KAYNE ANDERSON ENERGY DEVELOPMENT CO
Form 10-Q
October 10, 2008

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED AUGUST 31, 2008

OR

o 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 þ No o

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 o Accelerated filer þ Non-accelerated filer o Smaller reporting company o
(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 o No þ

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 October 7, 2008.

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KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
CONSOLIDATED SCHEDULE OF INVESTMENTS
AS OF AUGUST 31, 2008
(amounts in 000 s)
(UNAUDITED)

Description:	No. of Shares/Units	Value
Long-Term Investments 133.7%		
Equity Investments(a) 116.6%		
United States 116.6%		
Publicly Traded MLP and MLP Affiliate(b) 34.2%		
Atlas Energy Resources, LLC	131	$4,587
Atlas Pipeline Partners, L.P.	73	2,502
BreitBurn Energy Partners L.P.	73	1,208
Calumet Specialty Products Partners, L.P.	80	1,148
Capital Product Partners L.P.	40	626
Constellation Energy Partners LLC	51	702
Copano Energy, L.L.C. Unregistered, Class D Units(c)	76	1,886
Copano Energy, L.L.C.	80	2,541
Crosstex Energy, L.P.(c)	28	706
Crosstex Energy, L.P.	114	2,903
DCP Midstream Partners, LP.	75	1,842
Duncan Energy Partners L.P.	67	1,217
Eagle Rock Energy Partners, L.P.	29	416
El Paso Pipeline Partners, L.P.	19	345
Enbridge Energy Management, L.L.C.(d)	24	1,232
Enbridge Energy Partners L.P.	72	3,463
Energy Transfer Equity, L.P.	44	1,277
Energy Transfer Partners, L.P.	52	2,301
Enterprise Products Partners L.P.	253	7,459
Exterran Partners, L.P.	77	1,715
Global Partners LP.	130	1,616
Hiland Partners, LP	10	473
Inergy, L.P.	78	2,048
Kinder Morgan Management, LLC(d)	15	817
K-Sea Transportation Partners L.P.	7	190
Legacy Reserves LP.	8	149
Magellan Midstream Partners, L.P.	58	2,149
MarkWest Energy Partners, L.P.	57	1,956
Martin Midstream Partners L.P.	59	1,845
ONEOK Partners, L.P.	91	5,466
OSG America L.P.	46	548
Penn Virginia Resource Partners, L.P.	21	511
Pioneer Southwest Energy Partners L.P.	2	44
Plains All American Pipeline, L.P.(e)	103	4,897
Regency Energy Partners LP.	46	1,146

Spectra Energy Partners, LP	32	733
Targa Resources Partners LP	64	1,537
TC PipeLines, LP	67	2,299
Teekay LNG Partners L.P.	63	1,440
Teekay Offshore Partners L.P.	52	842
TEPPCO Partners, L.P.	52	1,667
TransMontaigne Partners L.P.	6	148
Western Gas Partners, LP	60	919
Williams Partners L.P.	104	3,160
		76,676

See accompanying notes to consolidated financial statements.

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KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
AS OF AUGUST 31, 2008
(amounts in 000 s)
(UNAUDITED)

Description:	No. of Shares/Units	Value
Private MLP(c)(f) 82.4%		
Direct Fuels Partners, L.P.(e)	2,500	$52,000
International Resource Partners LP	1,500	36,000
Millennium Midstream Partners, LP(e)	2,375	60,111
Quest Midstream Partners, L.P.	350	6,125
VantaCore Partners LP(e)	1,465	30,568
		184,804
Other Private Equity(f) 0.0%		
ProPetro Services, Inc. Warrants(c)(g)	2,905	
Trident Resources Corp. Warrants(h)	100	75
		75
Total Equity Investments (Cost $233,405)		261,555

	Interest Rate	Maturity Date	Principal Amount	
Fixed Income Investments(f) 17.1%				
United States 16.0%				
Midstream 1.4%				
Targa Resources, Inc.	8.50%	11/01/13	$ 2,580	$ 2,451
Targa Resources Investments, Inc.	(i)	2/09/15	1,019	739
				3,190
Upstream 1.6%				
Hilcorp Energy Company	7.75	11/01/15	4,000	3,620
Oilfield Services 13.0%				
Dresser, Inc.	(j)	5/04/15	5,000	4,831
ProPetro Services, Inc.(c)	(k)	2/15/13	35,000	20,000
Stallion Oilfield Services Ltd.	(l)	7/18/12	5,000	4,225
				29,056

Total United States (Cost $49,247)	35,866

See accompanying notes to consolidated financial statements.

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KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
CONSOLIDATED SCHEDULE OF INVESTMENTS (CONCLUDED)
AS OF AUGUST 31, 2008
(amounts in 000 s)
(UNAUDITED)

Description	Interest Rate	Maturity Date	Principal Amount	Value
Canada 1.1%				
Upstream 1.1%				
Athabasca Oil Sands Corp.(b) (Cost $2,434)	13.00%	7/30/11	2,500	$ 2,400
Total Fixed Income Investments (Cost $51,681)				38,266
Total Long-Term Investments (Cost $285,086)				299,821
Short-Term Investments 2.3%				
Repurchase Agreements 2.3%				
Bear, Stearns & Co. Inc. (Agreements dated 8/29/08 to be repurchased at $5,058), collateralized by $5,205 in U.S. Treasury Notes (Cost $5,057)	1.98	9/01/08		5,057
Total Investments 136.0% (Cost $290,143)				304,878
Senior Secured Revolving Credit Facility Borrowings				(77,500)
Other Liabilities in Excess of Other Assets				(3,189)
Net Assets				$ 224,189

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

(b) Security is not treated as an eligible portfolio security for purposes of business development company (BDC) qualification.

(c) Fair valued and restricted security (see Notes 2, 3 and 7).

(d) Distributions are paid in-kind.

(e) 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., Millennium Midstream Partners, LP and VantaCore Partners LP (see Note 5).

(f) Unless otherwise noted, security is treated as an eligible portfolio security for purposes of BDC qualification.

(g)

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.

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

(i) Floating rate senior secured term loan facility. Interest is paid in-kind at a rate of LIBOR + 500 basis points (7.89% as of August 31, 2008)

(j) Floating rate senior secured second lien term loan facility. Security pays interest at a rate of LIBOR + 575 basis points (8.56% as of August 31, 2008).

(k) 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).

(l) Floating rate senior secured second lien term loan facility. Security pays interest at a rate of LIBOR + 525 basis points (8.05% as of August 31, 2008).

See accompanying notes to consolidated financial statements.

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KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
CONSOLIDATED SCHEDULE OF INVESTMENTS
AS OF NOVEMBER 30, 2007
(amounts in 000 s)

Description:	No. of Shares/Units	Value
Long-Term Investments(a) 133.3%		
Equity Investments(b) 96.1%		
Publicly Traded MLP and MLP Affiliate(c)(d) 37.8%		
Atlas Energy Resources, LLC Unregistered(e)	131	$3,905
Atlas Pipeline Partners, L.P.	46	2,083
BreitBurn Energy Partners L.P. Unregistered(e)	73	2,102
Buckeye Partners, L.P.	41	1,960
Calumet Specialty Products Partners, L.P.	104	3,842
Capital Product Partners L.P.(f)	24	593
Constellation Energy Partners LLC Unregistered(e)	65	2,184
Copano Energy, L.L.C.	8	320
Copano Energy, L.L.C. Unregistered(e)	72	2,590
Crosstex Energy, L.P.	24	815
DCP Midstream Partners, LP	62	2,509
Duncan Energy Partners L.P.	53	1,214
Eagle Rock Energy Partners, L.P.	24	512
El Paso Pipeline Partners, L.P.(g)	9	218
Enbridge Energy Management, L.L.C.(f)(h)	66	3,404
Enbridge Energy Partners L.P.	17	858
Energy Transfer Equity, L.P.	61	2,091
Energy Transfer Partners, L.P.	17	896
Enterprise Products Partners L.P.	220	6,875
Exterran Partners, L.P.(i)	40	1,390
Global Partners LP	114	3,137
Hiland Holdings GP, LP	10	244
Hiland Partners, LP	31	1,470
Inergy, L.P.	64	2,051
Kinder Morgan Management, LLC(f)(h)	111	5,572
K-Sea Transportation Partners L.P.	12	429
Legacy Reserves LP	35	754
Magellan Midstream Partners, L.P.	65	2,859
MarkWest Energy Partners, L.P.	95	3,113
Martin Midstream Partners L.P.	50	1,908
NuStar Energy L.P.(j)	11	647
ONEOK Partners, L.P.	94	5,650
OSG America L.P.(g)	1	27
Penn Virginia Resource Partners, L.P.	9	244
Plains All American Pipeline, L.P.	103	5,374

See accompanying notes to consolidated financial statements.

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KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
AS OF NOVEMBER 30, 2007
(amounts in 000 s)

Description:	No. of Shares/Units	Value
Regency Energy Partners LP	46	$1,419
SemGroup Energy Partners, L.P.	40	1,073
Spectra Energy Partners, LP	32	791
Targa Resources Partners LP	60	1,702
TC PipeLines, LP	84	3,086
Teekay LNG Partners L.P.	77	2,277
Teekay Offshore Partners L.P.(f)	54	1,398
TEPPCO Partners, L.P.	80	3,158
Williams Partners L.P.	95	3,922
		92,666
Private MLP 56.2%		
Direct Fuels Partners, L.P.(e)(k)	2,500	46,675
Direct Fuels Partners, L.P. Warrants(e)(l)	2,500	4,575
International Resource Partners LP(e)(m)	1,500	30,000
Millennium Midstream Partners, LP(e)(n)	2,375	44,223
Millennium Midstream Partners, LP Warrants(e)(o)	2,375	3,278
Quest Midstream Partners, L.P.(e)(p)	350	7,000
VantaCore Partners LP(e)(q)	91	1,916
		137,667
Other Private Equity 2.1%		
Knight, Inc. Preferred Stock(r)	5	4,965
ProPetro Services, Inc. Warrants(e)(s)	2,905	109
Trident Resources Corp. Warrants(t)	100	75
		5,149
Total Equity Investments (Cost $220,334)		235,482

See accompanying notes to consolidated financial statements.

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KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
AS OF NOVEMBER 30, 2007
(amounts in 000 s)

Description:	Interest Rate	Maturity Date	Principal Amount	Value
Fixed Income Investments 37.2%				
Midstream 7.2%				
SemGroup, L.P.	8.75%	11/15/15	$ 9,000	$ 8,595
Targa Resources, Inc.	8.50	11/01/13	4,580	4,488
Targa Resources, Inc.	(u)	10/31/12	1,664	1,637
Targa Resources, Inc.	(v)	10/31/12	2,983	2,934
				17,654
Upstream 5.3%				
Beryl Oil and Gas LP	(w)	7/14/11	2,933	2,890
CDX Funding, LLC	(x)	3/31/13	4,550	4,345
SandRidge Energy Inc.	(y)	4/14/12	5,700	5,700
				12,935
Oilfield Services 18.7%				
Dresser, Inc.	(z)	5/04/15	5,000	4,800
ProPetro Services, Inc.(e)	(aa)	2/15/13	35,000	34,326
Seitel, Inc.	9.75	2/15/14	2,000	1,730
Stallion Oilfield Services Ltd.	(bb)	7/18/12	5,000	4,925
				45,781
Aggregates and Mining 6.0%				
VantaCore Partners LP(e)(cc)	9.00	5/21/27	7,000	7,350
VantaCore Partners LP(e)	(dd)	5/21/14	7,500	7,500
				14,850
Total Fixed Income Investments (Cost $89,779)				91,220
Total Long-Term Investments (Cost $310,113)				326,702
Short-Term Investments 10.2%				
U.S. Treasury Bills 5.8%				
U.S. Treasury Bills (Cost $14,251)	3.075	2/28/08	14,358	14,250
Repurchase Agreements 4.4%				

Bear, Stearns & Co. Inc. (Agreements dated 11/30/07 to be repurchased at $10,772), collateralized by $11,105 in U.S. Treasury Bonds (Cost $10,769)	3.15	12/01/07	10,769
Total Short-Term Investments (Cost $25,020)			25,019
Total Investments 143.5% (Cost $335,133)			351,721
Senior Secured Revolving Credit Facility Borrowings			(85,000)
Treasury Secured Revolving Credit Facility Borrowings			(14,000)
Other Liabilities in Excess of Other Assets			(7,588)
Net Assets			$ 245,133

(a) Unless otherwise noted, security is treated as an eligible portfolio security for purposes of BDC qualification.

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

See accompanying notes to consolidated financial statements.

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
AS OF NOVEMBER 30, 2007
(amounts in 000 s)

(c) Security is not treated as an eligible portfolio security for purposes of BDC qualification.

(d) Unless otherwise noted, a security is treated as a publicly traded partnership for regulated investment company (RIC) qualification purposes. To qualify as a RIC for tax purposes, the Company may directly invest up to 25% of its total assets in equity and debt securities of entities treated as publicly traded partnerships. At November 30, 2007, the Company had 23.0% of its total assets invested in securities treated as publicly traded partnerships. From inception through the fiscal year ended November 30, 2007, it was the Company s intention to be treated as a RIC for tax purposes. On January 22, 2008, the Company announced that it would no longer intend to be treated as a RIC under the Code.

(e) Fair valued and restricted security (see Notes 2, 3 and 7).

(f) Security is not treated as a publicly traded partnership for RIC qualification purposes.

(g) Security is currently non-income producing but is expected to pay distributions within the next 12 months.

(h) Distributions are paid in-kind.

(i) Prior to August 20, 2007, security was known as Universal Compression Partners, L.P., as disclosed on our Schedule of Investments as of November 30, 2006.

(j) Prior to April 2, 2007, security was known as Valero L.P., as disclosed on our Schedule of Investments as of November 30, 2006.

(k) Class B common units are owned directly and indirectly by the Company s subsidiaries, KED DF Investment Partners, LP and KED DF Investment GP, LLC. The Class B common units are redeemable at the option of Direct Fuels Partners, L.P. at the price of $20.00 per unit.

(l) Warrants are non-income producing, expire on June 8, 2017 and provide the Company the right to purchase 2,500 Class A common units at a price of $20.00 per unit.

(m) Common units are owned directly and indirectly by the Company s subsidiaries, KED LCP Investment Partners, LP and KED LCP Investment GP, LLC.

(n) Class B common units are owned directly and indirectly by the Company s subsidiaries, KED MME Investment Partners, LP and KED MME Investment GP, LLC. The Class B common units are redeemable at the option of Millennium Midstream Partners, LP at the price of $20.00 per unit.

(o) Warrants are non-income producing, expire on December 28, 2016 and provide the Company the right to purchase 2,375 Class A common units at a price of $20.00 per unit.

(p)

Common units are owned directly and indirectly by the Company s subsidiaries, KED MME Investment Partners, LP and KED MME Investment GP, LLC.

(q) Common units are owned directly and indirectly by the Company s subsidiaries, KED VP Investment Partners, LP and KED VP Investment GP, LLC.

(r) Preferred stock of Knight, Inc. (f.k.a, Kinder Morgan, Inc.) paying a fixed dividend rate of 8.33% until August 12, 2012 and LIBOR + 390 basis points thereafter. The maturity date for this security is August 12, 2057.

(s) 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.

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

(u) Floating rate letter of credit facility. Security pays interest at a rate of LIBOR less 12.5 basis points (5.07% as of November 30, 2007).

See accompanying notes to consolidated financial statements.

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KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
CONSOLIDATED SCHEDULE OF INVESTMENTS (CONCLUDED)
AS OF NOVEMBER 30, 2007
(amounts in 000 s)

(v) Floating rate senior secured first lien term loan facility. Security pays interest at a rate of LIBOR + 200 basis points (7.20% as of November 30, 2007).

(w) Prior to May 23, 2007, security was known as Coldren Resources, Inc. Floating rate senior secured first lien term loan. Security pays interest at a rate of LIBOR + 400 basis points (9.70% as of November 30, 2007).

(x) Floating rate senior secured second lien term loan facility. Security pays interest at a rate of LIBOR + 625 basis points (11.39% as of November 30, 2007).

(y) Floating rate unsecured bridge loan facility. Security pays interest at a rate of LIBOR + 363 basis points (8.85% as of November 30, 2007).

(z) Floating rate senior secured second lien term loan facility. Security pays interest at a rate of LIBOR + 575 basis points (11.13% as of November 30, 2007).

(aa) Floating rate senior secured second lien term loan facility. Security pays interest at a rate of LIBOR + 900 basis points (14.23% as of November 30, 2007).

(bb) Floating rate senior secured second lien term loan facility. Security pays interest at a rate of LIBOR + 450 basis points (9.38% as of November 30, 2007).

(cc) Fixed rate subordinated convertible note. Security is convertible into 350,000 common units at a conversion price of $20.00 per common unit.

(dd) Floating rate senior secured second lien term loan facility. Security pays interest at a rate of LIBOR + 550 basis points (10.73% as of November 30, 2007).

See accompanying notes to consolidated financial statements.

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

	August 31, 2008 (Unaudited)	November 30, 2007
ASSETS		
Investments, at fair value:		
Non-affiliated (Cost $165,487 and $195,941, respectively)	$ 152,245	$ 205,811
Affiliated (Cost $119,599 and $114,172, respectively)	147,576	120,891
U.S. Treasury Bills, at fair value (Cost $0 and $14,251, respectively)		14,250
Repurchase agreements (Cost $5,057 and $10,769, respectively)	5,057	10,769
Total investments (Cost $290,143 and $335,133, respectively)	304,878	351,721
Deposits with brokers	123	121
Receivable for securities sold	431	766
Interest, dividends and distributions receivable, net	381	1,515
Debt issuance costs, prepaid expenses and other assets	821	1,264
Total Assets	306,634	355,387
LIABILITIES		
Senior secured revolving credit facility	77,500	85,000
Treasury secured revolving credit facility		14,000
Payable for securities purchased		6,967
Investment management fee payable	1,339	1,355
Accrued directors fees and expenses	75	78
Accrued expenses and other liabilities	1,154	863
Deferred tax liability	2,377	1,991
Total Liabilities	82,445	110,254
NET ASSETS	$ 224,189	$ 245,133
NET ASSETS CONSIST OF		
Common stock, $0.001 par value (200,000,000 shares authorized at August 31, 2008 and November 30, 2007; 10,102,986 and 10,050,446 shares issued and outstanding at August 31, 2008 and November 30, 2007, respectively)	$ 10	$ 10
Paid-in capital	220,195	231,535
Accumulated net investment loss, net of income taxes, less dividends	(3,215)	(409)
Accumulated net realized losses on investments, net of income taxes	(1,828)	(19)
Net unrealized gains on investments, net of income taxes	9,027	14,016
NET ASSETS	$ 224,189	$ 245,133

NET ASSET VALUE PER SHARE	$	22.19	$	24.39

See accompanying notes to consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	August 31, 2008	August 31, 2007	August 31, 2008	August 31, 2007
INVESTMENT INCOME				
Income				
Dividends and Distributions:				
Non-affiliated investments	$ 2,217	$ 1,039	$ 6,477	$ 2,536
Affiliated investments	2,749	1,397	7,831	2,615
Total dividends and distributions	4,966	2,436	14,308	5,151
Return of capital	(3,825)	(2,187)	(12,844)	(4,625)
Net dividends and distributions	1,141	249	1,464	526
Interest:				
Non-affiliated investments (after foreign taxes withheld of $2 for the three and nine months ended August 31, 2008)	648	2,208	3,882	7,684
Affiliated investments	85	366	373	408
Total interest	733	2,574	4,255	8,092
Total investment income	1,874	2,823	5,719	8,618
Expenses				
Base investment management fees	1,328	1,251	4,052	3,428
Incentive investment management fees		(409)		
Bad debt expense			830	
Professional fees	229	299	719	707
Directors fees	76	73	240	210
Administration fees	54	59	202	173
Insurance	38	39	113	117
Custodian fees	20	21	61	53
Other expenses	162	126	441	295
Total Expenses Before Base Investment Management Fee Waivers and Interest Expense	1,907	1,459	6,658	4,983
Base investment management fee waivers		(351)		(973)
Interest expense	1,003	944	3,549	944
Total Expenses	2,910	2,052	10,207	4,954
Net Investment Income (Loss) Before Income Taxes	(1,036)	771	(4,488)	3,664

Deferred income tax benefit	386	233	1,682	331
Net Investment Income (Loss)	(650)	1,004	(2,806)	3,995
REALIZED AND UNREALIZED GAINS (LOSSES)				
Net Realized Gains (Losses)				
Investments	(6,340)	400	(2,851)	3,544
Foreign currency transactions	(30)		(30)	
Deferred income tax benefit	2,370		1,072	
Net Realized Gains (Losses)	(4,000)	400	(1,809)	3,544
Net Change in Unrealized Gains (Losses)				
Investments	(6,985)	(5,596)	(1,852)	7,316
Foreign currency translations	3		3	
Deferred income tax benefit (expense)	2,598	(550)	688	(900)
Deferred income tax expense conversion to a taxable corporation			(3,828)	
Net Change in Unrealized Gains (Losses)	(4,384)	(6,146)	(4,989)	6,416
Net Realized and Unrealized Gains (Losses)	(8,384)	(5,746)	(6,798)	9,960
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	$ (9,034)	$ (4,742)	$ (9,604)	$ 13,955

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended August 31, 2008 (Unaudited)	For the Year Ended November 30, 2007
OPERATIONS		
Net investment income (loss)	$ (2,806)	$ 3,606
Net realized gains (losses)	(1,809)	5,523
Net change in unrealized gains (losses)	(1,161)	6,251
Net change in unrealized losses conversion to taxable corporation	(3,828)	
Net Increase (Decrease) in Net Assets Resulting from Operations	(9,604)	15,380
DIVIDENDS AND DISTRIBUTIONS		
Dividends		(9,478)[2]
Distributions net realized long-term capital gains		(1,573)[2]
Distributions return of capital	(12,523)[1]	(2,415)[2]
Dividends and Distributions	(12,523)	(13,466)
CAPITAL STOCK TRANSACTIONS		
Issuance of 52,540 and 50,386 shares of common stock from reinvestment of dividends	1,183	1,272
Underwriting discount and offering expenses		33
Net Increase in Net Assets from Capital Stock Transactions	1,183	1,305
Total Increase (Decrease) in Net Assets	(20,944)	3,219
NET ASSETS		
Beginning of period	245,133	241,914
End of period	$ 224,189	$ 245,133

(1) This is an estimate of the characterization of a portion of the total dividends paid to common stockholders for the nine months ended August 31, 2008 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 dividends 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) The information presented in each of these items is a characterization of a portion of the total dividends paid to common stockholders for the fiscal year ended November 30, 2007 as either dividends (ordinary income) or distributions (long-term capital gains or return of capital). This characterization is based on the Company s earnings and profits.

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended August 31, 2008	Nine Months Ended August 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase (decrease) in net assets resulting from operations	$ (9,604)	$ 13,955
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Purchase of long-term investments	(58,886)	(274,292)
Sale of U.S. Treasury Bills	14,250	
Proceeds from sale of long-term investments	68,597	48,101
Sale of short-term investments, net	5,712	132,388
Realized losses (gains) on investments, net of $30 for foreign currency transactions	2,881	(3,544)
Return of capital distributions	12,844	4,625
Unrealized losses (gains) on investments	1,852	(7,316)
Increase in deferred tax liability	386	569
Accretion of bond discount	(407)	(354)
Increase in deposits with brokers	(2)	(18)
Decrease in receivable for securities sold	335	517
Decrease (increase) in interest, dividend and distributions receivable	1,134	(1,006)
Decrease (increase) in debt issuance costs, prepaid expenses and other assets	443	(939)
Increase (decrease) in payable for securities purchased	(6,967)	4,574
Increase (decrease) in investment management fee payable	(16)	323
Increase (decrease) in accrued directors fees and expenses	(3)	12
Increase in accrued expenses and other liabilities	291	55
Net Cash Provided by (Used in) Operating Activities	32,840	(82,350)
CASH FLOWS FROM FINANCING ACTIVITIES		
Underwriting discount and offering expenses		33
Borrowings from (repayments of) senior secured revolving credit facility	(7,500)	66,000
Borrowings from (repayments of) treasury secured revolving credit facility	(14,000)	25,000
Cash distributions to shareholders	(11,340)	(8,683)
Net Cash Provided by (Used in) Financing Activities	(32,840)	82,350
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 $1,183 and $721 for the nine months ended August 31, 2008 and August 31, 2007, respectively.

During the nine months ended August 31, 2008, state income and franchise taxes paid were $42 and interest paid was $2,881. During the nine months ended August 31, 2007, state income and franchise taxes paid were $1 and interest paid was $486.

See accompanying notes to consolidated financial statements.

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KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(amounts in 000 s, except per share amounts)
(UNAUDITED)

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, Inc. (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, 2007.

C. *Principles of Consolidation* 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.

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.

D. *Calculation of Net Asset Value* The Company determines its net asset value as of the close of regular session trading on the NYSE (normally 4:00 p.m. Eastern time) 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, dividends 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, except for short sales and call option contracts written, for which the last quoted asked price is used. 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

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(amounts in 000 s, except per share amounts)
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valued at the last sale price on the business day as of which such value is being determined at the close of 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 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.

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 will be 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, will be used for such securities:

Investment Team Valuation. The applicable investments will initially be valued by the investment adviser s senior professionals responsible for the portfolio investments.

Investment Team Valuation Documentation. Preliminary valuation conclusions will be documented and discussed with senior management of KA Fund Advisors, LLC (KAFA), the Company s investment adviser. Such valuations will be submitted to the Valuation Committee (a committee of the board of directors) on a quarterly basis. These valuations will 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.

Valuation Committee. The Valuation Committee shall meet 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 will be subject to ratification by the board at its next regular meeting.

Valuation Firm. No less frequently than quarterly, a third-party valuation firm engaged by the board of directors will review 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 consisted of certain limited procedures that the Company identified and requested them to perform. For the quarter ended August 31, 2008, the independent valuation firm provided limited procedures on investments in eight portfolio companies comprising approximately 68.0% of the total investments at fair value as of August 31, 2008. 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 will consider the valuations provided by KAFA and the Valuation Committee and ratify valuations for the applicable securities at each quarterly board meeting. The board of directors will consider 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 financial 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 purchase 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

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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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 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, the investment adviser 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 (SFAS) No. 157, Fair Value Measurements. 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 August 31, 2008, the Company held 92.5% of its net assets applicable to common stockholders (67.6% 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 August 31, 2008 was $207,396. (See Note 7 Restricted Securities).

At November 30, 2007, the Company held 80.7% of its net assets applicable to common stockholders (55.6% 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, 2007 was $197,733. (See Note 7 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. Dividend and distribution income is recorded on the ex-dividend date.

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(amounts in 000 s, except per share amounts)
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H. *Return of Capital Estimates* Distributions received from the Company s investments in master limited partnerships (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. Any return of capital portion of the distribution results in an equivalent reduction in the cost basis of the associated investments in each of the comparative periods and increases to Net Realized Gains and Net Change in Unrealized Gains in the accompanying Statement of Operations.

	Three Months Ended		Nine Months Ended	
	August 31, 2008	August 31, 2007	August 31, 2008	August 31, 2007
Distributions received, estimated as return of capital portion	77%	90%	90%	90%
Return of capital attributable to Net Realized Gains	$ 452	$ 37	$ 1,055	$ 223
Return of capital attributable to Net Change in Unrealized Gains	3,373	2,150	11,789	4,402
Total return of capital	$ 3,825	$ 2,187	$ 12,844	$ 4,625

For the six months ended May 31, 2008 the Company estimated the return of capital portion of distributions received to be 97%. The Company reduced its estimate of return of capital to 90% for the nine months ended August 31, 2008. The reduction to the estimate caused the return of capital percentage for the quarter ended August 31, 2008 to be 77%.

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. In accordance with Statement of Position (SOP) 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.

As of August 31, 2008, the Company has established a full reserve of $830, which represents past due interest accrued during the first quarter 2008, against its interest receivable from its term loan investment in ProPetro Services, Inc. This amount is presented on our Consolidated Statement of Operations as bad debt expense. The Company is not currently accruing interest income on its investment in ProPetro Services, Inc.

J. *Dividends and Distributions to Stockholders* Dividends and distributions to common stockholders are recorded on the ex-dividend date. The character of dividends 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 dividend until after the end of the fiscal year. The Company informs its common stockholders in January following the fiscal year of the character of dividends deemed paid during the fiscal year.

K. *Income Taxes* For these 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

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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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 net deferred tax asset, a valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred income tax asset will not be realized. Future realization of deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character in either the carryback or carryforward period under the tax law.

The Company may rely on information provided by the MLPs, which may not necessarily be timely, to estimate taxable income allocable to the MLP units held in the portfolio and to estimate the associated deferred tax liability. Such estimates are made in good faith and reviewed in accordance with the valuation process approved by the Board of Directors. From time to time, the Company modifies its estimates or assumptions regarding the deferred tax liability as new information becomes available.

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).

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.

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KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(amounts in 000 s, except per share amounts)
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3. FAIR VALUE

SFAS No. 157. In September 2006, the Financial Accounting Standards Board (FASB) issued Statement on Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. 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 August 31, 2008.

Assets at Fair Value	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)

Long-Term Investments	$ 299,821	$ 74,084	$ 18,341	$ 207,396

The Company did not have any liabilities that were measured at fair value on a recurring basis at August 31, 2008.

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(amounts in 000 s, except per share amounts)
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The following table presents our assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended August 31, 2008.

		Three Months Ended August 31, 2008
Balance May 31, 2008	$	198,785
Transfers out of Level 3		(12,275)
Realized gains		225
Unrealized losses, net		(1,888)
Purchases, issuances or settlements		22,549
Balance August 31, 2008	$	207,396

		Nine Months Ended August 31, 2008
Balance November 30, 2007	$	197,733
Transfers out of Level 3		(18,506)
Realized gains		225
Unrealized gains, net		5,395
Purchases, issuances or settlements		22,549
Balance August 31, 2008	$	207,396

The $1,888 of unrealized losses, net, and $5,395 of unrealized gains, net, presented in the tables above for the three and nine months ended August 31, 2008 relate to investments that are still held at August 31, 2008, and the Company presents these unrealized gains (losses) on the Consolidated Statement of Operations Net Change in Unrealized Gains (Losses).

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:

	August 31, 2008 (Unaudited)	November 30, 2007
Deferred tax assets:		
Organizational costs	$ (17)	$
Net operating loss carryforwards	(574)	(581)
Deferred tax liabilities:		
Net unrealized gains on investment securities	5,711	2,572
Tax effect of 2008 net investment loss and net realized loss	(2,743)	
Total net deferred tax liability	$ 2,377	$ 1,991

As of November 30, 2007, the Company had net operating loss carryforwards of $1,540. The federal and state net operating loss carryforwards available are subject to limitations on their annual usage. Realization of the deferred tax assets and net operating loss carryforwards is dependent, in part, on generating sufficient taxable

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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income prior to expiration of the loss carryforwards. If not utilized, the $1,540 will expire in 2027. There is no valuation allowance recorded on this deferred tax asset as the Company believes it is more likely than not that the asset will be utilized.

As of August 31, 2008 and November 30, 2007, the identified cost of investments for federal income tax purposes was $289,699 and $335,312, respectively. The cost basis of investments includes a $443 and $635 reduction in basis attributable to the Company s portion of the allocated losses from its MLP investments at August 31, 2008 and November 30, 2007, respectively. Gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

	August 31, 2008 (Unaudited)	November 30, 2007
Gross unrealized appreciation of investments	$ 41,015	$ 21,716
Gross unrealized depreciation of investments	(25,837)	(5,308)
Net unrealized appreciation before tax	$ 15,178	$ 16,408

For the nine and three months ended August 31, 2008, components of the Company s income tax expense were as follows:

	Three Months Ended August 31, 2008	Nine Months Ended August 31, 2008
Deferred income tax benefit net investment loss	$ 386	$ 1,682
Deferred income tax benefit realized losses	2,370	1,072
Deferred income tax benefit unrealized losses	2,598	688
Deferred income tax expense conversion to a taxable corporation		(3,828)
Income tax benefit (expense)	$ 5,354	$ (386)

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 August 31, 2008, 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.

Total income taxes are computed by applying the federal statutory rate plus a blended state income tax rate. For the three and nine months ended August 31, 2008, the combined federal and state rate for the Company is 37.2%. For the three and nine months ended August 31, 2008, the Company s overall effective tax rates were 37.2% and 78.9%. During the quarter ended February 29, 2008, the Company recorded a deferred income tax expense of $3,828 on certain unrealized gains on investments that were not taxed prior to the Company s conversion to a taxable corporation, which was effective December 1, 2007. The effective tax rate for the nine months ended August 31, 2008 was greater than the combined tax rate of 37.2% due to this deferred tax expense.

For the three and nine months ended August 31, 2007, the Company recorded a deferred income tax benefit of $233 and $331, respectively, and deferred income tax expense of $550 and $900, respectively, related to the investment activities of the Company s taxable subsidiaries.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(amounts in 000 s, except per share amounts)
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At November 30, 2007 when the Company was a RIC, it reported the following components of distributable earnings:

	November 30, 2007
Undistributed ordinary income	
Undistributed long-term capital gains	
Net unrealized gains on investments	$ 16,408
Total distributable earnings	$ 16,408

5. AGREEMENTS AND AFFILIATIONS

A. *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.

On July 10, 2007, the Company and KAFA entered into an agreement wherein KAFA voluntarily agreed to waive the portion of the management fee and any incentive fee under the investment management agreement with respect to any investments made with proceeds from borrowings under the Treasury Secured Revolving Credit Facility (the Treasury Facility), which the Company established on June 4, 2007. This agreement to waive a portion of the management fee will terminate at the earlier of the termination of the Treasury Facility or the investment management agreement.

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 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 and distributions on common stock and accrued and unpaid dividends on preferred stock and accrued liabilities (other than liabilities associated with leverage used by the Company). 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.

During the first twelve months of the Company s investment activities (from September 25, 2006 until September 24, 2007), KAFA contractually agreed to waive or reimburse the Company for base management fees in an amount equal on an annual basis to 0.50% of average total assets.

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.

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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.

For the three and nine months ended August 31, 2008, the Company incurred $1,328 and $4,052, respectively, in base management fees and did not pay any incentive fees.

For the three and nine months ended August 31, 2007, the Company paid $900 and $2,455, respectively, in base management fees, net of $351 and $973, respectively, in fee waivers. For the three months ended August 31, 2007, the Company reversed accrued incentive Capital Gains Fees of $409 due to unrealized losses at the end of the period. The company did not accrue any Net Investment Income fees during the three and nine months ended August 31, 2007.

The Company does not pay a management fee or any incentive fee with respect to any investments made under the Treasury Facility. This Facility was terminated on January 31, 2008, and all amounts of principal and interest were paid in full.

B. *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

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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.

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 and various advisory clients of KACALP and KAFA 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.

Millennium Midstream Partners, LP At August 31, 2008, the Company held a 39% limited partnership interest in Millennium Midstream Partners, LP (Millennium). The Company believes that the limited partner interests of Millennium 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 Millennium. Although the Company does not own any interest in the general partner of Millennium, it believes that it may be an affiliate of Millennium under the 1940 Act by virtue of its participation on the board of the general partner.

VantaCore Partners LP At August 31, 2008, 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.

Direct Fuels Partners, L.P. At August 31, 2008, 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

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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.

Non-Affiliated Investments.

International Resource Partners LP At August 31, 2008, the Company held a 28% limited partnership interest in International Resource Partners LP (IRI). The Company believes that the limited partner interests of IRI 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 IRI. 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 IRI. Accordingly, the Company believes that it is not an affiliate of IRI under the 1940 Act.

C. *Other Affiliations* The only period in the comparative periods for the three and nine months ended August 31, 2008 and August 31, 2007 for which KA Associates, Inc., an affiliate of KAFA, earned brokerage commissions was during the three months ended February 28, 2007, and this amount was less than $1.

6. INVESTMENT TRANSACTIONS

For the nine months ended August 31, 2008, the Company purchased and sold securities in the amount of $58,886 and $82,847 (including $0 and $14,250 of U.S. Treasuries, respectively, but excluding other short-term investments), respectively. For the nine months ended August 31, 2007, the Company purchased and sold securities in the amount of $274,292 and $48,101 (excluding short-term investments), respectively.

7. 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 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.

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At August 31, 2008, the Company holds 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	$ 1,886	$ 24.76	0.9%	0.6%
Crosstex Energy, L.P.	Common Units	(2)	28	825	706	25.40	0.3	0.2
Direct Fuels Partners, L.P.	Class A Common Units	(3)	2,500	45,549	52,000	20.80	23.2	17.0
International Resource Partners LP	Class A Common Units	(3)	1,500	27,774	36,000	24.00	16.1	11.7
Millennium Midstream Partners, LP	Class A Common Units	(3)	2,375	41,620	60,111	25.31	26.8	19.6
ProPetro Services, Inc.	Warrants	(3)	2,905	2,469				
ProPetro Services, Inc.	Term Loan	(3)	$ 35,000	32,375	20,000	n/a	8.9	6.5
Quest Midstream Partners, L.P.	Common Units	(3)	350	6,626	6,125	17.50	2.7	2.0
VantaCore Partners LP	Common Units	(3)	1,465	28,162	30,568	20.87	13.6	10.0
Total of securities valued in accordance with procedures established by the board of directors(4)				$ 187,400	$ 207,396		92.5%	67.6%
Athabasca Oil Sands Corp.	Corporate Bond		$ 2,500	$ 2,434	$ 2,400	n/a	1.1%	0.8%
Dresser, Inc.	Term Loan		$ 5,000	4,797	4,831	n/a	2.2	1.6
	Corporate Bond		$ 4,000	3,806	3,620	n/a	1.6	1.2

Hilcorp Energy Company							
Stallion Oilfield Services Ltd.	Term Loan	$ 5,000	4,918	4,225	n/a	1.9	1.4
Targa Resources, Inc.	Corporate Bond	$ 2,580	2,625	2,451	n/a	1.1	0.8
Targa Resources Investments, Inc.	Term Loan	$ 1,019	726	739	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)(5)(6)			$ 19,717	$ 18,341		8.2%	6.0%
Total of all restricted securities			$ 207,117	$ 225,737		100.7%	73.6%

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

(2) Security subject to lock-up agreement.

(3) Unregistered security of a private company.

(4) 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.

(5) Securities with a fair market value determined by the mean of the bid and ask prices provided by a syndicate bank or principal market maker. These securities have limited trading volume and are not listed on a national exchange. The syndicate bank or principal market maker is the active exchange for such security.

(6) Restricted securities that represent Level 2 categorization under SFAS No. 157. Securities are valued using prices provided by a principal market maker, syndicate bank or an independent pricing service as more fully described in Note 2 Significant Accounting Policies.

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At November 30, 2007, the Company holds 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
Atlas Energy Resources, LLC	Common Units	(1)(2)(3)	91	$ 2,211	$ 2,706	$ 29.72	1.1%	0.8%
Atlas Energy Resources, LLC	Common Units	(1)(2)	40	995	1,199	30.15	0.5	0.3
BreitBurn Energy Partners L.P.	Common Units	(2)	73	2,271	2,102	28.89	0.9	0.6
Constellation Energy Partners LLC	Common Units	(1)(2)(4)	36	1,236	1,217	33.40	0.5	0.3
Constellation Energy Partners LLC	Common Units	(1)(2)	29	1,001	967	33.56	0.5	0.3
Copano Energy, L.L.C.	Common Units	(1)(2)	72	2,500	2,590	35.91	1.1	0.7
Direct Fuels Partners, L.P.	Class B Common Units	(5)	2,500	44,109	46,675	18.67	19.0	13.1
Direct Fuels Partners, L.P.	Class A Warrants	(5)	2,500	4,700	4,575	1.83	1.9	1.3
International Resource Partners LP	Class A Common Units	(5)	1,500	29,393	30,000	20.00	12.2	8.4
Millennium Midstream Partners, LP	Class B Common Units	(5)	2,375	40,635	44,223	18.62	18.0	12.4
Millennium Midstream Partners, LP	Class A Warrants	(5)	2,375	3,919	3,278	1.38	1.3	0.9
ProPetro Services, Inc.	Warrants	(5)	2,905	2,469	109	0.04		
	Term Loan	(5)	$ 35,000	32,092	34,326	n/a	14.0	9.7

ProPetro Services, Inc.								
Quest Midstream Partners, L.P.	Common Units	(5)	350	7,000	7,000	20.00	2.9	2.1
VantaCore Partners LP	Common Units	(1)(5)	91	1,770	1,916	21.00	0.8	0.5
VantaCore Partners LP	Convertible Note	(5)	$ 7,000	7,030	7,350	n/a	3.0	2.1
VantaCore Partners LP	Term Loan	(5)	$ 7,500	7,500	7,500	n/a	3.0	2.1
Total of securities valued in accordance with procedures established by the board of directors(6)				$ 190,831	$ 197,733		80.7%	55.6%
Beryl Oil and Gas LP	Term Loan	(5)(7)	$ 2,933	$ 2,960	$ 2,890	n/a	1.2%	0.8%
CDX Funding, LLC	Term Loan	(5)(7)	$ 4,550	4,645	4,345	n/a	1.8	1.2
Dresser, Inc.	Term Loan	(5)(7)	$ 5,000	4,775	4,800	n/a	2.0	1.4
Knight, Inc.	Preferred Stock	(5)	5	5,031	4,965	n/a	2.0	1.4
SandRidge Energy Inc.	Bridge Loan	(5)(7)	$ 5,700	5,699	5,700	n/a	2.3	1.6
Seitel, Inc.	Corporate Bond	(5)	$ 2,000	1,972	1,730	n/a	0.7	0.5
SemGroup, L.P.	Corporate Bond	(5)	$ 9,000	8,935	8,595	n/a	3.5	2.4
Stallion Oilfield Services Ltd.	Term Loan	(5)(7)	$ 5,000	4,906	4,925	n/a	2.0	1.4
Targa Resources, Inc.	Corporate Bond	(5)	$ 4,580	4,604	4,488	n/a	1.8	1.3
Targa Resources, Inc.	Letter of Credit	(5)(7)	$ 1,664	1,660	1,637	n/a	0.7	0.5
Targa Resources, Inc.	Term Loan	(5)(7)	$ 2,983	3,001	2,934	n/a	1.2	0.8
Trident Resources Corp.	Warrants	(5)(7)	100	411	75	$ 0.75		
Total of securities valued by prices provided by market maker or independent pricing service(8)				$ 48,599	$ 47,084		19.2%	13.3%
Total of all restricted securities				$ 239,430	$ 244,817		99.9%	68.9%

(1) Security subject to lock-up agreement.

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

(3) These exchange listed Common Units were converted from Class D units on November 14, 2007.

(4) These exchange listed Common Units were converted from Class F units on November 12, 2007.

(5) Unregistered security of a private company.

(6) Restricted securities 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.

(7) Securities with a fair market value determined by the mean of the bid and ask prices provided by a syndicate bank or principal market maker. These securities have limited trading volume and are not listed on a national exchange. The syndicate bank or principal market maker is the active exchange for such security.

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(8) Restricted securities that are valued using prices provided by a principal market maker, syndicate bank or an independent pricing service as more fully described in Note 2 Significant Accounting Policies.

8. 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 initial availability of $100,000 with the ability to increase availability to $250,000. Interest on the Investment Facility will be 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 will 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 its credit 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 (see Note 11 Subsequent Events).

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 (excluding collateral under the Treasury Facility) less liabilities (other than indebtedness) to aggregate indebtedness (excluding indebtedness under the Treasury Facility and 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.

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As of August 31, 2008, the Company had $77,500 of borrowings under its Investment Facility at a weighted average interest rate of 3.72%. As of August 31, 2008, the Company was in compliance with all financial and operational covenants required by the Investment Facility.

9. FINANCIAL HIGHLIGHTS

The following is a schedule of financial highlights for the nine months ended August 31, 2008, the year ended November 30, 2007 and the period September 21, 2006 (inception) to November 30, 2006.

	August 31, 2008 (Unaudited)	November 30, 2007	November 30, 2006
Per Share of Common Stock			
Net asset value, beginning of period	$ 24.39	$ 24.19	$ 23.32
Income (Loss) from Operations[(1)]			
Net investment income (loss)	(0.28)	0.36	0.09
Net realized and unrealized gain (loss) on investments	(0.29)	1.18	0.78
Net change in unrealized losses conversion to taxable corporation	(0.38)		
Total income (loss) from investment operations	(0.95)	1.54	0.87
Dividends and Distributions[(2)]			
Dividends		(0.95)	
Distributions from net realized long-term capital gains		(0.15)	
Distributions return of capital	(1.25)	(0.24)	
Total Dividends and Distributions	(1.25)	(1.34)	
Net asset value, end of period	$ 22.19	$ 24.39	$ 24.19
Market value per share, end of period	$ 22.85	$ 23.14	$ 22.32
Total investment return based on market value[(3)]	4.3%	9.3%	(10.7)%
Supplemental Data and Ratios[(4)]			
Net assets, end of period	$ 224,189	$ 245,133	$ 241,914
Ratio of expenses to average net assets:[(5)]			
Excluding investment management fee waivers, deferred income taxes, interest expense and bad debt	3.3%	2.8%	3.1%

expense			
Excluding investment management fee waivers, deferred income taxes and bad debt expense	5.4%	3.8%	3.1%
Including investment management fee waivers, deferred income taxes and bad debt expense	6.1%	4.2%	2.6%
Ratio of net investment income (loss) to average net assets	(1.6)%	1.5%	1.9%
Net increase (decrease) in net assets resulting from operations to average net assets	(4.1)%(6)	6.2%	3.7%(6)
Portfolio turnover rate	19.2%(6)	28.8%	5.6%(6)
Average amount of borrowings outstanding under the Credit Facilities	$ 79,111	$ 32,584	
Average amount of borrowings outstanding per share of common stock during the period	$ 7.86	$ 3.25	

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(1) Based on average shares of common stock outstanding of 10,063,607 for the nine months ended August 31, 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 nine months ended August 31, 2008 is a current estimate of the characterization of a portion of the total dividends paid to common stockholders. The information presented for each of the other periods is a characterization of a portion of the total dividends paid to common stockholders as either dividends (ordinary income) or distributions (long-term capital gains or return of capital). This characterization is based on the Company s earnings and profits.

(3) Not annualized for the nine months ended August 31, 2008 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 dividends, 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 and average net assets.

	August 31, 2008 (Unaudited) Ratio of Expense to		November 30, 2007 Ratio of Expense to		November 30, 2006 Ratio of Expense to	
	Average Total Assets	Average Net Assets	Average Total Assets	Average Net Assets	Average Total Assets	Average Net Assets
Management fees	1.7%	2.3%	1.7%	2.0%	1.6%	1.7%
Other expenses	0.7	1.0	0.7	0.8	1.3	1.4
Total expenses excluding management fee waivers, deferred income taxes, interest expense and bad debt expense	2.4%	3.3%	2.4%	2.8%	2.9%	3.1%
Interest expense	1.5	2.1	0.9	1.0		
Total expenses excluding management fee waivers, deferred income taxes and bad	3.9%	5.4%	3.3%	3.8%	2.9%	3.1%

debt expense						
Management fee waivers			(0.4)	(0.4)	(0.4)	(0.5)
Bad debt expense	0.3	0.5				
Deferred tax expense	0.2	0.2	0.7	0.8		
Total expenses including management fee waivers, deferred income taxes and bad debt expense	4.4%	6.1%	3.6%	4.2%	2.5%	2.6%
Average total assets	$ 321,966		$ 290,922		$ 246,802	
Average net assets		$ 232,069		$ 248,734		$ 235,199

(6) Not annualized.

10. COMMON STOCK

The Company has 200,000,000 shares of common stock authorized. Transactions in common shares for the nine months ended August 31, 2008 were as follows:

Shares outstanding at November 30, 2007	10,050,446
Shares issued through reinvestment of dividends and distributions	52,540
Shares outstanding at August 31, 2008	10,102,986

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONCLUDED)
(amounts in 000 s, except per share amounts)
(UNAUDITED)

11. SUBSEQUENT EVENTS

On October 2, 2008, the Company declared its quarterly dividend of $0.42 per common share for the period June 1, 2008 through August 31, 2008. The dividend will be payable on October 30, 2008 to shareholders of record on October 17, 2008.

On October 2, 2008, the Company s board of directors unanimously approved a one year renewal of the investment management agreement, as amended, with KAFA.

On October 1, 2008, Millennium, one of the Company s portfolio companies, was sold to Eagle Rock Energy Partners, L.P. (Eagle Rock), for total consideration of approximately $235.5 million, consisting of $180.5 million of cash and 4.0 million Eagle Rock unregistered common units, with an implied value of $13.75 per unit. The Company s portion of the sale proceeds consisted of $37.5 million in cash and 1.7 million of unregistered common units of Eagle Rock. A portion of the Company s proceeds ($0.2 million cash and 0.7 million units) has been placed into escrow for up to 18 months pending any claims that could reduce the purchase price. The Company believes that significantly all of the escrow proceeds will be released and expects to realize a gain on the sale of Millennium of approximately $17.0 million. The Company will incur an unrealized loss or gain on the Eagle Rock units depending on the market price relative to the cost basis, which is equal to approximately 92% of $13.75 per unit.

On September 19, 2008, the Company amended its credit 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. The amendment increased the percent of total borrowing base that comes from private MLPs to 45% from 35%, which has the effect of increasing its borrowing base. In conjunction with this amendment, the Company agreed to limit the single issuer contribution to borrowing base to 10% of the revolving commitment amount of $100 million.

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, 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 organized under the laws of the State of Maryland that has elected to be treated as a business development company (BDC) under the Investment Company Act of 1940, as amended (1940 Act). Prior to December 1, 2007, we elected to be treated as a regulated investment company (RIC) for tax purposes under the Internal Revenue Code of 1986, as amended (the Code).

On January 22, 2008, we announced that we no longer intend to be treated as a RIC under the Code. 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 will continue to be externally managed and advised by our investment adviser, KA Fund Advisors, LLC (KAFA), pursuant to an investment management agreement. We invest primarily in energy companies that are not publicly traded (private). Our primary investment objective is to generate both current income and capital appreciation primarily through debt and equity investments. We will seek to achieve this objective by investing at least 80% of our net assets together with the proceeds of any borrowings (our total assets) in securities of companies that derive the majority of their revenue from activities in the energy industry (Energy Companies), including:
(a) Midstream Energy Companies, which are businesses that operate assets used to gather, transport, process, treat, terminal and store natural gas, natural gas liquids, propane, crude oil or

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refined petroleum products; (b) Upstream Energy Companies, which are businesses engaged in the exploration, extraction and production of natural resources, including natural gas, natural gas liquids and crude oil, from onshore and offshore geological reservoirs; and (c) Other Energy Companies, which are businesses engaged in owning, leasing, managing, producing, processing and sale of coal and coal reserves; the marine transportation of crude oil, refined petroleum products, liquefied natural gas, as well as other energy-related natural resources using tank vessels and bulk carriers; and refining, marketing and distributing refined energy products, such as motor gasoline and propane to retail customers and industrial end-users.

A key focus area for our investments in the energy industry will continue to be equity and debt investments in Midstream Energy Companies structured as limited partnerships. We also expect to evaluate equity and debt investments in Other Energy Companies, and debt investments in Upstream Energy Companies. We refer to these investments as our Targeted Investments. Under current market conditions, we expect that our Targeted Investments will generally range in size from $10 million to $60 million, although a few investments may be in excess of this range.

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 facilities. We currently expect to use leverage in an aggregate amount equal to 30% of our total assets, which includes assets obtained through such leverage.

Current Business Market and Climate

Since the end of our fiscal third quarter, the global credit crisis has intensified. During this period, the market prices for publicly traded MLP securities have declined substantially. Likewise, because our private MLP securities are valued, in part, based on public MLP values, we expect that the value of our private MLP securities has also declined.

Portfolio and Investment Activity

Our investments as of August 31, 2008 were comprised of equity securities of $261.5 million and fixed income investments of $38.3 million.

As outlined in the table below, we have reconfigured our portfolio of investments during fiscal 2008 increasing our investments in private MLPs and decreasing our holdings in fixed income investments. This change is consistent with our stated strategy when we announced our election to no longer be treated as a RIC.

	Percent of Long-Term Investments	
	August 31, 2008	**November 30, 2007**
Publicly Traded MLP and MLP Affiliate	25.6%	28.4%
Private MLP	61.6	42.1
Other Private Equity	0.0	1.6
Fixed Income Investments	12.8	27.9
	100.0%	100.0%

During the nine months ended August 31, 2008, we have converted certain holdings in Millennium Midstream Partners, LP, VantaCore Partners LP and Direct Fuels Partners, L.P. into common units. Each of these conversions did not change the underlying economics of our investment but was done subsequent to our election to become a taxable corporation in an effort to simplify our holdings in such investments.

On August 4, 2008, $7.5 million of our senior secured loan fixed income investment was redeemed at 103%, and we used these proceeds along with $12.3 million of cash on hand to purchase additional VantaCore common units totaling $20.0 million.

Certain of our fixed income securities accrue interest at variable rates determined on a basis of a benchmark, such as 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 August 31, 2008, 78%, or $29.8 million, of our interest-bearing portfolio is floating rate debt and 22%, or $8.5 million, is fixed rate debt.

Our Top Ten Portfolio Investments as of August 31, 2008

Listed below are our top ten portfolio investments as of August 31, 2008, represented as a percentage of our total assets[(1)].

	Investment	Public/ Private	Sector		Amount ($ in millions)	Percent of Total Assets
1.	Millennium Midstream Partners, LP[(2)]	Private	Midstream Specialty Processing and Distribution	$	60.1	19.6%
2.	Direct Fuels Partners, L.P.[(3)]	Private	Midstream Gas Gathering		52.0	17.0
3.	International Resource Partners LP[(4)]	Private	Coal		36.0	11.7
4.	VantaCore Partners LP[(5)]	Private	Aggregates and Mining		30.6	10.0
5.	ProPetro Services, Inc.[(6)]	Private	Oilfield Services		20.0	6.5
6.	Enterprise Products Partners L.P.	Public	Midstream		7.5	2.4
7.	Quest Midstream Partners, L.P.[(7)]	Private	Midstream		6.1	2.0
8.	ONEOK Partners, L.P.	Public	Midstream		5.5	1.8
9.	Plains All American Pipeline, L.P.	Public	Midstream		4.9	1.6
10.	Dresser, Inc.	Private	Oilfield Services		4.8	1.6
	TOTAL			$	227.5	74.2%

(1) Total assets were $306.6 million as of August 31, 2008.

(2) Our investment in Millennium Midstream Partners, LP includes 2,375,000 Class A common units, which represents a 39% limited partnership interest, and 212 incentive distribution rights (21% of total outstanding incentive distribution rights).

(3) Our investment in Direct Fuels Partners, L.P. includes 2,500,000 Class A common units, which represents a 38% limited partnership interest, and 200 incentive distribution rights (20% 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 VantaCore Partners LP includes 1,464,673 common units ($30.6 million), which represents a 39% limited partnership interest, and 1,823 incentive distribution rights (18% of total outstanding incentive

distribution rights).

(6) Our investment in ProPetro Services, Inc. includes a senior secured second lien term loan ($20.0 million) and 2,904,620 warrants ($0).

(7) Our investment in Quest Midstream Partners, L.P. includes 350,000 common units, which represents a 2.5% limited partnership interest.

Results of Operations For the three and nine months ended August 31, 2008

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

Investment Income. Investment income totaled $1.9 million and $5.7 million and consisted primarily of interest income on our short-term investments in fixed income investments and repurchase agreements. We earned $5.0 million and $14.3 million of cash dividends and distributions, of which $3.8 million and $12.8 million was treated as a return of capital during the period. During the period, we lowered our estimate of return of capital from

97% to 90% based on 2007 K-1 data received from the MLPs. Consistent with second quarter 2008, we elected to no longer accrue interest on our ProPetro investment.

Operating Expenses. Total operating expenses totaled $2.9 million and $10.2 million, including $1.3 million and $4.0 million of base investment management fees; $1.0 million and $3.5 million for interest expense and $0.6 million and $2.7 million for other operating expenses. During the second quarter, 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 nine 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 $0.6 million and $2.8 million, which consisted of $1.9 million and $5.7 million of investment income. This investment income was reduced by total operating expenses of $2.9 million and $10.2 million and offset by deferred income tax benefits of $0.4 million and $1.7 million.

Net Realized Losses. We had net realized losses from our investments of $4.0 million and $1.8 million, which was net of deferred tax benefit of $2.4 million and $1.1 million. Our realized losses of $5.0 million on the sale of equity and debt securities of SemGroup were the driver of the realized loss during the third quarter.

Net Change in Unrealized Gains (Losses). We had net unrealized losses from our investments of $4.4 million and $5.0 million, both of which are net of tax. For the nine months ended, unrealized gains on our private MLPs were offset by unrealized losses on our public MLP portfolio. For the three months ended, the net unrealized losses consisted of $7.0 million of losses from our investments and a net deferred tax benefit of $2.6 million. For the nine months ended, the net unrealized losses consisted of $1.9 million of losses from our investments; a net deferred tax benefit of $0.7 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 Decrease in Net Assets Resulting from Operations. For the three months ended, our net decrease in net assets resulting from operations for the period was $9.0 million. This increase is composed of the net unrealized losses of $4.4 million; net realized losses of $4.0 million and net investment losses of $0.6 million as noted above.

For the nine months ended, our net decrease in net assets resulting from operations for the period was $9.6 million. This decrease is composed of the net unrealized losses of $5.0 million, net realized losses of $1.8 million and net investment losses of $2.8 million as noted above.

Results of Operations For the three and nine months ended August 31, 2007

Set forth below is an explanation of our results of operations for the three and nine months ended August 31, 2007, respectively.

Investment Income. Investment income totaled $2.8 million and $8.6 million and consisted primarily of interest income on our short-term investments in repurchase agreements and fixed income investments. We earned $2.4 million and $5.1 million of cash dividends and distributions, substantially all of which were treated as a return of capital during the period.

Operating Expenses. Total operating expenses totaled $2.0 million and $4.9 million, including $0.9 million and $2.4 million of base and incentive investment management fees (net of fee waivers) and $0.3 million and $0.7 million for professional fees. Base investment management fees (net of fee waivers) were equal to an annual rate of 1.25% of

average total assets.

Net Investment Income. Our net investment income totaled $1.0 million and $4.0 million, which consisted of $2.8 million and $8.6 million of investment income, primarily from our interest income on short-term investments in repurchase agreements. Investment income was reduced by total operating expenses totaling $2.0 million and $4.9 million and increased by deferred income tax benefits of $0.2 million and $0.3 million.

Net Realized Gains. We had net realized gains from our investments of $0.4 million and $3.5 million.

Net Change in Unrealized Gains (Losses). We had net unrealized losses from our investments of $6.1 million and net unrealized gains from our investments of $6.4 million, which are net of deferred tax expense of $0.5 million and $0.9 million.

Net Increase (Decrease) in Net Assets Resulting from Operations. Our net decrease in net assets resulting from operations was $4.7 million , and our net increase in net assets resulting from operations was $14.0 million. These changes are composed primarily of the change in net unrealized losses of $6.1 million and net unrealized gains of $6.4 million, net investment income of $1.0 million and $4.0 million, and net realized gains of $0.4 million and $3.5 million as noted above.

Liquidity and Capital Resources

As of August 31, 2008, we had approximately $5.1 million invested in short-term repurchase agreements. As of October 7, 2008, we had approximately $2.7 million in repurchase agreements. Our repurchase agreements are collateralized by U.S. Treasury Notes, and our counterparty is J.P. Morgan Securities Inc.

As of August 31, 2008, we had $77.5 million of borrowings (with $22.5 million remaining available) under our Investment Facility at a weighted average interest rate of 3.72%. As of October 7, 2008, we had $37.0 million of borrowings (with $63.0 million remaining available) under our Investment Facility at a weighted average interest rate of 3.74%.

On June 4, 2007, we established two new syndicated credit facilities the Senior Secured Revolving Credit Facility (the Investment Facility) and the Treasury Secured Revolving Credit Facility (the Treasury Facility) totaling $200 million with SunTrust Capital Markets, Inc. and Citigroup Capital Markets as co-arrangers. 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 and bears interest, at our option, at either (i) LIBOR plus 125 basis points or (ii) the prime rate plus 25 basis points.

On January 31, 2008, we terminated the Treasury Facility. All amounts of principal and interest were paid in full, and we sold $14.4 million of U.S. Treasury Bills, which were held as collateral for our amount outstanding under the Treasury Facility. The Treasury Facility enabled us to comply with certain requirements necessary to qualify as a RIC. We terminated this facility due to our decision to no longer be treated as a RIC.

On February 21, 2008, the Company amended its Investment Facility to reflect its announcement on January 22, 2008 that it would no longer be treated as a RIC under the Code and that it will 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 its credit 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. The amendment increased the percent of total borrowing base that comes from private MLPs to 45% from 35%, which has the effect of increasing its borrowing base. In conjunction with this amendment, the Company agreed to limit the single issuer contribution to borrowing base to 10% of the revolving commitment amount of $100 million.

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 (excluding collateral and indebtedness under the Treasury Facility) 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. The Investment Facility allows us to supplement our equity capital to continue to make portfolio investments.

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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 nine months ended August 31, 2008, we accrued and paid $1.3 million and $4.0 million in base management fees and did not accrue or pay any incentive fees. We did not accrue or pay a management fee or any incentive fee with respect to any investments made under the Treasury Facility, which was terminated on January 31, 2008.

As of August 31, 2008, 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 as of August 31, 2008 described above under Liquidity and Capital Resources.

The following table summarizes our obligations as of August 31, 2008 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)]	$ 77.5		$ 77.5		

(1) At August 31, 2008, $22.5 million remained available for borrowing under our Investment Facility.

Dividends

We intend to continue to distribute quarterly dividends to our common stockholders. Our quarterly dividends, if any, will continue to be determined by our board of directors. On July 31, 2008, we paid a dividend to our common stockholders of $0.42 per common share (for the period from March 1, 2008 to May 31, 2008), totaling $4.2 million.

On October 2, 2008, we declared our quarterly dividend of $0.42 per common share for the period June 1, 2008 to August 31, 2008 for a total of $4.2 million. The dividend is payable on October 30, 2008 to shareholders of record on October 17, 2008.

Prior to our election to be taxed as a corporation, dividends paid by us were generally taxable to stockholders as capital gains, ordinary income or return of capital. After giving effect to the election, our stockholders will no longer recognize an allocable share of our capital gains or ordinary income. Instead, the component of our dividend 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. We expect that a significant portion of future dividends to shareholders will constitute a

tax-deferred return of capital.

Off-Balance Sheet Arrangements

At August 31, 2008, 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, other than the investment advisory and management agreement with KAFA.

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, 2007 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, in most cases, 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 August 31, 2008, the fair value of our floating rate investments, excluding our ProPetro investment where we are not accruing interest, totaled approximately $9.8 million, or 54% of our total debt investments of $18.3 million (excluding ProPetro). Based on sensitivity analysis of the ($11.0 million par value) floating rate debt investment portfolio at August 31, 2008, 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 August 31, 2009 would either decrease or increase net investment income before income taxes by approximately $0.1 million.

On January 31, 2008, we terminated the Treasury Facility. All amounts of principal and interest were paid in full, and we sold all of our U.S. Treasury Bills, which were held as collateral for our amount outstanding under the Treasury Facility. The Treasury Facility enabled us to comply with certain requirements necessary to qualify as a RIC. We terminated this facility due to our decision to no longer be treated as a RIC.

As of August 31, 2008, we had $77.5 million of borrowings under our Investment Facility at a weighted average interest rate of 3.72%. This interest rate is based on a LIBOR, which can have a one to twelve month duration. Based on sensitivity analysis of the Investment Facility at August 31, 2008, 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 August 31, 2009 would either decrease or increase net investment income before income taxes by approximately $0.8 million.

We may hedge against interest rate fluctuations for these floating rate instruments using standard hedging instruments such as futures, 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.

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ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Controls and Procedures.

At the end of the period covered by this Quarterly Report on Form 10-Q, 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.

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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, 2007.

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.

On June 17, 2008, we held our 2008 Annual Meeting of Stockholders in Los Angeles, California for the purpose of considering and voting upon the election of directors and a proposal to authorize the Company to sell shares of its common stock for less than net asset value per share, subject to certain conditions. Votes were cast as follows:

Proposal One:

Nominee	For	Withheld
William R. Cordes	7,134,418	249,681
Barry R. Pearl	7,134,081	250,018

Both nominees were elected to the board of directors to serve for a term of three years (until the 2011 Annual Meeting of Stockholders) or until their successors have been duly elected and qualified. Kevin S. McCarthy, Albert L. Richey, Robert V. Sinnott and William L. Thacker continue to serve as directors of the Company.

Proposal Two:

Holders in Favor	Total Holders
3	6

Votes in Favor	Votes Against	Votes Withheld

4,550,809	737,079	92,818

This proposal did not pass at the Annual Meeting of Stockholders.

ITEM 5. OTHER INFORMATION.

Not applicable.

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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	Form of Administration Agreement between Registrant and Bear Stearns Funds Management Inc.*
10.3	Form of Custody Agreement between Registrant and The Custodial Trust Company.*
10.4	Form of 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 filed herewith.
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 Amended Dividend Reinvestment Plan.**
99.2	Form of Fee Waiver Relating to Treasury Credit Investments between Registrant and KA Fund Advisors, LLC.**

* 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 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.

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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

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

Date: October 10, 2008

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

Date: October 10, 2008