Kayne Anderson MLP Investment CO
Form N-CSR
February 08, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM N-CSR
CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-21593

Kayne Anderson MLP Investment Company

(Exact name of registrant as specified in charter)

1800 Avenue of the Stars, Second Floor, Los Angeles, California	90067
(Address of principal executive offices)	(Zip code)

David Shladovsky, Esq.
Kayne Anderson Capital Advisors, L.P., 1800 Avenue of the Stars, Second Floor, Los Angeles, California 90067

(Name and address of agent for service)
Registrant s telephone number, including area code: (310) 556-2721
Date of fiscal year end: November 30, 2005
Date of reporting period: November 30, 2005

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Reports to Stockholders.

The report of Kayne Anderson MLP Investment Company (the Registrant) to stockholders for the year ended November 30, 2005 is attached below.

MLP Investment Company

ANNUAL REPORT November 30, 2005

CONTENTS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS: This report contains forward-looking statements as defined under the U.S. federal securities laws. Generally, the words believe, expect, intend, estimate, anticipate, project, will and similar expressions identify forward-looking statements, which gen are not historical in nature. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ from the Company s historical experience and its present expectations or projections. These risks include, but are not limited to, changes in economic and political conditions; regulatory and legal changes; MLP industry risk; leverage risk; valuation risk; interest rate risk; tax risk; and other risks discussed in the Company s filings with the SEC. You should not place undue reliance on forward-looking statements, which speak only as of the date they are made. The Company undertakes no obligation to publicly update or revise any forward-looking statements. There is no assurance that the Company s investment objectives will be attained.

KAYNE ANDERSON MLP INVESTMENT COMPANY
LETTER TO STOCKHOLDERS

January 23, 2006

Dear Fellow Stockholders:

It has been an exciting and active year for the Company and we are pleased with the Company s performance during the twelve months ended November 30, 2005. We continue to believe that the MLP sector will provide attractive risk adjusted returns and that we have assembled a very experienced team to take advantage of the opportunities we see in this sector.

One of the measures employed by us to evaluate our performance is the change in our Adjusted Net Asset Value per share, which is equal to the Net Assets per common share plus cumulative dividends paid per common share. During the year ended November 30, 2005 (fiscal 2005), our Adjusted Net Asset Value per share increased by $2.655, or 11.1%, from $23.91 as of November 30, 2004 to $26.565 as of November 30, 2005. During this same period, we calculated that the market-weighted composite of 41 MLPs (the MLP Composite) had a total return (total return is defined as unit price appreciation plus distributions) of 10.5%.

We were very active on both the investing and capital raising fronts, having made net investments of $780 million and having raised new capital of $416 million. The majority of these investments were made through the completion of 11 private transactions for a total of $728 million. As a result of our capital raising activity, as well as the performance of our investments, our long-term investments have increased to $1.26 billion at November 30, 2005 compared to $380 million at November 30, 2004. Approximately 96% of these long-term investments were securities of MLPs or MLP Affiliates.

Market Overview

The MLP sector during calendar 2005 once again exhibited strong performance, especially from an operational perspective. Based on public filings, we believe the sector broke previous records for equity capital raised, acquisitions completed and capital spent on internal growth projects. Largely as a result of these factors, the MLP Composite increased dividends by 9.5% during calendar 2005. The strongest performing sectors in terms of dividend growth were the Coal MLP sector and the Pipeline MLP sector, which increased dividends by an average of 21.0% and 9.3%, respectively.

The stock market performance of the MLP group was mixed during the year. The MLP Composite performed extremely well during the first seven months of the calendar year, then gave back some of the gains in the last five months of the year. From January 1, 2005 through July 31, 2005, the MLP Composite generated a total return of approximately 16.3%. From August 1, 2005 through December 31, 2005, the MLP Composite generated a total return of negative 9.0%. We believe that much of the declining performance during the last five months of calendar 2005 was due to investor concerns about rising short term interest rates, as well as a very heavy new issuance calendar. During calendar year 2005, short term interest rates (1-month LIBOR) increased from 2.40% to 4.39%. Based on public filings, total public equity capital raised from August 1, 2005 through December 31, 2005 was $3.1 billion, which is slightly less than the total equity capital raised in the public markets during all of calendar 2004.

Total return for the MLP composite was 5.9% during calendar 2005, as negative stock price performance offset increasing cash distributions. For comparative purposes, our Adjusted Net Asset Value per share increased by 8.7% during calendar 2005.

Shipping and Other MLPs (five MLPs which represent only 4% of total MLP equity capitalization) was the strongest performing sub-sector, generating total returns of approximately 9.1% during calendar 2005. The Pipeline MLP sub-sector also had a strong performance, with total returns of 6.6%. In the pipeline sector, distributions increased by an average of 9.3%, which was offset by an increase in the average yield from 6.1% at January 1, 2005 to 6.8% at December 31, 2005.

KAYNE ANDERSON MLP INVESTMENT COMPANY
LETTER TO STOCKHOLDERS (CONTINUED)

The Propane MLP sub-sector generated total returns of negative 0.4% during calendar 2005. This performance was largely due to a substantial increase in the average yield for this sub-sector, as investors worried whether high commodity prices would lead to widespread conservation and lower propane consumption.

The Coal MLP sub-sector generated total returns of 3.1% during the period, as substantial increases in distributions (average increase of 21.0%) were offset by substantially higher yields as most of the distribution increases that investors expected were realized in calendar 2005.

There were nine MLP IPOs completed during calendar 2005, raising almost $1.4 billion, including the IPO of two general partners. These IPOs ended the year at prices that averaged 28% above their IPO price.

2006 Outlook

We expect a number of factors to impact the performance of MLPs during 2006. We believe that significant investment challenges exist, while opportunities remain excellent. As was the case in 2005, we believe that stock selection will be an important key to long-term investment success.

We believe that the acquisition prospects for MLPs remain quite good, with many packages of midstream assets on the market or available for sale that fit well in the portfolios of many MLPs. While we are concerned with the steady increase in acquisition multiples, we expect that acquisitions will continue to be accretive. Furthermore, there has been a significant increase in the investment opportunities to expand existing assets, which typically have much higher projected returns (or lower multiples) than acquisitions. As a result, the blended cost of growth (acquisitions and internal growth) remains attractive relative to prior years.

Based largely on internal growth prospects, and to a lesser extent acquisitions, we believe that the MLP universe will continue to grow distributions. Wall Street research is projecting distribution growth rates of 6% to 8% for calendar year 2006.

Another investment challenge for us is to monitor the commodity price exposure of the various MLPs. Over the last several years, the commodity price exposure of the sector, both direct and indirect, has increased. We believe there is an investment opportunity for us as the market valuation of individual MLPs does not always reflect the different levels of commodity price exposure.

At the beginning of the year, MLP valuations, as measured by the spread between MLP yields and 10-year U.S. Treasury rates, were higher (spreads lower) than the five-year average. At December 31, 2005, valuations were in-line (spreads approximately equal) with the five-year average, reflecting the increase in average yields compared to a 10-year U.S. Treasury that was relatively flat compared to the beginning of the year.

We believe that MLPs, as a group, continue to offer above-average investment appeal with lower-than-average market risk. Current yield plus expected growth appears to well exceed the 8% to 10% long-term total return expected by many market strategists for the stock market. As important, most MLPs provide stable and predictable cash flow from hard assets and, by most measures, provide lower risk than other equity investments. We remain confident that the long-term investment case for MLPs is very strong, and that our selection process will provide our stockholders with the opportunity for superior returns.

Fiscal 2005 Financial Highlights

Because the MLPs that we own in our portfolio are treated as partnerships for federal income tax purposes, we only reflect 10% of the cash dividends received from our MLP securities as investment income. The remaining 90% of the cash distributions are treated as a return of capital, which increases our realized and unrealized gains by lowering our cost basis. As a result, we expect on an ongoing basis to report a net investment loss. During fiscal year 2005, our net investment loss was $5.9 million. This consisted of net

KAYNE ANDERSON MLP INVESTMENT COMPANY
LETTER TO STOCKHOLDERS (CONCLUDED)

dividends and distributions from MLPs and other Midstream Energy Companies of $6.2 million after the deduction of $48.8 million of cash dividends and distributions received by us that were treated as a return of capital. Income on repurchase agreements and fixed income investments was $4.4 million. Expenses were $20.2 million, including $10.2 million of investment management fees and $6.9 million of interest expense. Investment management fees were equal to an annual rate of 0.87% of total assets (1.17% of net assets applicable to common stockholders), and were based on our performance relative to our benchmark, which is based on the Standard and Poor s Midcap Utility Index. Results include a current income tax benefit of $3.7 million.

Net realized gains during fiscal year 2005 were $13.6 million, consisting of realized gains on investments of $23.2 million and securities sold short of $0.6 million, offset by a loss of $0.2 million on options, $1.5 million of payments pursuant to interest rate swap contracts and $8.5 million of current income tax expense.

Net change in unrealized gains during fiscal year 2005 was $81.9 million, consisting of unrealized gains on investments and options of $129.0 million and $0.6 million, respectively, an increase in the mark-to-market value of the interest rate swap contracts of $3.4 million and a current income tax benefit of $1.1 million. These gains were offset by $52.2 million of deferred income tax expense.

Net increase in net assets resulting from operations was $89.6 million before dividends to the preferred stockholders of $1.7 million. Net assets applicable to common stockholders increased from $23.91 per common share to $25.07 per common share.

During fiscal 2005, we paid four quarterly dividends to our common stockholders, which totaled $1.495 per share (approximately 91% of this amount was classified as a return of capital and the remaining 9% was classified as dividend income). Included in this total is our dividend of $0.25 per share paid in January 2005. This dividend was a partial dividend reflecting our two months of operations during the fourth quarter of fiscal 2004 and reflects a full quarter dividend rate of $0.375 per share. During January 2006, we paid a quarterly dividend of $0.425 per share (indicative annual rate of $1.70 per share). This quarterly dividend rate was 13% higher than our initial quarterly rate of $0.375 and represented the fourth increase in our dividend rate since inception. Management intends to continue paying quarterly dividends and expects to increase its dividends to the extent permitted by increases in the dividends and distributions from its portfolio.

We look forward to continuing to execute on our business plan of achieving high after-tax total returns by investing in MLPs and Other Midstream Companies. We invite you to visit our website at *www.kaynemlp.com* for the latest updates.

Sincerely,
Kevin McCarthy
Chairman of the Board of Directors,
President, and Chief Executive Officer

KAYNE ANDERSON MLP INVESTMENT COMPANY
PORTFOLIO SUMMARY
(UNAUDITED)

Portfolio Investments, by Category
Top 10 Holdings, by Issuer (as of November 30, 2005)

Holding		Sector	Percent of Total Investments
1.	Energy Transfer Partners, L.P.	Pipeline MLP	11.6%
2.	Enterprise Products Partners L.P.	Pipeline MLP	11.4
3.	Kinder Morgan Management, LLC	Pipeline MLP	9.7
4.	Magellan Midstream Partners, L.P.	Pipeline MLP	9.5
5.	Enbridge Energy Partners, L.P.	Pipeline MLP	6.7
6.	Crosstex Energy, L.P.	Pipeline MLP	6.3
7.	Copano Energy, L.L.C.	Pipeline MLP	6.2
8.	Inergy, L.P.	Propane MLP	5.7
9.	Plains All American Pipeline, L.P.	Pipeline MLP	4.0
10.	Clearwater Natural Resources, LP	Private Coal Company	4.0

KAYNE ANDERSON MLP INVESTMENT COMPANY
MANAGEMENT DISCUSSION
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2005

This discussion contains forward looking statements and good faith estimates. The reader is referred to the disclosure on such matters at the beginning of this annual report.

Overview

Kayne Anderson MLP Investment Company (the Company) is a non-diversified, closed-end investment company. The Company s investment objective is to obtain a high after-tax total return by investing at least 85% of its total assets in energy-related master limited partnerships (MLPs) and their affiliates, and in other companies that, as their principal business, operate assets used in the gathering, transporting, processing, storing, refining, distributing, mining or marketing of natural gas, natural gas liquids, crude oil, refined petroleum products or coal (collectively with MLPs, Midstream Energy Companies).

The Company s portfolio investments are principally comprised of equity securities issued by MLPs. Generally, the Company invests in equity securities of (i) energy-related MLPs, (ii) owners of such interests in MLPs (MLP Affiliates), and (iii) other Midstream Energy Companies. The Company may, from time to time, invest in debt securities of MLPs and other Midstream Energy Companies. At November 30, 2005, the Company s long-term investments were as follows:

Long-term Investments (at 11/30/2005)

Category	**Amount ($ in 000s)**	**Percentage of Total**
Equity		
MLP	$ 1,191,262	94.4%
MLP Affiliate	14,825	1.2
Other Midstream Energy	55,549	4.4
Fixed Income	488	0.0
Total	$ 1,262,124	100.0%

As a limited partner in the MLPs, the Company reports its allocable share of MLP s taxable income in computing its own taxable income. During the year ended November 30, 2005 (fiscal year 2005), the Company estimated that taxable income associated with its ownership in MLPs was equal to 10% of the distributions received from such MLPs. As a result, the Company estimated that 90% of the MLP distributions will be treated as a return of capital for tax purposes. For financial reporting purposes, the Company reflects its MLP distributions net of the return of capital portion. As a result, only 10% of the cash distributions from MLPs received during fiscal year 2005 are included in investment income. The remaining 90% of distributions from MLPs are reflected as a reduction in the cost basis of the Company s portfolio securities, which has the effect of increasing realized and unrealized gains by that same amount.

Performance Review

One of the measures employed by the Company to evaluate total return is Adjusted Net Asset Value per share, which is equal to the Net Assets per common share plus cumulative dividends paid on the Company s common stock. During fiscal year 2005, the Company s Adjusted Net Asset Value per share increased by $2.655, or 11.1%, from $23.91 as of November 30, 2004 to $26.565 as of November 30, 2005. For comparative purposes, the total return of the MLP Composite (total return is defined as unit price appreciation plus distributions) was 10.5% over the same time period.

The Company paid four quarterly dividends to its common stockholders during fiscal year 2005, totalling $1.495 per share. Included in this total is the Company s dividend of $0.25 per share paid during January 2005.

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KAYNE ANDERSON MLP INVESTMENT COMPANY
MANAGEMENT DISCUSSION (CONTINUED)

This dividend was a partial dividend reflecting the Company s two months of operations during the fourth quarter of fiscal 2004 and reflects a full quarter dividend rate of $0.375 per share. During January 2006, the Company paid a quarterly dividend of $0.425 per share (indicative annual rate of $1.70 per share). This quarterly dividend rate was 13% higher than the Company s initial quarterly rate of $0.375 and represented the fourth increase in the Company s dividend rate since inception. Management intends to continue paying quarterly dividends and expects to increase its dividends to the extent permitted by increases in the dividends and distributions from its portfolio. Future dividend increases are subject to, among other things, the operating performance of the Company, realized gains and unrealized gains.

Financial Review

During fiscal year 2005, the Company had a net increase in net assets resulting from operations of $89.6 million. The components of this increase are (i) a net investment loss of $5.9 million ($9.6 million before taxes), (ii) net realized gains of $13.6 million ($22.1 million before taxes) and (iii) net change in unrealized gains of $81.9 million ($132.9 million before taxes).

The Company incurred a net investment loss (before taxes) of $9.6 million during fiscal year 2005. This consisted of net dividends and distributions from MLPs and other Midstream Energy Companies of $6.2 million, which was after the deduction of $48.8 million of cash dividends and distributions received by the Company that were treated as a return of capital. Income on repurchase agreements and fixed income investments was $4.4 million. Expenses were $20.2 million, including $10.2 million of investment management fees and $6.9 million of interest expense. Investment management fees were equal to an annual rate of 0.87% of total assets (1.17% of net assets applicable to common stockholders) and were based on the performance of the Company relative to its benchmark, which is based on the Standard and Poor s Midcap Utility Index.

Net realized gains (before taxes) during fiscal year 2005 were $22.1 million, consisting of realized gains on investments of $23.2 million and securities sold short of $0.6 million, offset by a loss of $0.2 million on options and $1.5 million of payments pursuant to interest rate swap contracts. In order to partially hedge itself against rising interest rates, the Company has entered into interest rate swap contracts with a notional value of $250 million. Payments made pursuant to those swap contracts are not reflected in interest expense, but are reflected as realized losses.

Net change in unrealized gains (before taxes) during fiscal year 2005 was $132.9 million, consisting of unrealized gains on investments and options of $129.0 million and $0.6 million, respectively. Net change in unrealized gains also included an increase in the mark-to-market value of the interest rate swap contracts of $3.4 million.

The Company is taxed as a corporation for federal and state income tax purposes. As a result, the Company records a current income tax expense/(benefit) based on the investment income/(loss) and realized gains. Similarly, the Company records a deferred income tax expense based on the unrealized gains, which are equal to the difference between the current market value of its assets and liabilities compared to the tax basis of those assets and liabilities. During fiscal year 2005, the Company recorded a current income tax benefit attributable to its investment income of $3.7 million, a current income tax expense of $8.5 million attributable to its realized gains and a net tax expense of $51.0 million attributable to it unrealized gains (comprised of a current income tax benefit of $1.2 million and a deferred income tax expense of $52.2 million). The Company s taxes were computed based on an effective tax rate of approximately 38.5% for fiscal year 2005 as compared to an effective tax rate of 40.0% for the period ended November 30, 2004.

Capital Raising Transactions

The Company completed several capital raising transactions during fiscal year 2005, raising $416 million of gross proceeds. The Company was able to invest these proceeds in a manner consistent with its investment

KAYNE ANDERSON MLP INVESTMENT COMPANY
MANAGEMENT DISCUSSION (CONCLUDED)

strategies and management believes that these investments have enhanced the total return of the Company s common stockholders.

On March 28, 2005, the Company issued three series of auction rate senior notes, each with a maturity of 40 years, having an aggregate principal amount of $260 million. On April 12, 2005, the Company issued 3,000 shares of Series D auction rate preferred stock for gross proceeds of $75 million. The interest rate and dividend rate on these securities are reset every 7 or 28 days, depending upon the series. At November 30, 2005, the interest rates for the Series A, Series B, and Series C senior notes were 4.21%, 4.18% and 4.24%, respectively, and the dividend rate for the Series D preferred stock was 4.35%.

In order to partially hedge itself from a floating interest expense on its leverage, the Company has entered into nine interest rate swap contracts on a notional amount of $250 million with a weighted average fixed rate of 4.42% and weighted average duration of 4.7 years (as of November 30, 2005). In each of these contracts, the Company pays a fixed rate of interest and receives a floating rate of interest based on the London Interbank Offered Rate (LIBOR).

On October 12, 2005 the Company issued 3,000,000 shares of common stock in a secondary public offering at $27.00 per share, raising an additional $81 million of gross proceeds.

During fiscal year 2005, the Company completed eleven private transactions investing, in aggregate, $728 million. As of November 30, 2005, the Company held investments in freely tradable (or public) equity and debt securities valued at $914 million and held investments in restricted (or private) equity securities valued at $348 million. The total value at year-end of the Company s long-term investments was $1.26 billion.

Recent Events

On December 14, 2005, the Company announced the successful completion of its $60 million offering of Series E auction rate senior notes. The initial interest rate on the Series E senior notes was 4.05%, with subsequent interest rates determined at weekly auctions. The Company intends to invest the net proceeds from this offering in accordance with the Company s investment policies as soon as practicable. Management believes that substantially all of the net proceeds will be invested within three months of the offering.

On January 12, 2006, the Company paid a dividend to its common stockholders in the amount of $0.425 per share, for a total of $15.8 million. Pursuant to the Company s dividend reinvestment plan, $6.6 million of this amount was reinvested into the Company for 0.3 million shares of common stock.

KAYNE ANDERSON MLP INVESTMENT COMPANY
SCHEDULE OF INVESTMENTS
NOVEMBER 30, 2005
(amounts in 000 s)

Description	No. of Shares/Units	Value
Long-Term Investments 135.4%		
Equity Investments(a) 135.4%		
Pipeline MLP(b) 113.0%		
Atlas Pipeline Partners, L.P.(c)	142	$ 5,899
Boardwalk Pipeline Partners, LP	250	4,613
Buckeye Partners, L.P.	99	4,304
Copano Energy, L.L.C.	84	3,160
Copano Energy, L.L.C. Unregistered(d)	2,127	78,994
Crosstex Energy, L.P.	238	8,053
Crosstex Energy, L.P. Unregistered(d)	1,295	41,703
Crosstex Energy, L.P. Senior Subordinated Units, Unregistered(d)	1,047	34,005
Enbridge Energy Management, L.L.C.(e)	415	19,603
Enbridge Energy Partners, L.P.	1,934	88,973
Energy Transfer Partners, L.P.	4,535	153,162
Enterprise Products Partners L.P.	6,042	151,232
Genesis Energy, L.P.	102	1,150
Global Partners LP(f)	337	6,594
Holly Energy Partners, L.P.	141	5,466
Kinder Morgan Management, LLC(e)	2,673	128,042
Magellan Midstream Partners, L.P.	486	15,612
Magellan Midstream Partners, L.P. Subordinated Units(d)	3,478	109,960
MarkWest Energy Partners, L.P.	193	9,091
MarkWest Energy Partners, L.P. Unregistered(d)	679	30,007
Martin Midstream Partners L.P.	111	3,542
Northern Border Partners, L.P.	633	27,001
Pacific Energy Partners, L.P.	386	11,451
Plains All American Pipeline, L.P.	1,344	53,400
Sunoco Logistics Partners L.P.	24	918
TC PipeLines, LP	203	6,485
TEPPCO Partners, L.P.	454	16,684
TransMontaigne Partners L.P.	56	1,275
Valero L.P.	633	33,221
		1,053,600
Propane MLP 12.0%		
Ferrellgas Partners, L.P.	1,751	36,791
Inergy, L.P.	2,983	75,315
		112,106

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KAYNE ANDERSON MLP INVESTMENT COMPANY
SCHEDULE OF INVESTMENTS (CONTINUED)
NOVEMBER 30, 2005
(amounts in 000 s)

Description	No. of Shares/Units		Value
Shipping MLP 1.9%			
K-Sea Transportation Partners L.P.	119	$	4,147
Teekay LNG Partners L.P.	167		4,684
U.S. Shipping Partners L.P.	374		8,499
			17,330
Coal MLP 0.9%			
Penn Virginia Resource Partners, L.P.	149		8,226
MLP Affiliates 1.6%			
Atlas America, Inc.(g)	54		3,053
Crosstex Energy, Inc.	61		3,958
MarkWest Hydrocarbon, Inc.	257		5,626
TransMontaigne Inc.	351		2,188
			14,825
Other 6.0%			
Arlington Tankers Ltd.	72		1,589
Clearwater Natural Resources, LP Unregistered(d)(h)	2,650		53,000
DryShips Inc.	74		960
			55,549
Total Equity Investments (Cost $1,122,577)			1,261,636

	Interest Rate	Maturity Date	Principal Amount (in 000 s)	
Fixed Income Investment 0.0%				
MLP Affiliate 0.0%				
TransMontaigne Inc. (Cost $505)	9.125%	06/01/10	$ 500	488
Total Long-Term Investments (Cost $1,123,082)				1,262,124

Short-Term Investment 6.5%			
Repurchase Agreement 6.5%			
Bear, Stearns & Co. Inc. (Agreement dated 11/30/05 to be repurchased at $60,434), collateralized by $62,180 in U.S. Government and Agency Securities (Cost $60,427)	3.940	12/01/05	60,427
Total Investments 141.9% (Cost $1,183,509)			1,322,551

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KAYNE ANDERSON MLP INVESTMENT COMPANY
SCHEDULE OF INVESTMENTS (CONCLUDED)
NOVEMBER 30, 2005
(amounts in 000 s)

Description	No. of Units		Value
Liabilities			
Securities Sold Short			
Coal MLP			
Alliance Resource Partners, L.P. (Cash proceeds received $392)	10	$	(412)
Auction Rate Senior Notes			(260,000)
Deferred Taxes			(55,934)
Current Taxes			(2,389)
Other Liabilities			(5,269)
Total Liabilities			(324,004)
Unrealized Appreciation on Interest Rate Swap Contracts			3,398
Other Assets			5,145
Total Liabilities in Excess of Other Assets			(315,461)
Preferred Stock at Redemption Value			(75,000)
Net Assets Applicable to Common Stockholders		$	932,090

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

(b) Includes Limited Liability Companies.

(c) Security or a portion thereof is segregated as collateral on securities sold short.

(d) Fair valued securities, restricted from public sale. The Company negotiates certain aspects of the method and timing of its rights to dispose of these investments, including registration rights and related costs (See Notes 2 and 6).

(e) Distributions are paid in-kind.

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

(g) Security is non-income producing.

(h) Clearwater Natural Resources, LP is a privately-held company.

See accompanying notes to financial statements.

KAYNE ANDERSON MLP INVESTMENT COMPANY
STATEMENT OF ASSETS AND LIABILITIES
NOVEMBER 30, 2005
(amounts in 000 s, except share and per share amounts)

ASSETS		
Investments, at fair value (Cost $1,123,082)	$	1,262,124
Repurchase agreement (Cost $60,427)		60,427
Total investments (Cost $1,183,509)		1,322,551
Deposits with brokers for securities sold short		729
Receivable for securities sold		222
Interest, dividends and distributions receivable		1,036
Deferred debt issuance costs and other, net		3,158
Unrealized appreciation on interest rate swap contracts		3,398
Total Assets		1,331,094
LIABILITIES		
Investment management fee payable		3,932
Payable for securities purchased		67
Securities sold short, at fair value (Proceeds $392)		412
Accrued directors fees and expenses		147
Accrued expenses and other liabilities		1,123
Current taxes		2,389
Deferred taxes		55,934
Total Liabilities before Senior Notes		64,004
Auction Rate Senior Notes:		
Series A, due April 3, 2045		85,000
Series B, due April 5, 2045		85,000
Series C, due March 31, 2045		90,000
Total Senior Notes		260,000
Total Liabilities		324,004
PREFERRED STOCK		
$25,000 liquidation value per share applicable to 3,000 outstanding shares (10,000 shares authorized)		75,000
NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS	$	932,090
NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS CONSIST OF		
Common stock, $0.001 par value (37,175,551 shares issued and outstanding, 199,990,000 shares authorized)	$	37
Paid-in capital		887,610

Distribution in excess of net investment loss, net of tax benefit		(57,189)
Accumulated realized gains on investments, securities sold short, options and interest rate swap contracts, net of income taxes		14,057
Net unrealized gains on investments, securities sold short and interest rate swap contracts, net of income taxes		87,575
NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS	$	932,090
NET ASSET VALUE PER COMMON SHARE	$	25.07

See accompanying notes to financial statements.

KAYNE ANDERSON MLP INVESTMENT COMPANY
STATEMENT OF OPERATIONS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2005
(amounts in 000 s)

INVESTMENT INCOME		
Income		
Dividends and distributions	$	54,994
Return of capital		(48,831)
Net dividends and distributions		6,163
Interest		4,409
Total Investment Income		10,572
Expenses		
Investment management fees		10,207
Professional fees		703
Administration fees		659
Reports to stockholders		268
Custodian fees		263
Directors fees		244
Insurance		196
Dividends on securities sold short		146
Other expenses		553
Total Expenses Before Interest Expense, Auction Agent Fees and Taxes		13,239
Interest expense		6,938
Total Expenses Before Tax Benefit		20,177
Net Investment Loss Before Tax Benefit		(9,605)
Current tax benefit		3,700
Deferred tax expense		(12)
Net Investment Loss		(5,917)
REALIZED AND UNREALIZED GAINS/(LOSSES)		
Realized Gains/(Losses)		
Investments		23,225
Securities sold short		598
Options		(162)
Payments on interest rate swap contracts		(1,514)
Current tax expense		(8,504)
Net Realized Gains		13,643
Net Change in Unrealized Gains/(Losses)		
Investments		128,951

Securities sold short		(20)
Options		561
Interest rate swap contracts		3,398
Current tax benefit		1,135
Deferred tax expense		(52,167)
Net Change in Unrealized Gains		81,858
Net Realized and Unrealized Gains		95,501
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS		89,584
DIVIDENDS TO PREFERRED STOCKHOLDERS		(1,712)
NET INCREASE IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM OPERATIONS	$	87,872

See accompanying notes to financial statements.

KAYNE ANDERSON MLP INVESTMENT COMPANY
STATEMENT OF CHANGES IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS
(amounts in 000 s, except share amounts)

	For the Fiscal Year Ended November 30, 2005	For the Period September 28, 2004[1] through November 30, 2004
OPERATIONS		
Net investment income/(loss)	$ (5,917)	$ 645
Net realized gains	13,643	414
Net change in unrealized gains	81,858	5,717
Net Increase in Net Assets Resulting from Operations	89,584	6,776
DIVIDENDS TO PREFERRED STOCKHOLDERS		
Dividends[2]	(1,712)	
DIVIDENDS/ DISTRIBUTIONS TO COMMON STOCKHOLDERS		
Dividends[2]	(4,396)	
Distributions return of capital[2]	(45,809)	
Dividends/ Distributions to Common Stockholders	(50,205)	
CAPITAL SHARE TRANSACTIONS		
Proceeds from initial public offering of 30,000,000 shares of common stock		750,000
Proceeds from issuance of 3,161,900 shares of common stock in connection with exercising an over allotment option granted to underwriters of the initial public offering		79,048
Proceeds from secondary public offering of 3,000,000 shares of common stock	81,000	
Underwriting discounts and offering expenses associated with the issuance of common stock	(3,591)	(43,088)
Underwriting discounts and offering expenses associated with the issuance of preferred stock	(1,087)	
Issuance of 1,009,651 shares of common stock from reinvestment of distributions	25,265	
Net Increase in Net Assets Applicable to Common Stockholders from Capital Stock Transactions	101,587	785,960

Total Increase in Net Assets Applicable to Common Stockholders		139,254		792,736
NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS				
Beginning of period		792,836		100
End of period (includes cumulative distributions in excess of net investment loss of $57,189 and undistributed net investment income of $645, respectively)	$	932,090	$	792,836

(1) Commencement of operations.

(2) The information presented in each of these items is a characterization of a portion of the total dividends paid to preferred stockholders and common stockholders for the fiscal year ended November 30, 2005 (which was $1,712 and $50,205, respectively) as either a dividend (ordinary income) or a distribution (return of capital). This characterization is based on the Company s earnings and profits. For fiscal year 2005, the entire amount classified as a dividend to common stockholders ($4,396) is considered qualified dividend income provided the holding period requirement and certain other requirements are met.

See accompanying notes to financial statements.

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KAYNE ANDERSON MLP INVESTMENT COMPANY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2005
(amounts in 000 s)

CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase in net assets resulting from operations	$	89,584
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Purchase of investments		(1,043,115)
Proceeds from sale of investments		263,296
Proceeds from sale of short-term investments		364,147
Realized gains		(22,147)
Return of capital distributions		48,831
Unrealized gains		(132,890)
Increase in deferred taxes		52,179
Amortization of bond premium and deferred debt issuance costs		240
Increase in deposits with brokers for short sales		(729)
Decrease in receivable for securities sold		125
Decrease in interest, dividend and distributions receivables		1,566
Increase in deferred debt issuance costs and other		(3,056)
Decrease in payable for securities purchased		(7,726)
Increase in investment management fee payable		2,961
Increase in securities sold short		392
Increase in accrued directors fees and expenses		116
Increase in accrued expenses and other liabilities		84
Increase in current taxes		1,626
Decrease in call options written		(201)
Net Cash Used in Operating Activities		(384,717)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of shares of common stock		81,000
Issuance of auction rate senior notes		260,000
Issuance of auction rate preferred stock		75,000
Underwriting discount and offering expenses associated with the issuance of shares of preferred stock and common stock		(4,678)
Cash distributions paid to preferred stockholders		(1,712)
Cash distributions paid to common stockholders		(24,940)
Net Cash Provided by Financing Activities		384,670
NET DECREASE IN CASH		(47)
CASH BEGINNING OF YEAR		47
CASH END OF YEAR	$	

Supplemental disclosure of cash flow information:
Noncash financing activities not included herein consist of reinvestment of distributions pursuant to the Company s dividend reinvestment plan of $25,265.
During fiscal year 2005, federal and state taxes paid were $2,039 and interest paid was $6,631.

See accompanying notes to financial statements.

KAYNE ANDERSON MLP INVESTMENT COMPANY
FINANCIAL HIGHLIGHTS
(amounts in 000 s, except share and per share amounts)

	For the Fiscal Year Ended November 30, 2005		For the Period September 28, 2004[1] through November 30, 2004	
Per Share of Common Stock				
Net asset value, beginning of period	$	23.91	$	23.70 [2]
Underwriting discounts and offering costs on the issuance of preferred stock		(0.03)[3]		
Secondary issuance of common stock, net of underwriting discounts and offering costs		0.11 [3]		
Total		23.99		23.70
Income from investment operations				
Net investment income/(loss)		(0.17)[3]		0.02 [4]
Net realized and unrealized gain on investments, securities sold short, options and interest rate swap contracts		2.80 [3]		0.19 [4]
Total income from investment operations		2.63		0.21
Dividends Preferred Stockholders				
Dividends[5]		(0.05)[3]		
Dividends/ Distributions Common Stockholders				
Dividends[5]		(0.13)		
Distributions[5]		(1.37)		
Total dividends/distributions Common Stockholders		(1.50)		
Net asset value, end of period	$	25.07	$	23.91
Per share of common stock market value, end of period	$	24.33	$	24.90
Total investment return based on common stock market value[6]		3.66%		(0.40)%
Supplemental Data and Ratios				
Net assets applicable to common stockholders, end of period	$	932,090	$	792,836

Ratio of expenses to average net assets, including current and deferred income tax expenses		8.73%(7)	4.73%(7)(8)
Ratio of expenses to average net assets, excluding current and deferred income tax expense		2.32%(7)	1.20%(7)(8)
Ratio of expenses, excluding taxes and non-recurring organizational expenses, to average net assets		2.32%	1.08%(8)
Ratio of expenses, excluding taxes and interest expenses, to average net assets		1.52%	%
Ratio of net investment income /(loss) to average net assets, after taxes		(0.68)%	0.50%(8)
Net increase in net assets to common stockholders resulting from operations to average net assets		10.09%	5.30%(8)
Portfolio turnover rate		25.59%(9)	11.78%(9)
Auction Rate Senior Notes outstanding, end of period	$	260,000	
Auction Rate Preferred Stock, end of period	$	75,000	
Borrowings outstanding per share of common stock, end of period	$	6.99	
Asset coverage, per $1,000 of principal amount of Auction Rate Senior Notes Series A, B and C		487.34%	
Asset coverage, per $25,000 of liquidation value per share of Auction Rate Preferred Stock		378.24%	
Average amount of borrowings outstanding per share of common stock during the period	$	5.57(3)	

(1) Commencement of operations.
(2) Initial public offering price of $25.00 per share less underwriting discounts of $1.25 per share and offering costs of $0.05 per share.
(3) Based on average shares of common stock outstanding of 34,077,731.
(4) Information presented relates to a share of common stock outstanding for the entire period.
(5) The information presented in each of these items is a characterization of a portion of the total dividends paid to preferred stockholders and common stockholders for the fiscal year ended November 30, 2005 (which was $1,712 and $50,205, respectively) as either a dividend (ordinary income) or a distribution (return of capital). This characterization is based on the Company s earnings and profits.
(6) Not annualized. 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 and distributions, if any, at actual prices pursuant to the Company s dividend reinvestment plan.
(7) For the period from September 28, 2004 through November 30, 2004, the Company s current income tax expense was $763 and it accrued $3,755 in deferred taxes on its unrealized gains and deferred tax benefit from organizational expenses. For the fiscal year ended November 30, 2005, its current tax expense was $3,669 and it accrued $52,179 in deferred taxes on the Company s unrealized gains and deferred tax expense from organizational expenses.
(8) Ratios are annualized since period is less than one full year.
(9) Not annualized for the period September 30, 2004 through November 30, 2004. For fiscal year 2005 and for the period from September 28, 2004 through November 30, 2004, calculated based on the sales of long-term investments of $263,296 and $16,880, respectively, divided by the average long-term investment balance of $1,029,035 and $143,328, respectively.

See accompanying notes to financial statements.

KAYNE ANDERSON MLP INVESTMENT COMPANY
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2005
(amounts in 000 s, except share and per share amounts)

1. Organization

Kayne Anderson MLP Investment Company (the Company) was organized as a Maryland corporation on June 4, 2004, and is a non-diversified closed-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act). The Company s investment objective is to obtain a high after-tax total return by investing at least 85% of its net assets plus any borrowings (total assets) in energy-related master limited partnerships and their affiliates (collectively, MLPs), and in other companies that, as their principal business, operate assets used in the gathering, transporting, processing, storing, refining, distributing, mining or marketing of natural gas, natural gas liquids (including propane), crude oil, refined petroleum products or coal (collectively with MLPs, Midstream Energy Companies). The Company commenced operations on September 28, 2004. The Company s shares of common stock are listed on the New York Stock Exchange, Inc. (NYSE) under the symbol KYN .

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. *Calculation of Net Asset Value* The Fund 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 month, and makes its net asset value available for publication monthly. 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, current and deferred and other accrued income taxes, and any borrowings) and the liquidation value of any outstanding preferred stock, by the total number of common shares outstanding.

C. *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 options 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 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 with a remaining maturity of 60 days or more are valued by the Company using a pricing service. Fixed income securities maturing within 60 days will be valued on an amortized cost basis.

The Company holds securities that are privately issued or otherwise restricted as to resale. For these securities, as well as any other portfolio security held by the Company for which reliable market quotations are not readily available, valuations are determined in a manner that most fairly reflects fair value of the security

KAYNE ANDERSON MLP INVESTMENT COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

on the valuation date. Unless otherwise determined by the Board of Directors, the following valuation process is used for such securities:

Investment Team Valuation. The applicable investments are initially valued by Kayne Anderson Capital Advisors, L.P. s (Kayne Anderson or the Advisor) investment professionals responsible for the portfolio investments;

Investment Team Valuation Documentation. Preliminary valuation conclusions are documented and discussed with senior management of Kayne Anderson. Such valuations generally are submitted to the Valuation Committee (a committee of the Company s Board of Directors) or the Board of Directors on a monthly basis, and stand for intervening periods of time.

Valuation Committee. The Valuation Committee meets on or about the end of each month to consider new valuations presented by Kayne Anderson, if any, which were made in accordance with the Valuation Procedures in such month. Between meetings of the Valuation Committee, a senior officer of Kayne Anderson is authorized to make valuation determinations. The Valuation Committee s valuations stand for intervening periods of time unless the Valuation Committee meets again at the request of Kayne Anderson, the Board of Directors, or the Committee itself. All valuation determinations of the Valuation Committee are subject to ratification by the Board at its next regular meeting.

Valuation Firm. No less than quarterly, a third-party valuation firm engaged by the Board of Directors reviews the valuation methodologies and calculations employed for these securities.

Board of Directors Determination. The Board of Directors meets quarterly to consider the valuations provided by Kayne Anderson and the Valuation Committee, if applicable, and ratify valuations for the applicable securities. The Board of Directors considers the report provided by the third-party valuation firm in reviewing and determining in good faith the fair value of the applicable portfolio securities.

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) are valued through the process described above, using a valuation based on the market value of the publicly traded security less a discount. The discount is initially equal in amount to the discount negotiated at the time the purchase price is agreed to. To the extent that such securities are convertible or otherwise become publicly traded within a time frame that may be reasonably determined, Kayne Anderson may determine an amortization schedule for the discount in accordance with a methodology approved by the Valuation Committee.

At November 30, 2005, the Company held 37.3% of its net assets (26.1% of total assets) applicable to common stockholders in securities valued at fair value as determined pursuant to procedures adopted by the Board of Directors, with an aggregate cost of $325,781 and fair value of $347,669. Although these securities may be resold in privately negotiated transactions (subject to certain lock-up restrictions), these values may differ from the values that would have been used had a ready market for these securities existed, and the differences could be material.

Any option transaction that the Company enters into may, depending on the applicable market environment have no value or a positive/negative value. Exchange traded options and futures contracts are valued at the closing price in the market where such contracts are principally traded.

D. *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 Kayne Anderson 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. Kayne

Anderson monitors daily the mark-to-market of the

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KAYNE ANDERSON MLP INVESTMENT COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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.

E. *Short Sales* A short sale is a transaction in which the Company sells securities it does not own (but has borrowed) in anticipation of or to hedge against a decline in the market price of the securities. To complete a short sale, the Company may arrange through a broker to borrow the securities to be delivered to the buyer. The proceeds received by the Company for the short sale are retained by the broker until the Company replaces the borrowed securities. In borrowing the securities to be delivered to the buyer, the Company becomes obligated to replace the securities borrowed at their market price at the time of replacement, whatever the price may be.

All short sales are fully collateralized. The Company maintains assets consisting of cash or liquid securities equal in amount to the liability created by the short sale. These assets are adjusted daily to reflect changes in the value of the securities sold short. The Company is liable for any dividends or distributions paid on securities sold short.

The Company may also sell short against the box (*i.e.,* the Company enters into a short sale as described above while holding an offsetting long position in the security which it sold short). If the Company enters into a short sale against the box, the Company segregates an equivalent amount of securities owned as collateral while the short sale is outstanding.

F. *Option Writing* When the Company writes an option, an amount equal to the premium received by the Company is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the Company on the expiration date as realized gains from investments. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether the Company has realized a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the Company. The Company, as the writer of an option, bears the market risk of an unfavorable change in the price of the security underlying the written option. See Note 7 for more detail on options written.

G. *Security Transactions and Investment Income* 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. Distributions received from the Company s investments in MLPs generally are comprised of income and return of capital. For the fiscal year ended November 30, 2005, the Company estimated that 90% of the MLP distributions received would be treated as a return of capital. The Company recorded as return of capital the amount of $48,831 of dividends and distributions received from MLPs. Included in this amount is an additional return of capital of $404 attributable to MLP distributions received in fiscal 2004 based on the MLP tax reporting information received by the Company in fiscal 2005. This resulted in an equivalent reduction in the cost basis of the associated MLP investments. Net Realized Gains and Net Change in Unrealized Gains in the accompanying Statement of Operations were increased by $1,952 and $46,879, respectively, attributable to the recording of such dividends and distributions as reductions in the cost basis of investments. 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 each MLP and other industry sources. These estimates may subsequently be revised based on information received from MLPs after their tax reporting periods are concluded. Interest income is recognized on the accrual basis, including amortization of premiums and accretion of discounts.

KAYNE ANDERSON MLP INVESTMENT COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

H. *Dividends and Distributions to Stockholders* Dividends 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. Distributions to stockholders of the Company s Auction Rate Preferred Stock, Series D are accrued on a daily basis and are determined as described in Note 11. The Company s dividends will be comprised of return of capital and ordinary income, which is based on the earnings and profits of the Company. The Company is unable to make final determinations as to the character of the dividend until after the end of the calendar year. The Company informed its common stockholders in January 2006 of the character of dividends paid during fiscal year 2005. Prospectively, the Company will inform its common stockholders of the character of dividends during that fiscal year in January following such fiscal year.

I. *Partnership Accounting Policy* The Company records its pro-rata share of the income/(loss) and capital gains/(losses), to the extent of dividends it has received, allocated from the underlying partnerships and adjusts the cost of the underlying partnerships accordingly. These amounts are included in the Company s Statement of Operations.

J. *Federal and State Income Taxation* The Company, as a corporation, is obligated to pay federal and state income tax on its taxable income. The Company invests its assets primarily in MLPs, which generally are treated as partnerships for federal income tax purposes. As a limited partner in the MLPs, the Company includes its allocable share of the MLP s taxable income in computing its own taxable income. The Company s tax expense or benefit is included in the Statement of Operations based on the component of income or gains/(losses) to which such expense or benefit relates. Deferred income taxes reflect (i) taxes on unrealized gains/(losses), which are attributable to the difference between fair market value and book basis and (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. 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 is not 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 to some extent 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 become available.

K. *Organization Expenses, Offering and Debt Issuance Costs* The Company is responsible for paying all organization expenses, which were expensed when the shares of common stock were issued in the Company s IPO. Offering costs (including underwriting discount) related to the Company s two issuances of common stock were charged to additional paid-in capital when the shares were issued. Offering costs (including underwriting discount) related to the issuance of Series D preferred stock were charged to additional paid-in capital when the shares were issued. Debt issuance costs (including underwriting discount) related to the auction rate senior notes payable are being capitalized and amortized over the period the notes are outstanding.

L. *Derivative Financial Instruments* The Company uses derivative financial instruments (principally interest rate swap contracts) to manage interest rate risk. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. The Company does not hold or issue derivative financial instruments for speculative purposes. All derivative financial instruments are recorded at fair value with changes in value during the reporting period, and amounts accrued under the agreements, included as unrealized gains or losses in the Statement of Operations. Monthly cash settlements under the terms of the interest rate swap agreements are recorded as realized gains or losses in the Statement of Operations. The Company generally values its interest rate swap

KAYNE ANDERSON MLP INVESTMENT COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

contracts based on dealer quotations, if available, or by discounting the future cash flows from the stated terms of the interest rate swap agreement by using interest rates currently available in the market.

M. *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.

3. Concentration of Risk

The Company s investment objective is to seek a high level of total return with an emphasis on current income paid to its stockholders. Under normal circumstances, the Company intends to invest at least 85% of its total assets in securities of MLPs and other Midstream Energy Companies, and to invest at least 80% of its total assets in MLPs, which are subject to certain risks, such as supply and demand risk, depletion and exploration risk, commodity pricing risk, acquisition risk, and the risk associated with the hazards inherent in midstream energy industry activities. A substantial portion of the cash flow received by the Company is derived from investment in equity securities of MLPs. The amount of cash that an MLP has available for distributions and the tax character of such distributions are dependent upon the amount of cash generated by the MLP s operations. The Company may invest up to 15% of its total assets in any single issuer and a decline in value of the securities of such an issuer could significantly impact the net asset value of the Company. The Company may invest up to 20% of its total assets in debt securities, which may include below investment grade securities. The Company may, for defensive purposes, temporarily invest all or a significant portion of its assets in investment grade securities, short-term debt securities and cash or cash equivalents. To the extent the Company uses this st