UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED MAY 31, 2009

OR

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

COMMISSION FILE NUMBER: 814-00725

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY

(Exact name of registrant as specified in its charter)

Maryland **(State of Incorporation)**	**20-4991752** **(I.R.S. Employer Identification Number)**
717 Texas Avenue, Suite 3100 **Houston, Texas** **(Address of principal executive offices)**	**77002** **(Zip Code)**

Registrant's telephone number, including area code:
(713) 493-2020

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

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

Indicate the number of shares of outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common stock, $0.001 par value per share, 10,102,986 shares outstanding as of June 30, 2009.

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KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
CONSOLIDATED SCHEDULE OF INVESTMENTS
AS OF MAY 31, 2009
(amounts in 000's)
(UNAUDITED)

Description	No. of Shares/Units	Value
Long-Term Investments – 110.0%		
Equity Investments(a) – 91.1%		
United States — 91.1%		
Publicly Traded MLP and MLP Affiliate(b) — 33.0%		
Calumet Specialty Products Partners, L.P.	39	$ 510
Capital Product Partners L.P.	40	398
Copano Energy, L.L.C.	75	1,188
Copano Energy, L.L.C. — Unregistered, Class D Units(c)	76	1,077
DCP Midstream Partners, LP.	95	1,824
Eagle Rock Energy Partners, L.P. (d)(e)	1,013	3,029
Eagle Rock Energy Partners, L.P. — Unregistered (c)(d)(f)	491	1,340
Enbridge Energy Management, L.L.C.(g)	26	991
Enbridge Energy Partners L.P.	93	3,768
Energy Transfer Equity, L.P.	112	2,955
Energy Transfer Partners, L.P.	47	1,997
Enterprise Products Partners L.P.	209	5,439
Exterran Partners, L.P.	83	1,129
Global Partners LP.	138	2,270
Holly Energy Partners, L.P.	7	202
Inergy Holdings, L.P.	9	342
Inergy, L.P.	99	2,520
Kinder Morgan Management, LLC(g)	34	1,506
K-Sea Transportation Partners L.P.	9	168
Magellan Midstream Holdings, L.P.	90	1,895
MarkWest Energy Partners, L.P.	105	1,884
Martin Midstream Partners L.P.	57	1,080
Navios Maritime Partners L.P.	19	195
ONEOK Partners, L.P.	13	646
OSG America L.P.	47	325
Penn Virginia Resource Partners, L.P.	21	325
Plains All American Pipeline, L.P.(h)	103	4,551
Quicksilver Gas Services LP	13	174
Regency Energy Partners LP	154	1,942
Targa Resources Partners LP	50	662
TC PipeLines, LP	10	352
Teekay LNG Partners L.P.	103	1,968
Teekay Offshore Partners L.P.	49	686
TEPPCO Partners, L.P.	15	452
Williams Partners L.P.	139	2,581
		52,371

See accompanying notes to consolidated financial statements

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
CONSOLIDATED SCHEDULE OF INVESTMENTS
AS OF MAY 31, 2009
(amounts in 000's)
(UNAUDITED)

Description	No. of Shares/Units	Value
Private MLP(c)(i) — 58.0%		
Direct Fuels Partners, L.P. — Class A Common Units(h)	2,500	$ 33,750
Direct Fuels Partners, L.P. — Class A Convertible Preferred Units(j)	96	1,881
International Resource Partners LP	1,500	27,000
Quest Midstream Partners, L.P. (h)	350	2,275
VantaCore Partners LP(h)	1,465	27,096
		92,002
Other Private Equity(i) — 0.1%		
ProPetro Services, Inc. — Warrants(c)(k)	2,905	—
Trident Resources Corp. — Warrants(l)	100	75
		75
Total Equity Investments (Cost $181,186)		144,448

	Interest Rate	Maturity Date	Principal Amount	Value
Fixed Income Investments(i) — 18.9%				
United States — 17.6%				
Midstream — 6.2%				
DCP Midstream, LLC	9.75%	3/15/19	$ 1,000	$ 1,043
Knight, Inc.(m)	6.50	9/01/12	7,530	7,285
Targa Resources, Inc.	8.50	11/01/13	2,155	1,541
				9,869
Upstream — 3.0%				
Hilcorp Energy Company	7.75	11/01/15	5,585	4,803
Oilfield Services — 5.8%				
Dresser, Inc.	(n)	5/04/15	5,000	3,200
ProPetro Services, Inc.(c)	(o)	2/15/13	35,000	4,500
Stallion Oilfield Services Ltd.	(p)	7/18/12	5,000	1,450
				9,150
Other — 2.6%				
Energy Future Holdings Corp. (q)	(r)	10/10/14	4,737	3,298
Energy Future Holdings Corp. (q)	10.50	11/01/16	2,000	800
				4,098
Total United States (Cost $62,332)				27,920
Canada(s) — 1.3%				
Upstream — 1.3%				
Athabasca Oil Sands Corp.(Cost $2,434)	13.00	7/30/11	2,500	2,133
Total Fixed Income Investments (Cost $64,766)				30,053
Total Long-Term Investments (Cost $245,952)				174,501

See accompanying notes to consolidated financial statements

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
CONSOLIDATED SCHEDULE OF INVESTMENTS
AS OF MAY 31, 2009
(amounts in 000's)
(UNAUDITED)

Description	Interest Rate	Maturity Date	Value
Short-Term Investments — 6.0%			
Repurchase Agreements — 6.0%			
J.P. Morgan Securities Inc. (Agreements dated 5/29/2009 to be repurchased at $9,537), collateralized by $9,818 in U.S. Treasury notes (Cost $9,537)	0.10%	6/01/09	$ 9,537
Total Investments — 116.0% (Cost $255,489)			184,038
Senior Secured Revolving Credit Facility Borrowings			(52,000)
Other Assets in Excess of Total Liabilities			26,559
Net Assets			$ 158,597

(a) Unless otherwise noted, equity investments are common units/common shares.

(b) Unless otherwise noted, security is not treated as a qualifying asset under the 1940 Act. As a business development company, the Company is generally prohibited from acquiring assets other than qualifying assets unless at least 70% of its total assets (excluding deferred tax assets) are qualifying assets under the 1940 Act. As of May 31, 2009, the percentage of the Company's total assets (excluding deferred tax assets) that are qualifying assets was 72.6%.

(c) Fair valued and restricted security (see Notes 2, 3 and 8).

(d) Security is treated as a qualifying asset under the 1940 Act.

(e) Common units are unregistered but may be sold pursuant to Rule 144.

(f) Unregistered Common Units which were placed in escrow for a period of 18 months following the sale of Millennium Midstream Partners, L.P. (sale was consummated on October 1, 2008).

(g) Distributions are paid in-kind.

(h) The Company believes that it is an affiliate of Plains All American, L.P., and that it may be an affiliate of Direct Fuels Partners, L.P., VantaCore Partners LP, and Quest Midstream Partners, L.P. (see Note 5).

(i) Unless otherwise noted, security is treated as a qualifying asset under the 1940 Act.

(j) The Class A Convertible Preferred Units are convertible into Class A Common Units on a one-for-one basis at a price of $20.00 per unit.

(k) Warrants relate to the Company's floating rate senior secured second lien term loan facility with ProPetro Services, Inc. These warrants are non-income producing and expire on February 15, 2017.

(l) Warrants are non-income producing and expire on November 30, 2013.

(m) Knight, Inc., formerly known as Kinder Morgan, Inc., is a privately held energy company with midstream assets, including the general partner interest in Kinder Morgan Energy Partners, L.P., a publicly traded MLP.

(n) Floating rate senior secured second lien term loan facility. Security pays interest at a rate of LIBOR + 575 basis points (6.09% as of May 31, 2009).

(o) Floating rate senior secured second lien term loan facility. Security's default interest rate is LIBOR + 900 basis points, but the Company is not accruing interest income on this security (see Note 2—Investment Income).

(p) Floating rate senior secured second lien term loan facility. Security pays interest at a rate of LIBOR + 650 basis points (7.51% as of May 31, 2009).

(q) Energy Future Holdings Corp., formerly TXU Corp., is a privately-held energy company with a portfolio of competitive and regulated energy subsidiaries, including TXU Energy, Oncor and Luminant.

(r) Floating rate senior secured second lien term loan facility. Security pays interest at a rate of LIBOR + 350 basis points (3.88% as of May 31, 2009).

(s) Security is not treated as a qualifying asset under the 1940 Act.

See accompanying notes to consolidated financial statements

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
CONSOLIDATED SCHEDULE OF INVESTMENTS
AS OF NOVEMBER 30, 2008
(amounts in 000's)

Description	No. of Shares/Units	Value
Long-Term Investments – 112.0%		
Equity Investments(a) – 93.6%		
United States — 93.6%		
Publicly Traded MLP and MLP Affiliate(b) — 36.9%		
Atlas Energy Resources, LLC	131	$ 2,198
Atlas Pipeline Partners, L.P.	65	471
BreitBurn Energy Partners L.P.	47	399
Calumet Specialty Products Partners, L.P.	67	613
Capital Product Partners L.P.	40	346
Constellation Energy Partners LLC	35	181
Copano Energy, L.L.C.	75	900
Copano Energy, L.L.C. — Unregistered, Class D Units(c)	76	750
Crosstex Energy, L.P.	152	907
DCP Midstream Partners, LP.	74	607
Duncan Energy Partners L.P.	54	704
Eagle Rock Energy Partners, L.P.	27	215
Eagle Rock Energy Partners, L.P. — Unregistered(c)(d)(e)	1,595	11,823
El Paso Pipeline Partners, L.P.	18	319
Enbridge Energy Management, L.L.C.(f)	24	687
Enbridge Energy Partners L.P.	100	2,821
Energy Transfer Equity, L.P.	65	1,064
Energy Transfer Partners, L.P.	74	2,438
Enterprise Products Partners L.P.	258	5,524
Exterran Partners, L.P.	82	894
Global Partners LP.	140	1,596
Hiland Partners, LP	16	167
Holly Energy Partners, L.P.	1	4
Inergy Holdings, L.P.	20	410
Inergy, L.P.	88	1,469
Kinder Morgan Management, LLC(f)	35	1,439
K-Sea Transportation Partners L.P.	12	177
Magellan Midstream Holdings, L.P.	56	1,678
MarkWest Energy Partners, L.P.	77	981
Martin Midstream Partners L.P.	59	1,042
Navios Maritime Partners L.P.	10	43
ONEOK Partners, L.P.	82	3,839
OSG America L.P.	46	214
Penn Virginia Resource Partners, L.P.	41	527
Plains All American Pipeline, L.P.(g)	103	3,514

See accompanying notes to consolidated financial statements

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
CONSOLIDATED SCHEDULE OF INVESTMENTS
AS OF NOVEMBER 30, 2008
(amounts in 000's)

Description	No. of Shares/Units	Value
Publicly Traded MLP and MLP Affiliate(b) — (Continued)		
Regency Energy Partners LP	66	$ 602
Spectra Energy Partners, LP	28	565
Targa Resources Partners LP	86	742
TC PipeLines, LP	59	1,337
Teekay LNG Partners L.P.	83	1,166
Teekay Offshore Partners L.P.	59	588
TEPPCO Partners, L.P.	61	1,392
Western Gas Partners, LP	67	902
Williams Partners L.P.	115	1,609
Williams Pipeline Partners L.P.	20	297
		60,161
Private MLP(c)(h) — 56.6%		
Direct Fuels Partners, L.P.(g)	2,500	37,500
International Resource Partners LP	1,500	24,000
Quest Midstream Partners, L.P. (g)	350	4,637
VantaCore Partners LP(g)	1,465	25,998
		92,135
Other Private Equity(h) — 0.1%		
ProPetro Services, Inc. — Warrants(c)(i)	2,905	—
Trident Resources Corp. — Warrants(j)	100	75
		75
Total Equity Investments (Cost $211,596)		152,371

See accompanying notes to consolidated financial statements

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
CONSOLIDATED SCHEDULE OF INVESTMENTS
AS OF NOVEMBER 30, 2008
(amounts in 000's)

Description	Interest Rate	Maturity Date	Principal Amount	Value
Fixed Income Investments(h) — 18.4%				
United States — 17.2%				
Midstream — 4.7%				
Knight, Inc.	6.50%	9/01/12	$7,530	$6,024
Targa Resources, Inc.	8.50	11/01/13	2,155	1,185
Targa Resources Investments, Inc.	(k)	2/09/15	1,046	471
				7,680
Upstream — 1.8%				
Hilcorp Energy Company	7.75	11/01/15	4,000	2,860
Oilfield Services — 9.7%				
Dresser, Inc.	(l)	5/04/15	5,000	3,150
ProPetro Services, Inc.(c)	(m)	2/15/13	35,000	10,000
Stallion Oilfield Services Ltd.	(n)	7/18/12	5,000	2,625
				15,775
Other — 1.0%				
Energy Future Holdings Corp.	(o)	10/10/14	2,500	1,725
Total United States (Cost $58,061)				28,040
Canada(p) — 1.2%				
Upstream — 1.2%				
Athabasca Oil Sands Corp.(Cost $2,434)	13.00	7/30/11	2,500	1,873
Total Fixed Income Investments (Cost $60,495)				29,913
Total Long-Term Investments (Cost $272,091)				182,284
Short-Term Investments — 3.9%				
Repurchase Agreements — 3.9%				
J.P. Morgan Securities Inc. (Agreements dated 11/28/2008 to be repurchased at $6,325), collateralized by $6,513 in U.S. Treasury notes (Cost $6,325)	0.10	12/01/08		6,325
Total Investments — 115.9% (Cost $278,416)				188,609
Senior Secured Revolving Credit Facility Borrowings				(57,000)
Other Assets in Excess of Other Liabilities				31,078
Net Assets				$162,687

See accompanying notes to consolidated financial statements

(a) Unless otherwise noted, equity investments are common units/common shares.

(b) Unless otherwise noted, security is not treated as a qualifying asset under the 1940 Act. As a business development company, the Company is generally prohibited from acquiring assets other than qualifying assets unless at least 70% of its total assets (excluding deferred tax assets) are qualifying assets under the 1940 Act. As of November 30, 2008, the percentage of the Company's total assets (excluding deferred tax assets) that are qualifying assets was 73.9%.

(c) Fair valued and restricted security (see Notes 2, 3 and 8).

(d) Security is treated as a qualifying asset under the 1940 Act.

(e) The Company's investment in Eagle Rock Energy Partners, L.P. consists of 1,530 unregistered common units, of which 582 unregistered common units ($4,069 fair value at November 30, 2008) were placed in escrow for a period of 18 months following the sale of Millennium Midstream Partners, L.P.

(f) Distributions are paid in-kind.

(g) The Company believes that it is an affiliate of Plains All American, L.P., and that it may be an affiliate of Direct Fuels Partners, L.P., VantaCore Partners LP, and Quest Midstream Partners, L.P. (see Note 5).

(h) Unless otherwise noted, security is treated as a qualifying asset under the 1940 Act.

(i) Warrants relate to the Company's floating rate senior secured second lien term loan facility with ProPetro Services, Inc. These warrants are non-income producing and expire on February 15, 2017.

(j) Warrants are non-income producing and expire on November 30, 2013.

(k) Floating rate senior secured term loan facility. Interest is paid in-kind at a rate of LIBOR + 500 basis points (9.11% as of November 30, 2008)

(l) Floating rate senior secured second lien term loan facility. Security pays interest at a rate of LIBOR + 575 basis points (7.99% as of November 30, 2008).

(m) Floating rate senior secured second lien term loan facility. Security's default interest rate is LIBOR + 900 basis points, but the Company is not accruing interest income on this security (see Note 2—Investment Income).

(n) Floating rate senior secured second lien term loan facility. Security pays interest at a rate of LIBOR + 600 basis points (8.51% as of November 30, 2008).

(o) Floating rate senior secured second lien term loan facility. Security pays interest at a rate of LIBOR + 350 basis points (5.27% as of November 30, 2008). Energy Future Holdings Corp., formerly TXU Corp., is a privately-held energy company with a portfolio of competitive and regulated energy subsidiaries, including TXU Energy, Oncor and Luminant.

(p) Security is not treated as a qualifying asset under the 1940 Act.

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
(amounts in 000's, except share and per share amounts)

	May 31, 2009 (Unaudited)	November 30, 2008
ASSETS		
Investments, at fair value:		
Non-affiliated (Cost — $164,181 and $188,740, respectively)	$ 104,948	$ 110,635
Affiliated (Cost — $81,771 and $83,351, respectively)	69,553	71,649
Repurchase agreements (Cost — $9,537 and $6,325, respectively)	9,537	6,325
Total investments (Cost — $255,489 and $278,416, respectively)	184,038	188,609
Deposits with brokers	—	123
Deferred income tax asset	29,453	31,370
Receivable for securities sold	2,064	688
Interest, dividends and distributions receivable, net	445	403
Debt issuance costs, prepaid expenses and other assets	633	981
Total Assets	216,633	222,174
LIABILITIES		
Senior secured revolving credit facility	52,000	57,000
Payable for securities purchased	4,348	60
Investment management fee payable	778	1,074
Current income tax payable	100	100
Accrued directors' fees and expenses	73	76
Accrued expenses and other liabilities	737	1,177
Total Liabilities	58,036	59,487
NET ASSETS	$ 158,597	$ 162,687
NET ASSETS CONSIST OF		
Common stock, $0.001 par value (200,000,000 shares authorized at May 31, 2009 and November 30, 2008; 10,102,986 shares issued and outstanding at May 31, 2009 and November 30, 2008)	$ 10	$ 10
Paid-in capital	208,881	215,953
Accumulated net investment loss, net of income taxes, less dividends	(4,558)	(3,942)
Accumulated net realized gains (losses) on investments, net of income taxes	(126)	7,464
Net unrealized losses on investments, net of income taxes	(45,610)	(56,798)
NET ASSETS	$ 158,597	$ 162,687
NET ASSET VALUE PER SHARE	$ 15.70	$ 16.10

See accompanying notes to consolidated financial statements

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
CONSOLIDATED STATEMENT OF OPERATIONS
(amounts in 000's)
(UNAUDITED)

	Three Months Ended		Six Months Ended	
	May 31, 2009	May 31, 2008	May 31, 2009	May 31, 2008
INVESTMENT INCOME				
Income				
Dividends and Distributions:				
Non-affiliated investments	$ 1,855	$ 2,225	$ 4,533	$ 4,260
Affiliated investments	1,950	2,640	3,899	5,082
Total dividends and distributions	3,805	4,865	8,432	9,342
Return of capital	(3,406)	(4,697)	(7,530)	(9,019)
Net dividends and distributions	399	168	902	323
Interest and other income:				
Non-affiliated investments	710	829	1,440	3,234
Affiliated investments	—	192	—	288
Total interest and other income	710	1,021	1,440	3,522
Total investment income	1,109	1,189	2,342	3,845
Expenses				
Base investment management fees	776	1,344	1,553	2,724
Bad debt expense	—	830	—	830
Professional fees	209	230	433	490
Directors' fees	69	92	144	164
Administration fees	29	93	82	148
Insurance	41	38	78	75
Custodian fees	17	21	32	41
Other expenses	147	96	352	279
Total Expenses — Before Interest Expense	1,288	2,744	2,674	4,751
Interest expense	296	862	680	2,546
Total Expenses	1,584	3,606	3,354	7,297
Net Investment Loss — Before Income Taxes	(475)	(2,417)	(1,012)	(3,452)
Deferred income tax benefit	204	899	396	1,296
Net Investment Loss	(271)	(1,518)	(616)	(2,156)
REALIZED AND UNREALIZED GAINS (LOSSES)				
Net Realized Gains (Losses)				
Investments	(9,936)	1,403	(12,483)	3,489
Foreign currency transactions	—	—	(6)	—
Options	17	—	17	—
Deferred income tax benefit (expense)	3,970	(522)	4,882	(1,298)
Net Realized Gains (Losses)	(5,949)	881	(7,590)	2,191
Net Change in Unrealized Gains (Losses)				
Investments	23,578	9,229	18,356	5,133
Foreign currency translations	26	—	28	—
Options	(17)	—	—	—
Deferred income tax expense	(9,056)	(3,433)	(7,196)	(1,909)
Deferred income tax expense — conversion to a taxable corporation	—	—	—	(3,828)
Net Change in Unrealized Gains (Losses)	14,531	5,796	11,188	(604)
Net Realized and Unrealized Gains	8,582	6,677	3,598	1,587
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	$ 8,311	$ 5,159	$ 2,982	$ (569)

See accompanying notes to consolidated financial statements

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
(amounts in 000's, except share amounts)

	Six Months Ended May 31, 2009 (Unaudited)	For the Year Ended November 30, 2008
OPERATIONS		
Net investment loss	$ (616)	$ (3,532)
Net realized gains (losses)	(7,590)	7,483
Net change in unrealized gains (losses)	11,188	(67,004)
Net change in unrealized losses — conversion to taxable corporation	—	(3,810)
Net Increase (Decrease) in Net Assets Resulting from Operations	2,982	(66,863)
DIVIDENDS AND DISTRIBUTIONS		
Dividends	—	—
Distributions – return of capital	(7,072) (1)	(16,766) (2)
Dividends and Distributions.	(7,072)	(16,766)
CAPITAL STOCK TRANSACTIONS		
Issuance of 52,540 shares of common stock from reinvestment of dividends	—	1,183
Increase in Net Assets from Capital Stock Transactions	—	1,183
Total Decrease in Net Assets	(4,090)	(82,446)
NET ASSETS		
Beginning of period	162,687	245,133
End of period	$ 158,597	$ 162,687

(1) This is an estimate of the characterization of the distributions paid to common stockholders for the six months ended May 31, 2009 as either a dividend (ordinary income) or distribution (return of capital). This estimate is based on the Company's operating results during the period. The actual characterization of the common stock distributions made during the current year will not be determinable until after the end of the fiscal year when the Company can determine earnings and profits and, therefore, it may differ from the preliminary estimates.

(2) All distributions paid to common stockholders for the fiscal year ended November 30, 2008 were characterized as distributions (return of capital). This characterization is based on the Company's earnings and profits.

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS
(amounts in 000's)
(UNAUDITED)

	Six Months Ended	
	May 31, 2009	May 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase (decrease) in net assets resulting from operations	$ 2,982	$ (569)
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Purchase of long-term investments	(14,264)	(27,539)
Sale of U.S. Treasury Bills	—	14,250
Proceeds from sale of long-term investments	20,743	47,952
Sale (purchase) of short-term investments, net	(3,212)	3,492
Realized losses (gains) on investments	12,466	(3,489)
Return of capital distributions	7,530	9,019
Unrealized gains on investments (excluding impact of $28 and $0 of foreign currency translations)	(18,356)	(5,133)
Deferred income tax provision	1,918	5,738
Accretion of bond discount	(337)	(286)
Decrease (increase) in deposits with brokers	123	(1)
Decrease (increase) in receivable for securities sold	(1,376)	491
Decrease (increase) in interest, dividends and distributions receivable	(42)	1,148
Decrease in prepaid expenses and other assets	348	340
Increase (decrease) in payable for securities purchased	4,288	(6,721)
Decrease in investment management fee payable	(296)	(7)
Decrease in accrued directors' fees and expenses	(3)	(2)
Increase (decrease) in accrued expenses and other liabilities	(440)	111
Net Cash Provided by Operating Activities	12,072	38,794
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of senior secured revolving credit facility	(5,000)	(17,000)
Repayments of treasury secured revolving credit facility	—	(14,000)
Cash distributions to shareholders	(7,072)	(7,794)
Net Cash Used in Financing Activities	(12,072)	(38,794)
NET INCREASE (DECREASE) IN CASH	—	—
CASH — BEGINNING OF PERIOD	—	—
CASH — END OF PERIOD	$ —	$ —

Supplemental disclosure of cash flow information:

Non-cash financing activities not included herein consist of reinvestment of distributions pursuant to the Company's dividend reinvestment plan of $0 and $498 for the six months ended May 31, 2009 and May 31, 2008, respectively.

During the six months ended May 31, 2009, there were no income taxes paid and interest paid was $1,009. During the six months ended May 31, 2008, state income taxes paid were $37 and interest paid was $2,151.

See accompanying notes to consolidated financial statements

1. ORGANIZATION

Kayne Anderson Energy Development Company (the "Company") was organized as a Maryland corporation on May 24, 2006. The Company is an externally managed, non-diversified closed-end management investment company that has elected to be treated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"). The Company commenced investment operations on September 21, 2006. The Company's shares of common stock are listed on the New York Stock Exchange ("NYSE") under the symbol "KED." For the fiscal year ended November 30, 2007 and prior, the Company was treated as a regulated investment company ("RIC") under the U.S. Internal Revenue Code of 1986, as amended (the "Code"). Since December 1, 2007, the Company has been taxed as a corporation (see Note 4—Income Taxes).

2. SIGNIFICANT ACCOUNTING POLICIES

A. *Use of Estimates* — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ materially from those estimates.

B. *Interim Periods* — The unaudited consolidated financial statements contained in this report include all material adjustments of a normal and recurring nature that, in the opinion of management, are necessary for a fair statement of the results for the interim periods. The results of operations for the interim periods presented in this Form 10-Q are not necessarily indicative of the results to be expected for the full year or any other interim period. Certain reclassifications have been made to prior period amounts in order to conform to current year presentation. The accompanying consolidated financial statements included herein should be read in conjunction with the financial statements and related notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2008.

C. *Principles of Consolidation* — Prior to February 29, 2008, the Company owned subsidiary limited partnerships (which elected to be treated as taxable entities) and limited liability companies to make and hold certain of its private portfolio investments. These portfolio investments were consolidated in the Company's schedule of investments, statements of assets and liabilities, statements of operations, statements of cash flows and statements of changes in net assets. On February 29, 2008, all of the Company's subsidiaries were dissolved and all of the assets and liabilities of the subsidiaries were distributed to the Company. The consolidated financial statements include the accounts of the Company and its subsidiaries which directly and indirectly owned securities in the Company's portfolio. All significant intercompany accounts and transactions have been eliminated in consolidation.

D. *Calculation of Net Asset Value* — The Company determines its net asset value as of the close of regular session trading on the NYSE no less frequently than the last business day of each quarter. Net asset value is computed by dividing the value of the Company's assets (including accrued interest and dividends), less all of its liabilities (including accrued expenses, distributions payable and any borrowings) by the total number of common shares outstanding.

E. *Investment Valuation* — Readily marketable portfolio securities listed on any exchange other than the NASDAQ Stock Market, Inc. ("NASDAQ") are valued, except as indicated below, at the last sale price on the business day as of which such value is being determined. If there has been no sale on such day, the securities are valued at the mean of the most recent bid and asked prices on such day. Securities admitted to trade on the NASDAQ are valued at the NASDAQ official closing price. Portfolio securities traded on more than one securities exchange are valued at the last sale price on the exchange representing the principal market for such securities.

Equity securities traded in the over-the-counter market, but excluding securities admitted to trading on the NASDAQ, are valued at the closing bid prices. Fixed income securities that are considered corporate bonds are

valued by using the mean of the bid and ask prices provided by an independent pricing service. For fixed income securities that are considered corporate bank loans, the fair market value is determined by using the mean of the bid and ask prices provided by the syndicate bank or principal market maker. When price quotes are not available, fair market value will be based on prices of comparable securities.

Exchange-traded options and futures contracts are valued at the last sale price at the close of trading in the market where such contracts are principally traded or, if there was no sale on the applicable exchange on such day, at the mean between the quoted bid and ask price as of the close of trading on such exchange.

The Company's portfolio includes securities that are privately issued or illiquid. For these securities, as well as any other portfolio security held by the Company for which reliable market quotations are not readily available, valuations are determined in good faith by the board of directors of the Company (the "board of directors") under a valuation policy and a consistently applied valuation process. Unless otherwise determined by the board of directors, the following valuation process, approved by the board of directors, is used for such securities:

- *Investment Team Valuation.* The applicable investments are valued by senior professionals of KA Fund Advisors, LLC ("KAFA") responsible for the portfolio investments.

- *Investment Team Valuation Documentation.* Preliminary valuation conclusions are documented and discussed with senior management of KAFA. Such valuations are submitted to the Valuation Committee (a committee of the board of directors) on a quarterly basis. These valuations stand for intervening periods of time unless a senior officer of KAFA determines that material adjustments to such preliminary valuations are appropriate to avoid valuations that are stale or do not represent fair value. Such adjustments may occur on the date that the Company calculates the dividend reinvestment plan net asset value.

- *Valuation Committee.* The Valuation Committee meets each quarter to consider new valuations presented by KAFA, if any, which were made in accordance with the Valuation Procedures in such quarter. The Valuation Committee's valuation determinations are subject to ratification by the board.

- *Valuation Firm.* No less frequently than quarterly, a third-party valuation firm engaged by the board of directors reviews the valuation methodologies and calculations employed for these securities. The independent valuation firm provides third-party valuation consulting services to the board of directors which consist of certain limited procedures that the Company identified and requested them to perform. For the quarter ended May 31, 2009, the independent valuation firm provided limited procedures on investments in seven portfolio companies comprising approximately 53.7% of the total investments (62.4% of net assets and 45.7% of total assets) at fair value as of May 31, 2009. Upon completion of the limited procedures, the independent valuation firm concluded that the fair value of those investments subjected to the limited procedures did not appear to be unreasonable.

- *Board of Directors Determination.* The board of directors considers the valuations provided by KAFA and the Valuation Committee and ratifies valuations for the applicable securities at each quarterly board meeting. The board of directors considers the reports provided by the third-party valuation firm in reviewing and determining in good faith the fair value of the applicable portfolio securities.

During the course of such valuation process, whenever possible, privately-issued equity and debt investments are valued using comparisons of valuation ratios of the portfolio companies that issued such equity and debt securities to any peer companies that are publicly traded. The value derived from this analysis is then discounted to reflect the illiquid nature of the investment. The Company also utilizes comparative information such as acquisition transactions, public offerings or subsequent equity sales to corroborate its valuations. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Company's investments in privately-issued securities may differ significantly from the values that would have been used had a ready market existed for such investments, and the differences could be material.

Factors that the Company may take into account in fair value pricing its investments include, as relevant, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities, the nature and realizable value of any collateral and other relevant factors.

Unless otherwise determined by the board of directors, securities that are convertible into or otherwise will become publicly traded (*e.g.*, through subsequent registration or expiration of a restriction on trading) will be valued through the process described above, using a valuation based on the market value of the publicly traded security less a discount. The discount will initially be equal in amount to the discount negotiated at the time of purchase. To the extent that such securities are convertible or otherwise become publicly traded within a time frame that may be reasonably determined, KAFA will determine an applicable discount in accordance with a methodology approved by the Valuation Committee.

SFAS No. 157. In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement on Financial Accounting Standards, *Fair Value Measurements* ("SFAS" No. 157). This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. SFAS No. 157 applies to fair value measurements already required or permitted by existing standards. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The changes to current generally accepted accounting principles from the application of this Statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements.

As of December 1, 2007, the Company adopted SFAS No. 157. The Company has performed an analysis of all existing investments and derivative instruments to determine the significance and character of all inputs to their fair value determination. Based on this assessment, the adoption of this standard did not have any material effect on the Company's net asset value.

At May 31, 2009, the Company held 62.4% of its net assets applicable to common stockholders (45.7% of total assets) in securities that were fair valued pursuant to the procedures adopted by the board of directors. The aggregate fair value of these securities at May 31, 2009 was $98,919 (See Note 8 — Restricted Securities).

At November 30, 2008, the Company held 70.5% of its net assets applicable to common stockholders (51.6% of total assets) in securities that were fair valued pursuant to the procedures adopted by the board of directors. The aggregate fair value of these securities at November 30, 2008 was $114,708 (See Note 8 — Restricted Securities).

F. *Repurchase Agreements* — The Company has agreed to purchase securities from financial institutions subject to the seller's agreement to repurchase them at an agreed-upon time and price ("repurchase agreements"). The financial institutions with whom the Company enters into repurchase agreements are banks and broker/dealers which KAFA considers creditworthy. The seller under a repurchase agreement is required to maintain the value of the securities as collateral, subject to the agreement, at not less than the repurchase price plus accrued interest. KAFA monitors daily the mark-to-market of the value of the collateral, and, if necessary, requires the seller to maintain additional securities, so that the value of the collateral is not less than the repurchase price. Default by or bankruptcy of the seller would, however, expose the Company to possible loss because of adverse market action or delays in connection with the disposition of the underlying securities.

G. *Security Transactions* — Security transactions are accounted for on the date the securities are purchased or sold (trade date). Realized gains and losses are reported on an identified cost basis.

H. *Return of Capital Estimates* — Distributions received from the Company's investments in MLPs generally are comprised of income and return of capital. The Company records investment income and return of capital based on estimates made at the time such distributions are received. Such estimates are based on historical information available from MLPs and other industry sources. These estimates may subsequently be revised based on information received from MLPs after their tax reporting periods are concluded.

The following table sets forth the Company's estimated return of capital for distributions received from its public and private MLPs, both as a percentage of total distributions and in thousands of dollars. The return of capital portion of the distributions is a reduction to investment income and results in an equivalent reduction in the cost basis of the associated investments and increases Net Realized Gains and Net Change in Unrealized Gains in each of the comparative periods.

	Three Months Ended		Six Months Ended	
	May 31, 2009	**May 31, 2008**	**May 31, 2009**	**May 31, 2008**
Distributions received, estimated as return of capital portion	89%	97%	89%	97%
Return of capital — attributable to Net Realized Gains	$1,902	$ 367	$2,471	$ 603
Return of capital — attributable to Net Change in Unrealized Gains	1,504	4,330	5,059	8,416
Total return of capital	$3,406	$4,697	$7,530	$9,019

I. *Investment Income* — The Company records dividends and distributions on the ex-dividend date. Interest income is recognized on the accrual basis, including amortization of premiums and accretion of discounts to the extent that such amounts are expected to be collected. When investing in securities with payment in-kind interest, the Company will accrue interest income during the life of the security even though it will not be receiving cash as the interest is accrued. In accordance with Statement of Position 93-1, *Financial Accounting and Reporting for High-Yield Debt Securities by Investment Companies*, to the extent that interest income to be received is not expected to be realized, a reserve against income is established.

During the first quarter 2008, the Company recorded $1,286 in interest income related to its investment in ProPetro Services Inc. During the second quarter 2008, the Company established a full reserve of $830, which represented past due interest accrued during the first quarter 2008. Since the second quarter of 2008, the Company has not accrued interest income on its investment in ProPetro Services, Inc.

J. *Distributions to Stockholders* — Distributions to common stockholders are recorded on the ex-dividend date. The estimated character of distributions made during the year may differ from their ultimate characterization for federal income tax purposes. The Company is unable to make final determinations as to the character of the distribution until after the end of the fiscal year. The Company informs its common stockholders in January following the fiscal year of the character of distributions deemed paid during the fiscal year.

During the three and six months ended May 31, 2009, the Company received $60 and $120 of paid in-kind stock dividends in total from Enbridge Energy Management, L.L.C. and Kinder Morgan Management, LLC. For these comparative periods in fiscal 2008, the Company received $52 and $216 of paid in-kind stock dividends in total from these entities. Paid in-kind stock dividends consist of additional units of Enbridge Energy Management, L.L.C. and Kinder Morgan Management, LLC. The additional units are not reflected in investment income during the period received but are recorded as unrealized gains upon receipt.

K. *Income Taxes* — For the fiscal periods ended November 30, 2007 and November 30, 2006, the Company qualified for the tax treatment applicable to regulated investment companies under Subchapter M of the Code. For these fiscal periods, the Company was required to make the requisite distributions to its stockholders, which relieved it from federal income or excise taxes for these periods. Since December 1, 2007, the Company has been taxed as a corporation and will pay federal and applicable state corporate taxes on its taxable income.

The Company invests primarily in MLPs, which generally are treated as partnerships for federal income tax purposes. As a limited partner in the MLPs, the Company includes its allocable share of the MLP's taxable income in computing its own taxable income. Deferred income taxes reflect (i) taxes on unrealized gains / (losses), which are attributable to the temporary differences between fair market value and tax basis, (ii) the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and (iii) the net tax benefit of accumulated net operating losses. To the extent the Company has a deferred tax asset, consideration is given as to whether or not a valuation allowance is required. The need to establish a valuation allowance for deferred tax assets is assessed periodically by the Company based on

the criterion established by the Statement of Financial Accounting Standards, *Accounting for Income Taxes* ("SFAS No. 109"), that it is more likely than not that some portion or all of the deferred tax asset will not be realized. In the assessment for a valuation allowance, consideration is given to all positive and negative evidence related to the realization of the deferred tax asset. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability (which are highly dependent on cash distributions from the Company's MLP holdings), the duration of statutory carryforward periods and the associated risk that operating loss carryforwards may expire unused.

The Company may rely on information provided by the MLPs, which may not necessarily be timely, to estimate our state income tax provision and taxable income allocable to the MLP units held in the portfolio. Such estimates are made in good faith. From time to time, as new information becomes available, the Company modifies its estimates or assumptions regarding its income tax provision and related deferred tax liability (asset).

As of December 1, 2007, the Company adopted FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*" ("FIN 48"). This standard defines the threshold for recognizing the benefits of tax-return positions in the financial statements as "more likely than not" to be sustained by the taxing authority and requires measurement of a tax position meeting the "more likely than not" criterion, based on the largest benefit that is more than 50 percent likely to be realized. At adoption, companies must adjust their financial statements to reflect only those tax positions that are "more likely than not" to be sustained as of the adoption date (See Note 4 — Income Taxes). The Company's policy is to classify interest and penalties associated with underpayment of federal and state income taxes, if any, as income tax expense on its Statement of Operations.

L. *Indemnifications* — Under the Company's organizational documents, its officers and directors are indemnified against certain liabilities arising out of the performance of their duties to the Company. In addition, in the normal course of business, the Company enters into contracts that provide general indemnification to other parties. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred, and may not occur. However, the Company has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

M. *Foreign Currency Translations* — The books and records of the Company are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars on the following basis: (i) market value of investment securities, assets and liabilities at the rate of exchange as of the valuation date; and (ii) purchases and sales of investment securities, income and expenses at the relevant rates of exchange prevailing on the respective dates of such transactions.

The Company does not isolate that portion of gains and losses on investments in equity and debt securities which is due to changes in the foreign exchange rates from that which is due to changes in market prices of equity securities. Accordingly, realized and unrealized foreign currency gains and losses with respect to such securities are included in the reported net realized and unrealized gains and losses on investment transactions balances.

Net realized foreign exchange gains or losses represent gains and losses from transactions in foreign currencies and foreign currency contracts, foreign exchange gains or losses realized between the trade date and settlement date on security transactions, and the difference between the amounts of interest and dividends recorded on the Company's books and the U.S. dollar equivalent of such amounts on the payment date.

Net unrealized foreign exchange gains or losses represent the difference between the cost of assets and liabilities (other than investments) recorded on the Company's books from the value of the assets and liabilities (other than investments) on the valuation date.

N. *Option Writing* — When the Company writes an option, an amount equal to the premium received by the Company is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the Company on the expiration date as realized gains from investments. If the Company repurchases a written call option prior to its exercise, the difference between the premium received and the amount paid to repurchase the option is treated as a realized gain

or loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether the Company has realized a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the Company. The Company, as the writer of an option, bears the market risk of an unfavorable change in the price of the security underlying the written option. See Note 6 — Option Contracts for more detail on option contracts written and purchased.

3. FAIR VALUE

SFAS No. 157. In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement on Financial Accounting Standards, *Fair Value Measurements* ("SFAS No. 157"). This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. SFAS No. 157 applies to fair value measurements already required or permitted by existing standards. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The changes to current generally accepted accounting principles from the application of this Statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements.

As of December 1, 2007, the Company adopted SFAS No. 157. The Company has performed an analysis of all existing investments and derivative instruments to determine the significance and character of all inputs to their fair value determination. Based on this assessment, the adoption of this standard did not have any material effect on the Company's net asset value. However, the adoption of the standard does require the Company to provide additional disclosures about the inputs used to develop the measurements and the effect of certain measurements on changes in net assets for the reportable periods as contained in the Company's periodic filings.

SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into the following three broad categories.

- *Level 1* — Quoted unadjusted prices for identical instruments in active markets to which the Company has access at the date of measurement.
- *Level 2* — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 2 inputs are those in markets for which there are few transactions, the prices are not current, little public information exists or instances where prices vary substantially over time or among brokered market makers.
- *Level 3* — Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are those inputs that reflect the Company's own assumptions that market participants would use to price the asset or liability based on the best available information.

The following table presents our assets measured at fair value on a recurring basis at May 31, 2009. Note that the valuation levels below are not necessarily an indication of the risk or liquidity associated with the underlying investment. For instance, the Company's repurchase agreements, which are collateralized by U.S. Treasury notes, are generally high quality and liquid; however, the Company reflects these repurchase agreements as Level 2 because the inputs used to determine fair value may not always be quoted prices in an active market.

Assets at Fair Value	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	One or More Unobservable Inputs (Level 3)
Long-Term Investments	$ 174,501	$ 49,954	$ 25,628	$ 98,919
Repurchase Agreements	9,537	—	9,537	—
Total assets at fair value	$ 184,038	$ 49,954	$ 35,165	$ 98,919

The Company did not have any liabilities that were measured at fair value on a recurring basis at May 31, 2009.

The following table presents our assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended May 31, 2009.

	Three Months Ended May 31, 2009
Balance — February 28, 2009	$ 103,495
Transfers out of Level 3	(7,936)
Realized gains	—
Unrealized gains, net	1,431
Purchases, issuances or settlements	1,929
Balance — May 31, 2009	$ 98,919

	Six Months Ended May 31, 2009
Balance — November 30, 2008	$ 114,708
Transfers out of Level 3	(8,390)
Realized gains	—
Unrealized losses, net	(9,328)
Purchases, issuances or settlements	1,929
Balance — May 31, 2009	$ 98,919

The $1,431 of unrealized gains, net, and $9,328 of unrealized losses, net, presented in the tables above for the three and six months ended May 31, 2009 relate to investments that are still held at May 31, 2009, and the Company presents these unrealized gains (losses) on the Consolidated Statement of Operations — Net Change in Unrealized Gains (Losses).

The Company did not have any liabilities that were measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at May 31, 2009.

4. INCOME TAXES

Deferred income taxes reflect (i) taxes on unrealized gains/(losses), which are attributable to the difference between fair market value and tax basis, (ii) the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and (iii) the net tax benefit of accumulated net operating losses. Components of the Company's deferred tax assets and liabilities are as follows:

	May 31, 2009 (Unaudited)	November 30, 2008
Deferred tax assets:		
Organizational costs	$ 19	$ 19
Net operating loss carryforwards	10,740	4,846
Net unrealized losses on investment securities	21,906	28,329
Deferred tax liabilities:		
Basis reduction of investments in MLPs	(3,212)	(1,824)
Total net deferred tax asset	$ 29,453	$ 31,370

At May 31, 2009 the Company had a federal net operating loss carryforward of $29,178 (deferred tax asset of $9,907). The federal net operating loss carryforward available is subject to limitations on annual usage. Realization of the deferred tax assets and net operating loss carryforwards are dependent, in part, on generating sufficient taxable income prior to expiration of the loss carryforwards. If not utilized, $2,013, $11,338 and $15,827 of the net operating loss carryforward will expire in 2027, 2028 and 2029, respectively. In addition, the Company has state net operating losses which total approximately $27,065 (deferred tax asset of $833). These state net operating losses begin to expire in 2014 through 2029.

The Company periodically reviews the recoverability of its deferred tax asset based on the weight of objective evidence and criteria of whether it is more likely than not that the asset would be utilized under SFAS 109. The Company's analysis of the need for a valuation allowance considers that it has incurred a cumulative loss over the three year period ended November 30, 2008 and through second quarter 2009. A significant portion of the Company's net pre-tax losses related to unrealized depreciation of investments occurred during the fiscal fourth quarter of 2008 as a result of the unprecedented decline in the overall financial, commodity and MLP markets.

When assessing the recoverability of its deferred tax asset, significant weight was given to the Company's forecast of future taxable income, which is based principally on the expected continuation of cash distributions from the Company's MLP holdings and interest income from its fixed income holdings at or near current levels. Consideration was also given to the effects of potential of additional future realized and unrealized losses on investments and the period over which these deferred tax assets can be realized, as the expiration dates for the federal tax loss carryforwards are 18 and 20 years.

Based on the Company's assessment, it has determined that it is more likely than not that the net deferred tax asset will be realized through future taxable income of the appropriate character. Accordingly, no valuation allowance has been established for the Company's net deferred tax asset.

The Company will continue to assess the need for a valuation allowance in the future. The Company will review its financial forecasts in relation to actual results and expected trends on an ongoing basis. Unexpected significant decreases in cash distributions from the Company's MLP holdings or significant further declines in the fair value of its portfolio of investments may change the Company's assessment regarding the recoverability of its deferred tax asset and would likely result in a valuation allowance. If a valuation allowance is required to reduce the deferred tax asset in the future, it could have a material impact on the Company's net asset value and results of operations in the period it is recorded.

As of May 31, 2009 and November 30, 2008, the identified cost of investments for federal income tax purposes was $243,233 and $264,473, respectively. The cost basis of investments includes a $12,256 and $13,943 reduction in basis attributable to the Company's portion of the allocated losses from its MLP investments at May 31, 2009 and November 30, 2008, respectively. Gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

	May 31, 2009 (Unaudited)	November 30, 2008
Gross unrealized appreciation of investments	$ 5,912	$ 2,205
Gross unrealized depreciation of investments	(65,107)	(78,069)
Net unrealized appreciation before tax	$ (59,195)	$ (75,864)

Components of the Company's income tax benefit (expense) for the following comparative periods were as follows:

	Three Months Ended		Six Months Ended	
	May 31, 2009	May 31, 2008	May 31, 2009	May 31, 2008
Deferred income tax benefit — net investment loss	$ 204	$ 899	$ 396	$ 1,296
Deferred income tax benefit (expense) — realized losses (gains)	3,970	(522)	4,882	(1,298)
Deferred income tax expense — unrealized gains	(9,056)	(3,433)	(7,196)	(1,909)
Deferred income tax expense — conversion to a taxable corporation	—	—	—	(3,828)
Income tax expense	$(4,882)	$(3,056)	$(1,918)	$(5,739)

The Company adopted FIN 48 as of December 1, 2007, and the adoption of the interpretation did not have a material effect on the Company's net asset value. The Company's policy is to classify interest and penalties associated with underpayment of federal and state income taxes, if any, as income tax expense on its Consolidated Statement of Operations. As of May 31, 2009, the Company does not have any interest or penalties associated with the underpayment of any income taxes. All tax years since inception remain open and subject to examination by tax jurisdictions.

5. AGREEMENTS AND AFFILIATIONS

A. *Administration Agreement* — On February 27, 2009, the Administration Agreement between the Company and Bear Stearns Funds Management Inc., dated September 20, 2006, was terminated. The termination was by mutual agreement of the parties. No penalties were incurred by the Company resulting from the termination of the Administration Agreement with Bear Stearns Funds Management Inc.

On February 27, 2009, the Company entered into an Administration Agreement (the "Administration Agreement") with Ultimus Fund Solutions, LLC ("Ultimus"). Pursuant to the Administration Agreement, Ultimus will provide certain administrative services for the Company. The Administration Agreement will terminate on February 27, 2010, with automatic one-year renewals unless earlier terminated by either party as provided under the terms of the Administration Agreement.

B. *Investment Management Agreement* — The Company has entered into an investment management agreement with KAFA under which the Company has material future rights and commitments. Pursuant to the investment management agreement, KAFA has agreed to serve as investment adviser and provide significant managerial assistance to portfolio companies to which the Company is required to provide such assistance. Payments under the investment management agreement include (1) a base management fee, (2) an incentive fee, and (3) reimbursement of certain expenses.

Base Management Fee. The Company pays an amount equal on an annual basis to 1.75% of average total assets to KAFA as compensation for services rendered. This amount is payable each quarter after the end of the quarter. For purposes of calculating the base management fee, the "average total assets" for each quarterly period are determined by averaging the total assets at the last day of that quarter with the total assets at the last day of the prior quarter (or as of the commencement of operations for the initial period if a partial quarter). Total assets (excluding deferred taxes) shall equal gross asset value (which includes assets attributable to or proceeds from the use of Leverage Instruments), minus the sum of accrued and unpaid dividends on common stock and accrued and unpaid dividends on preferred stock and accrued liabilities (other than liabilities associated with leverage and deferred taxes). Liabilities associated with leverage include the principal amount of any borrowings, commercial paper or notes that the Company may issue, the liquidation preference of outstanding preferred stock, and other liabilities from other forms of leverage such as short positions and put or call options held or written by the Company.

Incentive Fee. The incentive fee consists of two parts. The first part of the incentive fee (the "Net Investment Income Fee"), which is calculated and payable quarterly in arrears, equals 20% of the excess, if any, of Adjusted Net

Investment Income for the quarter over a quarterly hurdle rate equal to 1.875% (7.50% annualized) of average net assets for the quarter. Average net assets is calculated by averaging net assets at the last day of the quarter and at the last day of such prior quarter or commencement of operations (net assets is defined as total assets less total liabilities (including liabilities associated with Leverage Instruments) determined in accordance with GAAP.

For this purpose, "Adjusted Net Investment Income" means interest income (including accrued interest that the Company has not yet received in cash), dividend and distribution income from equity investments (but excluding that portion of cash distributions that are treated as a return of capital) and any other income, including any other fees, such as commitment, origination, syndication, structuring, diligence, monitoring and consulting fees or other fees that the Company receives from portfolio companies (other than fees for providing significant managerial assistance to portfolio companies) accrued during the fiscal quarter, minus operating expenses for the quarter (including the base management fee, any interest expense, dividends paid on issued and outstanding preferred stock, if any, and any accrued income taxes related to net investment income, but excluding the incentive fee). Adjusted Net Investment Income does not include any realized capital gains, realized capital losses or unrealized capital gains or losses. Accordingly, the Company pays an incentive fee based partly on accrued interest, the collection of which is uncertain or deferred. Adjusted Net Investment Income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment-in-kind interest and zero coupon securities), accrued income that the Company has not yet received in cash. For example, accrued interest, if any, on investments in zero coupon bonds (if any) would be included in the calculation of the incentive fee, even though the Company would not receive any cash interest payments in respect of payment on the bond until its maturity date. Thus, if the Company does not have sufficient liquid assets to pay this incentive fee or dividends to stockholders, the Company may be required to liquidate assets.

The second part of the incentive fee (the "Capital Gains Fee") is determined and payable in arrears as of the end of each fiscal year (or upon termination of the investment management agreement, as of the termination date), and equals (1) 20% of (a) net realized capital gains (aggregate realized capital gains less aggregate realized capital losses) on a cumulative basis from the closing date of this offering to the end of such fiscal year, less (b) any unrealized capital losses at the end of such fiscal year based on the valuation of each investment on the applicable calculation date compared to its adjusted cost basis (such difference, "Adjusted Realized Capital Gains"), less (2) the aggregate amount of all Capital Gains Fees paid to KAFA in prior fiscal years. The calculation of the Capital Gains Fee includes any capital gains that result from the cash distributions that are treated as a return of capital. In that regard, any such return of capital is treated as a decrease in the cost basis of an investment for purposes of calculating the Capital Gains Fee.

Realized capital gains on an investment are calculated as the excess of the net amount realized from the sale or other disposition of such security over the adjusted cost basis for the security. Realized capital losses on a security are calculated as the amount by which the net amount realized from the sale or other disposition of such security is less than the adjusted cost basis of such security. Unrealized capital loss on a security is calculated as the amount by which the adjusted cost basis of such security exceeds the fair value of such security at the end of a fiscal year.

Components of the Company's management fees for the comparative financial periods are as follows. There were no base management fee waivers, Capital Gains Fees or Net Investment Income Fee for the comparative periods.

	Three Months Ended		Six Months Ended	
	May 31, 2009	May 31, 2008	May 31, 2009	May 31, 2008
Base management fees	$ 776	$1,344	$ 1,553	$ 2,724

C. *Portfolio Companies* — From time to time, the Company may "control" or may be an "affiliate" of one or more portfolio companies, each as defined in the 1940 Act. In general, under the 1940 Act, the Company would "control" a portfolio company if the Company owned 25% or more of its outstanding voting securities and would be an "affiliate" of a portfolio company if the Company owned 5% or more of its outstanding voting securities. The 1940 Act contains prohibitions and restrictions relating to transactions between investment companies and their

affiliates (including the Company's investment adviser), principal underwriters and affiliates of those affiliates or underwriters.

The Company believes that there is significant ambiguity in the application of existing SEC staff interpretations of the term "voting security" to complex structures such as limited partnership interests of the kind in which the Company invests. As a result, it is possible that the SEC staff may consider that certain securities investments in limited partnerships are voting securities under the staff's prevailing interpretations of this term. If such determination is made, the Company may be regarded as a person affiliated with and controlling the issuer(s) of those securities for purposes of Section 17 of the 1940 Act.

In light of the ambiguity of the definition of voting securities, the Company does not intend to treat any class of limited partnership interests that it holds as "voting securities" unless the security holders of such class currently have the ability, under the partnership agreement, to remove the general partner (assuming a sufficient vote of such securities, other than securities held by the general partner, in favor of such removal) or the Company has an economic interest of sufficient size that otherwise gives it the de facto power to exercise a controlling influence over the partnership. The Company believes this treatment is appropriate given that the general partner controls the partnership, and without the ability to remove the general partner or the power to otherwise exercise a controlling influence over the partnership due to the size of an economic interest, the security holders have no control over the partnership.

Affiliated Investments.

Direct Fuels Partners, L.P. — At May 31, 2009, the Company held a 38% limited partnership interest in Direct Fuels Partners, L.P. ("Direct Fuels"). The Company believes that the limited partner interests of Direct Fuels should not be considered voting securities for purposes of the 1940 Act because of the limited scope and character of the rights of such securities. The Company's President and Chief Executive Officer serves as a director on the board of the general partner for Direct Fuels. Although the Company does not own any interest in the general partner of Direct Fuels, it believes that it may be an affiliate of Direct Fuels under the 1940 Act by virtue of its participation on the board of the general partner.

Plains All American, L.P. — Robert V. Sinnott is a member of the Company's board of directors and a senior executive of Kayne Anderson Capital Advisors, L.P. ("KACALP"), the managing member of KAFA. Mr. Sinnott also serves as a director on the board of Plains All American GP LLC, the general partner of Plains All American Pipeline, L.P. Members of senior management of KACALP and KAFA and various affiliated funds managed by KACALP own units of Plains All American GP LLC. Various advisory clients of KACALP and KAFA, including the Company, own units in Plains All American Pipeline, L.P. The Company believes that it is an affiliate of Plains All American, L.P. under the 1940 Act by virtue of the ownership interests in the general partner by our affiliates.

Quest Midstream Partners, L.P. — At May 31, 2009, the Company held a 2.5% limited partnership interest in Quest Midstream Partners, L.P. ("Quest"). The Company believes that the limited partner interests of Quest should not be considered voting securities for purposes of the 1940 Act because of the limited scope and character of the rights of such securities. One of the Company's Executive Vice Presidents served as a director on the board of the general partner for Quest as of May 31, 2009 but subsequently resigned from the board of directors on June 30, 2009. The Company has observation rights with respect to Quest's future board meetings. Although the Company does not own any interest in the general partner of Quest, it believes that it may be an affiliate of Quest under the 1940 Act by virtue of its participation on the board of the general partner.

VantaCore Partners LP — At May 31, 2009, the Company held a 39% limited partnership interest in VantaCore Partners LP ("VantaCore"). The Company believes that the limited partner interests of VantaCore should not be considered voting securities for purposes of the 1940 Act because of the limited scope and character of the rights of such securities. One of the Company's Senior Vice Presidents serves as a director on the board of the general partner for VantaCore. Although the Company does not own any interest in the general partner of VantaCore, it believes that it may be an affiliate of VantaCore under the 1940 Act by virtue of its participation on the board of the general partner.

Non-Affiliated Investments.

International Resource Partners LP — At May 31, 2009, the Company held a 28% limited partnership interest in International Resource Partners LP ("IRP"). The Company believes that the limited partner interests of IRP should not be considered voting securities for purposes of the 1940 Act because of the limited scope and character of the rights of such securities. The Company does not have a member of its management team serving as a director on the board of the general partner for IRP, but does have observation rights with respect to IRP's board meetings. The Company believes that the Company does not have the power to exercise a controlling influence over the management or policies of this partnership or the general partner of IRP. Accordingly, the Company believes that it is not an affiliate of IRP under the 1940 Act.

6. OPTION CONTRACTS

Transactions in option contracts for the six months ended May 31, 2009 were as follows:

	Number of Contracts	Premium
Options outstanding at beginning of period	—	—
Options written	665	$ 97
Options exercised	(505)	(80)
Options expired	(160)	(17)
Options outstanding at end of period	—	$ —

For the three months ended May 31, 2009, options written totaled 505 contracts for a premium of $80.

SFAS No. 161. In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. This standard amends and expands the disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to illustrate how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS No. 133; and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. As of December 1, 2008, the Company adopted SFAS No. 161.

The Company is exposed to financial market risks, including changes in interest rates and in the valuations of its investment portfolio. The Company may write (sell) call options with the purpose of reducing its holding of certain securities. A call option on a security is a contract that gives the holder of the option, in return for a premium, the right to buy from the writer of the option the security underlying the option at a specified exercise price at any time during the term of the option. The writer of an option on a security has the obligation upon exercise of the option to deliver the underlying security upon payment of the exercise price. The successful use of options depends in part on the degree of correlation between the options and securities. See Note 2 — Significant Accounting Policies for more detail on option contracts written.

The following table sets forth the effect of derivative instruments on the Consolidated Statement of Operations.

Derivatives not accounted for as hedging instruments under SFAS No. 133	Location of Gain on Derivatives Recognized in Income	Amount of Realized Gain Recognized in Income on Derivatives For the Six Months Ended May 31, 2009
Call options	Net Realized Gain – Options	$17

7. INVESTMENT TRANSACTIONS

The following table sets forth the Company's purchases and sales of securities, exclusive of short-term investments other than U.S. Treasuries, for each comparative period.

	For the six months ended	
	May 31, 2009	May 31, 2008
Securities purchased	$ 14,264	$ 27,539
Securities sold, excluding U.S. Treasuries	$ 20,743	$ 47,952
Sales of U.S. Treasuries	—	14,250
Total securities sold	$ 20,743	$ 62,202

8. RESTRICTED SECURITIES

From time to time, certain of the Company's investments may be restricted as to resale. For instance, private investments that are not registered under the Securities Act of 1933, as amended, and cannot, as a result, be offered for public sale in a non-exempt transaction without first being registered. In other cases, certain of the Company's investments have restrictions such as lock-up agreements that preclude the Company from offering these securities for public sale.

At May 31, 2009, the Company held the following restricted securities.

Investment	Security	Type of Restriction	Number of Units, Warrants, or Principal ($) (in 000s)	Cost Basis	Fair Value	Fair Value per Unit/ Warrant	Percent of Net Assets	Percent of Total Assets
Copano Energy, L.L.C.	Class D Units	(1)	76	$ 2,000	$ 1,077	$14.14	0.7%	0.5%
Direct Fuels Partners, L.P [2]	Class A Common Units	(3)	2,500	43,023	33,750	13.50	21.3	15.6
Direct Fuels Partners, L.P	Class A Convertible Preferred Units	(3)	96	1,929	1,881	19.50	1.2	0.9
Eagle Rock Energy Partners, L.P	Common Units	(1)(4)	491	5,705	1,340	2.73	0.9	0.6
International Resource Partners LP [5]	Class A Common Units	(3)	1,500	26,154	27,000	18.00	17.0	12.5
ProPetro Services, Inc	Warrants	(3)	2,905	2,469	—	—	—	—
ProPetro Services, Inc	Term Loan	(3)	$ 35,000	32,761	4,500	n/a	2.8	2.1
Quest Midstream Partners, L.P	Common Units	(3)	350	6,625	2,275	6.50	1.4	1.0
VantaCore Partners LP [6]	Class A Common Units	(3)	1,465	26,208	27,096	18.50	17.1	12.5
Total of securities valued in accordance with procedures established by the board of directors[7]				$146,874	$ 98,919		62.4%	45.7%
Athabasca Oil Sands Corp	Corporate Bond		$ 2,500	$ 2,434	$ 2,133	n/a	1.3%	1.0%
DCP Midstream, LLC	Corporate Bond		$ 1,000	992	1,043	n/a	0.6	0.5
Dresser, Inc	Term Loan		$ 5,000	4,820	3,200	n/a	2.0	1.5
Energy Future Holdings Corp	Term Loan		$ 4,737	3,534	3,298	n/a	2.1	1.5
Energy Future Holdings Corp	Corporate Bond		$ 2,000	810	800	n/a	0.5	0.4
Hilcorp Energy Company	Corporate Bond		$ 5,585	5,184	4,803	n/a	3.0	2.2
Knight, Inc.	Corporate Bond		$ 7,530	7,110	7,285	n/a	4.6	3.3
Stallion Oilfield Services Ltd	Term Loan		$ 5,000	4,931	1,450	n/a	0.9	0.7
Targa Resources, Inc	Corporate Bond		$ 2,155	2,188	1,541	n/a	1.0	0.7
Trident Resources Corp	Warrants		100	411	75	$0.75	0.1	—
Total of securities valued by prices provided by market maker or independent pricing service[3][8]				$ 32,414	$ 25,628		16.1%	11.8%
Total of all restricted securities				$179,288	$ 124,547		78.5%	57.5%

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(1) Unregistered security of a publicly-traded company.

(2) The Company's investment in Direct Fuels Partners, L.P. includes 200 incentive distribution rights (20% of total outstanding incentive distribution rights) for which the Company does not assign a value.

(3) Unregistered security of a private company.

(4) Unregistered Common Units were placed in escrow for a period of 18 months following the sale of Millennium Midstream Partners, L.P. (sale was consummated on October 1, 2008).

(5) The Company's investment in International Resource Partners LP includes 10 incentive distribution rights (10% of total outstanding incentive distribution rights) for which the Company does not assign a value.

(6) The Company's investment in VantaCore Partners LP includes 1,823 incentive distribution rights (18% of total outstanding incentive distribution rights) for which the Company does not assign a value.

(7) Restricted securities that represent Level 3 categorization under SFAS No. 157 where reliable market quotes are not readily available. Securities are valued in accordance with the procedures established by the board of directors as more fully described in Note 2—Significant Accounting Policies.

(8) Restricted securities that represent Level 2 categorization under SFAS No. 157. Securities with a fair market value determined by the mean of the bid and ask prices provided by a syndicate bank, principal market maker or an independent pricing service as more fully described in Note 2 —Significant Accounting Policies. These securities have limited trading volume and are not listed on a national exchange.

At November 30, 2008, the Company held the following restricted securities.

Investment	Security	Type of Restriction	Number of Units, Warrants, or Principal ($) (in 000s)	Cost Basis	Fair Value	Fair Value per Unit/ Warrant	Percent of Net Assets	Percent of Total Assets
Copano Energy, L.L.C.	Class D Units	(1)	76	$ 2,000	$ 750	$9.85	0.5%	0.3%
Direct Fuels Partners, L.P (2)	Class A Common Units	(3)	2,500	45,048	37,500	15.00	23.0	16.9
Eagle Rock Energy Partners, L.P	Common Units	(1)	1,013	13,233	7,754	7.65	4.8	3.5
Eagle Rock Energy Partners, L.P	Common Units	(1)(4)	582	6,989	4,069	6.99	2.5	1.8
International Resource Partners LP (5)	Class A Common Units	(3)	1,500	27,234	24,000	16.00	14.8	10.8
ProPetro Services, Inc	Warrants	(3)	2,905	2,469	—	—	—	—
ProPetro Services, Inc	Term Loan	(3)	$ 35,000	32,550	10,000	n/a	6.1	4.5
Quest Midstream Partners, L.P	Common Units	(3)	350	6,625	4,637	13.25	2.8	2.1
VantaCore Partners LP (6)	Class A Common Units	(3)	1,465	27,526	25,998	17.75	16.0	11.7
Total of securities valued in accordance with procedures established by the board of directors(7)				$163,674	$114,708		70.5%	51.6%
Athabasca Oil Sands Corp	Corporate Bond		$ 2,500	$ 2,434	$ 1,873	n/a	1.2%	0.9%
Dresser, Inc	Term Loan		$ 5,000	4,805	3,150	n/a	1.9	1.4
Energy Future Holdings Corp	Term Loan		$ 2,500	1,967	1,725	n/a	1.1	0.8
Hilcorp Energy Company	Corporate Bond		$ 4,000	3,811	2,860	n/a	1.8	1.3
Knight, Inc.	Corporate Bond		$ 7,530	7,055	6,024	n/a	3.7	2.7
Stallion Oilfield Services Ltd	Term Loan		$ 5,000	4,922	2,625	n/a	1.6	1.2
Targa Resources, Inc	Corporate Bond		$ 2,155	2,192	1,185	n/a	0.7	0.5
Targa Resources Investments, Inc	Term Loan		$ 1,046	760	471	n/a	0.3	0.2
Trident Resources Corp	Warrants		100	411	75	$0.75	—	—
Total of securities valued by prices provided by market maker or independent pricing service(3)(8)				$ 28,357	$ 19,988		12.3%	9.0%
Total of all restricted securities				$192,031	$ 134,696		82.8%	60.6%

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(1) Unregistered security of a publicly-traded company.

(2) The Company's investment in Direct Fuels Partners, L.P. includes 200 incentive distribution rights (20% of total outstanding incentive distribution rights) for which the Company does not assign a value.

(3) Unregistered security of a private company.

(4) Unregistered Common Units were placed in escrow for a period of 18 months following the sale of Millennium Midstream Partners, L.P. (sale was consummated on October 1, 2008).

(5) The Company's investment in International Resource Partners LP includes 10 incentive distribution rights (10% of total outstanding incentive distribution rights) for which the Company does not assign a value.

(6) The Company's investment in VantaCore Partners LP includes 1,823 incentive distribution rights (18% of total outstanding incentive distribution rights) for which the Company does not assign a value.

(7) Restricted securities that represent Level 3 categorization under SFAS No. 157 where reliable market quotes are not readily available. Securities are valued in accordance with the procedures established by the board of directors as more fully described in Note 2—Significant Accounting Policies.

(8) Restricted securities that represent Level 2 categorization under SFAS No. 157. Securities with a fair market value determined by the mean of the bid and ask prices provided by a syndicate bank, principal market maker or an independent pricing service as more fully described in Note 2 —Significant Accounting Policies. These securities have limited trading volume and are not listed on a national exchange.

9. SENIOR SECURED AND TREASURY SECURED REVOLVING CREDIT FACILITIES

On June 4, 2007, the Company established two credit facilities totaling $200,000. Unless otherwise terminated in advance, the two credit facilities terminate no later than June 4, 2010. The first facility, the Senior Secured Revolving Credit Facility (the "Investment Facility") has availability of $100,000 with the ability to increase availability to $250,000. Interest on the Investment Facility is charged at LIBOR plus 125 basis points or the prime rate plus 25 basis points. The second facility, the Treasury Secured Revolving Credit Facility (the "Treasury Facility"), permitted the Company to borrow up to $100,000 and invest the proceeds in U.S. government securities. Interest on the Treasury Facility was charged at LIBOR plus 20 basis points or the prime rate.

On January 31, 2008, the Company terminated the Treasury Facility. All amounts of principal and interest were paid in full, and the Company sold its U.S. Treasury Bills, which were held as collateral for the amount outstanding under the Treasury Facility.

On February 21, 2008, the Company amended the Investment Facility as a result of its announcement that it would no longer be treated as a RIC under the Code and that it would be taxed as a corporation for the fiscal year ended November 30, 2008 and for future fiscal years. The amendment removed the Company's requirement to maintain its RIC status and modified certain other terms in accordance with the Company's intention to be taxed as a corporation.

On September 19, 2008, the Company amended the Investment Facility to modify the calculation of its borrowing base. The modification was driven by the Company's stated strategy to increase its portfolio of private MLPs and decrease its holdings of private debt securities.

Investment Facility — The obligations under the Investment Facility are collateralized by substantially all of the Company's assets (excluding investments in U.S. government securities), and are guaranteed by any of the Company's future subsidiaries, other than special purpose subsidiaries. The Investment Facility contains affirmative and reporting covenants and certain financial ratio and restrictive covenants, including: (a) maintaining a ratio, on a consolidated basis, of total assets less liabilities (other than indebtedness) to aggregate indebtedness (excluding non-recourse indebtedness of special purpose subsidiaries) of the Company and its subsidiaries, of not less than 2.50:1.0,

(b) maintaining the value of the portion of the Company's portfolio that can be converted into cash within specified time periods and valuations at no less than 10% of the principal amount outstanding under the Investment Facility (less fully cash collateralized letters of credit) during any period when adjusted outstanding principal amounts exceed a specified threshold percentage of the Company's adjusted borrowing base, (c) maintaining consolidated net assets at each fiscal quarter end of not less than the greater of: 40% of the consolidated total assets of the Company and its subsidiaries, and $100,000 plus 25% of the net proceeds from any sales of equity securities by the Company and its subsidiaries subsequent to the closing of the Investment Facility, (d) limitations on additional indebtedness, (e) limitations on liens, (f) limitations on mergers and other fundamental changes, (g) limitations on dividends and other specified restricted payments, (h) limitations on disposition of assets, (i) limitations on transactions with affiliates, (j) limitations on agreements that prohibit liens on properties of the Company and its subsidiaries, (k) limitations on sale and leaseback transactions, (l) limitations on specified hedging transactions, (m) limitations on changes in accounting treatment and reporting practices, (n) limitations on specified amendments to the Company's investment management agreement during the continuance of a default, (o) limitations on the aggregate amount of unfunded commitments, and (p) limitations on establishing deposit, securities or similar accounts not subject to control agreements in favor of the lenders. The Investment Facility also contains customary representations and warranties and events of default.

Under the terms of the Investment Facility, non-performing investments could reduce the Company's borrowing base and could cause the Company to be in default under the terms of its loans under the Investment Facility. Debt investments are generally characterized as non-performing if such investments are in default of any payment obligations and MLP equity investments are generally characterized as non-performing if such investments fail to pay distributions, in their most recent fiscal quarter, that are greater than 80% of their minimum quarterly distribution amount.

Under the terms of the Investment Facility, if borrowings exceed 90% of borrowing base, the Company is restricted in paying distributions to stockholders to no more than the amount of Distributable Cash Flow for the current and prior three quarters.

As of May 31, 2009, the Company had $52,000 of borrowings under its Investment Facility at an interest rate of 1.57% and had a borrowing base of $74,357 (69.9% of borrowing base). The maximum amount that the Company can borrow under its Investment Facility is limited to the lesser of the commitment amount of $100,000 and its borrowing base.

As of May 31, 2009, the Company was in compliance with all financial and operational covenants required by the Investment Facility.

10. FINANCIAL HIGHLIGHTS

The following is a schedule of financial highlights for the six months ended May 31, 2009; the years ended November 30, 2008 and 2007, and the period September 21, 2006 (inception) to November 30, 2006.

	May 31, 2009 (Unaudited)	November 30, 2008	November 30, 2007	November 30, 2006
Per Share of Common Stock[1]				
Net asset value, beginning of period	$ 16.10	$ 24.39	$ 24.19	$ 23.32
Net investment income (loss)	(0.06)	(0.35)	0.36	0.09
Net realized and unrealized gain (loss) on investments	0.36	(5.89)	1.18	0.78
Net change in unrealized losses — conversion to taxable corporation	—	(0.38)	—	—
Total income (loss) from investment operations	0.30	(6.62)	1.54	0.87
Dividends[2]	—	—	(0.95)	—
Distributions from net realized long-term capital gains[2]	—	—	(0.15)	—
Distributions — return of capital[2]	(0.70)	(1.67)	(0.24)	—
Total Dividends and Distributions	(0.70)	(1.67)	(1.34)	—
Net asset value, end of period	$ 15.70	$ 16.10	$ 24.39	$ 24.19
Market value per share, end of period	$ 12.33	$ 9.63	$ 23.14	$ 22.32
Total investment return based on market value[3]	35.6%	(54.8)%	9.3%	(10.7)%
Supplemental Data and Ratios[4]				
Net assets, end of period	$ 158,597	$ 162,687	$ 245,133	$ 241,914
Ratio of expenses to average net assets:[5]				
Management fees	2.0%	2.4%	2.0%	1.7%
Other expenses	1.4%	1.1%	0.8%	1.4%
Subtotal	3.4%	3.5%	2.8%	3.1%
Interest expense	0.9%	2.0%	1.0%	—
Management fee waivers	—	—	(0.4)%	(0.5)%
Bad debt expense	—	0.4%	—	—
Tax expense (benefit)	2.5%	(15.5)%	0.8%	—
Total expenses	6.8%	(9.6)%	4.2%	2.6%
Ratio of net investment income (loss) to average net assets	(0.8)%	(1.6)%	1.5%	1.9%
Net increase (decrease) in net assets resulting from operations to average net assets	1.9%[6]	(31.1)%	6.2%	3.7%[6]
Portfolio turnover rate	8.2%[6]	27.0%	28.8%	5.6%[6]
Average net assets	$ 156,236	$ 214,818	$ 248,734	$ 235,199
Average amount of borrowings outstanding under the Credit Facilities	$ 54,445	$ 75,563	$ 32,584	—
Average amount of borrowings outstanding per share of common stock during the period	$ 5.39	$ 7.50	$ 3.25	—

(1) Based on average shares of common stock outstanding of 10,102,986 for the six months ended May 31, 2009, 10,073,398 for year ended November 30, 2008, 10,014,496 for the year ended November 30, 2007 and 10,000,060 for the period of September 21, 2006 through November 30, 2006.

(2) The information presented for the six months ended May 31, 2009 is a current estimate of the characterization of the distributions paid to common stockholders. The information presented for each of the other periods is a characterization of a portion of the total distributions paid to common stockholders as either dividends (ordinary

income) or distributions (return of capital). This characterization is based on the Company's earnings and profits.

(3) Not annualized for the six months ended May 31, 2009 and for the period September 21, 2006 through November 30, 2006. Total investment return is calculated assuming a purchase of common stock at the market price on the first day and a sale at the current market price on the last day of the period reported. The calculation also assumes reinvestment of distributions, if any, at actual prices pursuant to the Company's dividend reinvestment plan.

(4) Unless otherwise noted, ratios are annualized.

(5) The following table sets forth the components of the ratio of expenses to average total assets.

	For the Period Ended May 31, 2009	As of November 30,		
	(Unaudited)	2008	2007	2006
Management fees	1.5%	1.7%	1.7%	1.6%
Other expenses	1.0	0.8	0.7	1.3
Subtotal	2.5%	2.5%	2.4%	2.9%
Interest expense	0.6	1.4	0.9	—
Management fee waivers	—	—	(0.4)	(0.4)
Bad debt expense	—	0.3	—	—
Tax expense (benefit)	1.8	(11.1)	0.7	—
Total expenses	4.9%	(6.9)%	3.6%	2.5%
Average total assets	$215,637	$302,007	$290,922	$246,802

(6) Not annualized.

11. COMMON STOCK

The Company has 200,000,000 shares of common stock authorized. There were no transactions in common shares for the six months ended May 31, 2009, and shares outstanding at both May 31, 2009 and November 30, 2008 totaled 10,102,986.

12. SUBSEQUENT EVENTS

On June 15, 2009, the Custody Agreement between the Company and Custodial Trust Company ("CTC') was assigned by CTC to its affiliate, JPMorgan Chase Bank, N.A.

On July 1, 2009, the Company declared its quarterly distribution of $0.30 per common share for the period March 1, 2009 to May 31, 2009 for a total of $3,031. The distribution is payable on July 30, 2009 to shareholders of record on July 17, 2009.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussions should be read together with the unaudited consolidated financial statements and the notes thereto included in this report and with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K.

Forward-Looking Statements

Certain statements in this Form 10-Q include statements reflecting assumptions, expectations, projections, intentions or beliefs about future events that are intended as "forward-looking statements." These statements represent our reasonable judgment on the future based on various factors and using numerous assumptions and are subject to known and unknown risks, uncertainties, and other factors that could cause our actual results to differ materially from those contemplated by the statements. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as "anticipate," "estimate," "project," "forecast," "plan," "may," "will," "should," "expect" and other words of similar meaning. In particular, these include, but are not limited to, statements relating to the following:

- Our future operating results;
- Our business prospects and the prospects of our portfolio companies and their ability to achieve their objectives;
- Our ability to make investments consistent with our investment objective;
- The impact of investments that we expect to make;
- Our contractual arrangements and relationships with third parties;
- The dependence of our future success on the general economy and its impact on the energy industry;
- Our expected debt and equity 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.
- We undertake no obligation to update or revise any forward-looking statements made herein.

Overview

Kayne Anderson Energy Development Company ("we," "us," and "our") is a non-diversified, closed-end management investment company that has elected to be treated as a BDC under the 1940 Act. Our common stock began trading on the NYSE on September 21, 2006 through our initial public offering of 10,000,000 shares of common stock at $25.00 per share. By electing to be treated as a BDC, we are subject to provision of the 1940 Act, including the requirements that we must have at least 70% of assets in "eligible portfolio companies," generally defined as private companies with at principal place of business in the United States.

On January 22, 2008, we announced that we no longer intend to be treated as a RIC under the Code. Our decision was primarily based on our belief that private MLPs present the most attractive investment opportunity for us and offer attractive risk-adjusted total returns for us and our stockholders. Prior to this election, however, compliance with certain requirements necessary to qualify as a RIC limited our ability to invest in additional private MLPs. As a result of this change, we will be taxed as a corporation for our fiscal year ended November 30, 2008 and for future fiscal years, paying federal and applicable state corporate taxes on our taxable income and capital gains. We will continue to be regulated as a BDC under the 1940 Act.

Our operations are externally managed and advised by our investment adviser, KA Fund Advisors, LLC ("KAFA"), pursuant to an investment management agreement. Our investment objective is to generate both current income and capital appreciation primarily through equity and debt investments. We will seek to achieve this objective by investing at least 80% of our total assets in securities of Energy Companies.

A key focus area for our investments in the energy industry is and will continue to be equity and debt investments in Midstream Energy Companies structured as limited partnerships. We also expect to continue to evaluate equity and debt investments in Other Energy Companies, and debt investments in Energy Companies.

We seek to enhance our total returns through the use of leverage, which may include the issuance of shares of preferred stock, commercial paper or notes and other borrowings, including borrowings under our credit facility. We currently expect to use leverage in an aggregate amount equal to 25% - 30% of our total assets, which includes assets obtained through such leverage. As of May 31, 2009, our leverage to total assets was 24.0%.

Portfolio and Investment Activity

Our investments as of May 31, 2009 were comprised of equity securities of $144.4 million and fixed income investments of $30.1 million. Certain of our fixed income securities accrue interest at variable rates determined on a basis of a benchmark, such as the London Interbank Offered Rate ("LIBOR"), or the prime rate, with stated maturities at origination that typically range from 5 to 10 years. Other fixed income investments accrue interest at fixed rates. As of May 31, 2009, 42%, or $12.5 million, of our interest-bearing portfolio is floating rate debt and 58%, or $17.6 million, is fixed rate debt.

Our portfolio allocations as of May 31, 2009 and November 30, 2008 are set forth below. For both periods our portfolio remains below its target of 70% for private MLPs. Over time, the Company intends to rotate out of certain public MLPs and fixed income securities and into additional private MLPs as attractive investment opportunities arise.

	Number of Portfolio Companies at		Percent of Long-Term Investments at	
	May 31, 2009	November 30, 2008	May 31, 2009	November 30, 2008
Publicly Traded MLP and MLP Affiliate	33	43	30.0%	33.0%
Private MLP	4	4	52.7	50.6
Other Private Equity	1	1	0.1	0.0
Fixed Income Investments	9	9	17.2	16.4
	47	57	100.0%	100.0%

Our Top Ten Portfolio Investments as of May 31, 2009

Listed below are our top ten portfolio investments as of May 31, 2009, represented as a percentage of our total assets.

	Investment	Public/ Private	Equity/ Debt	Sector	Amount ($ in millions)	Percent of Total Assets[1]
1.	Direct Fuels Partners, L.P.[2]	Private	Equity	Midstream	$35.6	16.4%
2.	VantaCore Partners LP[3]	Private	Equity	Aggregates and Mining	27.1	12.5
3.	International Resource Partners LP[4]	Private	Equity	Coal	27.0	12.5
4.	Knight, Inc.	Private	Debt	Midstream	7.3	3.4
5.	Enterprise Products Partners L.P.	Public	Equity	Midstream	5.4	2.5
6.	Hilcorp Energy Company	Private	Debt	Upstream	4.8	2.2
7.	Plains All American Pipeline, L.P.	Public	Equity	Midstream	4.6	2.1
8.	ProPetro Services, Inc.[5]	Private	Debt	Oilfield Services	4.5	2.1
9.	Eagle Rock Energy Partners, L.P.[6]	Public	Equity	Midstream/Upstream	4.4	2.0
10.	Energy Future Holdings Corp.	Private	Debt	Other	4.1	1.9
					$124.8	57.6%

(1) Total assets were $216.6 million as of May 31, 2009.

(2) Our investment in Direct Fuels Partners, L.P. includes 2,500,000 Class A Common Units and 96,448 Class A Convertible Preferred Units, which represents a 38% limited partnership interest, and 200 incentive distribution rights (20% of total outstanding incentive distribution rights).

(3) Our investment in VantaCore Partners LP includes 1,464,673 Common Units, which represents a 39% limited partnership interest, and 1,823 incentive distribution rights (18% of total outstanding incentive distribution rights).

(4) Our investment in International Resource Partners LP includes 1,500,000 Class A Common Units, which represents a 28% limited partnership interest, and 10 incentive distribution rights (10% of total outstanding incentive distribution rights).

(5) Our investment in ProPetro Services, Inc. includes a senior secured second lien term loan ($35.0 million principal and $4.5 million fair value) and 2,904,620 warrants to which we have assigned no value.

(6) Following the sale of Millennium Midstream Partners, L.P. to Eagle Rock Energy Partners, L.P. ("Eagle Rock"), which was completed on October 1, 2008, our investment initially consisted of 1,700,050 unregistered Common Units, of which 687,022 were placed in escrow for a period of 18 months. Following certain post-closing adjustments, our investment in Eagle Rock consists of 1,013,037 unregistered Common Units which may be sold pursuant to Rule 144 and 491,462 unregistered Common Units have been placed into escrow for up to 18 months from closing, pending claims that could reduce Eagle Rock's purchase price of Millennium.

Results of Operations — For the three and six months ended May 31, 2009

Set forth below is an explanation of our results of operations for the three and six months ended May 31, 2009, respectively

Investment Income. Investment income totaled $1.1 million and $2.3 million and consisted primarily of interest income on our fixed income investments and net dividends and distributions. We received $3.8 million and $8.4 million of cash dividends and distributions, of which $3.4 million and $7.5 million was treated as a return of capital during the period.

Operating Expenses. Operating expenses totaled $1.6 million and $3.4 million, including $0.8 million and $1.6 million of base investment management fees; $0.3 million and $0.7 million for interest expense and $0.5

million and $1.1 million for other operating expenses. Base investment management fees were equal to an annual rate of 1.75% of average total assets.

Net Investment Loss. Our net investment loss totaled $0.3 million and $0.6 million and included a deferred income tax benefit of $0.2 million and $0.4 million.

Net Realized Losses. We had net realized losses from our investments of $5.9 million and $7.6 million, net of $4.0 million and $4.9 million of deferred tax benefit. During the second quarter, we elected to monetize certain public MLP investments that had either eliminated or substantially decreased their quarterly distributions. These sales accounted for the majority of our realized losses during the quarter.

Net Change in Unrealized Gains. We had net unrealized gains of $14.5 million and $11.2 million. This net unrealized gain consisted of $23.6 million and $18.4 million of unrealized gains from investments and a deferred tax expense of $9.1 million and $7.2 million

Net Increase in Net Assets Resulting from Operations. We had an increase in net assets resulting from operations of $8.3 million and $3.0 million. This increase is composed of the net unrealized gains of $14.5 million and $11.2 million; net realized losses of $5.9 million and $7.6 million and net investment losses of $0.3 million and $0.6 million as noted above.

Results of Operations — For the three and six months ended May 31, 2008

Set forth below is an explanation of our results of operations for the three and six months ended May 31, 2008, respectively.

Investment Income. Investment income totaled $1.2 million and $3.8 million and consisted primarily of interest income on our short-term investments in fixed income investments and repurchase agreements. We received $4.9 million and $9.3 million of cash dividends and distributions, of which $4.7 million and $9.0 million was treated as a return of capital during the period. Our interest income for the second quarter 2008 decreased by $1.5 million compared to the first quarter 2008, and $1.1 million of this decrease was attributable to our election to no longer accrue interest on our ProPetro investment.

Operating Expenses. Total operating expenses totaled $3.6 million and $7.3 million, including $1.3 million and $2.7 million of base investment management fees; $0.9 million and $2.6 million for interest expense and $0.6 million and $1.2 million for other operating expenses. We also incurred $0.8 million of bad debt expense related to interest accrued during the first quarter of 2008 on our fixed income investment in ProPetro. For the six months ended, interest expense included the write-off of capitalized debt issuance costs of $0.3 million related to the termination of the Treasury Facility. Base investment management fees were equal to an annual rate of 1.75% of average total assets. We did not pay a management fee or any incentive fee with respect to any investments made under the Treasury Facility, which we terminated effective January 31, 2008.

Net Investment Loss. Our net investment loss totaled $1.5 million and $2.1 million, which consisted of $1.2 million and $3.8 million of investment income. This investment income was reduced by total operating expenses of $3.6 million and $7.3 million and offset by deferred income tax benefits of $0.9 million and $1.3 million.

Net Realized Gains (Losses). We had net realized gains from our investments of $0.9 million and $2.2 million, which was net of deferred tax expense of $0.5 million and $1.3 million.

Net Change in Unrealized Gains (Losses). We had net unrealized gains from our investments of $5.8 million for the three months ended and net unrealized losses of $0.6 million for the six months ended, both of which are net of tax. Significant unrealized gains on our private MLPs were partially offset by unrealized losses on our ProPetro investment and public MLP portfolio. For the three months ended, the net unrealized gains consisted of $9.2 million of gains from our investments and a net deferred tax expense of $3.4 million. For the six months ended, the net unrealized losses consisted of $5.1 million of gains from our investments; a net deferred tax expense of $1.9 million and a deferred tax expense of $3.8 million relating to our conversion from a RIC to a taxable corporation, effective December 1, 2007.

Net Increase (Decrease) in Net Assets Resulting from Operations. For the three months ended, our net increase in net assets resulting from operations for the period was $5.2 million. This increase is composed of the net unrealized gains of $5.8 million; net realized gains of $0.9 million and net investment losses of $1.5 million as noted above.

For the six months ended, our net decrease in net assets resulting from operations for the period was $0.6 million. This decrease is composed of the net unrealized losses of $0.6 million; net realized gains of $2.2 million and net investment losses of $2.2 million as noted above.

Liquidity and Capital Resources

As of May 31, 2009, we had approximately $9.5 million invested in short-term repurchase agreements. As of June 30, 2009, we had approximately $8.8 million in repurchase agreements. Our repurchase agreements are collateralized by U.S. Treasury notes, and our counterparty is J.P. Morgan Securities Inc.

The Investment Facility has initial availability of up to $100 million with the ability to increase credit available under the Investment Facility to an amount not to exceed $250 million by obtaining additional commitments from existing lenders or new lenders. The Investment Facility has a three year term (expiring on June 4, 2010) and bears interest, at our option, at either (i) LIBOR plus 125 basis points or (ii) the prime rate plus 25 basis points.

The obligations under the Investment Facility are secured by substantially all of our assets, and are guaranteed, generally, by any of our future subsidiaries. The Investment Facility contains affirmative and reporting covenants and certain financial ratios and restrictive covenants, including: (a) maintaining an asset coverage ratio of not less than 2.50:1.0; (b) maintaining minimum liquidity at certain levels of outstanding borrowings; (c) maintaining a minimum of shareholders' equity; and (d) other customary restrictive covenants. The Investment Facility also contains customary representations and warranties and events of default.

As of May 31, 2009, we had $52.0 million of borrowings under our Investment Facility at an interest rate of 1.57%, and we had a borrowing base of $74.4 million. As of June 30, 2009, we had $52.0 million of borrowings at an interest rate of 1.56%, and our borrowing base was $74.3 million. The maximum amount that we can borrow under our Investment Facility is limited to the lesser of our commitment amount of $100 million and our borrowing base.

Contractual Obligations

Investment Management Agreement. We have entered into an investment management agreement with KAFA under which we have material future rights and commitments. Pursuant to the investment management agreement, KAFA has agreed to serve as our investment adviser and provide on our behalf significant managerial assistance to our portfolio companies to which we are required to provide such assistance. Payments under the investment management agreement may include (1) a base management fee, (2) an incentive fee, and (3) reimbursement of certain expenses. For the three and six months ended May 31, 2009, we accrued and paid $0.8 million and $1.6 million in base management fees and did not accrue or pay any incentive fees. We do not pay management fees on deferred taxes.

As of May 31, 2009, we did not have, or have not entered into, any long-term debt obligations, long-term liabilities, capital or operating lease obligations or purchase obligations that require minimum payments or any other contractual obligation at the present, within the next five years or beyond other than the borrowings outstanding under our Investment Facility described above under "Liquidity and Capital Resources."

The following table summarizes our obligations as of May 31, 2009 over the following periods for the Investment Facility.

	Payments by Period ($ in Millions)				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Investment Facility(1)	$52.0	—	$52.0	—	—

(1) The maximum amount that we can borrow under our credit facility is limited to the lesser of the commitment amount of $100 million and our borrowing base. As of May 31, 2009, we had a borrowing base of $74.4 million.

Distributions

Payment of future distributions is subject to board approval, as well as meeting the covenants of the Company's senior debt. During the quarter ended May 31, 2009 we paid distributions totaling $3.5 million ($0.35 per common share).

On July 1, 2009, we declared our quarterly distribution of $0.30 per common share for the period March 1, 2009 to May 31, 2009 for a total of $3.0 million. The distribution is payable on July 30, 2009 to shareholders of record on July 17, 2009. It is anticipated that substantially all of this distribution will be treated as a return of capital for tax purposes.

The component of our distribution that comes from our current or accumulated earnings and profits will be taxable to a stockholder as corporate dividend income. This income will be treated as qualified dividends for Federal income tax purposes at a rate of 15%. The special tax treatment for qualified dividends is scheduled to expire on December 31, 2010. Distributions that exceed our current or accumulated earnings and profits will continue to be treated as a tax-deferred return of capital to the extent of a stockholder's basis.

Off-Balance Sheet Arrangements

At May 31, 2009, we did not have any off-balance sheet liabilities or other contractual obligations that are reasonably likely to have a current or future material effect on our financial condition.

Critical Accounting Policies

The section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies" of our Annual Report on Form 10-K for the fiscal year ended November 30, 2008 sets out a complete description of our critical accounting policies, with respect to which there have been no material changes since the filing of our Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to financial market risks, including changes in interest rates and in the valuations of our investment portfolio.

Interest Rate Risk. Interest rate risk primarily results from variable rate debt securities in which we invest and from borrowings under our Investment Facility. Debt investments in our portfolio are based on floating and fixed rates. Debt investments bearing a floating interest rate are usually based on a LIBOR and a spread consisting of additional basis points. The interest rates for these debt instruments typically have one to six-month durations and reset at the current market interest rates. As of May 31, 2009, the fair value of our floating rate investments, excluding our ProPetro investment where we are not accruing interest, totaled approximately $8.0 million, or 31% of our total debt investments of $25.6 million (excluding ProPetro). Based on sensitivity analysis of the floating rate debt investment portfolio at May 31, 2009 ($14.7 million par value), we estimate that a one percentage point interest rate movement in the average market interest rates (either higher or lower) over the 12 months ended May 31, 2010 would either decrease or increase net investment income before income taxes by approximately $0.1 million.

As of May 31, 2009, we had $52.0 million of borrowings under our Investment Facility at an interest rate of 1.57%. This interest rate is based on LIBOR. Based on sensitivity analysis of the Investment Facility at May 31, 2009, we estimate that a one percentage point interest rate movement in the average market interest rates (either higher or lower) over the 12 months ended May 31, 2010 would either decrease or increase net investment income before income taxes by approximately $0.5 million.

We may hedge against interest rate fluctuations for these floating rate instruments using standard hedging instruments such as futures, swaps, options and forward contracts, subject to the requirements of the 1940 Act. Hedging activities may mitigate our exposure to adverse changes in interest rates.

Impact of Market Prices on Portfolio Investment Valuation. We carry our investments at fair value, as determined by our board of directors. Investments for which market quotations are readily available are valued at such market quotations and are subject to daily changes in the market prices of these securities.

Fixed income and equity securities that are not publicly traded or whose market price is not readily available are valued at fair value as determined in good faith by our board of directors. The types of factors that we may take into account in fair value pricing of our investments include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. Our investments that are not publicly traded may be indirectly impacted (positively or negatively) by public market prices of securities that are comparable to these private investments. Changes in market prices related to purchase transactions, public offerings and secondary offerings can also impact the valuations of our investments that are not publicly traded.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Controls and Procedures.

The Company's officers, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the 1934 Act) as of the end of the period covered in this report. Based upon such evaluation, the Company's 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 the reports that we file or submit under the 1934 Act 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 designing and evaluating our disclosures controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived

and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions.

PART II

ITEM 1. LEGAL PROCEEDINGS

We are not a party in any material pending legal proceeding, and no such material proceedings are known by us to be contemplated by governmental authorities.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors as previously disclosed in our Form 10-K for the year ended November 30, 2008.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

The following documents are filed as exhibits to this Quarterly Report on Form 10-Q:

Exhibit Number	Description
3.1	Charter - Form of Articles of Amendment and Restatement*
3.2	Amended and Restated Bylaws.*
4.1	Form of Common Stock Certificate.*
10.1	Form of Investment Management Agreement between Registrant and KA Fund Advisors, LLC.*
10.2	Administration Agreement between Registrant and Ultimus Fund Solutions, LLC.**
10.3	Form of Custody Agreement between Registrant and The Custodial Trust Company (as assigned to JPMorgan Chase Bank, N.A.).*
10.4	Form of Amended Dividend Reinvestment Plan.***
10.5	Form of Transfer Agency Agreement between Registrant and American Stock Transfer & Trust Company.*
10.6	Form of Accounting Services Agreement between Registrant and Ultimus Fund Solutions, LLC.*
10.7	Senior Secured Revolving Credit Agreement between Registrant, the lenders party thereto, SunTrust Bank, as administrative agent for the lenders, and Citibank, N.A. as syndication agent, dated June 4, 2007.****
10.8	First Amendment to Senior Secured Revolving Credit Agreement between Registrant, the lenders party thereto, SunTrust Bank, as Administrative Agent for the Lenders, and Citibank N.A., as Syndication Agent, dated February 21, 2008.*****
10.9	Second Amendment to Senior Secured Revolving Credit Agreement between Registrant, the lenders party thereto, SunTrust Bank, as Administrative Agent for the Lenders, and Citibank N.A., as Syndication Agent, dated September 19, 2008. ******
31.1	Certification by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - filed herewith.
31.2	Certification by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - filed herewith.
32.1	Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - furnished herewith.
99.1	Form of Fee Waiver Relating to Treasury Credit Investments between Registrant and KA Fund Advisors, LLC.****

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* Previously filed as an exhibit to Registrant's Pre-Effective Amendment No. 5 to its Registration Statement on Form N-2 (File No. 333-134829) as filed with the Securities and Exchange Commission on September 18, 2006 and incorporated by reference herein.

** Previously filed as an exhibit to Registrant's Current Report on Form 8-K (File No. 814-00725), as filed with the Securities and Exchange Commission on March 6, 2009 and incorporated by reference herein.

*** Previously filed as an exhibit to Registrant's Quarterly Report on Form 10-Q (File No. 814-00725), as filed with the Securities and Exchange Commission on April 9, 2009 and incorporated by reference herein.

**** Previously filed as an exhibit to Registrant's Quarterly Report on Form 10-Q (File No. 814-00725), as filed with the Securities and Exchange Commission on July 16, 2007 and incorporated by reference herein.

***** Previously filed as an exhibit to Registrant's Current Report on Form 8-K (File No. 814-00725) as filed with the Securities and Exchange Commission on February 27, 2008 and incorporated by reference herein.

****** Previously filed as an exhibit to Registrant's Quarterly Report on Form 10-Q (File No. 814-00725) as filed with the SEC on October 10, 2008 and incorporated by reference herein.

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KAYNE ANDERSON ENERGY
DEVELOPMENT COMPANY

Date: July 9, 2009

By: /s/ KEVIN S. MCCARTHY
Kevin S. McCarthy
Chairman of the Board of Directors,
President and Chief Executive Officer

Date: July 9, 2009

By: /s/ TERRY A. HART
Terry A. Hart
Chief Financial Officer and Treasurer

Exhibit 31.1

Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-14(a)

I, Kevin S. McCarthy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2009 of Kayne Anderson Energy Development Company;

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(s) 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(s) 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.

Date: July 9, 2009

/s/ Kevin S. McCarthy
Kevin S. McCarthy
Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-14(a)

I, Terry A. Hart, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2009 of Kayne Anderson Energy Development Company;

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(s) 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(s) 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.

Date: July 9, 2009

/s/ Terry A. Hart
Terry A. Hart
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Kayne Anderson Energy Development Company (the "Company") on Form 10-Q for the period ending May 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Kevin S. McCarthy, Chief Executive Officer of the Company, and Terry A. Hart, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

July 9, 2009

/s/ Kevin S. McCarthy
Name: Kevin S. McCarthy
Chief Executive Officer
(Principal Executive Officer)

July 9, 2009

/s/ Terry A. Hart
Name: Terry A. Hart
Chief Financial Officer
(Principal Financial Officer)

A signed original of this written statement required by § 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.