,334	38,801
Increase (decrease) in reimbursable expenses payable	(8,725)	(8,481)
Increase (decrease) in accounts payable	(1,950)	44,309
Increase in accrued expenses and other liabilities	16,000	39,687
Net cash used in operating activities	(334,038)	(79,795)
<b>Cash Flows From Investing Activities</b>		
Investment in portfolio company	(1,000,000)	-
Purchases of short-term investments	(9,600,000)	(1,027)
Proceeds from sales and maturities of short-term investments	9,000,000	-
Net cash used in investing activities	(1,600,000)	(1,027)
<b>Cash Flows From Financing Activities</b>		
Gross proceeds from issuance of common stock	3,441,936	-
Offering costs from issuance of common stock	(340,400)	-
Additions to deferred stock offering costs	(34,200)	(201,865)
Net cash provided by (used in) financing activities	3,067,336	(201,865)
Net increase (decrease) in cash and cash equivalents	1,133,298	(282,687)
Cash and cash equivalents, beginning of period	367,918	367,588
Cash and cash equivalents, end of period	\$ 1,501,216	\$ 84,901
<b>Supplemental Disclosure of Non-Cash Financing Activities</b>		
Amortization of deferred offering costs	\$ 101,928	\$ -

The accompanying notes are an integral part of these financial statements.

**Keating Capital, Inc.**  
**Schedules of Investments**  
**(Unaudited)**

**March 31, 2010**

<u>Portfolio Company / Type of Investment (1)</u>	<u>Industry</u>	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
<b>Non-Control/Non-Affiliate Investments (1)</b>					
NeoPhotonics Corporation Series X Convertible Preferred Stock (2)	Semiconductors and Related Devices	10,000	\$ 1,000,000	\$ 1,550,000	22.27%
<b>Total Non-Control/Non-Affiliate Investments</b>			<u>\$ 1,000,000</u>	<u>\$ 1,550,000</u>	<u>22.27%</u>
<b>Short-Term Investments</b>					
Certificates of Deposit (3) Maturing on April 1, 2010 Annual Percentage Yield of 0.55%			\$ 3,600,000	\$ 3,600,000	51.73%
<b>Total Short-Term Investments</b>			<u>\$ 3,600,000</u>	<u>\$ 3,600,000</u>	<u>51.73%</u>

(1) Control investments are defined by the Investment Company Act of 1940, as amended ("1940 Act") as investments in which more than 25% of the voting securities are owned or where the ability to nominate greater than 50% of the board representation is maintained. Affiliate investments are defined by the 1940 Act as investments in which between 5% and 25% of the voting securities are owned. Non-Control/Non-Affiliate investments are defined by the 1940 Act as investments that are neither Control Investments nor Affiliate Investments.

(2) The shares of Series X Convertible Preferred Stock are "restricted" securities under the Securities Act of 1933, as amended ("1933 Act"), and thus may not be sold unless registered under the 1933 Act or unless an exemption from registration is available. These shares are also subject to a contractual lock-up for a period of 6 months following completion of an initial public offering by NeoPhotonics Corporation.

(3) Fair value reflects amortized cost as of March 31, 2010.

**December 31, 2009**

<u>Portfolio Company / Type of Investment</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
<b>Short-Term Investments</b>			
Certificates of Deposit (1) Maturing on January 7, 2010 Annual Percentage Yield of 0.55%	\$ 3,000,000	\$ 3,000,000	80.66%
<b>Total Short-Term Investments</b>		<u>\$ 3,000,000</u>	<u>80.66 %</u>

(1) Fair value reflects amortized cost as of December 31, 2009.

The accompanying notes are an integral part of these financial statements.

**Keating Capital, Inc.**  
**Financial Highlights**  
**(Unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2010</b>	<b>2009</b>
<b>Per Common Share Data</b>		
Net asset value, beginning of period (1)	\$ 6.53	\$ 8.27
Net investment loss (1)	(0.42)	(0.37)
Net change in unrealized appreciation from investments (1)	0.75	-
Net increase (decrease) in net assets resulting from operations	0.33	(0.37)
Capital stock transactions:		
Issuance of common stock in continuous public offering (2)	1.35	-
Offering costs from issuance of common stock (1)	(0.46)	-
Amortization of deferred offering costs (1)	(0.14)	-
Net increase in net assets from capital stock transactions	0.75	-
Net asset value, end of period (1)	\$ 7.61	\$ 7.90
Common shares outstanding, beginning of period	569,900	569,900
Common shares outstanding, end of period	914,515	569,900
Weighted average common shares outstanding during period	734,331	569,900
<b>Supplemental Data and Ratios</b>		
Net assets, beginning of period	\$ 3,719,496	\$ 4,715,474
Net assets, end of period	\$ 6,959,572	\$ 4,501,177
Average net assets during period	\$ 5,339,534	\$ 4,608,326
Annualized ratio of operating expenses to average net assets	24.37%	18.71%
Annualized ratio of net investment loss to average net assets	23.19%	18.60%

(1)Based on actual shares outstanding at the beginning and end of the corresponding period or weighted average shares outstanding for the period, as appropriate.

(2)Represents the average increase in net asset value attributable to each share issued during the quarter ended March 31, 2010.

The accompanying notes are an integral part of these financial statements.

**Keating Capital, Inc.**  
**Notes to Financial Statements**  
**(Unaudited)**

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**1. Organization**

Keating Capital, Inc. (“Keating Capital” or the “Company”) was incorporated on May 9, 2008 under the laws of the State of Maryland and is an externally managed, closed-end management investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended (the “1940 Act”) as of November 20, 2008. As a business development company, the Company intends to elect to be treated as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code beginning with its 2010 taxable year (see Federal and State Income Taxes subheading under Note 2). Prior to electing to be treated as RIC, the Company will be taxable as a regular corporation under Subchapter C of the Internal Revenue Code.

The Company seeks to invest principally in equity securities, including convertible preferred securities, and other debt securities convertible into equity securities, of primarily non-public U.S.-based companies. Under the Company’s investment process, it typically will make only a single investment, principally consisting of convertible debt, convertible preferred stock or other equity, after it is satisfied that a potential portfolio company is committed to and capable of becoming public and obtaining an exchange listing within the Company’s desired timeframes and has substantially completed certain audit and governance requirements to the Company’s satisfaction prior to the closing of the Company’s investment.

Keating Investments, LLC (“Keating Investments” or the “Investment Adviser”) serves as the Company’s external investment adviser and also provides the Company with administrative services necessary for it to operate. In this capacity, Keating Investments is primarily responsible for the selection, evaluation, structure, valuation, and administration of the Company’s investment portfolio, subject to the supervision of the Company’s Board of Directors. Keating Investments is a registered investment adviser under the Investment Advisers Act of 1940, as amended.

**2. Significant Accounting Policies**

**Basis of Presentation**

The interim financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Regulation S-X. In the opinion of management, all adjustments, all of which were of a normal recurring nature, considered necessary for the fair presentation of financial statements for the interim period have been included. The results of operations for the current period are not necessarily indicative of results that ultimately may be achieved for any other interim period or for the year ending December 31, 2010. The interim unaudited financial statements and notes thereto should be read in conjunction with the audited financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009.

**Consolidation**

Under the 1940 Act rules and the regulations pursuant to Article 6 of Regulation S-X, the Company is precluded from consolidating any entity other than another investment company or an operating company that provides substantially all of its services and benefits to the Company. The Company’s financial statements include only the accounts of Keating Capital as the Company has no subsidiaries.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires the Company’s management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Changes in the economic environment, financial markets, creditworthiness of the portfolio companies the Company chooses to invest in and any other parameters used in determining these estimates could cause actual results to differ. The Company considers its significant estimates to include the fair value of investments in certificates of deposit and portfolio company securities.

**Keating Capital, Inc.**  
**Notes to Financial Statements**  
**(Unaudited)**

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**Valuation of Investments**

Investments are stated at value as defined under the 1940 Act and in accordance with the applicable regulations of the Securities and Exchange Commission (“SEC”) and in accordance with GAAP. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) the fair value as determined in good faith by, or under the direction of, the Board of Directors for all other assets (see Note 3).

At March 31, 2010, the Company’s financial statements included an investment in the convertible preferred stock of NeoPhotonics Corporation (“NeoPhotonics”) valued at \$1,550,000, cost at \$1,000,000. The fair value of the Company’s investment in NeoPhotonics was determined in good faith by the Company’s Board of Directors. Upon sale of the Company’s investment in NeoPhotonics, the value that is ultimately realized could be different from what is currently reflected in the Company’s financial statements, and this difference could be material.

**Portfolio Investment Classification**

The Company classifies its portfolio investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, “Control Investments” are defined as investments in which the Company owns more than 25% of the voting securities or has rights to maintain greater than 50% of the board representation. Under the 1940 Act, “Affiliate Investments” are defined as investments in which the Company owns between 5% and 25% of the voting securities. Under the 1940 Act, “Non-Control/Non-Affiliate Investments” are defined as investments that are neither Control Investments nor Affiliate Investments.

**Cash and Cash Equivalents**

Cash and cash equivalents include all highly-liquid instruments with an original maturity of 90 days or less at the date of purchase. Investments in certificates of deposit, which may have original maturities of 90 days or less, are separately classified as short-term investments.

**Deferred Offering Costs**

Deferred offering costs are comprised of expenses directly related to the continuous public offering of the Company’s common stock that were previously deferred and which are currently being charged against the gross proceeds of the offering, as a reduction to additional paid-in capital, on a straight-line basis beginning with the first common stock issuance and closing on January 11, 2010 and continuing through the expiration of the offering period on March 31, 2011. Offering expenses incurred subsequent to January 11, 2010 associated with maintaining the effective status of the continuous public offering (i.e., legal, accounting, printing and blue sky) are expensed as incurred while other discretionary offering expenses are capitalized and subsequently charged against the gross proceeds of the offering on a straight-line basis over the remaining term of the offering (see Note 5).

**Concentration of Credit Risk**

The Company may place its cash and cash equivalents with various financial institutions and, at times, cash held in depository accounts at such institutions may exceed the Federal Deposit Insurance Corporation insured limit.

**Securities Transactions**

Securities transactions are accounted for on the date the transaction for the purchase or sale of the securities is entered into by the Company (i.e., trade date). Securities transactions outside conventional channels, such as private transactions, are recorded as of the date the Company obtains the right to demand the securities purchased or to collect the proceeds from a sale, and incurs an obligation to pay for securities purchased or to deliver securities sold, respectively.

**Interest and Dividend Income**

Interest income from debt investments in portfolio companies is recorded on an accrual basis to the extent such amounts are expected to be collected, and accrued interest income is evaluated periodically for collectability. Debt investments are placed on non-accrual status when principal or interest payments are past due 60 days or more or when there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reversed when a loan is placed on non-accrual status. Non-accrual debt investments are restored to accrual status when past due principal and interest is paid and, in management’s judgment, are likely to remain current.

Interest income from debt investments may contain payment-in-kind (“PIK”) interest provisions. The PIK interest, computed at the contractual rate specified in each debt agreement, will be added to the principal balance of the debt and recorded as interest income. The actual collection of this interest may be deferred until the time of debt principal repayment.

**Keating Capital, Inc.**  
**Notes to Financial Statements**  
**(Unaudited)**

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The Company's preferred equity investments may pay fixed or adjustable rate dividends and will generally have a "preference" over common equity in the payment of dividends and the liquidation of a portfolio company's assets. In order to be payable, distributions on such preferred equity must be declared by the portfolio company's Board of Directors. Dividend income from preferred equity investments in portfolio companies is recorded when dividends are declared or at the point an obligation exists for a portfolio company to make a distribution.

No interest or dividend income from portfolio company investments was recorded for the three months ended March 31, 2010 and 2009.

**Other Income**

Other income is comprised of fees, if any, for due diligence, structuring, transaction services, consulting services and management services rendered to portfolio companies and other third parties. For services that are separately identifiable from the Company's investment, income is recognized as earned, which is generally when the investment or other applicable transaction closes, or when the services are rendered if payment is not subject to the closing of an investment transaction.

During the three months ended March 31, 2010, the Company recorded \$10,000 in other income representing a non-refundable due diligence fee received from a prospective portfolio company in December of 2009, which was initially recorded as deferred income and was subsequently recognized as income when the proposed investment transaction failed to close in February 2010.

**Unearned Income**

Origination, closing and/or commitment fees specifically associated with debt investments in portfolio companies are initially deferred and subsequently accreted into interest income over the respective terms of the applicable loans. Upon the prepayment of a loan or debt security, the Company records any prepayment penalties and unamortized loan origination, closing and commitment fees as part of interest income.

**Realized Gain or Loss and Unrealized Appreciation or Depreciation of Portfolio Investments**

Realized gain or loss is recognized when an investment is disposed of and is computed as the difference between the Company's cost basis in the investment at the disposition date and the net proceeds received from such disposition. Realized gains and losses on investment transactions are determined by specific identification. Unrealized appreciation or depreciation is computed as the difference between the fair value of the investment and the cost basis of such investment.

**Federal and State Income Taxes**

Beginning with its 2010 taxable year, the Company intends to elect to be treated for U.S. federal income tax purposes, and intends to qualify annually thereafter, as a RIC under Subchapter M of the Internal Revenue Code (the "Code"). If the Company does not meet the criteria to qualify as a RIC for its 2010 taxable year, it will continue to be taxed as a regular corporation under Subchapter C of the Internal Revenue Code (a "C corporation"). As a RIC, the Company generally will not have to pay corporate-level federal income taxes on any investment company taxable income (which is generally the Company's net ordinary income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses) or any realized net long-term capital gains in excess of realized net short-term capital losses that the Company distributes to its stockholders from its taxable earnings and profits. To obtain and maintain RIC tax treatment, the Company must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of its investment company taxable income. In order to avoid certain excise taxes imposed on RICs, the Company currently intends to distribute during each calendar year an amount at least equal to the sum of: (i) 98% of its ordinary income for the calendar year, (ii) 98% of its capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year, and (iii) any ordinary income and net capital gains for preceding years that were not distributed during such years.

To date, the Company has been taxed as a C corporation. A corporation that converts to taxation as a RIC may hold assets (including intangible assets not reflected on the balance sheet, such as goodwill) with "built-in gain," which are assets whose fair market value as of the effective date of the election exceeds their tax basis. In general, a corporation that converts to taxation as a RIC must pay corporate level tax on any of the net built-in gains it recognizes during the 10-year period beginning on the effective date of its election to be treated as a RIC. Alternatively, the corporation may elect to recognize all of its built-in gain at the time of its conversion and pay tax on the built-in gain at that time. As the Company did not have any built-in gains as of the end of its taxable year ending on December 31, 2009, it does not anticipate having to pay any corporate level tax as a result of its intention to elect to be treated as a RIC beginning with its 2010 taxable year.

**Keating Capital, Inc.**  
**Notes to Financial Statements**  
**(Unaudited)**

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The Company evaluates its tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the "more-likely-than-not" threshold are recorded as an expense in the applicable year. As of March 31, 2010 and December 31, 2009, the Company had not recorded a liability for any unrecognized tax benefits.

Management's evaluation of uncertain tax positions may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof.

**Dividends and Distributions**

Dividends and distributions to common stockholders are recorded when declared. Net realized capital gains, if any, are distributed at least annually. No dividends or distributions have been declared or paid since inception.

**Per Share Information**

Net changes in net assets resulting from operations per common share, or basic earnings per share, are calculated using the weighted average number of common shares outstanding for the period presented. Diluted earnings per share are not presented as there are no potentially dilutive securities outstanding.

**Recently Issued Accounting Pronouncements**

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued standards that are not yet effective will not have a material impact on its financial statements upon adoption.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06 ("ASU 2010-06"), Fair Value Measurements and Disclosures (Topic 820), *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 requires reporting entities to make new disclosures about recurring and nonrecurring fair value measurements, including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances and settlements, on a gross basis, in the reconciliation of Level 3 fair value measurements. ASU 2010-06 also requires disclosure of fair value measurements by "class" instead of by "major category" as well as any changes in valuation techniques used during the reporting period. For disclosures of Level 1 and Level 2 activity, fair value measurements by "class" and changes in valuation techniques, ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of this portion of ASU 2010-06 on January 1, 2010, did not have a material impact on the Company's financial condition or results of operations. For the reconciliation of Level 3 fair value measurements, this portion of ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2010. The adoption of this portion of ASU 2010-06 is not expected to have a material impact on the Company's financial condition or results of operations.

**3. Valuation of Investments**

The 1940 Act requires periodic valuation of each investment in the Company's portfolio to determine the Company's net asset value. Under the 1940 Act, unrestricted securities with readily available market quotations are to be valued at the current market value; all other assets must be valued at fair value as determined in good faith by or under the direction of the Board of Directors.

The following is a description of the steps the Company takes each quarter to determine the value of the Company's portfolio investments. Investments for which market quotations are readily available are recorded in the Company's financial statements at such market quotations. With respect to investments for which market quotations are not readily available, the Company's Board of Directors undertakes a multi-step valuation process each quarter, as described below:

- The Company's quarterly valuation process begins with each portfolio company or investment being initially valued by Keating Investments' senior investment professionals responsible for the portfolio investment;
- A nationally recognized third-party valuation firm engaged by the Company's Board of Directors reviews these preliminary valuations;
- The Company's Valuation Committee reviews the preliminary valuations, and the Company's investment adviser and the nationally recognized third-party valuation firm respond and supplement the preliminary valuation to reflect any comments provided by the Valuation Committee; and
- The Company's Board of Directors discuss valuations and determine, in good faith, the fair value of each investment in the Company's portfolio for which market quotations are not readily available based on the input of the Company's investment adviser, the nationally recognized third-party valuation firm, and the Company's Valuation Committee.

***Investment Categories and Approaches to Determining Fair Value***

Accounting Standards Codification Topic 820, "Fair Value Measurement and Disclosures," ("ASC 820") defines fair value as the price

that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). In accordance with ASC 820, the Company uses a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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- Level 1: Observable inputs such as unadjusted quoted prices in active markets;
- Level 2: Includes inputs such as quoted prices for similar securities in active markets and quoted prices for identical securities where there is little or no activity in the market; and
- Level 3: Unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Company applies the framework for determining fair value as described above to the valuation of investments in each of the following categories.

***Short-Term Investments***

Short-term investments that mature in 90 days or less, including certificates of deposit, are valued at amortized cost, which approximates fair value. The amortized cost method involves recording a security at its cost (i.e., principal amount plus any premium and less any discount) on the date of purchase and thereafter amortizing/accreting that difference between the principal amount due at maturity and cost assuming a constant yield to maturity as determined at the time of purchase.

***Debt Investments***

The Company determines the fair value of debt investments by reference to the principal or most advantageous market in which these debt investments could be sold. Market participants generally have a strategic premise for these investments, and anticipate the sale of the company, recapitalization or initial public offering as the realization/liquidity event. The fair value, or exit price, for a debt instrument would be the hypothetical price that a market participant would pay for the instrument, using a set of assumptions that are aligned with the criteria that the Company would use in originating a debt investment in such a market, including credit quality, interest rate, maturity date, conversion ratio and overall yield, and considering the prevailing returns available in such a market.

In general, the Company considers enterprise value an important element in the determination of fair value, because it represents a metric that may support the recorded value, or which, conversely, would indicate if a credit-related markdown is appropriate. The Company also considers the specific covenants and provisions of each investment that may enable the Company to preserve or improve the value of the investment. In addition, the trends of the portfolio company's basic financial metrics from the time of the original investment until the measurement date are analyzed; material deterioration of these metrics may indicate that a discount should be applied to the debt investment, or a premium may be warranted in the event that metrics improve substantially and the return is higher than anticipated for such a profile under current market conditions.

***Equity Investments***

Equity investments for which market quotations are readily available will generally be valued at the most recently available closing market prices.

The fair value of the Company's equity investments for which market quotations are not readily available is determined based on various factors, including the enterprise value remaining for equity holders after the repayment of the portfolio company's debt and other preference capital, and other pertinent factors such as recent offers to purchase a portfolio company, recent transactions involving the purchase or sale of the portfolio company's equity securities, or other liquidity events. The determined equity values are generally discounted when the Company has a minority position, when there are restrictions on resale, when there are specific concerns about the receptiveness of the capital markets to a specific company at a certain time, or other factors.

Enterprise value means the entire value of the company to a potential buyer, including the sum of the values of debt and equity securities used to capitalize the enterprise at a point in time. There is no one methodology to determine enterprise value and, in fact, for any one portfolio company, enterprise value is best expressed as a range of fair values, from which the Company derives a single estimate of enterprise value. To determine the enterprise value of a portfolio company, the Company analyzes the portfolio company's historical and projected financial results, as well as the nature and value of collateral, if any. The Company also uses industry valuation benchmarks and public market comparables. The Company also considers other events, including private mergers and acquisitions, a purchase transaction, public offering or subsequent debt or equity sale or restructuring, and includes these events in the enterprise valuation process.

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On January 25, 2010, the Company purchased 10,000 shares of Series X convertible preferred stock in NeoPhotonics in a private transaction for total consideration of \$1,000,000. NeoPhotonics is headquartered in San Jose, California and develops and manufactures photonic integrated circuit based components, modules and subsystems for use in telecommunications networks.

Since NeoPhotonics is a private company for which market quotations for its shares are not readily available as of March 31, 2010, the fair value of the Company's investment in NeoPhotonics was determined in accordance with the Company's valuation policy for such types of equity investments, and such investment has been categorized as Level 3 in the fair value hierarchy.

The following table categorizes the Company's short-term investments and portfolio investments measured at fair value on a recurring basis based upon the lowest level of significant input used in the valuation as of March 31, 2010 and December 31, 2009:

<u>Description</u>	<u>Quoted Prices In Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total Fair Value</u>
<b>As of March 31, 2010</b>				
Portfolio Company Securities:				
NeoPhotonics Corporation				
Series X Preferred Stock	\$ -	\$ -	\$ 1,550,000	\$ 1,550,000
Short-Term Investments:				
Certificates of Deposit (1)				
(Maturing on April 1, 2010)	-	3,600,000	-	3,600,000
<b>Total Investments at Fair Value</b>	<u>\$ -</u>	<u>\$ 3,600,000</u>	<u>\$ 1,550,000</u>	<u>\$ 5,150,000</u>
<b>As of December 31, 2009</b>				
Short-Term Investments:				
Certificates of Deposit (1)				
(Maturing on January 7, 2010)	\$ -	\$ 3,000,000	\$ -	\$ 3,000,000
<b>Total Investments at Fair Value</b>	<u>\$ -</u>	<u>\$ 3,000,000</u>	<u>\$ -</u>	<u>\$ 3,000,000</u>

(1) Fair value reflects amortized cost as of March 31, 2010 and December 31, 2009.

The following table provides a reconciliation of the changes in fair value for the Company's portfolio company investments measured at fair value using significant unobservable inputs (Level 3) for the three months ended March 31, 2010:

	<u>Level 3 Portfolio Company Investments (Preferred Stock)</u>
Fair Value at January 1, 2010	\$ -
New investment in Level 3 portfolio company securities	1,000,000
Total unrealized appreciation included in change in net assets	<u>550,000</u>
Fair Value at March 31, 2010	<u>\$ 1,550,000</u>

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**4. Related Party Agreements and Transactions**

**Investment Advisory and Administrative Services Agreement**

Subject to the overall supervision of its Board of Directors, Keating Investments, the Company's external Investment Adviser, manages the Company's day-to-day operations and provides the Company with investment advisory services. Under the terms of the Investment Advisory and Administrative Services Agreement, Keating Investments:

- Determines the composition of the Company's investment portfolio, the nature and timing of the changes to the investment portfolio and the manner of implementing such changes;
- Determines which securities the Company will purchase, retain or sell;
- Identifies, evaluates and negotiates the structure of investments the Company makes, including performing due diligence on prospective portfolio companies; and
- Closes, monitors and services the investments the Company makes.

Keating Investments' services under the Investment Advisory and Administrative Services Agreement are not exclusive and it is free to furnish similar services to other entities so long as its services to the Company are not impaired.

The Company pays Keating Investments a fee for its investment advisory services under the Investment Advisory and Administrative Services Agreement consisting of two components - a base management fee and an incentive fee.

***Base Management Fee***

The base management fee (the "Base Fee") is calculated at an annual rate of 2% of the Company's gross assets, where gross assets include any borrowings for investment purposes. The Base Fee is payable quarterly in arrears, and is calculated based on the value of the Company's gross assets at the end of the most recently completed calendar quarter, and adjusted for any equity capital raises or repurchases during the current calendar quarter.

Total Base Fees incurred for the three months ended March 31, 2010 and 2009 were \$26,548 and \$24,051, respectively. At March 31, 2010 and December 31, 2009, total Base Fees payable to Keating Investments were \$26,548 and \$41,387, respectively, including \$0 and \$11,919, respectively, recorded in Accounts Payable in the accompanying Statement of Assets and Liabilities.

***Incentive Fee***

The incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory and Administrative Services Agreement, as of the termination date), and equals 20% of the Company's realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid incentive fees, with respect to each of the investments in the Company's portfolio. Additionally, although the Company anticipates that a portion of its investments at any given time will include an interest or dividend component, Keating Investments is not entitled to an incentive fee on investment income generated from such interest or dividend payments.

No incentive fees were earned by or paid to Keating Investments for the three months ended March 31, 2010 and 2009 as the Company generated no realized capital gains during these periods.

***Administrative Services***

Pursuant to the Investment Advisory and Administrative Services Agreement, Keating Investments furnishes the Company with office facilities, equipment, and clerical, bookkeeping and record-keeping services. Under the Investment Advisory and Administrative Services Agreement, Keating Investments also performs, or facilitates the performance of, certain administrative services, which includes being responsible for the financial records which the Company is required to maintain, and preparing reports to the Company's stockholders and reports filed with the Securities and Exchange Commission.

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In addition, Keating Investments assists the Company in monitoring its portfolio accounting and bookkeeping, managing portfolio collections and reporting, performing internal audit services, determining and publishing its net asset value, overseeing the preparation and filing of its tax returns, printing and dissemination of reports to its stockholders, providing support for its risk management efforts and generally overseeing the payment of its expenses and performance of administrative and professional services rendered to the Company by others.

The Company reimburses Keating Investments for the allocable portion of overhead and other expenses incurred by Keating Investments in performing its administrative obligations under the Investment Advisory and Administrative Services Agreement, including the compensation of the Company's Chief Financial Officer and Chief Compliance Officer, and their respective staff.

In accordance with the Investment Advisory and Administrative Services Agreement, the allocation of administrative expenses from Keating Investments commenced on November 13, 2008. Total allocated administrative expenses incurred for the three months ended March 31, 2010 and 2009 were \$74,470 and \$66,842, respectively. At March 31, 2010 and December 31, 2009, total allocated administrative expenses payable to Keating Investments were \$74,470 and \$67,136, respectively.

Reimbursable expenses payable to Keating Investments totaling \$9,338 and \$18,063 in the accompanying Statement of Assets and Liabilities at March 31, 2010 and December 31, 2009, respectively, represent direct expenses of Keating Capital that were paid by Keating Investments on behalf of Keating Capital and are not comprised of allocable expenses under the Investment Advisory and Administrative Services Agreement.

***Duration and Termination***

The Investment Advisory and Administrative Services Agreement was initially approved by the Company's Board of Directors and its sole stockholder on July 28, 2008. An amended and restated version of the Investment Advisory and Administrative Services Agreement, which is presently in effect, was approved by the Company's Board of Directors on April 17, 2009, and by the Company's stockholders at its Annual Meeting on May 14, 2009.

Unless earlier terminated as described below, the Investment Advisory and Administrative Services Agreement will remain in effect for a period of two years from the date it was approved by the Board of Directors and will remain in effect from year to year thereafter if approved annually by (i) the vote of a majority of the Company's Board of Directors, or by the vote of a majority of the Company's outstanding voting securities, and (ii) the vote of a majority of the Company's directors who are not interested persons. An affirmative vote of the holders of a majority of the Company's outstanding voting securities is also necessary in order to make material amendments to the Investment Advisory and Administrative Services Agreement.

The Investment Advisory and Administrative Services Agreement automatically terminates in the event of its assignment. As required by the 1940 Act, the Investment Advisory and Administrative Services Agreement provides that the Company may terminate the agreement without penalty upon 60 days written notice to Keating Investments. If Keating Investments wishes to voluntarily terminate the Investment Advisory and Administrative Services Agreement, it must give stockholders a minimum of 120 days notice prior to termination and must pay all expenses associated with its termination. The Investment Advisory and Administrative Services Agreement may also be terminated, without penalty, upon the vote of a majority of the Company's outstanding voting securities.

***License Agreement***

On July 28, 2008, the Company entered into a license agreement ("License Agreement") with Keating Investments pursuant to which Keating Investments granted the Company a non-exclusive license to use the name "Keating." Under the License Agreement, the Company has a right to use the Keating name and logo, for as long as Keating Investments or one of its affiliates remains the Company's investment adviser. Other than with respect to this limited license, the Company has no legal right to the "Keating" name or logo. The License Agreement will remain in effect for as long as the Investment Advisory and Administrative Services Agreement with Keating Investments is in effect.

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**5. Capital Stock**

The Company's authorized capital stock consists of 200,000,000 shares of stock, par value \$0.001 per share, all of which has initially been designated as common stock.

From August 27, 2008 through November 12, 2008, the Company sold 569,800 shares of common stock in a private offering to various qualified purchasers at \$10.00 per share, resulting in gross proceeds of \$5,698,000 (the "Private Offering"). After the payment of placement agent commissions and other offering costs of \$454,566, the Company received net proceeds of \$5,243,434 in connection with the Private Offering.

On June 11, 2009 the Company commenced a continuous public offering pursuant to which the Company intends to sell from time to time up to 10 million shares of its common stock, at an initial offering price of \$10.00 per share, adjusted for volume discounts and commission waivers, for a period ending March 31, 2011, or such later date if the Company's Board of Directors elects to extend the offering, but not later than June 30, 2011. During the period from June 11, 2009 through December 31, 2009, no shares of common stock were sold and no proceeds were received from the Company's continuous public offering.

During the three months ended March 31, 2010, the Company sold 344,615 shares of common stock at an average price of \$9.99 per share, resulting in gross proceeds of \$3,441,936 and net proceeds of \$3,101,536 after payment of \$340,400 in dealer-manager fees and commissions.

The following table summarizes the sales of the Company's common stock under its continuous public offering during the three months ended March 31, 2010:

<b>Date</b>	<b>Shares Sold (1)</b>	<b>Average Price Per Share (1)</b>	<b>Gross Proceeds</b>	<b>Dealer Manager Fees and Commissions</b>	<b>Net Proceeds</b>
January 11, 2010 (first closing)	114,695	\$ 10.00	\$ 1,146,500	\$ 114,243	\$ 1,032,257
February 1, 2010	54,638	9.99	546,000	54,261	491,739
March 1, 2010	53,914	9.94	535,750	50,527	485,223
March 26, 2010	121,368	10.00	1,213,686	121,369	1,092,317
	<u>344,615</u>	<u>\$ 9.99</u>	<u>\$ 3,441,936</u>	<u>\$ 340,400</u>	<u>\$ 3,101,536</u>

(1) All shares were sold at a price of either \$9.30 or \$10.00, depending on whether sales commissions were waived by the dealer manager.

Deferred offering costs, comprised of (i) \$501,897 of expenses directly related to the continuous public offering that were deferred prior to the first closing on January 11, 2010, and (ii) \$34,200 of other discretionary offering expenses incurred subsequent to January 11, 2010, are being charged against the gross proceeds of the offering, as a reduction to additional paid-in capital, on a straight-line basis beginning with the first closing on January 11, 2010 and continuing through the expiration of the offering period on March 31, 2011. Offering expenses incurred subsequent to January 11, 2010 associated with maintaining the effective status of the continuous public offering (i.e., legal, accounting, printing and blue sky) are expensed as incurred. During the three months ended March 31, 2010, deferred offering costs totaling \$101,928 were charged as a reduction to additional paid-in capital while \$3,048 in offering expenses associated with maintaining the effective status of the continuous public offering were expensed as incurred.

**Keating Capital, Inc.**  
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**6. Changes in Net Assets Per Share**

The following table sets forth the computation of the basic and diluted per share net increase (decrease) in net assets resulting from operations for the three months ended March 31, 2010 and 2009:

	<b>Three Months Ended</b>	
	<b>March 31, 2010</b>	<b>March 31, 2009</b>
	<u>                    </u>	<u>                    </u>
Numerator for increase (decrease) in net assets per share	\$ 240,468	\$ (214,297)
Denominator for basic and diluted weighted average shares	<u>734,331</u>	<u>569,900</u>
Basic and diluted net increase (decrease) in net assets per share resulting from operations	<u>\$ 0.33</u>	<u>\$ (0.38)</u>

**7. Subsequent Events**

On April 30, 2010, the Company sold 151,554 shares of common stock at an average price of approximately \$9.94 per share, resulting in gross proceeds of \$1,491,050 and net proceeds of \$1,363,988, after payment of \$127,062 in dealer-manager fees and commissions.

**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

**FORWARD-LOOKING STATEMENTS**

Some of the statements in this quarterly report on Form 10-Q constitute forward-looking statements because they relate to future events or our future performance or financial condition. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about us, our prospective portfolio investments, our industry, our beliefs, and our assumptions. The forward-looking statements contained in this quarterly report on Form 10-Q may include statements as to:

- Our future operating results;
- Our business prospects and the prospects of our portfolio companies;
- The impact of the investments that we expect to make;
- The ability of our portfolio companies to achieve their objectives;
- Our expected financings and investments;
- The adequacy of our cash resources and working capital; and
- The timing of cash flows, if any, from the operations of our portfolio companies.

In addition, words such as “anticipate,” “believe,” “expect” and “intend” indicate a forward-looking statement, although not all forward-looking statements include these words. The forward-looking statements contained in this quarterly report on Form 10-Q involve risks and uncertainties. Our actual results could differ materially from those implied or expressed in the forward-looking statements for any reason, including the factors set forth in “Risk Factors” in our annual report on Form 10-K filed with the SEC on March 30, 2010 and elsewhere in this quarterly report on Form 10-Q or incorporated by reference herein.

We have based the forward-looking statements included in this quarterly report on Form 10-Q on information available to us at the time we filed this quarterly report on Form 10-Q with the SEC, and we assume no obligation to update any such forward-looking statements. Except as required by the federal securities laws, we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The forward-looking statements and projections contained in this quarterly report on Form 10-Q are excluded from the safe harbor protection provided by Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our financial statements and the related notes and schedules thereto.

### **Overview**

We were incorporated on May 9, 2008 under the laws of the State of Maryland and filed an election to be regulated as a business development company under the 1940 Act on November 20, 2008.

We seek to invest principally in equity securities, including convertible preferred securities, and other debt securities convertible into equity securities, of primarily non-public U.S.-based companies. Our investment objective is to maximize our portfolio's capital appreciation while generating current income from our portfolio investments. In accordance with our investment objective, we seek to provide capital principally to U.S.-based, private companies with an equity value of less than \$250 million, which we refer to as "micro-cap companies" and U.S.-based, private companies with an equity value of between \$250 million and \$1 billion, which we refer to as "small-cap companies." Our primary emphasis is to attempt to generate capital gains through our equity investments in micro-cap and small-cap companies, including through the conversion of the convertible debt or convertible preferred securities we may acquire in such companies. However, we anticipate that a portion of our investments at any given time will include a component of interest or dividends, which we believe will provide us with current yield, in addition to the potential for capital appreciation. We may also make investments on an opportunistic basis in U.S.-based publicly-traded companies with market capitalizations of less than \$250 million, as well as foreign companies that otherwise meet our investment criteria, subject to certain limitations imposed under the 1940 Act.

Our investments will generally take the form of either "sponsored deals" or "financing participation deals." In a sponsored deal, we are generally the lead or primary investor, and are principally responsible for setting the terms and conditions of the investment, establishing the going public process, milestones and timing, generally assisting the portfolio company in raising any additional capital from co-investors and providing going public assistance and guidance. While we may in certain circumstances make an initial seed investment in prospective portfolio companies in sponsored deals, we typically attempt to avoid the risk associated with an initial seed investment where the potential portfolio company may abandon the going public process due to its inability or unwillingness to undertake and complete the audit, governance and other requirements to become public. We also believe it is important for a potential portfolio company to demonstrate its commitment to the going public process by funding any upfront legal and audit costs. All of the investment process steps set forth below will typically be applicable in a sponsored deal.

In a financing participation deal, typically we participate in a current private offering round being self-underwritten by the potential portfolio company or distributed by placement agents. Typically, the terms of a financing participation deal, which are generally already established consistent with a financing intended to be the last financing round prior to a traditional initial public offering, or pre-IPO financing, have already been established by the issuer and/or the placement agent. In these types of deals, we generally are dealing with existing management and principal investors with a greater level of public company experience or knowledge and an expectation to go public within our targeted time frame.

Financing participation deals arise when we have the opportunity to participate in current pre-IPO financing rounds of later stage, venture capital-backed private companies that otherwise meet our investment criteria. In these transactions, we are able to focus our investment process on a single investment, eliminating the need for an initial investment to fund certain upfront going public costs in a prospective portfolio company.

In financing participation deals, we believe we are generally able to avoid the risk associated with an initial seed investment where the potential portfolio company may abandon the going public process due to its inability or unwillingness to undertake and complete the audit, governance and other requirements to become public. We also believe it is important for a potential portfolio company to demonstrate its commitment to the going public process by funding any upfront legal and audit costs. Our belief is that potential portfolio companies which meet our investment criteria will generally be able and willing to fund these upfront going public costs or will have already substantially completed certain audit and governance requirements. Financing participation deals, which typically do not require us to seek co-investors, are also attractive to us while our investment size is limited as we attempt to increase our capital base. Unlike sponsored deals, certain of the investment process steps may not be applicable to financing participation deals as identified below.

In a financing participation deal, we will typically make a single investment, principally consisting of convertible debt, convertible preferred stock or other equity, after we are satisfied that a potential portfolio company is committed to and capable of becoming public and obtaining a senior exchange listing (as defined below) within our desired timeframes and has substantially completed certain audit and governance requirements to our satisfaction prior to the closing of our investment.

While we have specifically identified sponsored deals and financing participation deals, we believe there may be other types of investment opportunities which may not have the specific characteristics of a sponsored deal or financing participation deal, but which may still meet our general investment criteria and which are still relevant to our focus on micro-cap and small-cap companies capable of and committed to becoming public. We may make investments in such portfolio companies on an opportunistic basis. In all cases, we expect our portfolio companies will generally be able to file a registration statement with the SEC within three to twelve months after our investment and will generally be able to obtain an exchange listing within twelve to eighteen months after our investment.

In evaluating both sponsored and financing participation deals, we utilize an investment process focused on the following factors.

- *Qualification* . We obtain information from the potential portfolio company's management, conduct a preliminary evaluation of threshold issues and make a determination as to whether the opportunity is qualified and deserving of additional investigation.
- *Evaluation* . We undertake an in-depth evaluation of the opportunity with primary focus on understanding the business, historical and projected financial information, industry, competition and valuation to ascertain whether we have interest in pursuing the investment.
- *Report Preparation* . We prepare an internal investment report which discusses our evaluation findings and recommendations, together with an internal valuation report outlining our acceptable valuation ranges for an investment.
- *Approval* . Our investment adviser's Investment Committee reviews the investment and valuation reports and, when appropriate, approves the investment subject to completion of satisfactory due diligence.
- *Term Sheet* . We prepare, negotiate and execute a term sheet with the portfolio company which, among other things, will establish the due diligence process and set a transaction closing time table (including the achievement of going public milestones). This step is not applicable to our financing participation deals since the terms and conditions of such an investment have typically already been set by the portfolio company.
- *Due Diligence* . We conduct an on-site diligence visit and complete the gathering and review of diligence materials.
- *Co-Investment Documents* . As required, we assist the portfolio company in the review, revision and preparation of a confidential business memorandum, company investment PowerPoint presentation and executive summary that will be used by us to approach co-investors on a selected basis or by the portfolio company and its placement agents to undertake a private placement offering. This step is typically not applicable to our financing participation deals as these documents or comparable information will normally already be available.
- *Governance* . We establish and assist the portfolio company in satisfying certain governance matters which may be required for an exchange listing and which we may designate as a condition to the closing of our investment (including the appointment of an independent board and the audit and compensation committees, the hiring of, or the engagement of an executive recruiter to conduct a search for, a qualified CFO, the engagement of a qualified independent auditor and completion of the audit).
- *Placement Agent*. As required, we assist the portfolio company in identifying potential placement agents to raise additional capital beyond the investment amount we intend to provide. This step is typically not applicable to our financing participation deals since either a placement agent will have already been engaged or the portfolio company will be handling the offering itself on a self-underwritten basis.
- *Capital Raising; Going Public Preparation*. We assist the portfolio company in monitoring the capital raising process, by introducing co-investors on a selected basis, and in achieving certain "going public" milestones which we may designate as a condition to the closing of our investment. The capital raising portion of this step is typically not applicable to our financing participation deals; however, on a selected basis, we may introduce certain co-investors to the portfolio company.
- *Investment Closing*. At closing, we make our investment, principally consisting of convertible debt or convertible preferred stock or other equity.

- *Completion of Going Public Process. Following the closing of our investment, we will provide managerial assistance to the portfolio company in their completion of the going public process, as needed, within the general time frames set forth below:*

- **For a Sponsored Deal:**

(i) If we believe that the portfolio company is able to complete a traditional IPO based primarily on its revenue and profitability levels measured against recent comparable IPO transactions, which we refer to herein as “IPO qualified” or an “IPO qualified company,” we expect that the portfolio company will file a registration statement under the Securities Act within approximately nine months after closing and complete the IPO and obtain a senior exchange listing within approximately 15 months after closing. If the portfolio company fails to complete an IPO within the 15-month time frame, the portfolio company is expected to file a registration statement under the Exchange Act and become a reporting company within 18 months after closing.

(ii) If we believe that the portfolio company is not IPO qualified at the time of our investment, we expect that the portfolio company will file a registration statement under the Exchange Act within three months after closing and obtain a junior or senior exchange listing within 15 months after closing.

- **For a Financing Participation Deal :**

We expect that the portfolio company, which will typically be IPO qualified, will file a registration statement under the Securities Act within 12 months after closing and complete an IPO and obtain a senior exchange listing within 18 months after closing.

As an integral part of our investment, we intend to partner with our portfolio companies to become public companies that meet the governance and eligibility requirements for a listing on the New York Stock Exchange, Nasdaq (Global Select, Global or Capital Market) or NYSE Amex Equities, formerly known as the American Stock Exchange (collectively, “U.S. Senior Exchanges”). We will also consider listings by foreign portfolio companies on the Toronto Stock Exchange, London Stock Exchange, Frankfurt Stock Exchange, Hong Kong Stock Exchange and other foreign exchanges that we may determine as an acceptable venue (collectively, “Foreign Senior Exchanges”). As a business development company, however, we cannot invest more than 30% of our assets in foreign investments.

We refer to the U.S. Senior Exchanges and the Foreign Senior Exchanges herein collectively as the “senior exchanges” or individually as a “senior exchange.” We intend for our portfolio companies to go public either through the filing of a registration statement under the Securities Act or the Exchange Act. For portfolio companies that we believe are IPO qualified, we expect these companies to go public by filing a registration statement under the Securities Act and completing an IPO. For portfolio companies that are either not IPO qualified at the time of our investment or fail to complete an IPO under the Securities Act in a timely manner, we expect these companies to go public by filing a registration statement under the Exchange Act, which makes them a non-listed publicly reporting company initially.

In general, we seek to invest in micro-cap and small-cap companies that we believe will be able to file a registration statement with the SEC within approximately three to twelve months after our investment. These registration statements may take the form of a registration statement under the Securities Act registering the primary sale of common stock of a portfolio company in an IPO, a registration statement registering the common stock of a portfolio company under the Exchange Act without a concurrent registered offering under the Securities Act, or a resale registration statement filed by a portfolio company under the Securities Act to register shares held by existing stockholders coupled with a concurrent registration of the portfolio company’s common stock under the Exchange Act.

We expect the common stock of our portfolio companies that are not IPO qualified at the time of our investment or fail to complete an IPO in a timely manner to typically be initially quoted on a junior exchange following the completion of the registration process, depending upon satisfaction of the applicable listing requirements. We can provide no assurance, however, that the micro-cap and small-cap companies in which we invest will be able to successfully complete the SEC registration process, or that they will be successful in obtaining a listing on either a junior or senior exchange within the expected timeframe, if at all. If, for any reason, a traditional IPO is unavailable due to either market conditions or an underwriter’s minimum requirements, we believe that we can provide each of our portfolio companies with an alternative and more certain solution to becoming public and obtaining an exchange listing through our investment adviser’s going public, aftermarket support and public markets expertise.

We intend to maximize our potential for capital appreciation by taking advantage of the premium we believe is generally associated with having a more liquid asset, such as a publicly traded security. Specifically, we believe that a senior exchange listing, if obtained, will generally provide our portfolio companies with greater visibility, marketability, and liquidity than they would otherwise be able to achieve without such a listing. Since we intend to be more patient investors, we believe that our portfolio companies may have an even greater potential for capital appreciation if they are able to demonstrate sustained earnings growth and are correspondingly rewarded by the public markets with a price-to-earnings (P/E) multiple appropriately linked to earnings performance. We can provide no assurance, however, that the micro-cap and small-cap companies in which we invest will be able to achieve such sustained earnings growth, or that the public markets will recognize such growth, if any, with an appropriate market premium.

To the extent that we receive convertible debt instruments in connection with our investments, such instruments will likely be unsecured or subordinated debt securities. The convertible preferred stock we expect to receive in connection with our investments will typically be non-controlling investments, meaning we will not be in a position to control the management, operation and strategic decision-making of the companies in which we invest.

Since we currently intend to elect to be treated as a RIC under Subchapter M of the Code beginning with our 2010 taxable year, the size of our individual portfolio company investments will be restricted in order to comply with specified asset diversification requirements on a quarterly basis. As a result, to comply with these diversification requirements, we expect that the size of our individual portfolio company investments will typically range from \$250,000 to \$500,000. However, we may invest more than this threshold in certain opportunistic situations, provided we do not invest more than 25% of the value of our assets (for up to 50% of our investment portfolio) in any portfolio company, to allow us to continue to qualify for RIC status. We expect the size of our portfolio company investments to increase to the extent our capital base increases in the future. In the event we determine not to elect to be treated as a RIC based on the results of our operations and other factors during our 2010 taxable year, there would be no limit on the size of our individual portfolio company investments.

We expect that our capital will primarily be used by our portfolio companies to finance organic growth. To a lesser extent, our capital may be used to finance acquisitions and recapitalizations. Our investment adviser's investment decisions are based on an analysis of potential portfolio companies' management teams and business operations supported by industry and competitive research, an understanding of the quality of their revenues and cash flow, variability of costs and the inherent value of their assets, including proprietary intangible assets and intellectual property. Our investment adviser also assesses each potential portfolio company as to its appeal in the public markets, its suitability for achieving and maintaining public company status and its eligibility for a senior exchange listing.

We are externally managed by Keating Investments, an investment adviser registered under the Advisers Act. As our investment adviser, Keating Investments is responsible for managing our day-to-day operations including, without limitation, identifying, evaluating, negotiating, closing, monitoring and servicing our investments. Keating Investments also provides us with the administrative services necessary for us to operate.

As a business development company, we are required to comply with certain regulatory requirements. For example, to the extent provided by the 1940 Act, we are required to invest at least 70% of our total assets in eligible portfolio companies.

## **Current Economic Environment**

The U.S. economy continues to experience recessionary conditions, although there are some economic indicators which are showing signs of recovery. During the past year, consumer confidence continued to deteriorate and unemployment figures increased. The generally depressed economic situation, together with the limited availability of debt and equity capital, including through bank financing, will likely have a disproportionate impact on the micro-cap and small-cap companies we target for investment. As a result, we may experience a reduction in attractive investment opportunities in prospective portfolio companies that fit our investment criteria. In addition, micro-cap and small-cap companies in which we ultimately invest may be unable to pay us the interest or dividends on their convertible securities or repay their debt obligations to us, and the common stock which we may receive upon conversion of the convertible securities may have little or no value, resulting in the loss of all or substantially all of our investment in such micro-cap and small-cap companies.

## Operating and Regulatory Structure

Our investment activities are managed by Keating Investments pursuant to an investment advisory and administrative services agreement (the "Investment Advisory and Administrative Services Agreement"). Keating Investments was founded in 1997 and is an investment adviser registered under the Advisers Act. The managing member and majority owner of Keating Investments is Timothy J. Keating. Our investment adviser's senior investment professionals are Timothy J. Keating, our President, Chief Executive Officer and Chairman of our Board of Directors, Ranjit P. Mankekar, our Chief Financial Officer, Treasurer and a member of our Board of Directors, Kyle L. Rogers, our Chief Operating Officer and Secretary and Frederic M. Schweiger, an executive officer of our investment adviser. In addition, Keating Investments' other investment professionals consist of two portfolio company originators, one analyst and a Chief Compliance Officer. Under our Investment Advisory and Administrative Services Agreement with Keating Investments, we have agreed to pay Keating Investments, for its investment advisory services, an annual base management fee based on our gross assets as well as an incentive fee based on our performance. In addition, Keating Investments previously agreed to defer a portion of the base management fee payable equal to 0.5% of our gross assets until we completed at least one investment in a portfolio company consistent with our investment strategy. On January 25, 2010, we completed a \$1 million investment in the convertible preferred stock of NeoPhotonics Corporation, requiring a payment to Keating Investments of previously deferred base management fees totaling \$20,502.

## Investment Portfolio Composition and Activity

During the period from May 9, 2008 (Inception) through December 31, 2009, our investment portfolio consisted solely of money market investments and short-term certificate of deposit investments. On January 25, 2010, we completed a \$1 million investment in the convertible preferred stock of NeoPhotonics Corporation, a San Jose, California based developer and manufacturer of photonic integrated circuit based components, modules and subsystems for use in telecommunications networks. At March 31, 2010, our convertible preferred stock investment in NeoPhotonics Corporation was valued at \$1,550,000, including \$550,000 in unrealized appreciation based upon a fair value determination made in good faith by our Board of Directors.

Since the closing of our initial private placement in November 2008, our investment adviser has reviewed over 200 companies that have generally met all, or most, of our investment criteria. However, based upon further evaluation and investigation, our investment adviser determined not to invest in such companies based on their business prospects, management's expectations about being a public company and other reasons. As of May 12, 2010, there are 2 companies which we have qualified and are being actively reviewed by our investment adviser and an additional 29 companies that we believe may become qualified over the next 12 months which we continue to cultivate.

We currently anticipate completing five to ten investments per year until all of the proceeds of our initial private placement and our continuous public offering have been invested. The consummation of each investment will depend upon satisfactory completion of our due diligence investigation of the prospective portfolio company, our confirmation and acceptance of the investment terms, structure and financial covenants, the execution and delivery of final binding agreements in form mutually satisfactory to the parties, the absence of any material adverse change and the receipt of any necessary consents. We can provide no assurance that we will be able to meet our anticipated pace of investment.

## Results of Operations

The principal measure of our financial performance is net increase (decrease) in net assets resulting from operations, which includes net investment income (loss), net realized gain (loss) on investments and net unrealized appreciation (depreciation) on investments. Net investment income (loss) is the difference between our income from interest, dividends, fees and other investment income and our operating expenses. Net realized gain (loss), if any, is the difference between the net proceeds of sales of portfolio company securities and their stated cost. Net unrealized appreciation (depreciation) from investments is the net change in the fair value of our investment portfolio.

Set forth below are the results of operations for the three months ended March 31, 2010 and 2009.

**Investment Income.** We have generated and will continue to generate limited investment income from the temporary investment of the net proceeds from our initial private placement and continuous public offering in high-quality debt investments that mature in one year or less. For the three months ended March 31, 2010, we earned interest income from certificate of deposit and money market investments of approximately \$5,725. For the three months ended March 31, 2009, we earned interest and dividend income from money market investments of approximately \$1,231.

We seek to invest principally in equity securities, including convertible preferred securities, and other debt securities convertible into equity securities, of primarily non-public U.S.-based micro-cap and small-cap companies. If we invest in convertible debt securities, we expect that such securities will generally carry a market rate of interest, which interest will be payable monthly, quarterly, or in certain instances, annually, in cash. We may, in certain instances, also require that all or a portion of the interest on the convertible debt securities be paid in advance from the proceeds thereof. In the event that we do not receive advance payments of interest out of the proceeds of the convertible debt securities, there is no assurance that we will receive interest from our portfolio companies on a monthly, quarterly, or annual basis.

Our preferred equity investments may pay fixed or adjustable rate dividends and will generally have a “preference” over common equity in the payment of dividends and the liquidation of a portfolio company's assets. In order to be payable, distributions on such preferred equity must be declared by the portfolio company's Board of Directors. Dividend income from preferred equity investments in portfolio companies is recorded when dividends are declared or at the point an obligation exists for a portfolio company to make a distribution. However, there is no assurance that any such dividends will be declared or paid by a portfolio company. We made our first portfolio company investment in the Series X convertible preferred stock of NeoPhotonics Corporation (“NeoPhotonics”) on January 25, 2010.

No interest or dividend income from portfolio company investments was recorded for the three months ended March 31, 2010 and 2009.

From time to time, we may also generate other investment income comprised of fees for due diligence, structuring, transaction services, consulting services and management services rendered to portfolio companies and other third parties, which services are separately identifiable from our investments.

During the three months ended March 31, 2010, we recorded \$10,000 in other income representing a non-refundable due diligence fee received from a prospective portfolio company in December of 2009, which was initially recorded as deferred income and was subsequently recognized as income when the proposed investment transaction failed to close in February 2010.

**Operating Expenses.** Our primary operating expenses include the payment of: (i) investment advisory fees to our investment adviser, Keating Investments; (ii) the allocable portion of overhead and other expenses incurred by Keating Investments, as our administrator, in performing its administrative obligations under the Investment Advisory and Administrative Services Agreement; and (iii) other operating expenses as detailed below. Our investment advisory fee compensates our investment adviser for its work in identifying, evaluating, negotiating, closing, monitoring and servicing our investments. We bear all other expenses of our operations and transactions, including, without limitation:

- Costs of calculating our net asset value, including the cost of any third-party valuation services;
- Costs of effecting sales and repurchases of shares of our common stock and other securities;
- Fees payable to third parties relating to, or associated with, making investments, including fees and expenses associated with performing due diligence reviews of prospective investments;
- Costs related to organization and offerings;
- Transfer agent and custodial fees;
- Fees and expenses associated with marketing efforts;
- Federal and state registration fees;
- Any stock exchange listing fees;
- Applicable federal, state and local taxes;
- Independent directors’ fees and expenses;
- Brokerage commissions;
- Costs of proxy statements, stockholders’ reports and notices;

- Fidelity bond, directors and officers/errors and omissions liability insurance and other insurance premiums;
- Direct costs such as printing, mailing, and long distance telephone;
- Fees and expenses associated with independent audits and outside legal costs;
- Costs associated with our reporting and compliance obligations under the 1940 Act, Sarbanes-Oxley Act, and applicable federal and state securities laws; and
- All other expenses incurred by either Keating Investments or us in connection with administering our business, including payments under the Investment Advisory and Administrative Services Agreement that are based upon our allocable portion of overhead and other expenses incurred by Keating Investments in performing its obligations under the Investment Advisory and Administrative Services Agreement, including the compensation of our Chief Financial Officer and Chief Compliance Officer, and their respective staff.

For the three months ended March 31, 2010, we had operating expenses of \$325,257, comprised of: (i) legal, accounting and other professional fees of \$137,204; (ii) directors' fees of \$26,250; (iii) base management fees of \$26,548; (iv) allocated administrative fees of \$74,470; and (v) other general and administrative expenses of \$60,785.

For the three months ended March 31, 2009, we had operating expenses of \$215,528 comprised of: (i) legal, accounting and other professional fees of \$77,564; (ii) directors' fees of \$25,250; (iii) base management fees of \$24,051; (iv) allocated administrative fees of \$66,842; and (v) other general and administrative expenses of \$21,821.

The increase in legal, accounting and other professional fees for the three months ended March 31, 2010 in comparison to the three months ended March 31, 2009 was primarily the result of (i) an increase in audit and audit related expenses of \$18,426 arising primarily from differences in the timing of when such audit and audit related services were performed, and (ii) an increase in transfer agent expenses of \$46,062 arising from our engagement of DST Systems, Inc. ("DST") to serve as our transfer agent and registrar at a monthly minimum fee of \$15,000 during our continuous public offering. The increase in other general and administrative expenses for the three months ended March 31, 2010 in comparison to the three months ended March 31, 2009 was primarily the result of (i) an increase in printing/production and order fulfillment expenses of \$12,823 arising from the printing/production and delivery of newsletters, brochures, and other marketing materials used in our investment origination activities and for our continuous public offering, and (ii) an increase in travel and travel-related expenses of \$20,191 related to our continuous public offering.

**Net Investment Loss.** For the three months ended March 31, 2010 and 2009, our net investment loss totaled \$309,532 and \$214,297, respectively. The increase in net investment loss is primarily attributable to an increase in operating expenses resulting from increased legal and professional fees and other general and administrative expenses as discussed above.

**Net Change in Unrealized Appreciation on Investments.** For the three months ended March 31, 2010 and 2009, the net change in unrealized appreciation on investments totaled \$550,000 and \$0, respectively. The change in unrealized appreciation on investments during the three months ended March 31, 2010 was exclusively the result of \$550,000 in unrealized appreciation on our convertible preferred stock investment in NeoPhotonics, based upon a fair value determination made in good faith by our Board of Directors. Upon sale of our \$1,000,000 investment in NeoPhotonics, the value that is ultimately realized could be different from the \$1,550,000 fair value currently reflected in our financial statements, and this difference could be material.

**Net Increase (Decrease) in Net Assets Resulting From Operations.** For the three months ended March 31, 2010 and 2009, the net increase (decrease) in net assets resulting from operations was \$240,468, or \$0.33 share, and \$(214,297) or \$(0.38) per share, respectively. The net increase in net assets resulting from operations is primarily attributable to the \$550,000 in unrealized appreciation on our investment in NeoPhotonics recorded for the three months ended March 31, 2010.

## Financial Condition, Liquidity and Capital Resources

In our initial private placement which was completed on November 12, 2008, we sold 569,800 shares of common stock at a price per share of \$10.00, resulting in gross proceeds of \$5,698,000 and net proceeds of \$5,243,434 after payment of \$454,566 in placement agent commissions and other offering costs.

On June 11, 2009, we commenced a continuous public offering pursuant to which we intend to sell from time to time up to 10 million shares of our common stock, at an initial offering price of \$10.00 per share, adjusted for volume discounts and commission waivers, for a period ending on March 31, 2011, or such later date if our Board of Directors elects to extend this offering, but not later than June 30, 2011. There can be no assurance that we will be able to sell all of the shares we are presently offering. As of December 31, 2009, no shares of common stock had been sold and no proceeds had been received from our continuous public offering. During the three months ended March 31, 2010, we sold 344,615 shares of common stock under our continuous public offering at an average price of approximately \$9.99 per share, resulting in gross proceeds of \$3,441,936 and net proceeds of \$3,101,536 after payment of \$340,400 in dealer-manager fees and commissions. On April 30, 2010, we sold an additional 151,554 shares of common stock under our continuous public offering at an average price of approximately \$9.94 per share, resulting in gross proceeds of \$1,491,050 and net proceeds of \$1,363,988, after payment of \$127,062 in dealer-manager fees and commissions.

The following table summarizes the sales of our common stock under our continuous public offering by closing date since the offering commenced on June 11, 2009:

<u>Date</u>	<u>Shares Sold (1)</u>	<u>Average Price Per Share (1)</u>	<u>Gross Proceeds</u>	<u>Dealer Manager Fees and Commissions</u>	<u>Net Proceeds</u>
January 11, 2010 (first closing)	114,695	\$ 10.00	\$ 1,146,500	\$ 114,243	\$ 1,032,257
February 1, 2010	54,638	9.99	546,000	54,261	491,739
March 1, 2010	53,914	9.94	535,750	50,527	485,223
March 26, 2010	121,368	10.00	1,213,686	121,369	1,092,317
April 30, 2010	151,554	9.94	1,491,050	127,062	1,363,988
	<u>496,169</u>	<u>\$ 9.94</u>	<u>\$ 4,932,986</u>	<u>\$ 467,462</u>	<u>\$ 4,465,524</u>

(1) All shares were sold at a price of either \$9.30 or \$10.00, depending on whether sales commissions were waived by the dealer manager.

We plan to invest the net proceeds remaining from our initial private placement and the net proceeds from our continuous public offering in portfolio companies in accordance with our investment objective and strategy. We anticipate that it will take us up to 12 to 24 months after conclusion of the continuous public offering to invest substantially all of the proceeds from the continuous public offering in accordance with our investment objective and strategy and depending on the availability of appropriate investment opportunities consistent with our investment objective and market conditions. We cannot assure you we will achieve our targeted investment pace.

We did not finalize or fund any portfolio company investments during 2008 or 2009. On January 25, 2010, we completed a \$1 million investment in the convertible preferred stock of NeoPhotonics Corporation. We anticipate making five to ten investments per year depending upon the amount of capital we have available for investment and on the availability of appropriate investment opportunities consistent with our investment objective and market conditions.

Prior to investing in debt and equity securities of portfolio companies, we will invest the net proceeds remaining from our initial private placement and continuous public offering primarily in cash, cash equivalents, U.S. government securities and other high-quality investments that mature in one year or less from the date of investment, which we expect will earn yields substantially lower than the interest, dividend or other income that we anticipate receiving from investments in debt and equity securities of our target portfolio companies. However, we can give no assurance that we will be able to make investments in portfolio companies that will generate interest or dividend income.

We currently generate cash primarily from the net proceeds of our continuous public offering and our primary use of funds will be investments in portfolio companies, cash distributions to holders of our common stock, and the payment of operating expenses.

Until our capital base substantially increases and additional portfolio company investments can be made, we do not expect that our interest and dividend income from portfolio company investments would be sufficient to generate net ordinary income in the near future. Because net ordinary income may not be generated in the near future, we expect that our primary source of distributions will be from net capital gains realized from the sale of our portfolio company investments. The timing of any capital gains generated from the appreciation and sale of portfolio companies cannot be predicted, and we do not expect to generate capital gains on a level or uniform basis from quarter to quarter. However, we may declare and pay quarterly distributions which, in the aggregate, would be an estimate of the total net capital gains expected to be realized throughout the year. During the pendency of our continuous public offering, we may also declare and pay quarterly distributions in an amount reflecting all or a portion of any net unrealized appreciation on investments recorded on our books which, depending on the timing and amount of actual realization, may represent a return of capital. Our distributions may exceed our net ordinary income and realized net capital gains, particularly during the period before we have substantially invested the net proceeds from our continuous public offering or realized any net capital gains from the disposition of our investments, and we can give no assurance as to when we will begin to realize any net capital gains from the sale of our portfolio company investments, if ever. Distributions that represent a return of capital may lower your tax basis in our shares, or may be treated as a gain from the sale of such shares to the extent that such distributions exceed the basis in such shares, and reduce the amount of funds we have for investment in targeted assets. However, we do not intend to make any distributions representing a return of capital which would result in a total return of capital in excess of 10% of our total invested capital (i.e., the total gross proceeds received from the sale of our common stock).

As of March 31, 2010, we had cash resources of approximately \$5,101,000 and no indebtedness other than accounts payable and accrued expenses incurred in the ordinary course of business of approximately \$83,000 and management fees, administrative fees and reimbursable expenses payable to Keating Investments of approximately \$110,000. As of December 31, 2009, we had cash resources of approximately \$3,368,000 and no indebtedness other than accounts payable and accrued expenses incurred in the ordinary course of business of approximately \$69,000, and management fees, administrative fees and reimbursable expenses payable to Keating Investments of approximately \$115,000.

As of March 31, 2010, our cash resources included \$3,600,000 invested in certificates of deposit with original maturities of four weeks (maturing on April 1, 2010) which have been valued by us at amortized cost as of March 31, 2010. The remainder of our cash resources of approximately \$1,501,000 was held in depository accounts at Steele Street Bank & Trust, which serves as our custodian. As of December 31, 2009, our cash resources included \$3,000,000 invested in certificates of deposit with original maturities of four weeks (maturing on January 7, 2010) which have been valued by us at amortized cost as of December 31, 2009. The remainder of our cash resources of approximately \$368,000 was held in depository accounts at Steele Street Bank & Trust, which serves as our custodian.

As of March 31, 2010, we had net assets of \$6,959,572 and, based on 914,515 shares of common stock outstanding, a net asset value per common share of approximately \$7.61. As of December 31, 2009, we had net assets of \$3,719,496 and, based on 569,900 shares of common stock outstanding, a net asset value per common share of approximately \$6.53.

### **Distribution Policy**

We have not paid any dividends or distributions since our inception. Our Board of Directors will determine the payment of any distributions in the future. We intend to declare and pay distributions on a quarterly basis beginning no later than the first calendar quarter after the month in which we have raised at least \$10 million from the sale of shares in our continuous public offering to investors not affiliated with us or Keating Investments. We will pay these distributions to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a targeted level of cash distributions or year-to-year increases in cash distributions.

Our distributions may exceed our net ordinary income and realized net capital gains, particularly during the period before we have substantially invested the net proceeds from our continuous public offering or realized any net capital gains from the disposition of our portfolio company investments, and we can give no assurance as to when we will begin to realize any net capital gains from the sale of our portfolio company investments, if ever. Distributions that represent a return of capital may lower your tax basis in our shares, or may be treated as a gain from the sale of such shares to the extent that such distributions exceed the basis in such shares, and reduce the amount of funds we have for investment in targeted assets. However, we do not intend to make any distributions representing a return of capital which would result in a total return of capital in excess of 10% of our total invested capital (i.e., the total gross proceeds received from the sale of our common stock).

Although our primary emphasis is to attempt to generate capital gains through our equity investments in micro-cap and small-cap companies, including through the conversion of the convertible debt or convertible preferred securities we seek to acquire in such companies, we may also generate current income from the interest and preferred dividends on such convertible debt and convertible preferred securities, respectively, prior to their conversion. However, we can give no assurance that we will be able to make investments in portfolio companies that will generate interest or dividend income. While we may receive investment income in the form of interest and dividends from our portfolio company investments prior to conversion, such investment income is not likely to exceed our operating expenses, in which case we do not expect to generate net ordinary income which would be available for distribution to our stockholders in the near future. Until our capital base substantially increases and additional portfolio company investments can be made, we do not expect that our interest and dividend income from portfolio company investments would be sufficient to generate net ordinary income. However, when and if we are able to generate net ordinary income, we intend to distribute such net ordinary income to stockholders.

Because net ordinary income may not be generated in the near future, we expect that our primary source of distributions will be from net capital gains realized from the sale of our portfolio company investments. Distributions from realized net capital gains will typically be declared and paid at least once each year by December 31st.

The timing of any capital gains generated from the appreciation and sale of portfolio companies cannot be predicted, and we do not expect to generate capital gains on a level or uniform basis from quarter to quarter. However, we may declare and pay quarterly distributions which, in the aggregate, would be an estimate of the total net capital gains expected to be realized throughout the year. During the pendency of our continuous public offering, we may also declare and pay quarterly distributions in an amount reflecting all or a portion of any net unrealized appreciation on investments recorded on our books which, depending on the timing and amount of actual realization, may represent a return of capital.

We may have substantial fluctuations in our quarterly distribution payments to stockholders, since we expect to have an average holding period for our portfolio company investments of one to three years and we may not generate any realized net capital gains during our initial years of operations. Our ability to pay distributions in our initial years of operation will be based on our ability to invest our capital in suitable portfolio companies in a timely manner, and we can give no assurance as to when we will begin to realize any gains from the sale of our portfolio company investments, if ever.

We are currently taxable as a C corporation. Beginning with our 2010 taxable year, we intend to elect to be treated, and intend to qualify annually thereafter, as a RIC under Subchapter M of the Code. To obtain and maintain RIC tax treatment, we must, among other things, distribute at least 90% of our investment company taxable income. In order to avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year an amount at least equal to the sum of: (i) 98% of our ordinary income for the calendar year, (ii) 98% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year, and (iii) any ordinary income and net capital gains for preceding years that were not distributed during such years.

In addition, after the effective date of our election to be taxable as a RIC, we currently intend to distribute realized net capital gains, if any, at least annually; however, we may in the future decide to retain such capital gains for investment and elect to treat such gains as deemed distributions to our stockholders. If this happens, our stockholders will be treated as if they had received an actual distribution of the capital gains we retain and reinvested the net after-tax proceeds in us. In this situation, our stockholders would be eligible to claim a tax credit (or, in certain circumstances, a tax refund) equal to their allocable share of the tax we paid on the capital gains deemed distributed to them. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, to the extent that we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

We have adopted a dividend reinvestment plan that provides for reinvestment of our dividends and other distributions on behalf of our stockholders, unless a stockholder elects to receive cash. As a result, if our Board of Directors authorizes, and we declare, a cash distribution, then our stockholders who have not opted out of our dividend reinvestment plan will have their cash distributions automatically reinvested in additional shares of our common stock, rather than receiving the cash distributions. To the extent we conduct an offering prior to the time our shares become publicly traded, we expect to coordinate distribution payment dates so that the same price that is used for the closing date immediately following such distribution payment date will be used to calculate the purchase price for purchasers under the dividend reinvestment plan until such offering concludes. In such cases, we expect that reinvested distributions will purchase shares at a price equal to 95% of the price that shares are sold in any such offering at the closing immediately following the distribution payment date.

After conclusion of any such offering and until our shares become publicly traded, the number of shares to be issued to a stockholder will be determined by dividing the total dollar amount of the distribution payable to such stockholder by the net asset value per share of our common stock as most recently determined by our Board of Directors on or prior to the valuation date for such distribution. If and when our shares become publicly traded, the number of shares to be issued to a stockholder will be determined by dividing the total dollar amount of the distribution payable to such stockholder by the market price per share of our common stock at the close of regular trading on a U.S. Senior Exchange, if our shares are listed thereon, or the OTC Bulletin Board on the valuation date for such distribution. Market price per share on that date will be the closing price for such shares on a U.S. Senior Exchange or the OTC Bulletin Board, as applicable, or, if no sale is reported for such day, at the average of their electronically-reported bid and asked prices.

No action will be required on the part of a registered stockholder to have his, her or its cash distribution reinvested in shares of our common stock. A registered stockholder will be able to elect to receive an entire distribution in cash by notifying the plan administrator and our transfer agent and registrar, in writing so that such notice is received by the plan administrator no later than the record date for distributions to stockholders. The plan administrator will set up an account for shares acquired through the plan for each stockholder who has not elected to receive distributions in cash and hold such shares in non-certificated form. Upon request by a stockholder participating in the plan, received in writing not less than 10 days prior to the record date, the plan administrator will, instead of crediting shares to the participant's account, issue a certificate registered in the participant's name for the number of whole shares of our common stock and a check for any fractional share.

Those stockholders whose shares are held by a broker or other financial intermediary will be able to receive distributions in cash by notifying their broker or other financial intermediary of their election.

We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

All distributions will be paid at the discretion of our Board of Directors and will depend on our net ordinary income, realized net capital gains, our financial condition, maintenance of our RIC status, compliance with applicable business development company regulations and such other factors as our Board of Directors may deem relevant from time to time. We cannot assure that we will pay distributions to our stockholders in the future. In the event that we encounter delays in locating suitable investment opportunities or in selling our portfolio investments, we may pay all or a substantial portion of our distributions from the proceeds of the sales of our common stock in anticipation of future cash flow, which may constitute a return of our stockholders' capital. Distributions from the proceeds of the sales of our common stock also could reduce the amount of capital we ultimately invest in interests of portfolio companies. However, we do not intend to make any distributions representing a return of capital which would result in a total return of capital in excess of 10% of our total invested capital (i.e., the total gross proceeds received from the sale of our common stock). Our distributions may exceed our net ordinary income and realized net capital gains, especially during the period before we have substantially invested the proceeds from the sale of our common stock or before we realize any net capital gains on the sale of our portfolio company investments.

### **Contractual Obligations**

We have entered into a contract under which we have material future commitments, the Investment Advisory and Administrative Services Agreement, pursuant to which Keating Investments agrees to serve as our investment adviser and to furnish us with certain administrative services necessary to conduct our day-to-day operations. This agreement is terminable by either party upon proper notice. We pay Keating Investments a fee for its investment advisory services under the Investment Advisory and Administrative Services Agreement consisting of two components - a base management fee and an incentive fee. We also reimburse Keating Investments for the allocable portion of overhead and other expenses incurred by it in performing its administrative obligations under the Investment Advisory and Administrative Services Agreement, including the compensation of our Chief Financial Officer and Chief Compliance Officer, and their respective staff.

If our Investment Advisory and Administrative Services Agreement is terminated, our costs under a new agreement that we may enter into may increase. In addition, we will likely incur significant time and expense in locating alternative parties to provide the services we expect to receive under the Investment Advisory and Administrative Services Agreement. Any new Investment Advisory and Administrative Services Agreement would also be subject to approval by our stockholders.

### **Off-Balance Sheet Arrangements**

As of March 31, 2010, we have no off-balance sheet arrangements.

### **Related Parties**

We have a number of business relationships with affiliated or related parties. We have entered into the Investment Advisory and Administrative Services Agreement with Keating Investments. Timothy J. Keating, our President, Chief Executive Officer and Chairman of the Board of Directors, is the managing member and majority owner of Keating Investments. Ranjit P. Mankekar, our Chief Financial Officer, Treasurer and a member of our Board of Directors, is also an executive officer of Keating Investments. Kyle L. Rogers, our Chief Operating Officer and Secretary, is also an executive officer and member of Keating Investments. Frederic M. Schweiger, though not an executive officer or director of ours, is an executive officer and member of Keating Investments. We have also entered into a license agreement with Keating Investments, pursuant to which Keating Investments has granted us a non-exclusive license to use the name "Keating." In addition, pursuant to the terms of the Investment Advisory and Administrative Services Agreement, Keating Investments provides us with certain administrative services necessary to conduct our day-to-day operations.

Currently, our investment adviser's senior investment professionals, Messrs. Keating, Mankekar, Rogers and Schweiger, and the additional administrative personnel currently retained by Keating Investments, do not serve as principals of other investment funds affiliated with Keating Investments; however, they may do so in the future. If they do, persons and entities may in the future manage investment funds with investment objective similar to ours. In addition, our current executive officers and directors, serve or may serve as officers, directors or principals of entities that operate in the same or related line of business as we do, including investment funds managed by our affiliates. Accordingly, we may not be given the opportunity to participate in certain investments made by investment funds managed by advisers affiliated with Keating Investments. In the event that Keating Investments or its affiliates provide investment advisory services to other entities, we expect that our management and our independent directors will attempt to resolve any conflicts in a fair and equitable manner taking into account factors that would include the investment objective, amount of assets under management and available for investment in new portfolio companies, portfolio composition and return expectations of us and any other entity, and other factors deemed appropriate. However, in the event such conflicts do arise in the future, Keating Investments intends to allocate investment opportunities in a fair and equitable manner consistent with our investment objective and strategies so that we are not disadvantaged in relation to any other affiliate or client of Keating Investments.

We rely on Keating Investments to manage our day-to-day activities and to implement our investment strategy. Although not currently contemplated, Keating Investments may in the future provide similar investment advisory services to other entities in addition to us. As a result of these activities, Keating Investments, its employees and certain of its affiliates will have conflicts of interest in allocating their management time, services, and functions among us and any other business ventures in which they or any of their key personnel, as applicable, may become involved. In such case, Keating Investments and its employees may devote only as much of their time to our business as Keating Investments and its employees, in their judgment, determine is reasonably required, which may be substantially less than their full time. This could result in actions that are more favorable to other affiliated entities than to us. In the event that Keating Investments provides investment advisory services to other entities, we intend to have our independent directors review our investment adviser's performance periodically, but not less than annually, to assure that Keating Investments is fulfilling its obligations to us under the Investment Advisory and Administration Agreement, that any conflicts are handled in a fair and equitable manner and that Keating Investments has sufficient personnel to discharge fully its responsibilities to all activities in which they are involved.

As a business development company, we may be limited in our ability to invest in any portfolio company in which any fund or other client managed by Keating Investments, or any of its affiliates has an investment. We may also be limited in our ability to co-invest in a portfolio company with Keating Investments or one or more of its affiliates. Subject to obtaining exemptive relief from the SEC, we also intend to co-invest with any such investment entity to the extent permitted by the 1940 Act, or the rules and regulations thereunder.

In addition, we have adopted a formal Code of Ethics that governs the conduct of our officers and directors. Our officers and directors also remain subject to the fiduciary obligations imposed by both the 1940 Act and applicable state corporate law. Finally, we pay Keating Investments our allocable portion of overhead and other expenses incurred by Keating Investments in performing its administrative obligations under the Investment Advisory and Administrative Services Agreement, which creates conflicts of interest that our Board of Directors must monitor.

Information concerning related party transactions is included in the financial statements and related notes, appearing elsewhere in this quarterly report on Form 10-Q.

### **Critical Accounting Policies**

The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the periods reported. Actual results could materially differ from those estimates. We have identified the following items as critical accounting policies.

**Valuation of portfolio investments.** The most significant estimate inherent in the preparation of our financial statements is the valuation of our portfolio investments and the related amounts of unrealized appreciation and depreciation. As of March 31, 2010 and December 31, 2009, approximately 22% and 0%, respectively, of our total assets represented investments in portfolio companies valued at fair value. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available, and (ii) for all other securities and assets, fair value is as determined in good faith by our Board of Directors.

Determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments we make. We are required to specifically value each individual investment on a quarterly basis.

We will determine the fair value of our debt investments by reference to the principal or most advantageous market in which these debt investments could be sold. Market participants generally have a strategic premise for these investments, and anticipate the sale of the company, recapitalization or initial public offering as the realization/liquidity event. The fair value, or exit price, for a debt instrument would be the hypothetical price that a market participant would pay for the instrument, using a set of assumptions that are aligned with the criteria that we would use in originating a debt investment in this market, including credit quality, interest rate, maturity date, conversion ratio and overall yield, and considering the prevailing returns available in this market. In general, we consider enterprise value an important element in the determination of fair value, because it represents a metric that may support the recorded value, or which, conversely, would indicate if a credit-related markdown is appropriate. We also consider the specific covenants and provisions of each investment which may enable us to preserve or improve the value of the investment. In addition, the trends of the portfolio company's basic financial metrics from the time of the original investment until the measurement date are also analyzed; material deterioration of these metrics may indicate that a discount should be applied to the debt investment, or a premium may be warranted in the event that metrics improve substantially and the return is higher than required for such a profile under current market conditions.

The fair value of our equity investments for which market quotations are not readily available is determined based on various factors, including the enterprise value remaining for equity holders after the repayment of the portfolio company's debt and other preference capital, and other pertinent factors such as recent offers to purchase a portfolio company, recent transactions involving the purchase or sale of the portfolio company's equity securities, or other liquidity events. The determined equity values are generally discounted when we have a minority position, restrictions on resale, specific concerns about the receptivity of the capital markets to a specific company at a certain time, or other factors. Equity investments for which market quotations are readily available are generally valued at the most recently available closing market price.

Enterprise value means the entire value of the company to a potential buyer, including the sum of the values of debt and equity securities used to capitalize the enterprise at a point in time. There is no one methodology to determine enterprise value and, in fact, for any one portfolio company, enterprise value is best expressed as a range of fair values, from which we derive a single estimate of enterprise value. To determine the enterprise value of a portfolio company, we analyze its historical and projected financial results, as well as the nature and value of collateral, if any. We also use industry valuation benchmarks and public market comparables. We also consider other events, including private mergers and acquisitions, a purchase transaction, public offering or subsequent debt or equity sale or restructuring, and include these events in the enterprise valuation process.

The following is a description of the steps we take each quarter to determine the value of our portfolio investments. Investments for which market quotations are readily available are recorded in our financial statements at such market quotations. With respect to investments for which market quotations are not readily available, our Board of Directors undertakes a multi-step valuation process each quarter, as described below:

- Our quarterly valuation process begins with each portfolio company or investment being initially valued by Keating Investments' senior investment professionals responsible for the portfolio investment;
- A nationally recognized third-party valuation firm engaged by our Board of Directors reviews these preliminary valuations;
- Our Valuation Committee reviews the preliminary valuations, and our investment adviser and the nationally recognized third-party valuation firm respond and supplement the preliminary valuation to reflect any comments provided by the Valuation Committee; and
- Our Board of Directors discuss valuations and determine, in good faith, the fair value of each investment in our portfolio for which market quotations are not readily available based on the input of our investment adviser, the nationally recognized third-party valuation firm, and our Valuation Committee.

Determination of fair values involves subjective judgments and estimates. Accordingly, this critical accounting policy expresses the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, on our financial statements.

**Realized Gain or Loss and Unrealized Appreciation or Depreciation of Portfolio Investments.** Realized gain or loss is recognized when an investment is disposed of and is computed as the difference between our cost basis in the investment at the disposition date and the net proceeds received from such disposition. Realized gains and losses on investment transactions are determined by specific identification. Unrealized appreciation or depreciation is computed as the difference between the fair value of the investment and the cost basis of such investment.

**Interest and Dividend Income.** Interest income from debt investments in portfolio companies is recorded on an accrual basis to the extent such amounts are expected to be collected, and accrued interest income is evaluated periodically for collectability. Debt investments are placed on non-accrual status when principal or interest payments are past due 60 days or more or when there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reversed when a loan is placed on non-accrual status. Non-accrual debt investments are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current.

Interest income from debt investments may contain payment-in-kind ("PIK") interest provisions. The PIK interest, computed at the contractual rate specified in each debt agreement, will be added to the principal balance of the debt and recorded as interest income. The actual collection of this interest may be deferred until the time of debt principal repayment.

Our preferred equity investments may pay fixed or adjustable rate dividends and will generally have a “preference” over common equity in the payment of dividends and the liquidation of a portfolio company's assets. In order to be payable, distributions on such preferred equity must be declared by the portfolio company's Board of Directors. Dividend income from preferred equity investments in portfolio companies is recorded when dividends are declared or at the point an obligation exists for a portfolio company to make a distribution.

**Other Income.** Other income is comprised of fees, if any, for due diligence, structuring, transaction services, consulting services and management services rendered to portfolio companies and other third parties. For services that are separately identifiable from our investment, income is recognized as earned, which is generally when the investment or other applicable transaction closes, or when the services are rendered if payment is not subject to the closing of an investment transaction.

**Unearned Income.** Origination, closing and/or commitment fees specifically associated with debt investments in portfolio companies are initially deferred and subsequently accreted into interest income over the respective terms of the applicable loans. Upon the prepayment of a loan or debt security, we record any prepayment penalties and unamortized loan origination, closing and commitment fees as part of interest income.

**Deferred Offering Costs.** Deferred offering costs are comprised of expenses directly related to the continuous public offering of our common stock that were previously deferred and which are currently being charged against the gross proceeds of the offering, as a reduction to additional paid-in capital, on a straight-line basis beginning with the first common stock issuance and closing on January 11, 2010 and continuing through the expiration of the offering period on March 31, 2011. Offering expenses incurred subsequent to January 11, 2010 associated with maintaining the effective status of the continuous public offering (i.e., legal, accounting, printing and blue sky) are expensed as incurred while other discretionary offering expenses are capitalized and subsequently charged against the gross proceeds of the offering on a straight-line basis over the remaining term of the offering.

**Federal Income Taxes.** We are currently taxable as a C Corporation. Beginning with our 2010 taxable year, we intend to elect to be treated, and intend to qualify annually thereafter, as a RIC under Subchapter M of the Code. If we do not meet the criteria to qualify as a RIC for our 2010 taxable year, we will continue to be taxed as a regular corporation under Subchapter C of the Code. We intend to operate so as to qualify to be taxed as a RIC under Subchapter M of the Code and, as such, to not be subject to federal income tax on the portion of our investment company taxable income (which is generally our net ordinary income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses) or realized net long-term capital gains in excess of realized net short-term capital losses distributed to stockholders. To qualify for RIC tax treatment, we are required to annually distribute at least 90% of our investment company taxable income, as defined by the Code.

At December 31, 2009, we had net operating loss carryforwards of approximately \$1,250,000 which expire beginning in 2028 and which may be used to offset future taxable income as long as we remain taxable as a C corporation in future taxable years. These net operating loss carryforwards can no longer be utilized by us upon our election to be treated as RIC for U.S. federal income tax purposes, which we currently intend to do beginning with our 2010 taxable year.

Because federal income tax regulations differ from accounting principles generally accepted in the United States, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

## **Recent Developments**

On April 28, 2010, we filed a definitive proxy statement with the SEC for our 2010 Annual Meeting of Stockholders to be held on May 21, 2010. Among other things, we submitted three proposals to our stockholders to amend our charter. The first proposal is to amend our charter to specify that one of the lawful activities in which we may engage includes conducting and carrying on the business of a business development company under the 1940 Act. Currently, our charter provides that the purpose for which we are formed is to engage in any lawful act or activity for which corporations may be organized under the general laws of the State of Maryland. The second proposal is to amend our charter to require that all directors stand for election annually beginning with the 2011 Annual Meeting of Stockholders. Currently, our charter provides that our directors are divided into three classes and each class of directors holds office for staggered three-year terms. The third proposal is to amend our charter to allow stockholders to remove a director for cause by the affirmative vote of the holders of a majority of the shares of stock outstanding and entitled to vote thereon. Currently, our charter provides that directors may be removed only for cause and only by the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of directors.

On April 30, 2010, we sold 151,554 shares of common stock under our continuous public offering at an average price of approximately \$9.94 per share, resulting in gross proceeds of \$1,491,050 and net proceeds of \$1,363,988, after payment of \$127,062 in dealer-manager fees and commissions.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

Our business activities contain elements of risk. We consider the primary types of market risk attributable to us to be valuation risk and interest rate risk.

**Valuation Risk** . Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which market quotations are readily available and (ii) fair value as determined in good faith by, or under the direction of, the Board of Directors for all other assets. (See Note 3, Valuation of Investments, included in “Item 1. Financial Statements.”)

Because there is initially no public market for the debt or equity securities of the private companies in which we invest, the valuation of these investments is estimated in good faith by our Board of Directors, in accordance with our valuation procedures. In the absence of a readily ascertainable market value, the estimated value of our portfolio of debt and equity securities may differ significantly from the value that would be placed on the portfolio if a ready market for the debt and equity securities existed. Changes in valuation of these debt and equity securities are recorded in our Statement of Operations as “Net change in unrealized appreciation (depreciation) from investments.” Changes in valuation of any of our investments in privately held companies from one period to another may be volatile.

**Interest Rate Risk** . As a significant portion of the proceeds remaining from our initial private placement and continuous public offering have been invested in short term investments, pending subsequent investment in suitable portfolio companies in accordance with our investment objective, we have market risk exposure relating to fluctuations in interest rates.

As of March 31, 2010, \$3,600,000 was invested in certificates of deposit with original maturities of four weeks (maturing on April 1, 2010) at an effective annualized interest rate of approximately 0.55%. Assuming no other changes to our holdings as of March 31, 2010, a 1% change in the underlying interest rate payable on our certificate of deposit investments as of March 31, 2010 would not have a material effect on the amount of interest income earned from our certificate of deposit investments for the following 90-day period.

We have not engaged in any hedging activities since our inception and we do not expect to engage in any hedging activities with respect to the market risks to which we are exposed.

### **Item 4. Controls and Procedures.**

As of March 31, 2010 (the end of the period covered by this report), we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the 1934 Act). Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC ’ s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management has not identified any change in our internal control over financial reporting that occurred during the first quarter of 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings.

We are not currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us. From time to time, we may be a party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.

### Item 1A. Risk Factors.

Except as described below, there have been no material changes during the three months ended March 31, 2010 to the risk factors discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009.

*The amount of any distributions we may make is uncertain. Our distribution proceeds may exceed our net ordinary income and realized net capital gains, particularly during the period before we have substantially invested the net proceeds from this offering or realized any net capital gains from the disposition of our investments, and thus portions of the distributions that we make may represent a return of capital. We may not be able to pay you distributions, and our distributions may not grow over time.*

We intend to declare and pay distributions on a quarterly basis beginning no later than the first calendar quarter after the month in which we have raised at least \$10 million from the sale of shares in our continuous public offering to investors not affiliated with us or Keating Investments. We will pay these distributions to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a targeted level of cash distributions or year-to-year increases in cash distributions. Our ability to pay distributions might be adversely affected by, among other things, the impact of one or more of the risk factors described in this prospectus. In addition, the inability to satisfy the asset coverage test applicable to us as a business development company can limit our ability to pay distributions. All distributions will be paid at the discretion of our Board of Directors and will depend on our net ordinary income and realized net capital gains, our financial condition, maintenance of our RIC status, compliance with applicable business development company regulations and such other factors as our Board of Directors may deem relevant from time to time. We cannot assure you that we will pay distributions to our stockholders in the future. In the event that we encounter delays in locating suitable investment opportunities or in selling our portfolio investments, we may pay all or a substantial portion of our distributions from the proceeds of this offering in anticipation of future cash flow, which may constitute a return of your capital and will lower your tax basis in our shares. Distributions from the proceeds of this offering also could reduce the amount of capital we ultimately invest in interests of portfolio companies. Until we are able to pay distributions from net capital gains realized from the sale of our investments, and we can give no assurance as to when we will begin to realize any net capital gains from the sale of our portfolio company investments, if ever, we may pay distributions that represent a return of capital to you; however, we do not intend to make any distributions representing a return of capital which would result in a total return of capital in excess of 10% of our total invested capital (i.e., the total gross proceeds received from the sale of our common stock).

*We do not anticipate generating net ordinary income to distribute to our stockholders in the near future, and if we do make distributions, they will likely be paid from our realized net capital gains or may represent a return of capital.*

Although our primary emphasis is to attempt to generate capital gains through our equity investments in micro-cap and small-cap companies, including through the conversion of the convertible debt or convertible preferred securities we seek to acquire in such companies, we may also generate current income from the interest and preferred dividends on such convertible debt and convertible preferred securities, respectively, prior to their conversion. However, we can give no assurance that we will be able to make investments in portfolio companies that will generate interest or dividend income. While we may receive investment income in the form of interest and dividends from our portfolio company investments prior to conversion, such investment income is not likely to exceed our operating expenses, in which case we do not expect to generate net ordinary income which would be available for distribution to our stockholders in the near future. Until our capital base substantially increases and additional portfolio company investments can be made, we do not expect that our interest and dividend income from portfolio company investments would be sufficient to generate net ordinary income. Further, since we intend to invest in micro-cap and small-cap companies, which are generally more susceptible to economic downturns than larger operating companies, it may be more likely that these portfolio companies will default on their interest payment obligations to us, or be unable to pay dividends, during recessionary periods, and thus substantially reduce our net ordinary income available for distribution to our shareholders. However, when and if we are able to generate net ordinary income, we intend to distribute such net ordinary income to stockholders.

Because net ordinary income may not be generated in the near future, we expect that our primary source of distributions will be from net capital gains realized from the sale of our portfolio company investments. The timing of any capital gains generated from the appreciation and sale of portfolio companies cannot be predicted, and we do not expect to generate capital gains on a level or uniform basis from quarter to quarter. However, we may declare and pay quarterly distributions which, in the aggregate, would be an estimate of the total net capital gains expected to be realized throughout the year. During the pendency of our continuous public offering, we may also declare and pay quarterly distributions in an amount reflecting all or a portion of any net unrealized appreciation on investments recorded on our books which, depending on the timing and amount of actual realization, may represent a return of capital.

Our distributions may exceed our net ordinary income and realized net capital gains, particularly during the period before we have substantially invested the net proceeds from our continuous public offering or realized any net capital gains from the disposition of our investments, and we can give no assurance as to when we will begin to realize any net capital gains from the sale of our portfolio company investments, if ever. Distributions that represent a return of capital may lower your tax basis in our shares, or may be treated as a gain from the sale of such shares to the extent that such distributions exceed the basis in such shares, and reduce the amount of funds we have for investment in targeted assets. However, we do not intend to make any distributions representing a return of capital which would result in a total return of capital in excess of 10% of our total invested capital (i.e., the total gross proceeds received from the sale of our common stock).

***Although we may receive current income in the form of interest and dividends from some of our portfolio company investments, the primary source of our distributions will be from net capital gains realized from the sale of our portfolio company investments, the timing of which we cannot predict and, as a result, we will likely have substantial fluctuations in our distributions from quarter to quarter.***

We intend to invest principally in equity securities, including convertible preferred securities and debt securities convertible into equity securities, of primarily micro-cap and small-cap companies. Our primary emphasis will be to generate capital gains through our equity investments in such micro-cap and small-cap companies, which we expect to become public reporting companies with their securities being quoted on either a junior exchange or senior exchange. We do not expect the securities in our publicly traded portfolio companies quoted on a junior exchange to initially have an active secondary trading market and, as such, these securities will be illiquid until an active market develops. We believe that typically this liquidity will develop in conjunction with an upgrade to a senior exchange listing, which may not occur until twelve to eighteen months after our investment is made, if at all. However, there can be no assurance that our portfolio companies will obtain either a junior exchange or senior exchange listing or, even if a listing is obtained, that an active trading market will ever develop in the securities of our publicly traded portfolio companies.

Even if our portfolio companies are successful in becoming publicly traded companies, there is no assurance that they will be able to achieve their projected revenue and earnings targets or effectively maintain their status as public reporting companies. In such case, there may be little or no demand for the securities of our portfolio companies in the public markets, we may have difficulty disposing of our investments, and the value of our investments may decline substantially.

Since our distributions are expected principally to be paid from net capital gains realized from the sale of our portfolio investments, we do not expect to be able to pay distributions on a level or uniform basis from quarter to quarter. We may have substantial fluctuations in our quarterly distribution payments to stockholders, since we expect to have an average holding period for our portfolio company investments of one to three years and we may not generate any realized net capital gains during our initial years of operations. Our ability to pay distributions in our initial years of operation will be based on our ability to invest our capital in suitable portfolio companies in a timely manner.

However, we may declare and pay quarterly distributions which, in the aggregate, would be an estimate of the total net capital gains expected to be realized throughout the year. During the pendency of our continuous public offering, we may also declare and pay quarterly distributions in an amount reflecting all or a portion of any net unrealized appreciation on investments recorded on our books which, depending on the timing and amount of actual realization, may represent a return of capital.

Our distributions may exceed our net ordinary income and realized net capital gains, particularly during the period before we have substantially invested the net proceeds from our continuous public offering or realized any net capital gains from the disposition of our investments, and we can give no assurance as to when we will begin to realize any net capital gains from the sale of our portfolio company investments, if ever. Until we are able to pay distributions from net capital gains realized from the sale of our investments, we may pay distributions that represent a return of capital to you; however, we do not intend to make any distributions representing a return of capital which would result in a total return of capital in excess of 10% of our total invested capital (i.e., the total gross proceeds received from the sale of our common stock).

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

We did not engage in any unregistered sales of equity securities during the three months ended March 31, 2010.

**Item 3. Defaults upon Senior Securities.**

Not applicable.

**Item 4. Reserved****Item 5. Other Information.**

Not applicable.

**Item 6. Exhibits.**

- 3.1 Amended and Restated Articles of Incorporation (Incorporated by reference to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form N-2 (File No. 333-157217), filed on April 21, 2010).
- 3.2 Amended and Restated Bylaws (Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 0-53504), filed on April 23, 2009).
- 3.3 Dividend Reinvestment Plan (Incorporated by reference to Amendment No. 2 to the Registrant's Registration Statement on Form N-2 (File No. 333-157217), filed on June 5, 2009).
- 4.1 Form of Share Certificate (Incorporated by reference to the Registrant's Annual Report on Form 10-K (File No. 0-53504), filed on March 9, 2009)
- 10.1 Form of Amended and Restated Investment Advisory and Administrative Services Agreement (Incorporated by reference to Amendment No. 1 to the Registrant's Registration Statement on Form N-2 (File No. 333-157217), filed on May 1, 2009).
- 10.2 License Agreement between the Company and Keating Investments, LLC (Incorporated by reference to the Registrant's Registration Statement on Form 10 (File No. 0-53504), filed on November 20, 2008).
- 10.3 Form of Indemnification Agreement for Directors (Incorporated by reference to Amendment No. 2 to the Registrant's Registration Statement on Form N-2 (File No. 333-157217), filed on June 5, 2009).
- 10.4 Custody Agreement between the Company and Steele Street Bank & Trust (Incorporated by reference to the Registrant's Registration Statement on Form 10 (File No. 0-53504), filed on November 20, 2008).
- 11 Computation of Per Share Earnings (included in the notes to the unaudited financial statements contained in this report).
- 31.1\* Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.
- 31.2\* Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.
- 32.1\* Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
- 32.2\* Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.

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\* Filed herewith.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused the report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 14, 2010

KEATING CAPITAL, INC.

By: /s/ Timothy J. Keating  
President and Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Ranjit P. Mankekar  
Ranjit P. Mankekar  
Chief Financial Officer and Treasurer  
(Principal Accounting and Financial Officer)

**Certification of Chief Executive Officer**

I, Timothy J. Keating, Chief Executive Officer of Keating Capital, Inc. certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended March 31, 2010 of Keating Capital, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated this 14th day of May 2010.

By: \_\_\_\_\_ /s/ Timothy J. Keating  
**Timothy J. Keating**  
**Chief Executive Officer**

**Certification of Chief Financial Officer**

I, Ranjit P. Mankekar, Chief Financial Officer of Keating Capital, Inc. certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended March 31, 2010 of Keating Capital, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated this 14th day of May 2010.

By: \_\_\_\_\_ /s/ Ranjit P. Mankekar  
**Ranjit P. Mankekar**  
**Chief Financial Officer**

**Certification of Chief Executive Officer  
Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)**

In connection with the Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (the "Report") of Keating Capital, Inc. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, Timothy J. Keating, the Chief Executive Officer of the Registrant, hereby certify, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Timothy J. Keating

Name: Timothy J. Keating

Date: May 14, 2010

**Certification of Chief Financial Officer  
Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)**

In connection with the Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (the "Report") of Keating Capital, Inc. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, Ranjit P. Mankekar, the Chief Financial Officer of the Registrant, hereby certify, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Ranjit P. Mankekar

Name: Ranjit P. Mankekar

Date: May 14, 2010