

KEATING CAPITAL
NEWS

3rd Quarter 2009

Equity Partners for
Companies Primed to Become Public™

IPO Market Snaps Back...for Large Issuers

Now there are green shoots in the IPO market, at least for certain large issuers. During the week ending September 25, 2009, four IPOs (for operating companies) priced,

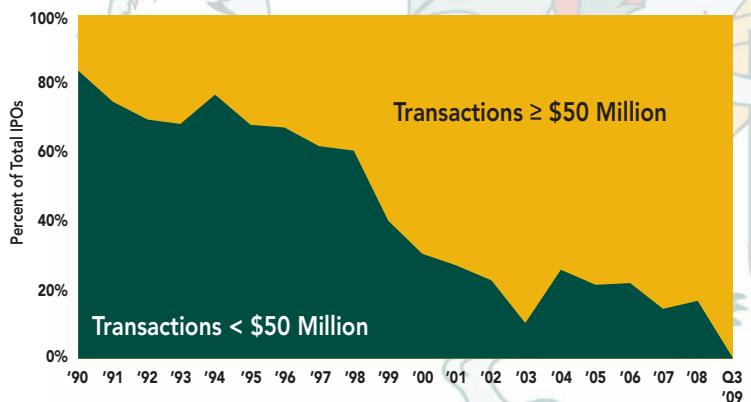
raising a total of \$1.9 billion. Among the companies pricing was Shanda Games Ltd., which raised \$1.04 billion—making it the biggest U.S.-listed IPO so far in 2009. It was the

biggest money-raising week in the market since March 17, 2008, when Visa raised \$19.7 billion in its IPO.

There are also strong vital signs in other important IPO metrics: final pricing relative to indicated ranges is up on average 18%, 79% of companies had positive aftermarket performance, and the number of filings is up 50% over last year. That's the good news.

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The Death of the Under \$50 Million IPO



Source: Securities Data Corporation, IPOHome, Capital IQ

Keating Investments, LLC is a Denver-based SEC registered investment adviser founded in 1997. The firm is the investment adviser to Keating Capital, a business development company that makes minority, non-controlling equity investments in private businesses that are seeking growth capital and are committed to, and capable of, becoming public.



Keating Investments White Papers

Keating Investments has published a number of white papers designed to help financial advisers understand the world of alternative investments. Executive summaries of two recently published papers are set forth below. To receive a copy of any of our white papers, please send an e-mail to Brett Green (bg@KeatingInvestments.com).



Mining the Gems in Private Equity

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

Because of the enormous amounts of leverage associated with private equity investments, along with the lack of a benchmark index for comparison purposes, it can be extremely difficult to accurately evaluate investment performance. The goal of this white paper is to provide financial advisers and their investor clients with a framework to effectively assess potential private equity fund investment opportunities that can play a valuable, return-enhancing role in a well-constructed portfolio. We believe that a value-added private equity fund should

possess the following three key characteristics: (i) an identifiable source of "alpha"; (ii) the ability to add value to portfolio companies in ways other than through pure financial engineering; and (iii) the use of little or no leverage. There are gems to be found in the world of private equity—the trick is knowing what to look for and where to mine.



True Alpha—Does it Exist?

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

IPO Market Snaps Back *(continued from page 1)*

The bad news is that the market for small IPOs (under \$50 million) is still virtually non-existent. The four horsemen (Montgomery, Robertson Stephens, Hambrecht & Quist and Alex Brown)—who accounted for 36% of all IPOs in the 1990s—have given way to the "final four" of Goldman Sachs, Morgan Stanley, J.P. Morgan and Bank of America-Merrill Lynch. As the chart on page 1 illustrates, nearly 80% of all IPOs from 1991 to 1997 raised less than \$50 million. By the year 2000, that percentage had collapsed to 20%.

Of the 20 operating company IPOs priced through Q3 2009, the average size was \$253 million, the median size was \$126 million, and a member of the final four acted as either the lead or co-lead manager for 14 of the 20 transactions. This reflects the dearth of small company IPOs, which have been forced to stumble over enormous hurdles to obtain public status. The incremental compliance costs from Sarbanes-Oxley and the void in emerging growth underwriters have dramatically increased the viable size of a company seeking to go public.

Does this mean that small companies have no chance of going public? No, but it does mean that the traditional IPO is likely not an option at this time. Instead, the smaller issuer needs to explore alternatives such as a combination of a self-filed registration statement in conjunction with a direct exchange listing. To learn more about how Keating Capital may be able to provide growth capital as part of a plan to go public, please e-mail Kyle Rogers at kr@KeatingInvestments.com. ■



OPINION

by Timothy J. Keating

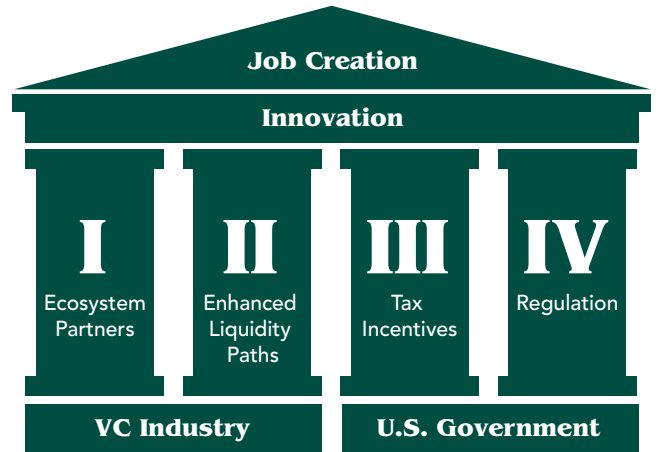
Rallying Around the National Venture Capital Association's 4-Pillar Plan



The National Venture Capital Association recently published a 4-pillar plan to restore liquidity to the U.S. venture capital industry. The four pillars in the plan are: Ecosystem Partners, Enhanced Liquidity Paths, Tax Incentives and Regulation.

And while we support not only the framework but also most of the specific plan recommendations, it is abundantly clear that the unintended consequences of regulation (Sarbanes-Oxley, Regulation FD, and the Spitzer "global settlement" on research) have brought small IPOs to a grinding halt. Indeed, the NVCA called for nothing less than a "full SEC review of recent laws to streamline [the] small company IPO process."

The charts below really capture the story in a nutshell: While 46% of VC respondents to a survey preferred an IPO exit route, only 19% believed that an IPO was a likely



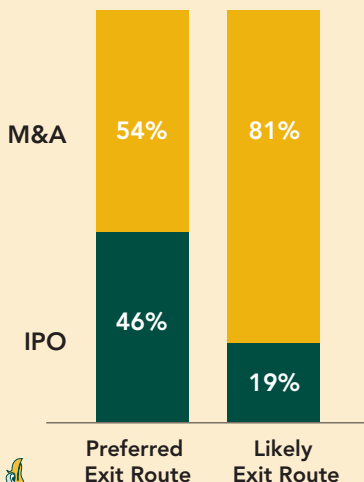
Source: NVCA, "NVCA 4-Pillar Plan to Restore Liquidity in the U.S. Venture Capital Industry," April 2009

path (with 81% indicating that M&A was the more likely route). And of the top three barriers to going public identified, it should come as no surprise that compliance requirements (i.e. Sarbanes-Oxley) was #1 on the list.

(continued on page 4)

Exit Route Preference and Expectation

(n=108)



Top 3 Barriers to Going Public

of Responses Answered as a Top 3 Issue (Participants = 108)



Source: NVCA, "NVCA 4-Pillar Plan to Restore Liquidity in the U.S. Venture Capital Industry," April 2009

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Keating Capital Investment Criteria

Public Ready



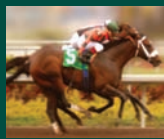
- ◆ Seeking growth capital and public listing
- ◆ Can satisfy Nasdaq listing requirements within 12 months

Financial Criteria



- ◆ \$10 MM + in revenue
- ◆ EBITDA positive or expected within 12 months

Qualitative Criteria



- ◆ 25% + annual earnings growth
- ◆ Defensible market leadership

If you represent a private company that is seeking growth capital in conjunction with going public, please e-mail Kyle Rogers at kr@KeatingInvestments.com. ■

4-Pillar Plan *(continued from page 3)*

Venture capital has enabled the United States to support its entrepreneurial talent and appetite by turning ideas and basic science into products and services that are the envy of the world. While the death of the small cap IPO translates into lower returns for venture capitalists, it has more profound downstream implications for the economy at large. Specifically, it ultimately results in less innovation, less company creation and less job growth in the United States.

In the context of such a convoluted and disgraceful federal tax code, it's hard to put much hope that tinkering around the edges of something that is so fundamentally broken would have much real impact. Of the four pillars in the NVCA's plan, regulation is really the game changer. We believe that the number of ecosystem partners would expand naturally and that enhanced liquidity paths would be less important if the small IPO market were allowed to "re-open" by means of a rational regulatory framework. We echo the NVCA's call for a full SEC review of the recent laws that have done so much damage to small business capital formation. ■

Final Stage of Section 404 of Sarbanes-Oxley Delayed Until June 2010 for Small Issuers

The smallest public companies with a public float below \$75 million have been given extra time to design, implement and document their internal controls before their auditors are required to attest to the effectiveness of these controls. This extension of time will expire beginning with the annual reports of companies with fiscal years ending on or after June 15, 2010. ■

