

Adopted July, 28 2008

KEATING CAPITAL, INC.

VALUATION POLICY

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The following represents Keating Capital Inc.'s (the "**Company**") policy used for valuing its investment portfolio as a whole. This narrative is supplemented and subject to the specific guidance provided by Section 2(a)(41) of the Investment Company Act of 1940, Accounting Series Releases 113, 118 and 157 and the AICPA Audit Guide.

Valuation of Portfolio Investments

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurement*, or SFAS No. 157, which clarifies the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. SFAS No. 157 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 also establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, which 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, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As a business development company, the Company's business plan calls for it to invest primarily in illiquid securities issued by private companies and/or thinly traded public companies ("**Investments**"). Investments are generally subject to restrictions on resale and ordinarily have no established trading market. The Company must value its Investments at fair value as determined in good faith by the Company's board of directors (the "**Board**") in accordance with this policy. The Company determines fair value to be the amount for which an investment could be sold in an orderly disposition over a reasonable period of time between willing parties other than in a forced or liquidation sale. The Company's valuation policy is intended to provide a consistent basis for establishing the fair value of the portfolio. The Company shall record unrealized depreciation on investments when it believes that the asset has been impaired and full collection for the loan, realization of success fees is doubtful, or realization of an equity security is doubtful. Conversely, the Company shall record unrealized appreciation if it has a clear indication that the underlying portfolio company appreciates in value and, therefore, the Company's security has also appreciated in value. The Company should not consider temporary changes in the capital markets, such as interest rate movements or changes in the public equity markets, in order to determine whether an investment in a private or thinly traded company has been impaired or whether a private investment has increased in value.

The value of investments in securities for which there is a public trading market is determined using the reported closing price on the valuation date, discounted for restrictions on resale.

Equity and Equity-Linked Securities

The value of the Company's equity interests in public companies for which market quotations are readily available shall be the most recent closing public market price. Portfolio securities that carry certain restrictions on resale shall be valued at a discount from the public market value of the security, to the extent appropriate.

The Company's equity interests in portfolio companies for which there is no liquid public market shall be valued at fair value. Factors that should be considered include multiples of earnings before interest, taxes, depreciation and amortization, or EBITDA, cash flows, net income, revenues, liquidation preferences or in limited instances book value or liquidation value. All of these factors may be subject to adjustments based upon the particular circumstances of a portfolio company or the Company's actual investment position. For example, adjustments to EBITDA may take into account compensation to previous owners or acquisition, recapitalization, restructuring or related items.

In addition, other factors that may be examined in determining fair value include private merger and acquisition statistics, public trading multiples discounted for illiquidity and other factors, valuations implied by third-party investments in the portfolio companies or industry practices. The size and scope of a portfolio company and its specific strengths and weaknesses may also be probative. The determined fair values may be discounted to account for restrictions on resale and minority positions.

When warrants or other equity-linked securities are received at nominal or no additional cost in connection with an investment in a debt security, the cost basis in the investment shall be allocated between debt securities and nominal cost equity at the time of origination. Warrants should subsequently be valued at fair value.

Loans and Debt Securities

Valuation of fixed income investments, such as loans and debt securities, depends upon a number of factors, including prevailing interest rates for like securities, expected volatility in future interest rates, call features, put features and other relevant terms of the debt. For investments without readily available market prices, we will incorporate these factors into discounted cash flow models to arrive at fair value. Other factors that our board will consider include the borrower's ability to adequately service its debt, the fair market value of the portfolio company in relation to the face amount of its outstanding debt and the quality of collateral securing our debt investments.

For a convertible debt security, fair value generally approximates the fair value of the debt plus the fair value of an option to purchase the underlying (the security to which the debt may convert) at the conversion price. To value such an option, a standard option pricing model may be used.

Portfolio Valuation Process

The Board's methodology should include the examination of, among other things, the underlying investment performance, financial condition and market-changing events that impact valuation. Because of the type of investments that the Company makes and the nature of its business, this valuation process requires an analysis of various factors.

In the Board's valuation process, it shall use the AICPA's definition of current sale, which means an "orderly disposition over a reasonable period of time between willing parties other than in a forced or liquidation sale."

The Board's process for determining the fair value for a private finance investment shall be applied consistently across the Company's portfolio. The process is as follows. First, the Board determines the portfolio company's enterprise value as if the Company were to sell it in a current sale. The Board then evaluates the amount of the Company's debt and the position of its debt in the portfolio company's capital structure. If the enterprise value of the portfolio company is in excess of the amount of the Company's last dollar of investment capital given its priority in the capital structure, the fair value of the Company's investment will be considered to be cost or perhaps, given the structure of its particular security, greater than cost if the Company is to share in equity appreciation. If the enterprise value of the portfolio company is less than the Company's last dollar of investment capital in the capital structure, then its investment has declined in value and the Board will need to reduce the fair value of the Company's investment and incur a charge to its earnings by recognizing unrealized depreciation.

In order to determine the enterprise value of a portfolio company, as if that portfolio company were to be sold in a current sale, the Board must analyze the historical and projected financial results of the portfolio company and analyze the public trading market and private M&A market to determine appropriate purchase price multiples. In addition, a reasonable discount to the value of the Company's securities must also be reflected when they may have restrictions such as vesting periods for warrants or other factors. In determining whether the securities will continue to accrue such interest, the collectibility of non-cash interest must be determined.

Specific Considerations:

Care should be exercised to assure that the Board has considered the position of the portfolio company today and the position of its security today given the data it has available. Care must also be taken so that the process is not too mechanical; however, there are some specific considerations that should be addressed in the Board's valuation process as follows. The ultimate goal is a reasonable estimate of fair value determined in good faith.

Methodologies to determine enterprise value: There is no one methodology to determine enterprise value. Typically in the private equity business, companies are bought and sold based upon multiples of EBITDA, cash flow, revenues and in instances such as media and broadcasting companies, book value or the "stick value" of the underlying assets. In determining a multiple to use for valuation purposes, private M&A statistics, discounted public trading multiples or industry practices may be considered. The size and scope of the company and its specific strengths and weaknesses are relevant factors in determining the right multiple. In some cases, when a company is at EBITDA breakeven or slightly below but has excellent future prospects, the best valuation methodology may be a discounted cash flow analysis based upon future projections. If a company is distressed, a liquidation analysis may provide the best indication of enterprise value.

Discounts on common equity securities: When determining the value of common equity securities or warrants to purchase such securities, factors to consider include what type of discount to apply to the value of the security if the Company is in a minority position, has

restrictions on resale, has specific concerns about the receptivity of the M&A market to a specific company at a certain time or other factors. Generally, larger discounts may be applied when the Company is new to an investment, and therefore, an exit strategy has not yet been developed. As an investment in the portfolio matures, discounts may need to be reduced, especially if the sponsor or controlling shareholder group has begun to develop an exit strategy.

When the Company is the controlling shareholder, the discount imposed should generally be less than in the case of a minority position. Discounts may also be applied depending on the current state of the M&A market or if restrictions are imposed on the Company due to its relationship with management or other capital providers.