Kayne Anderson MLP Investment CO
Form PRE 14A
May 13, 2005

Table of Contents

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant þ
Filed by a Party other than the Registrant o

Check the appropriate box:
þ Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
o Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Sec. 240.14a-11(c) or Sec. 240.14a-12

KAYNE ANDERSON MLP INVESTMENT COMPANY

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1. Title of each class of securities to which transactions applies:

2. Aggregate number of securities to which transaction applies:

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

4. Proposed maximum aggregate value of transaction:

5. Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identity the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

6. Amount Previously Paid:

7. Form, Schedule or Registration Statement No.:

8. Filing Party:

9. Date Filed:

TABLE OF CONTENTS

Table of Contents

1800 Avenue of the Stars, Second Floor
Los Angeles, CA 90067
1-877-657-3863/ MLP-FUND

May [ ], 2005

Dear Fellow Stockholder:

You are cordially invited to attend the annual meeting of stockholders of Kayne Anderson MLP Investment Company (the Company) on Tuesday, June 15, 2005 at 9:00 a.m., Pacific Time, at 1800 Avenue of the Stars, Second Floor, Los Angeles, CA 90067.

The matters scheduled for consideration at the meeting are the election of one director of the Company 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, as more fully discussed in the enclosed proxy statement.

Enclosed with this letter are answers to questions you may have about the proposals, the formal notice of the meeting, the proxy statement, which gives detailed information about the proposals and why the Board of Directors recommends that you vote to approve them, and an actual written proxy for you to sign and return. If you have any questions about the enclosed proxy or need any assistance in voting your shares, please call 1-877-657-3863/ MLP-FUND.

Your vote is important. Please complete, sign, and date the enclosed proxy card and return it in the enclosed envelope. This will ensure that your vote is counted, even if you cannot attend the meeting in person.

Sincerely,

/s/ Kevin S. McCarthy

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

Table of Contents

ANSWERS TO SOME IMPORTANT QUESTIONS

Q WHAT AM I BEING ASKED TO VOTE FOR ON THIS PROXY?

A. This proxy contains two proposals: (i) Proposal One the election of one Director to serve until the 2008 Annual Stockholder Meeting and until his successor is duly elected and qualifies; and (ii) Proposal Two a proposal to authorize the Company to sell shares of its common stock at a price less than net asset value per share, subject to certain conditions, for a period expiring on the date of the Company s 2006 Annual Meeting of Stockholders. The Company s common stockholders and preferred stockholders will vote together, as a single class, on the proposals.

Q. HOW DOES THE BOARD OF DIRECTORS SUGGEST THAT I VOTE?

A. The Board of Directors of the Company unanimously recommends that you vote FOR all proposals on the enclosed proxy card.

Q. HOW CAN I VOTE?

A. If your shares are held in Street Name by a broker or bank, you will receive information regarding how to instruct your bank or broker to vote your shares. If you are a stockholder of record, you may authorize the persons named as proxies on the enclosed proxy card to cast the votes you are entitled to cast at the meeting by completing, signing, dating and returning the enclosed proxy card. Stockholders of record or their duly authorized proxies also may vote in person if able to attend the meeting. However, even if you plan to attend the meeting, we urge you to return your proxy card. That will ensure that your vote is cast should your plans change.

This information summarizes information that is included in more
detail in the Proxy Statement. We urge you to
read the Proxy Statement carefully.
If you have questions, call 1-877-657-3863/ MLP-FUND.

Table of Contents

1800 Avenue of the Stars, Second Floor
Los Angeles, CA 90067
1-877-657-3863/ MLP-FUND

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders of Kayne Anderson MLP Investment Company:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Kayne Anderson MLP Investment Company, a Maryland corporation (the Company), will be held on Tuesday, June 15, 2005 at 9:00 a.m. Pacific Time at 1800 Avenue of the Stars, Second Floor, Los Angeles, CA 90067, to consider and vote on the following matters as more fully described in the accompanying proxy statement:

1. To elect one Director of the Company, to hold office for a term of three years and until his successor is duly elected and qualifies;

2. To approve a proposal to authorize the Company to sell shares of its common stock at a price less than net asset value per share; and

3. To transact any other business that may properly come before the meeting or any adjournment or postponement thereof.

Stockholders of record as of the close of business on May 4, 2005 are entitled to notice of and to vote at the meeting (or any adjournment or postponement of the meeting).

By Order of the Board of Directors of the Company,

/s/ David J. Shladovsky

David J. Shladovsky
Secretary

May [ ], 2005
Los Angeles, California

Table of Contents

1800 Avenue of the Stars, Second Floor
Los Angeles, CA 90067
1-877-657-3863/ MLP-FUND

PROXY STATEMENT
ANNUAL MEETING OF STOCKHOLDERS
JUNE 15, 2005

This proxy statement is being sent to you by the Board of Directors of Kayne Anderson MLP Investment Company, a Maryland corporation (the Company). The Board of Directors is asking you to complete, sign, date and return the enclosed proxy card, permitting your shares of the Company to be voted at the annual meeting (the Annual Meeting) of stockholders called to be held on June 15, 2005 at 9:00 a.m. Pacific Time at 1800 Avenue of the Stars, Second Floor, Los Angeles, California 90067. Stockholders of record at the close of business on May 4, 2005 (the Record Date) are entitled to vote at the Annual Meeting. You are entitled to one vote for each share of common stock and for each share of preferred stock you hold on each matter on which holders of such shares are entitled to vote. This proxy statement and enclosed proxy are first being mailed to stockholders on or about May [ ], 2005.

You should have received the Company s Annual Report to stockholders for the fiscal year ended November 30, 2004. If you would like another copy of the Annual Report, please write the Company at the address shown at the top of this page or call the Company at 1-877-657-3863/ MLP-FUND. The report will be sent to you without charge. The Company s reports can be accessed on its website (www.kaynemlp.com) or on the website of the Securities and Exchange Commission (the SEC) at (www.sec.gov).

Kayne Anderson Capital Advisors, LP (Kayne Anderson) is the Company s investment adviser. As of April 30, 2005, Kayne Anderson had approximately $3.7 billion of client assets under management. Kayne Anderson may be contacted at the address listed above.

PROPOSAL ONE
ELECTION OF DIRECTOR

At the Annual Meeting, stockholders will consider and vote on the election of one Director to serve for a term of three years and until his successor is duly elected and qualifies. The initial term of the Class I Director of the Company, Michael Targoff, expires at the Annual Meeting and Mr. Targoff is not standing for reelection. The Board of Directors unanimously nominated Gerald I. Isenberg to stand for election as a Director at the Annual Meeting. Mr. Isenberg has agreed to serve if elected, and the Company has no reason to believe that he will be unavailable to serve.

The persons named as proxies on the accompanying proxy card intend to vote at the Annual Meeting (unless otherwise directed) FOR the election of Mr. Isenberg as a Director of the Company. Currently the Company has five Directors. In accordance with the Company s charter, its Board of Directors is divided into three classes of approximately equal size. The three-year terms of the Directors are staggered. The initial terms of Steven C. Good and Kevin S. McCarthy expire at the 2006 Annual Meeting of stockholders and the terms of Anne K. Costin and Terrence J. Quinn expire at the 2007 Annual Meeting of stockholders and, in each case, when their successors are duly elected and qualify. If Mr. Isenberg is elected at the Annual Meeting, he will serve until the 2008 Annual Meeting of stockholders and until his successor is duly elected and qualifies. If Mr. Isenberg is unable to serve or for good cause will not serve because of an event not now anticipated, the persons named as proxies may vote for another person designated by the Board of Directors.

Table of Contents

Mr. Isenberg, if elected, will be a Class I Director. Pursuant to the terms of the Company s preferred stock, the preferred stockholders have the exclusive right to elect two Directors to the Board. The Board of Directors has designated Steven C. Good and Terrence J. Quinn as the Directors the preferred stockholders shall have the right to elect.

The following tables set forth the nominee s and each Director s name and birth year; position(s) with the Company and length of time served; principal occupation during the past five years; and other directorships currently held by the nominee and each Director. The address for the nominee and all Directors and officers is 1800 Avenue of the Stars, Second Floor, Los Angeles, CA 90067. As of May 12, 2005, the Company is currently the only investment company in the Kayne Anderson fund complex that is overseen by the Directors and officers.

NOMINEE FOR DIRECTOR WHO IS NOT AN INTERESTED PERSON:

Name (Year Born)	Position(s) Held with Registrant	Initial Term of Office	Principal Occupations During Past Five Years	Other Directorships Held by Director
Gerald I. Isenberg (born 1940)	Current nominee for a term to expire at the 2008 Annual Meeting	3-year term	Mr. Isenberg is a Professor at the University of Southern California School of Cinema-Television. Since 2004 he has been a member of the board of trustees of Partners for Development, a non-governmental organization dedicated to developmental work in third-world countries. From 1998 to 2002, Mr. Isenberg was a board member of the Kayne Anderson Rudnick Mutual Funds.* From 1989 to 1995, he was President of Hearst Entertainment Productions, a producer of television movies and programming for major broadcast and cable networks.	Partners for Development

* The investment adviser to the Kayne Anderson Rudnick Mutual Funds, Kayne Anderson Rudnick Investment Management, LLC, may be deemed an affiliate of Kayne Anderson.

REMAINING DIRECTORS WHO ARE NOT INTERESTED PERSONS:

Name (Year Born)	Position(s) Held with Registrant	Initial Term of Office/ Time of Service	Principal Occupations During Past Five Years	Other Directorships Held by Director
Anne K. Costin** (born 1950)	Director	3-year term/ served since July 2004	Ms. Costin is currently an Adjunct Professor in the Finance and Economics Department of Columbia University Graduate School of Business in New York. As of March 1, 2005, Ms. Costin retired after a 28-year career at Citigroup. During the last five years she was Managing Director and Global Deputy Head	None.

of the Project & Structured Trade Finance product group within Citigroup s Investment Banking Division.

Table of Contents

Name (Year Born)	Position(s) Held with Registrant	Initial Term of Office/ Time of Service	Principal Occupations During Past Five Years	Other Directorships Held by Director
Steven C. Good (born 1942)	Director	2-year term/ served since July 2004	Mr. Good is a senior partner at Good Swartz Brown & Berns LLP, which offers accounting, tax and business advisory services to middle market private and publicly-traded companies, their owners and their management. Mr. Good founded Block, Good and Gagerman in 1976, which later evolved in stages into Good Swartz Brown & Berns LLP.	Arden Realty, Inc.; OSI Systems, Inc.; and Big Dog Holdings, Inc.
Terrence J. Quinn (born 1951)	Director	3-year term/ served since July 2004	Mr. Quinn is Chairman and CEO of Total Capital Corp., a start-up specialty commercial finance company. From 2000 to 2003, Mr. Quinn was a co-founder and managing partner of MTS Health Partners, a private merchant bank providing services to publicly traded and privately held small to mid-sized companies in the healthcare industry. Mr. Quinn was a director and vice chairman of The Park Associates, Inc., a privately owned nursing home company chain.	None.

** Due to her ownership of securities issued by one of the underwriters in the Company s offering of preferred stock, Ms. Costin was treated as an interested person of the Company, as such term is defined in the Investment Company Act of 1940, as amended (the 1940 Act), during and until the completion of such offering, which closed on April 12, 2005, and, in the future, may be treated as an interested person during any subsequent offerings of the Company s securities that may be underwritten by the underwriter in which Ms. Costin owns securities.

REMAINING DIRECTOR WHO IS AN INTERESTED PERSON:

Name (Year Born)	Position(s) Held with Registrant	Initial Term of Office/ Time of Service	Principal Occupations During Past Five Years	Other Directorships Held by Director
Kevin S. McCarthy*** (born 1959)	Chairman of the Board of Directors; President and Chief Executive Officer	2-year term as a director, 1-year term as an officer/ served since July 2004	Mr. McCarthy has served as a Senior Managing Director of Kayne Anderson since June 2004. From November 2000 to May 2004, he was Global Head of Energy for UBS Securities LLC. In this role, he had senior responsibility for all of UBS energy investment banking activities, including direct responsibility for securities underwriting and mergers and acquisitions	None.

		in the MLP industry. From July 1997 to November 2000, Mr. McCarthy led the energy investment banking activities of Paine Webber Incorporated. From July 1995 to March 1997, he was head of the Energy Group at Dean Witter Reynolds.

*** Mr. McCarthy is an interested person of the Company by virtue of his employment relationship with Kayne Anderson.

Table of Contents

OFFICERS

The preceding table gives information regarding Mr. McCarthy, the President and Chief Executive Officer of the Company. The following table sets forth each other officer s name; position(s) with the Company and length of time served; principal occupation during the past five years; and other directorships held by each such officer.

Name (Year Born)	Position(s) Held with Registrant	Term of Office/Time of Service	Principal Occupations During Past Five Years	Other Directorships Held by Officer
Ralph Collins Walter (born 1946)	Chief Financial Officer and Treasurer	1-year term/ served since inception	Mr. Walter has served as the Chief Operating Officer and Treasurer of Kayne Anderson since 2000. Before joining Kayne Anderson, he was the Chief Administrative Officer at ABN AMRO Inc., the U.S. based investment-banking arm of ABN-AMRO Bank.	Knox College
David J. Shladovsky (born 1960)	Secretary and Chief Compliance Officer	1-year term/ served since inception	Mr. Shladovsky has served as a Managing Director and General Counsel of Kayne Anderson since 1997.	None.
J.C. Frey (born 1968)	Portfolio Manager, Assistant Treasurer and Assistant Secretary	1-year term/ served since inception	J.C. Frey has served as Senior Managing Director of Kayne Anderson since December 2003, Managing Director from April 2001 to December 2003, and portfolio manager of Kayne Anderson s MLP funds since their inception in 2000. Mr. Frey joined Kayne Anderson in 1997.	None.

The Directors who are not interested persons, as defined in the 1940 Act, of Kayne Anderson or the Company s underwriters are referred to herein as Independent Directors. Unless noted otherwise, references to the Company s Independent Directors include Ms. Costin. None of the Company s Independent Directors nor any of their immediate family members, has ever been a director, officer or employee of Kayne Anderson or its affiliates. From 1998 to 2002, Mr. Isenberg was a director of the Kayne Anderson Rudnick Mutual Funds. The investment adviser to the Kayne Anderson Rudnick Mutual Funds, Kayne Anderson Rudnick Investment Management, LLC, may be deemed an affiliate of Kayne Anderson.

The following table sets forth the dollar range of the Company s equity securities beneficially owned by the Company s Directors and the nominee as of December 31, 2004:

Director or Nominee	Dollar Range of the Company s Equity Securities	Aggregate Dollar Range of Equity Securities in All Registered Investment Companies Overseen or to be Overseen by Director or Nominee in Family of Investment Companies(1) as of December 31, 2004

Anne K. Costin	$10,000-$50,000	$10,000-$50,000
Steven C. Good	$10,000-$50,000	$10,000-$50,000
Terrence J. Quinn	$10,000-$50,000	$10,000-$50,000
Gerald I. Isenberg	None	None
Kevin S. McCarthy	Over $100,000	Over $100,000

(1) As of April 30, 2005, the Directors and the nominee did not oversee any other investment companies managed by Kayne Anderson.

Table of Contents

As of April 30, 2005, the Independent Directors (excluding Mr. Targoff, who is not standing for reelection) and their respective immediate family members did not own beneficially or of record any class of securities of Kayne Anderson or any person directly or indirectly controlling, controlled by, or under common control with Kayne Anderson. As of that same date, the Independent Directors, other than Ms. Costin, did not own beneficially or of record any class of securities of the underwriters of the recent offering of the Company s preferred stock or any person directly or indirectly controlling, controlled by, or under common control with such underwriters. As of April 30, 2005, Ms. Costin owned securities issued by one of such underwriters in the offering of the Company s preferred stock and may continue to own securities in such issuer at the time of any future offering of the Company s securities in which such company could be considered for participation as an underwriter. Accordingly, Ms. Costin was treated as an interested person of the Company as defined in the 1940 Act during and until the completion of the offering of the Company s preferred stock, which closed on April 12, 2005, and, in the future, may be treated as an interested person during subsequent offerings of the Company s securities if the relevant offering is underwritten by the company in which Ms. Costin owns securities. Such offerings may include the kind described in the second proposal of this proxy statement.

The table below sets forth information about securities owned by the nominee and his immediate family members, as of March 31, 2005, in entities directly or indirectly controlling, controlled by, or under common control with, the Company s investment adviser or underwriters.

Nominee	Name of Owners and Relationships to Nominee	Company	Title of Class	Value of Securities	Percent of Class
Gerald I. Isenberg	Self	Kayne Anderson Capital Income Partners (QP), L.P.(1)	Partnership units	$2,034,049	0.36%

(1) Kayne Anderson may be deemed to control this fund by virtue of its role as the fund s general partner.

Certain officers of Kayne Anderson, including all of the Company s officers, own, in the aggregate, approximately $5 million of the Company s common stock.

Committees of the Board of Directors

The Company s Board of Directors currently has three standing committees:

Audit Committee. Messrs. Good, Targoff and Quinn serve on the Audit Committee. The Audit Committee operates under a written charter (the Audit Committee Charter) adopted and approved by the Board of Directors and was established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The Audit Committee Charter conforms to the applicable listing standards of the New York Stock Exchange. The Audit Committee Charter is attached hereto as Appendix A and will be attached at least every third year going forward. The Audit Committee approves and recommends to the Board of Directors the election, retention or termination of independent auditors; approves services to be rendered by the auditors; monitors the auditors performance; reviews the results of the Company s audit; determines whether to recommend to the Board of Directors that the Company s audited financial statements be included in the Company s Annual Report; and responds to other matters as outlined in the Audit Committee Charter. Each audit committee member is independent under the applicable New York Stock Exchange listing standard.

Valuation Committee. Ms. Costin and Messrs. Good, McCarthy and Quinn serve on the Valuation Committee. The Valuation Committee is responsible for the oversight of the Company s pricing procedures and the valuation

of its securities in accordance with such procedures. The Valuation Committee operates under a written charter adopted and approved by the Board, a copy of which is available on the Company s website (www.kaynemlp.com).

Nominating Committee. Ms. Costin and Messrs. Good, Quinn, and Targoff are members of the Nominating Committee, none of whom are interested persons of the Company as defined in the 1940 Act (other than as previously noted for Ms. Costin). The Nominating Committee is responsible

for appointing and nominating Independent Directors to the Company s Board of Directors. Each Nominating Committee member is independent under the applicable New York Stock Exchange listing standard. The committee operates under a written charter adopted and approved by the Board, a copy of which is available on the Company s website (www.kaynemlp.com). The Nominating Committee has not established specific, minimum qualifications that must be met by an individual for the Committee to recommend that individual for nomination as a Director. The Nominating Committee expects to seek referrals for candidates to consider for nomination from a variety of sources, including current Directors, management of the Company, the investment adviser of the Company and counsel to the Company, and may also engage a search firm to identify or evaluate or assist in identifying or evaluating candidates. As set forth in the Nominating Committee Charter, in evaluating candidates for a position on the Board, the Committee considers a variety of factors, including, as appropriate:

the candidate s knowledge in matters relating to the investment company industry;

any experience possessed by the candidate as a director or senior officer of public companies;

the candidate s educational background;

the candidate s reputation for high ethical standards and personal and professional integrity;

any specific financial, technical or other expertise possessed by the candidate, and the extent to which such expertise would complement the Board s existing mix of skills and qualifications;

the candidate s perceived ability to contribute to the ongoing functions of the Board, including the candidate s ability and commitment to attend meetings regularly and work collaboratively with other members of the Board;

the candidate s ability to qualify as an independent director for purposes of the 1940 Act, the candidate s independence from Company service providers and the existence of any other relationships that might give rise to conflict of interest or the appearance of a conflict of interest; and

such other factors as the Nominating Committee determines to be relevant in light of the existing composition of the Board of Directors and any anticipated vacancies or other transitions (*e.g.*, whether or not a candidate is an audit committee financial expert under the federal securities laws).

Prior to making a final recommendation to the Board, the Nominating Committee may conduct personal interviews with the candidates it concludes are the most qualified. The Nominating Committee met with Mr. Isenberg before recommending to the Board of Directors that he be nominated to stand for election as a Director.

If there is no vacancy on the Board, the Board of Directors will not actively seek recommendations from other parties, including stockholders. When a vacancy on the Board of Directors occurs and nominations are sought to fill such vacancy, the Nominating Committee may seek nominations from those sources it deems appropriate in its discretion, including the Company s stockholders.

To submit a recommendation for nomination as a candidate for a position on the Board, stockholders shall mail such recommendation to the Secretary of the Company, at the Company s address, 1800 Avenue of the Stars, Second Floor, Los Angeles, California 90067. Such recommendation shall include the following information: (a) evidence of stock ownership of the person or entity recommending the candidate (if submitted by one of the Company s stockholders), (b) a full description of the proposed candidate s background, including his or her education, experience, current employment, and date of birth, (c) names and addresses of at least three professional references for the candidate, (d) information as to whether the candidate is an interested person in relation to us, as

such term is defined in the 1940 Act, and such other information that may be considered to impair the candidate s independence and (e) any other information that may be helpful to the Nominating Committee in evaluating the candidate. Any such recommendation must contain sufficient background information concerning the candidate to

Table of Contents

enable the Nominating Committee to make a proper judgment as to the candidate s qualifications. If a recommendation is received with satisfactorily completed information regarding a candidate during a time when a vacancy exists on the Board of Directors or during such other time as the Nominating Committee is accepting recommendations, the recommendation will be forwarded to the Chair of the Nominating Committee and will be evaluated in the same manner as other candidates for nomination. Recommendations received at any other time will be kept on file until such time as the Nominating Committee is accepting recommendations, at which point they may be considered for nomination.

Board of Director and Committee Meetings Held

The following table shows the number of meetings held for the Company during the fiscal year ended November 30, 2004:

Board of Directors	4
Audit Committee	2
Valuation Committee	0
Nominating Committee	0

All of the Directors then serving attended at least 75% of the meetings of the Board of Directors and applicable committees held during the fiscal year.

Audit and Related Fees

Audit Fees. The aggregate fees billed by PricewaterhouseCoopers LLP during the Company s initial fiscal year ended November 30, 2004 to the Company for professional services rendered with respect to the audit of the Company s financial statements was $85,000. The Company was formed in June 2004, and thus did not pay PricewaterhouseCoopers LLP any fees prior to that date.

Audit-Related Fees. The Company was not billed by PricewaterhouseCoopers LLP for any fees for assurance and related services reasonably related to the performance of the audits of the Company s annual financial statements for its initial fiscal year.

Tax Fees. For professional services for tax compliance, tax advice and tax planning for its last fiscal year, the Company was billed by PricewaterhouseCoopers LLP for fees in the approximate amount of $23,000.

All Other Fees. The Company was not billed by PricewaterhouseCoopers LLP for any fees for services other than those described above during its initial fiscal year.

Aggregate Non-Audit Fees. The Company was not billed by PricewaterhouseCoopers LLP for any amounts for any non-audit services during the Company s initial fiscal year. In addition, neither Kayne Anderson nor any entity controlling, controlled by, or under common control with Kayne Anderson that provides ongoing services to the Company, was billed by PricewaterhouseCoopers LLP for any non-audit services during the Company s initial fiscal year.

Audit Committee Pre-Approval Policies and Procedures

Before the auditor is (i) engaged by the Company to render audit, audit related or permissible non-audit services to the Company or (ii) with respect to non-audit services to be provided by the auditor to Kayne Anderson or any entity in the investment Company complex, if the nature of the services provided relate directly to the operations or financial reporting of the Company, either: (a) the Audit Committee shall pre-approve such engagement; or (b) such engagement shall be entered into pursuant to pre-approval policies and procedures established by the Audit Committee. Any such policies and procedures must be detailed as to the particular service and not involve any delegation of the Audit Committee s responsibilities to Kayne Anderson. The Audit Committee may delegate to one or more of its members the authority to grant pre-approvals. The pre-approval policies and procedures shall include the requirement that the decisions of any member to whom authority is delegated under this provision shall be presented to the full Audit

Table of Contents

Committee at its next scheduled meeting. Under certain limited circumstances, pre-approvals are not required if certain *de minimis* thresholds are not exceeded, as such thresholds are set forth by the Audit Committee and in accordance with applicable SEC rules and regulations.

For engagements with PricewaterhouseCoopers LLP, the Audit Committee approved in advance all audit services and non-audit services that PricewaterhouseCoopers LLP provided to the Company and to Kayne Anderson (with respect to the operations and financial reporting of the Company). None of the services rendered by PricewaterhouseCoopers LLP to the Company or Kayne Anderson were pre-approved by the Audit Committee pursuant to the pre-approval exception under Rule 2.01(c)(7)(i)(C) or Rule 2.01(c)(7)(ii) of Regulation S-X. The Audit Committee has considered whether the provision of non-audit services rendered by PricewaterhouseCoopers LLP to Kayne Anderson and any entity controlling, controlled by, or under common control with Kayne Anderson that were not required to be pre-approved by the Audit Committee is compatible with maintaining PricewaterhouseCoopers LLP s independence.

Appointment of Independent Auditors

The Board of Directors has appointed PricewaterhouseCoopers LLP, independent registered public accounting firm, as independent auditors to audit the books and records of the Company for its current fiscal year. A representative of PricewaterhouseCoopers LLP will be present at the Annual Meeting to make a statement, if such representative so desires, and to respond to stockholders questions. PricewaterhouseCoopers LLP has informed the Company that it has no direct or indirect material financial interest in the Company or Kayne Anderson.

Director and Officer Compensation.

The Company does not compensate any of the Directors or officers who are employed by Kayne Anderson. Each of the Company s Independent Directors receives a $25,000 annual retainer for serving as a Director. In addition, the Company s Independent Directors receive fees for each meeting attended, as follows: $2,500 per Board meeting; $1,500 per Audit Committee meeting; and $500 for other committee meetings. Committee meeting fees are not paid unless the meeting is held on a day when there is not a Board meeting and the meeting is more than 15 minutes in length. The Directors are reimbursed for expenses incurred as a result of attendance at meetings of the Board of Directors and its committees.

The following table sets forth estimated compensation to be paid by the Company during its first full fiscal year to the Independent Directors and the Director nominee. We have no retirement or pension plans.

Name of Director or Nominee	Estimated Aggregate Compensation from the Company	Estimated Total Compensation from the Company and Fund Complex(1)
Anne K. Costin	$ 42,000	$ 42,000
Steven C. Good	$ 42,000	$ 42,000
Terrence J. Quinn	$ 42,000	$ 42,000
Gerald I. Isenberg	$ 21,000	$ 21,000
Kevin S. McCarthy	$ 0	$ 0

(1) As of April 30, 2005, the Directors and the nominee did not oversee any other investment companies managed by Kayne Anderson.

Required Vote.

The election of Mr. Isenberg as a Class I Director requires the affirmative vote of the holders of a majority of shares of common stock and preferred stock outstanding as of the Record Date, voting together as a single class. For

the purposes of determining whether the majority of the votes entitled to be cast by the common and preferred stockholders voting together as a single class approved the proposal, each common share and each preferred share is entitled to one vote. For purposes of the vote on the election of

Table of Contents

Gerald Isenberg as a Class I Director, abstentions and broker non-votes, if any, will have the same effect as votes against the election of Mr. Isenberg, although they will be considered present for purposes of determining the presence of a quorum at the Annual Meeting.

BOARD RECOMMENDATION

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS OF THE COMPANY VOTE FOR THE ELECTION OF GERALD ISENBERG AS A CLASS I DIRECTOR.

PROPOSAL TWO
APPROVAL TO SELL SHARES OF
COMMON STOCK BELOW NET ASSET VALUE

The 1940 Act prohibits the Company from selling shares of its common stock at a price below the current net asset value per share of such stock, except with the consent of a majority of its common stockholders or under certain other circumstances. Pursuant to this provision, the Company is seeking the consent of a majority of its common stockholders so that it may, in one or more public or private offerings of its common stock, sell shares of its common stock at a price below its then-current net asset value per share, subject to certain conditions discussed below. If approved, the authorization would be effective for a period expiring on the date of the Company s 2006 Annual Meeting of Stockholders, which is expected to be held in June 2006.

Generally, equity securities sold in public securities offerings are priced based on market prices, rather than net asset value per share. The Company is seeking the approval of a majority of its common stockholders of record to offer and sell shares of its common stock at prices that may be less than net asset value so as to permit the flexibility in pricing that market conditions generally require.

The Company s common stock has a limited trading history and has traded both at a premium and at a discount in relation to its net asset value. Although the Company s common stock recently has been trading at a premium above net asset value, there can be no assurance that this will continue or that its common stock will not trade at a discount in the future. The continued development of alternatives to the Company as a vehicle for investment in a portfolio of MLPs, including other publicly traded investment companies and private funds, may reduce or eliminate any tendency of the Company s common stock to trade at a premium in the future. Shares of closed-end investment companies frequently trade at a discount from net asset value. Without the approval of a majority of its common stockholders to sell stock at prices below its current net asset value per share, the Company would be precluded from selling shares of its common stock to raise capital during periods where the market price for its common stock is below its current net asset value.

The Company believes that having the ability to issue its common stock below net asset value in certain instances will benefit all of its stockholders. The Company expects that it will be periodically presented with attractive opportunities to acquire securities of midstream energy companies that require the Company to make an investment commitment quickly. Because the Company generally attempts to remain fully invested and it does not intend to maintain cash for the purpose of making these investments, the Company may be unable to capitalize on investment opportunities presented to it unless it quickly raises capital. The market value of the Company s common stock may periodically fall below its net asset value, which is not uncommon for a closed-end investment companies like the Company. If this decline were to occur, absent the approval of this proposal by a majority of common stockholders, the Company will not be able to effectively access capital markets to enable it to take advantage of attractive investment opportunities.

If this proposal is approved, the Company does not anticipate selling its common stock below its net asset value unless it has identified attractive near term investment opportunities that Kayne Anderson reasonably believes will lead to a long-term increase in net asset value. In determining whether or not to sell additional shares of the Company s common stock at a price below the net asset value per share, the Board of Directors will have duties to act in the best interest of the Company and its stockholders. Further, to the extent the

Table of Contents

Company issues shares of its common stock below net asset value in a publicly registered transaction, the Company s market capitalization and the amount of its publicly tradable common stock will increase, thus affording all common stockholders greater liquidity.

The Company will only sell shares of its common stock at a price below net asset value per share if the following conditions are met:

The per share offering price, before deduction of underwriting fees, commissions and offering expenses, will not be less than the net asset value per share of the Company s stock, as determined at any time within 2 business days of pricing of the common stock to be sold in the offering.

Immediately following the offering, after deducting offering expenses and underwriting fees and commissions, the net asset value per share of the Company s common stock, as determined at any time within 2 business days of pricing of the common stock to be sold, would not have been diluted by greater than a total of 1% of such value per share of all outstanding common stock. The Company will not be subject to a maximum number of shares that can be sold or a defined minimum sales price per share in any offering so long as the aggregate number of shares offered and the price at which such shares are sold together would not result in dilution of the net asset value per share of the Company s common stock in excess of the 1% limitation.

A majority of the Company s Independent Directors makes a determination, based on information and a recommendation from Kayne Anderson, that Kayne Anderson reasonably expects that the investment(s) to be made with the net proceeds of such issuance will lead to a long-term increase in net asset value.

Before voting on this proposal or giving proxies with regard to this matter, common stockholders should consider the potentially dilutive effect of the issuance of shares of the Company s common stock at less than net asset value per share on the net asset value per outstanding share of common stock. Any sale of common stock at a price below net asset value would result in an immediate dilution to existing common stockholders and could potentially cause the further erosion on the net asset value per share. The 1940 Act establishes a connection between common share sale price and net asset value because when stock is sold at a sale price below net asset value per share, the resulting increase in the number of outstanding shares is not accompanied by a proportionate increase in the net assets of the issuer. Common stockholders should also consider that holders of the Company s common stock have no subscription, preferential or preemptive rights to additional shares of the common stock proposed to be authorized for issuance, and thus any future issuance of common stock will dilute such stockholders holdings of common stock as a percentage of shares outstanding.

The issuance of the additional shares of common stock will also have an effect on the gross amount of management fees paid by the Company to Kayne Anderson. The Company s investment advisory agreement with Kayne Anderson provides for a management fee payable to Kayne Anderson as compensation for managing the investment portfolios of the Company computed as a percentage of assets under management. The increase in the Company s asset base that would result from any issuance of shares of common stock proposed to be authorized by common stockholders in this proposal would increase assets of the Company under management, and would cause a corresponding increase in the gross amount of management fees paid to Kayne Anderson, but would not increase or decrease the management fee as a percentage of assets under management. However, by increasing the size of the Company s asset base and number of shares outstanding, the Company may be able to reduce its fixed expenses both as a percentage of total assets and on a per share basis.

Required Vote.

Approval of Proposal Two requires: (1) the affirmative vote of a majority of all common stockholders of record as of the Record Date and (2) the affirmative vote of a majority of the votes cast by the holders of common stock and preferred stock, voting together as a single class.

For the purpose of determining whether a majority of the common stockholders of record approved this proposal, abstentions and broker non-votes, if any, will have the effect of a vote against Proposal Two. For the

Table of Contents

purpose of determining whether a majority of votes cast approved this proposal, abstentions and broker non-votes, if any, will have no effect on the outcome.

BOARD RECOMMENDATION

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS OF THE COMPANY VOTE FOR THE PROPOSAL TO ALLOW THE COMPANY TO SELL SHARES OF ITS COMMON STOCK AT A PRICE BELOW NET ASSET VALUE PER SHARE, SUBJECT TO CERTAIN CONDITIONS.

OTHER MATTERS

The Board of Directors of the Company knows of no other matters that are intended to be brought before the meeting. If other matters are properly presented at the Annual Meeting, the proxies named in the enclosed form of proxy will vote on those matters in their sole discretion.

MORE INFORMATION ABOUT THE MEETING

Stockholders. At the Record Date, the Company had the following numbers of shares of stock issued and outstanding:

Shares of Common Stock	Shares of Preferred Stock
33,676,442	3,000

At April 30, 2005, each Director beneficially owned equity securities of the Company having values within the indicated dollar ranges.

Director or Nominee	Aggregate Dollar Range of Equity Securities in the Company(1)
Anne K. Costin	$50,000-$100,000
Steven C. Good	$50,000-$100,000
Terrence J. Quinn	$10,000-$50,000
Gerald I. Isenberg	$0
Kevin S. McCarthy	Above $100,000

(1) As of May 12, 2005, the Directors and the nominee do not oversee any other investment companies managed by Kayne Anderson.

At April 30, 2005, no Director or officer held shares of preferred stock of the Company.

To the knowledge of the Company s management, as of April 30, 2005: there were no other entities holding beneficially more than 5% of the Company s outstanding common stock; none of the Company s Directors owned 1% or more of its outstanding common stock; and the Company s officers and Directors owned, as a group, less than 1% of its outstanding common stock.

Investment Management Agreement. Pursuant to the terms of an Investment Management Agreement between the Company and Kayne Anderson, the Company has agreed to pay Kayne Anderson a basic management fee at an annual rate of 1.75% of the Company s average total assets, adjusted upward or downward (by up to 1.00% of the Company s average total assets, as defined), depending on to what extent, if any, the Company s investment performance for the relevant performance period exceeds or trails the Company s Benchmark over the same period. The Company s Benchmark is the total return (capital appreciation and reinvested dividends) of the Standard & Poor s 400 Utilities Index plus 600 basis points (6.00%). Each 0.01% of difference of the Company s performance compared to the performance of the Benchmark is multiplied by a performance fee adjustment of 0.002%, up to a maximum adjustment of 1.00% (as an annual rate). The Company calculates the total management fee based on the average total

assets for

Table of Contents

the prior 12 months. For the period beginning with the commencement of the Company s operations through the end of the Company s first 12 months of operations (the Initial Period), on a quarterly fiscal basis the Company pays Kayne Anderson a minimum management fee calculated at an annual rate of 0.75%. After this Initial Period, the basic management fee and the performance fee adjustment will be calculated and paid quarterly beginning with the quarter ending November 30, 2005, using a rolling 12-month performance period. Management fees in excess of those paid will be accrued monthly.

The performance record for the Benchmark is based on the change in value of the Benchmark during the relevant performance period. During the Company s first fiscal year, for purposes of calculating the performance fee adjustment, the Company s initial net asset value is calculated net of the underwriter discount. At November 30, 2004, the Company had recorded accrued management fees at the annual rate of 0.75% based on the Company s investment performance for the period September 28, 2004 through November 30, 2004.

For purposes of calculating the management fee, the Company s total assets are equal to the Company s average monthly gross asset value (which includes assets attributable to or proceeds from the Company s use of preferred stock, commercial paper or notes issuances and other borrowings), minus the sum of the Company s accrued and unpaid dividends on any outstanding common stock and accrued and unpaid dividends on any outstanding preferred stock and accrued liabilities (other than liabilities associated with borrowing or leverage by the Company and any accrued taxes). Liabilities associated with borrowing or leverage by the Company include the principal amount of any borrowings, commercial paper or notes issued by the Company, the liquidation preference of any outstanding preferred stock, and other liabilities from other forms of borrowing or leverage such as short positions and put or call options held or written by the Company.

How Proxies Will Be Voted. All proxies solicited by the Board of Directors that are properly executed and received at or prior to the Annual Meeting, and that are not revoked, will be voted at the Annual Meeting. Votes will be cast in accordance with the instructions marked on the enclosed proxy card. If no instructions are specified, the persons named as proxies will cast such votes FOR the proposals. We know of no other matters to be presented at the Annual Meeting. However, if another proposal is properly presented at the Annual Meeting, the votes entitled to be cast by the persons named as proxies on the enclosed proxy card will cast such votes in their sole discretion.

How To Vote. If your shares are held in Street Name by a broker or bank, you will receive information regarding how to instruct your bank or broker to vote your shares. If you are a stockholder of record, you may authorize the persons named as proxies to cast the votes you are entitled to cast at the meeting by completing, signing dating and returning the enclosed proxy card. Stockholders of record or their duly authorized proxies may vote in person if able to attend the Annual Meeting.

Expenses and Solicitation of Proxies. The expenses of preparing, printing and mailing the enclosed proxy card, the accompanying notice and this proxy statement and all other costs, in connection with the solicitation of proxies will be borne by the Company. The Company may also reimburse banks, brokers and others for their reasonable expenses in forwarding proxy solicitation material to the beneficial owners of shares of the Company. In order to obtain the necessary quorum at the meeting, additional solicitation may be made by mail, telephone, telegraph, facsimile or personal interview by representatives of the Company, Kayne Anderson, the Company s transfer agent, or by brokers or their representatives or by a solicitation firm that may be engaged by the Company to assist in proxy solicitations. Any costs associated with such additional solicitation are not anticipated to be significant. The Company will not pay any representatives of the Company or Kayne Anderson any additional compensation for their efforts to supplement proxy solicitation.

Revoking a Proxy. At any time before it has been voted, you may revoke your proxy by: (1) sending a letter revoking your proxy to the Secretary of the Company at the Company s offices located at 1800 Avenue of the Stars, Second Floor, Los Angeles, CA 90067; (2) properly executing and sending a later-dated proxy; or (3) attending the Annual Meeting, requesting return of any previously delivered proxy, and voting in person.

Quorum and Adjournment. The presence, in person or by proxy, of holders of shares entitled to cast a majority of the votes entitled to be cast (without regard to class) constitutes a quorum. If a quorum is not

Table of Contents

present in person or by proxy at the Annual Meeting, the chairman of the Annual Meeting may adjourn the meeting to a date not more than 120 days after the original Record Date without notice other than announcement at the Annual Meeting. Failure of a quorum to be present at the Annual Meeting will necessitate adjournment and will subject the Company to additional expense.

No Appraisal or Dissenter Rights. Stockholders do not have any appraisal or dissenter rights in connection with any of the matters discussed in this proxy statement.

SECTION 16(a) BENEFICIAL INTEREST REPORTING COMPLIANCE

Section 30(h) of Investment Company Act of 1940 and Section 16(a) of the Securities Exchange Act of 1934 require the Company s directors and officers, investment adviser, affiliated persons of the investment advisor and persons who own more than 10% of a registered class of the Company s equity securities to file forms reporting their affiliation with the Company and reports of ownership and changes in ownership of the Company s shares with the SEC and the New York Stock Exchange. Those persor. Thus, partnerships, other pass-through entities and persons holding our common stock through such entities should consult their own tax advisors.

This discussion is based on current provisions of the Code, its legislative history, U.S. Treasury regulations promulgated under the Code, judicial opinions, and published rulings and procedures of the U.S. Internal Revenue Service ("IRS"), all as in effect on the date of this prospectus. These authorities are subject to differing interpretations or to change, possibly with retroactive effect. We have not sought, and will not seek, any ruling from the IRS or any opinion of counsel with respect to the tax consequences discussed below, and there can be no assurance that the IRS will not take a position contrary to the tax consequences discussed below or that any position taken by the IRS would not be sustained.

As used in this discussion, the term "U.S. person" means a person that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized (or treated as created or organized) in or under the laws of the United States or of any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust. As used in this discussion, the term "U.S. holder" means a beneficial owner of our common stock that is a U.S. person, and the term "non-U.S. holder" means a beneficial owner of our common stock (other than an entity that is treated as a partnership or other pass-through entity for U.S. federal income tax purposes) that is not a U.S. person.

U.S. Holders

Taxation of Distributions

A U.S. holder will be required to include in gross income as ordinary income the amount of any dividend paid on the shares of our common stock. A distribution on such shares will be treated as a dividend for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess of current and accumulated earnings and profits generally will constitute a return of capital that will be applied against and reduce (but not below zero) the U.S. holder's adjusted tax basis in our common stock. Any remaining excess generally will be treated as gain from the sale or other disposition of the common stock and will be treated as described under "— Gain or Loss on Sale, Taxable Exchange or Other Taxable Disposition of Common Stock" below.

Dividends paid to a non-corporate U.S. holder in taxable years beginning before January 1, 2013 generally will be subject to a reduced maximum tax rate of 15% provided certain holding period and other requirements are satisfied. Beginning January 1, 2013, the rate applicable to dividends is currently scheduled to return to the tax rate generally applicable to ordinary income. Dividends paid to U.S. holders that are corporations will be eligible for the dividends-received deduction if the U.S. holders meet certain holding period and other applicable requirements.

If PRC taxes apply to any dividends paid to a U.S. holder on our common stock, such taxes may be treated as foreign taxes eligible for a deduction from such holders' U.S. federal taxable income or a foreign tax credit against such U.S. holder's U.S. federal income tax liability (subject to certain limitations). In addition, a U.S. holder may be entitled to certain benefits under the treaty between the United States and the PRC. U.S. holders should consult their own tax advisors regarding the availability of a credit for any such PRC tax, the availability of the foreign tax credit to them and their eligibility for the benefits of the income tax treaty between the United States and the PRC.

Gain or Loss on Sale, Taxable Exchange or Other Taxable Disposition of Common Stock

In general, a U.S. holder must treat any gain or loss recognized upon a sale, taxable exchange, or other taxable disposition of our common stock as capital gain or loss. Any such capital gain or loss will be long-term capital gain or

loss if the U.S. holder's holding period for the common stock so disposed of exceeds one year. In general, a U.S. holder will recognize gain or loss in an amount equal to the difference between (i) the sum of the amount of cash and the fair market value of any property received in such disposition and (ii) the U.S. holder's adjusted tax basis in the common stock so disposed of. Long-term capital gain recognized by a non-corporate U.S. holder generally will be subject to a maximum tax rate of 15 percent for tax years beginning before January 1, 2013, after which the maximum long-term capital gains tax rate is currently scheduled to increase to 20 percent. The deduction of capital losses is subject to various limitations.

If PRC taxes apply to any gain from the disposition of our common stock by a U.S. holder, such taxes may be treated as foreign taxes eligible for a deduction from such holder's U.S. federal taxable income or a foreign tax credit against such U.S. holder's U.S. federal income tax liability (subject to certain limitations). In addition, such U.S. holder may be entitled to certain benefits under the U.S.-PRC Tax Treaty U.S. holders should consult their own tax advisors regarding the deduction or credit for any such PRC tax and their eligibility for the benefits of the U.S.-PRC Tax Treaty Additional Taxes After 2012

For taxable years beginning after December 31, 2012, U.S. holders that are individuals, estates or trusts will be required to pay an additional 3.8% Medicare contribution tax on unearned income, including, among other things, dividends on and capital gains from the sale or other disposition of stock, subject to certain limitations and exceptions. U.S. holders should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of our common stock.

Non-U.S. Holders

Taxation of Distributions

In general, any distribution we make to a non-U.S. holder of shares of our common stock, to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles), will constitute a dividend for U.S. federal income tax purposes. Any dividend paid to a non-U.S. holder with respect to shares of our common stock that is not effectively connected with the non-U.S. holder's conduct of a trade or business within the United States, as described below, generally will be subject to U.S. federal withholding tax at a rate of 30 percent of the gross amount of the dividend, unless such non-U.S. holder is eligible for a reduced rate of withholding tax under an applicable income tax treaty and provides proper certification of its eligibility for such reduced rate (usually on an IRS Form W-8BEN). Any distribution not constituting a dividend will constitute a return of capital that will be applied against and reduce (but not below zero) the non-U.S. holder's adjusted tax basis in its shares of our common stock. Any remaining excess generally will be treated as gain from the sale or other disposition of the common stock, which will be treated as described under "— Gain on Sale, Taxable Exchange or Other Taxable Disposition of Common Stock" below.

Dividends we pay to a non-U.S. holder that are effectively connected with such non-U.S. holder's conduct of a trade or business within the United States (and, if certain income tax treaties apply, are attributable to a U.S. permanent establishment or fixed base maintained by the non-U.S. holder) generally will not be subject to U.S. withholding tax, provided such non-U.S. holder complies with certain certification and disclosure requirements (usually by providing an IRS Form W-8ECI). Instead, such dividends generally will be subject to U.S. federal income tax, net of certain deductions, at the same graduated individual or corporate tax rates applicable to U.S. persons. If the non-U.S. holder is a corporation, dividends that are effectively connected income may also be subject to a "branch profits tax" at a rate of 30 percent (or such lower rate as may be specified by an applicable income tax treaty).

Gain on Sale, Taxable Exchange or Other Taxable Disposition of Common Stock

A non-U.S. holder generally will not be subject to U.S. federal income tax in respect of gain recognized on a sale, exchange or other disposition of our common stock, unless:

- the gain is effectively connected with the conduct of a trade or business by the non-U.S. holder within the United States (and, under certain income tax treaties, is attributable to a U.S. permanent establishment or fixed base maintained by the non-U.S. holder);
-

the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of disposition and certain other conditions are met; or

- we are or have been a United States real property holding corporation ("USRPHC") for U.S. federal income tax purposes at any time during the shorter of the five year period ending on the date of disposition or the non-U.S. holder's holding period for the common stock disposed of.

Unless an applicable tax treaty provides otherwise, gain described in the first and third bullet points above generally will be subject to U.S. federal income tax, net of certain deductions, at the same tax rates applicable to U.S. persons. Any gains described in the first bullet point above of a non-U.S. holder that is a foreign corporation may also be subject to an additional "branch profits tax" at a 30 percent rate (or a lower applicable income tax treaty rate). Any U.S. source capital gain of a non-U.S. holder described in the second bullet point above (which may be offset by U.S. source capital losses during the taxable year of the disposition) generally will be subject to a flat 30 percent U.S. federal income tax (or a lower applicable income tax treaty rate).

In connection with the third bullet point above, we generally will be classified as a USRPHC if (looking through certain subsidiaries) the fair market value of our "United States real property interests" equals or exceeds 50 percent of the sum of the fair market value of our worldwide real property interests plus our other assets used or held for use in a trade or business, as determined for U.S. federal income tax purposes. We believe that we currently are not a USRPHC, and we do not anticipate becoming a USRPHC (although no assurance can be given that we will not become a USRPHC in the future). Even if we are a USRPHC, a non-U.S. holder will not be subject to U.S. federal income tax solely because of our status as a USRPHC so long as our common stock is "regularly traded on an established securities market," and such non-U.S. holder did not hold directly or indirectly more than 5% of our common stock at any time during the shorter of the five-year period preceding the date of the disposition or the holder's holding period. If a non-U.S. holder owned directly or indirectly more than 5% of our common stock at any time during the applicable period then any gain recognized by a Non-U.S. holder on the sale or other disposition of our common stock would be treated as effectively connected with a U.S. trade or business and would be subject to U.S. federal income tax at applicable graduated U.S. federal income tax rates and in much the same manner as applicable to U.S. persons.

Payments After 2012

Effective generally for payments made after December 31, 2012, a non-U.S. holder may be subject to a U.S. federal withholding tax at a 30% rate with respect to dividends on, and the gross proceeds from the sale or other disposition of, our common stock if certain disclosure requirements related to the U.S. accounts maintained by, or the U.S. ownership of, the non-U.S. holder are not satisfied. If payment of such withholding taxes is required, a non-U.S. holder that is otherwise eligible for an exemption from, or a reduction of, U.S. withholding taxes with respect to such dividends and proceeds generally will be required to seek a refund from the IRS to obtain the benefit of such exemption or reduction. Non-U.S. holders should consult their own tax advisors regarding the effect, if any, of such withholding taxes on their ownership and disposition of our common stock.

Information Reporting and Backup Withholding

We generally must report annually to the IRS and to each holder the amount of dividends and certain other distributions we pay to such holder on our common stock and the amount of tax, if any, withheld with respect to those distributions. In the case of a non-U.S. holder, copies of the information returns reporting those distributions and withholding may also be made available to the tax authorities in the country in which the non-U.S. holder is a resident under the provisions of an applicable income tax treaty or agreement. Information reporting is also generally required with respect to proceeds from the sales and other dispositions of our common stock to or through the U.S. office (and in certain cases, the foreign office) of a broker.

In addition, backup withholding of U.S. federal income tax, currently at a rate of 28 percent, generally will apply to distributions made on our common stock to, and the proceeds from sales and other dispositions of our common stock by, a non-corporate U.S. holder who:

- fails to provide an accurate taxpayer identification number;

- is notified by the IRS that backup withholding is required; or
- in certain circumstances, fails to comply with applicable certification requirements.

A non-U.S. holder generally may eliminate the requirement for information reporting (other than with respect to distributions, as described above) and backup withholding by providing certification of its foreign status, under penalties of perjury, on a duly executed applicable IRS Form W-8 or by otherwise establishing an exemption.

Backup withholding is not an additional tax. Rather, the amount of any backup withholding will be allowed as a credit against a U.S. holder's or a non-U.S. holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that certain required information is timely furnished to the IRS. Holders are urged to consult their own tax advisors regarding the application of backup withholding and the availability of and procedure for obtaining an exemption from backup withholding in their particular circumstances.

Material PRC Income Tax Considerations

The following discussion summarizes the material PRC income tax considerations relating to the purchase, ownership and disposition of shares of our common stock, as of the date hereof.

Resident Enterprise Treatment

On March 16, 2007, the Fifth Session of the Tenth National People's Congress passed the EIT Law, which became effective on January 1, 2008. Under the EIT Law, enterprises are classified as "resident enterprises" and "non-resident enterprises." Pursuant to the EIT Law and its implementing rules, enterprises established outside China whose "de facto management bodies" are located in China are considered "resident enterprises" and subject to the uniform 25.0% enterprise income tax rate on global income. According to the implementing rules of the EIT Law, "de facto management body" refers to a managing body that in practice exercises overall management control over the production and business, personnel, accounting and assets of an enterprise. Due to governmental support for our industry, however, we have enjoyed a preferential tax rate of 18.0% on our global income. The preferential tax rate is reviewed by the taxing authorities every three years and will expire for us in 2010. If the PRC tax authorities fail to extend our preferential tax rate, we will be subject to the enterprise income tax rate of 25.0% on our worldwide income.

On April 22, 2009, the State Administration of Taxation issued the Notice on the Issues Regarding Recognition of Enterprises that are Domestically Controlled as PRC Resident Enterprises Based on the De Facto Management Body Criteria, which was retroactively effective as of January 1, 2008. This notice provides that an overseas incorporated enterprise controlled by a PRC company or a PRC company group will be recognized as a "tax-resident enterprise" if it satisfies all of the following conditions: (i) the senior management responsible for daily production/ business operations are primarily located in the PRC, and the location(s) where such senior management execute their responsibilities are primarily in the PRC; (ii) strategic financial and personnel decisions are made or approved by organizations or personnel located in the PRC; (iii) major properties, accounting ledgers, company seals and minutes of board meetings and stockholder meetings, etc., are maintained in the PRC; and (iv) 50.0% or more of the board members with voting rights or senior management habitually reside in the PRC. Although the Notice only applies to offshore enterprises controlled by PRC enterprises and not those controlled by PRC individuals or foreigners, the determining criteria set forth in the circular may reflect the State Administration of Taxation's general position on how the "de facto management body" test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises, individuals or foreigners. However, it remains uncertain how tax authorities will determine tax residency based on the facts of each case, given that the Enterprise Income Tax Laws are relatively new and ambiguous in terms of some definitions, requirements and detailed procedures.

Given the short history of the EIT Law and lack of applicable legal precedent, it remains unclear how the PRC tax authorities will determine the PRC tax resident treatment of a non-PRC company such as us. If the PRC tax authorities determine that we are a "tax-resident enterprise" for PRC enterprise income tax purposes, a number of tax

consequences could follow. First, we could be subject to the enterprise income tax at a rate of 25.0% on our global taxable income (assuming that our preferential tax rate is not renewed). Second, the EIT Law provides that dividend income between "qualified resident enterprises" is exempt from income tax. It is unclear whether the dividends we receive would constitute dividend income between "qualified resident enterprises" and would therefore qualify for tax exemption.

Although there has not been a definitive determination as to our "resident enterprise" or "non-resident enterprise" status, we believe that we are a "tax-resident enterprise". However, since it is not anticipated that we will receive dividends or generate other income in the near future, we are not expected to have any income that would be subject to the 25.0% enterprise income tax on global income in the near future. We will consult with the PRC tax authorities and make any necessary tax payment if we were to have income in the future.

Dividends From PRC Operating Companies

If we are not treated as tax-resident enterprises under the EIT Law, then dividends that we receive may be subject to PRC withholding tax. The EIT Law and the implementing rules of the EIT Law provide that (A) an income tax rate of 25.0% will normally be applicable to investors that are "non-resident enterprises," or non-resident investors, which (i) have establishments or premises of business inside the PRC, and (ii) the income in connection with their establishment or premises of business is sourced from the PRC or the income is earned outside the PRC but has actual connection with their establishments or places of business inside the PRC, and (B) an income tax rate of 10.0% will normally be applicable to dividends payable to investors that are "non-resident enterprises," or non-resident investors, which (i) do not have an establishment or place of business in the PRC or (ii) have an establishment or place of business in the PRC, but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC. Due to governmental support for our industry, however, we have enjoyed a preferential tax rate of 18.0% on our global income. The preferential tax rate is reviewed by the taxing authorities every three years and will expire for us in 2010. If the PRC tax authorities fail to extend our preferential tax rate, we will be subject to the enterprise income tax rate of 25.0% on our worldwide income.

Dividend income between qualified "tax-resident enterprises" is exempt from the 10.0% income tax described in the foregoing paragraph. However, as described above, the PRC tax authorities may determine the resident enterprise status of entities organized under the laws of foreign jurisdictions, on a case-by-case basis. We are a holding company and substantially all of our income may be derived from dividends. Thus, if we are considered as a "non-resident enterprise" under the EIT Law and the dividends paid to us are considered income sourced within the PRC, such dividends received may be subject to the 10.0% income tax described in the foregoing paragraph.

As of the date hereof, there has not been a definitive determination as to our "resident enterprise" or "non-resident enterprise" status. We will consult with the PRC tax authorities and make any necessary tax withholding if, in the future, our PRC subsidiaries were to pay any dividends and we (based on future clarifying guidance issued by the PRC), or the PRC tax authorities, determine that we are a non-resident enterprise under the EIT Law.

Dividends That Non-Resident Corporate Investors Receive From Us; Gain on the Sale or Transfer of Our Common Stock

If dividends payable to (or gains recognized by) our non-resident corporate investors are treated as income derived from sources within the PRC, then the dividends that non-resident corporate investors receive from us, and any such gain on the sale or transfer of our common stock, may be subject to taxes under PRC tax laws.

Under the EIT Law and the implementing rules of the EIT Law, PRC income tax at the rate of 10.0% is applicable to dividends payable to corporate investors that are "non-resident enterprises," or non-resident corporate investors, which (i) do not have an establishment or place of business in the PRC or (ii) have an establishment or place of business in the PRC but the relevant income is not effectively connected with the establishment or place of business, to the extent that such dividends have their sources within the PRC. Similarly, any gain realized on the transfer of common stock by such corporate investors is also subject to 10.0% PRC income tax if such gain is regarded as income derived from sources within the PRC.

The dividends paid by us to non-resident corporate investors with respect to our common stock, or gain non-resident corporate investors may realize from sale or the transfer of our common stock, may be treated as PRC-sourced income and, as a result, may be subject to PRC tax at a rate of 10.0%. In such event, we also may be required to withhold a 10.0% PRC tax on any dividends paid to non-resident corporate investors. In addition, non-resident corporate investors in our common stock may be responsible for paying PRC tax at a rate of 10.0% on any gain realized from the sale or transfer of our common stock after the consummation of this offering if such non-resident corporate investors and the gain satisfy the requirements under the EIT Law and its implementing rules. However, under the EIT Law and its implementing rules, we would not have an obligation to withhold income tax in respect of the gains that non-resident corporate investors (including U.S. corporate investors) may realize from the sale or transfer of our common stock from and after the consummation of this offering.

The State Administration of Taxation issued a circular, or Circular 698, on December 10, 2009, that reinforces taxation on transfer of non-listed shares by non-resident enterprises through overseas holding vehicles. Circular 698 applies retroactively and was deemed to be effective as of January 2008. Pursuant to Circular 698, where (i) a foreign investor who indirectly holds equity interest in a PRC resident enterprise through an offshore holding company indirectly transfers equity interests in a PRC resident enterprise by selling the shares of the offshore holding company, and (ii) the offshore holding company is located in a jurisdiction where the effective tax rate is lower than 12.5% or where the offshore income of its residents is not taxable, the foreign investor is required to provide the tax authority in charge of that PRC resident enterprise with certain relevant information within 30 days of the transfer. The tax authorities in charge will evaluate the offshore transaction for tax purposes. In the event that the tax authorities determine that such transfer is abusing forms of business organization and there is no reasonable commercial purpose other than avoidance of PRC enterprise income tax, the tax authorities will have the power to conduct a substance-over-form re-assessment of the nature of the equity transfer. A reasonable commercial purpose may be established when the overall offshore structure is set up to comply with the requirements of supervising authorities of international capital markets. If the State Administration of Taxation's challenge of a transfer is successful, they will deny the existence of the offshore holding company that is used for tax planning purposes. Since Circular 698 has a short history, there is uncertainty as to its application. We and our foreign investors may become at risk of being taxed under Circular 698 and may be required to expend resources to comply with Circular 698 or to establish that we or our foreign investors should not be taxed under Circular 698 which could have a material adverse effect on our or our foreign investors' financial condition and results of operations.

If we were to pay any dividends in the future, we would again consult with the PRC tax authorities and if we (based on future clarifying guidance issued by the PRC), or the PRC tax authorities, determine that we must withhold PRC tax on any dividends payable by us under the EIT Law, we will make any necessary tax withholding on dividends payable to our non-resident investors. If non-resident corporate investors (including U.S. investors) as described under the EIT Law realized any gain from the sale or transfer of our common stock and if such gain were considered as PRC-sourced income, such non-resident corporate investors would be responsible for paying 10.0% PRC income tax on the gain from the sale or transfer of our common stock. As indicated above, under the EIT Law and its implementing rules, we would not have an obligation to withhold PRC income tax in respect of the gains that non-resident corporate investors (including U.S. investors) may realize from the sale or transfer of our common stock from and after the consummation of this offering.

Penalties for Failure to Pay Applicable PRC Income Tax

Non-resident corporate investors may be responsible for paying PRC tax at a rate of 10.0% on any gain realized from the sale or transfer of our common stock after the consummation of this offering if such non-resident corporate investors and the gain classify as such under the EIT Law and its implementing rules, as described above.

According to the EIT Law and its implementing rules, the PRC Tax Administration Law (the "Tax Administration Law") and its implementing rules, the Provisional Measures for the Administration of Withholding of Enterprise Income Tax for Non-resident Enterprises (the "Administration Measures") and other applicable PRC laws or regulations (collectively the "Tax Related Laws"), where any gain derived by non-resident corporate investors from the sale or transfer of our common stock is subject to any income tax in the PRC, and such non-resident corporate investors fail to file any tax return or pay tax in this regard pursuant to the Tax Related Laws, they may be subject to certain fines, penalties or punishments, including without limitation: (1) if a non-resident corporate investor fails to file a tax return and present the relevant information in connection with tax payments, the competent tax authorities may order it to do so within the prescribed time limit and may impose a fine up to RMB 2,000 ($300), and in egregious cases, may impose a fine ranging from RMB 2,000 to RMB 10,000 ($300 - $1500); (2) if a non-resident corporate investor fails to file a tax return or fails to pay all or part of the amount of tax payable, the non-resident corporate investor will be required to pay the unpaid tax amount payable, a surcharge on overdue tax payments (the daily surcharge is 0.1% of

the overdue amount, beginning from the day the deferral begins), and a fine ranging from 50.0% to 500.0% of the unpaid amount of the tax payable; (3) if a non-resident corporate investor fails to file a tax return or pay the tax within the prescribed time limit according to the order by the PRC tax authorities, the PRC tax authorities may collect and check information about the income items of the non-resident corporate investor in the PRC and other payers (the "Other Payers") who will pay amounts to such non-resident corporate investor, and send a "Notice of Tax Issues" to the Other Payers to collect and recover the tax payable and impose overdue fines on such non-resident corporate investor from the amounts otherwise payable to such non-resident corporate investor by the Other Payers; (4) if a non-resident corporate investor fails to pay the tax payable within the prescribed time limit as ordered by the PRC tax authorities, a fine may be imposed on the non-resident corporate investor ranging from 50.0% to 500.0% of the unpaid tax payable; and the PRC tax authorities may, upon approval by the director of the tax bureau (or sub-bureau) of, or higher than, the county level, take the following compulsory measures: (i) notify in writing the non-resident corporate investor's bank or other financial institution to withhold amounts from the account thereof for payment of the amount of tax payable, and (ii) detain, seal off, or sell by auction or on the market the non-resident corporate investor's commodities, goods or other property in a value equivalent to the amount of tax payable; or (5) if the non-resident corporate investor fails to pay all or part of the amount of tax payable or surcharge for overdue tax payment, and cannot provide a guarantee to the tax authorities, the tax authorities may notify the frontier authorities to prevent the non-resident corporate investor or their legal representative from leaving the PRC.

PLAN OF DISTRIBUTION

The shares of our common stock that may be offered by this prospectus may be sold:

- through agents;
- to or through underwriters;
- to or through broker-dealers (acting as agent or principal);
- in "at the market offerings" within the meaning of Rule 415(a)(4) of the Securities Act, to or through a market maker or into an existing trading market, on an exchange, or otherwise;
- directly to a limited number of purchasers or to a single purchaser; or
- through a combination of any such methods of sale.

Agents, underwriters or broker-dealers may be paid compensation for offering and selling the shares of our common stock. That compensation may be in the form of discounts, concessions or commissions to be received from us, from the purchasers of the shares of common stock or from both us and the purchasers. Any underwriters, dealers, agents or other investors participating in the distribution of the shares of common stock may be deemed to be "underwriters," as that term is defined in the Securities Act, and compensation and profits received by them on sale of the shares of common stock may be deemed to be underwriting commissions, as that term is defined in the rules promulgated under the Securities Act.

Each time shares of our common stock are offered by this prospectus, the prospectus supplement, if required, will set forth:

- the name of any underwriter, dealer or agent involved in the offer and sale of the shares of common stock;
- the terms of the offering;
- any discounts concessions or commissions and other items constituting compensation received by the underwriters, broker-dealers or agents;
- any over-allotment option under which any underwriters may purchase additional shares of common stock from us;
- any initial public offering price;

- any discounts or concessions allowed or reallowed or paid to dealers; and
- the anticipated date of delivery of the shares of common stock.

The shares of our common stock may be sold at a fixed price or prices, which may be changed, at market prices prevailing at the time of sale, at prices relating to the prevailing market prices or at negotiated prices. The distribution of shares of common stock may be effected from time to time in one or more transactions, by means of one or more of the following transactions, which may include cross or block trades:

- transactions on the NASDAQ Global Market or any other organized market where the common stock may be traded;
- in the over-the-counter market;
- in negotiated transactions;
- under delayed delivery contracts or other contractual commitments; or
- a combination of such methods of sale.

If underwriters are used in a sale, shares of our common stock will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions. Our common stock may be offered to the public either through underwriting syndicates represented by one or more managing underwriters or directly by one or more firms acting as underwriters. If an underwriter or underwriters are used in the sale of shares of our common stock, an underwriting agreement will be executed with the underwriter or underwriters at the time an agreement for the sale is reached. This prospectus and the prospectus supplement will be used by the underwriters to resell the shares of our common stock.

In compliance with the guidelines of the Financial Industry Regulatory Authority, or "FINRA," the aggregate maximum discount, commission or agency fees or other items constituting underwriting compensation to be received by any FINRA member or independent broker-dealer will not exceed 8% of the offering proceeds from any offering pursuant to this prospectus and any applicable prospectus supplement. If 5% or more of the net proceeds of any offering of our common stock made under this prospectus will be received by a FINRA member participating in the offering or affiliates or associated persons of such FINRA member, the offering will be conducted in accordance with FINRA Rule 5121.

To comply with the securities laws of certain states, if applicable, the shares of common stock offered by this prospectus will be offered and sold in those states only through registered or licensed brokers or dealers.

Agents, underwriters and dealers may be entitled under agreements entered into with us to indemnification by us against specified liabilities, including liabilities incurred under the Securities Act, or to contribution by us to payments they may be required to make in respect of such liabilities. The prospectus supplement will describe the terms and conditions of such indemnification or contribution. Some of the agents, underwriters or dealers, or their respective affiliates may be customers of, engage in transactions with or perform services for us in the ordinary course of business. We will describe in the prospectus supplement naming the underwriter the nature of any such relationship.

LEGAL MATTERS

The validity of the common stock offered in this prospectus will be passed upon us by McKenna Long & Alrdridge LLP. Certain legal matters relating to the PRC in connection with this offering have been passed upon for us by Kang

Da Law Firm. McKenna Long & Aldridge LLP may rely on Kang Da Law Firm with respect to matters governed by PRC law.

EXPERTS

The consolidated financial statements of China Recycling Energy Corporation and its subsidiaries as of December 31, 2010 and 2009, and for each of the years in the three-year period ended December 31, 2010, and management's assessment of the effectiveness of internal control over financial reporting, as of December 31, 2010, have been incorporated by reference herein and in the Registration Statement in reliance on the reports of Goldman Kurland Mohidin LLP, an independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to "incorporate by reference" the information we file with them into this prospectus. This means that we can disclose important information about us and our financial condition to you by referring you to another document filed separately with the SEC instead of having to repeat the information in this prospectus. The information incorporated by reference is considered to be part of this prospectus and later information that we file with the SEC will automatically update and supersede this information. This prospectus incorporates by reference any future filings made with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Exchange Act, between the date of the initial registration statement and prior to effectiveness of the registration statement and the documents listed below that we have previously filed with the SEC:

- our Annual Report on Form 10-K for the year ended December 31, 2010;
- our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011;
- the portions of our Definitive Proxy Statement on Schedule 14A filed on May 2, 2011 that were incorporated by reference in our Annual Report on Form 10-K for the year ended December 31, 2010;
- our Current Reports on Form 8-K filed on January 6, 2011, March 7, 2011 and March 25, 2011; and
- the description of our common stock contained in the Registration Statement on Form SB-2, dated November 12, 2004, File No. 333-120431, and any other amendment or report filed for the purpose of updating such description.

We also incorporate by reference all documents that we file with the SEC on or after the effective time of this prospectus pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act and prior to the sale of all shares of common stock registered hereunder or the termination of the registration statement. Nothing in this prospectus shall be deemed to incorporate information furnished but not filed with the SEC.

Any statement contained in this prospectus or in a document incorporated or deemed to be incorporated by reference in this prospectus shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein or in the applicable prospectus supplement or in any other subsequently filed document which also is or is deemed to be incorporated by reference modifies or supersedes the statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

You may request a copy of the filings incorporated herein by reference, including exhibits to such documents that are specifically incorporated by reference, at no cost, by writing or calling us at the following address or telephone number:

China Recycling Energy Corporation

12/F, Tower A
Chang An International Building
No. 88 Nan Guan Zheng Jie,
Xi'an City, Shaanxi Province, China
Attn: David Chong, Chief Financial Officer and Corporate Secretary
+86-29-8769-1097

17

Statements contained in this prospectus as to the contents of any contract or other documents are not necessarily complete, and in each instance you are referred to the copy of the contract or other document filed as an exhibit to the registration statement, each such statement being qualified in all respects by such reference and the exhibits and schedules thereto.

WHERE YOU CAN FIND MORE INFORMATION

This prospectus is part of a Registration Statement on Form S-3 that we filed with the SEC registering the shares of common stock that may be offered and sold hereunder. The Registration Statement, including exhibits thereto, contains additional relevant information about us and these shares of common stock that, as permitted by the rules and regulations of the SEC, we have not included in this prospectus. A copy of the Registration Statement can be obtained at the address set forth below or at the SEC's website as noted below. You should read the Registration Statement, including any applicable prospectus supplement, for further information about us and these shares of common stock.

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's website at http:/www.sec.gov. You may also read and copy any document we file at the SEC's public reference room, 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. Because our common stock is listed on the NASDAQ Global Market, you may also inspect reports, proxy statements and other information at the offices of the NASDAQ Global Market.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution.

The following table sets forth all expenses payable by us in connection with the offering of our common stock being registered hereby. All amounts shown are estimates except the SEC registration fee.

SEC registration fee	$23,220
Legal fees and expenses	
Accounting fees and expenses	
Printing and miscellaneous expenses	
Total expenses	$

Item 15. Indemnification of Directors and Officers.

With certain exceptions involving ouster, securities violations, commodities violations, receiving deposits in insolvent banks with knowledge of insolvency, and recovery by an insurer of profits realized from transactions made with unfair use of information, under Section 78.138 of the Nevada Revised Statutes, our directors and officers will not be individually liable to the Company, its stockholders or creditors for any damages as a result of any act or failure to act in their capacity as a director or officer unless it is proven that the act or failure to act breached fiduciary duties as a director or officer and such breach involved intentional misconduct, fraud, or a knowing violation of law.

Pursuant to our Amended and Restated Bylaws, we are required to indemnify and hold harmless, to the fullest extent permitted by Nevada law, each officer and director of the Company who is made or is threatened to be made a party or are otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a director or officer of ours or, while a director or officer of ours, is or was serving at our request as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, enterprise or nonprofit entity, against all expenses, liabilities and losses (including without limitation attorneys' fees, judgments, fines, taxes, penalties, and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person. Under Nevada law, any such indemnification is only available if such person is not liable under Section 78.138 of the Nevada Revised Statutes, as described above, or such person acted in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The indemnification provided by our Amended and Restated Bylaws is not exclusive of any other rights to which those indemnified may be entitled under any statute, provision of our Articles of Incorporation, agreement, vote of our stockholders or directors, or otherwise and shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors, and administrators of such person.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to our Bylaws, Articles of Incorporation, the Nevada Revised Statutes, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such

director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

We are entitled to purchase insurance on behalf of our officers and directors and we are required to do so pursuant agreements between us and each of our directors.

Item 16. Exhibits and Financial Schedule

See the Exhibit Index attached to this Registration Statement and incorporated herein by reference.

Item 17. Undertakings.

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended (the "Securities Act of 1933");

(ii) to reflect in the prospectus any facts or events arising after the effective date of this registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this registration statement. Notwithstanding the foregoing, any increase or decrease in the volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(iii) to include any material information with respect to the plan of distribution not previously disclosed in this registration statement or any material change to such information in this registration statement;

provided, however, that paragraphs (1)(i), (1)(ii) and (1)(iii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the Registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are incorporated by reference in this registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of this registration statement.

(2) That, for the purposes of determining any liability under the Securities Act of 1933, each post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at the time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

(i) Each prospectus filed pursuant to Rule 424(b) as part of the registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectus filed in reliance on Rule 430A shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration

statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(5) That, for the purpose of determining liability of a Registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities:

The undersigned Registrant undertakes that in a primary offering of securities of the undersigned Registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) any preliminary prospectus or prospectus of the undersigned Registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) any free writing prospectus relating to the offering prepared by or on behalf of the undersigned Registrant or used or referred to by the undersigned Registrant;

(iii) the portion of any other free writing prospectus relating to the offering containing material information about the undersigned Registrant or its securities provided by or on behalf of the undersigned Registrant; and

(iv) any other communication that is an offer in the offering made by the undersigned Registrant to the purchaser.

(6) The undersigned registrant hereby undertakes that:

(i) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(ii) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

The Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant's annual report pursuant to Section 13(a) or 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in this registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the indemnification provisions described herein, or otherwise, the Registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Xi'an China, on the 25th day of May, 2011.

CHINA RECYCLING ENERGY CORPORATION

By: /s/ Guohua Ku
Guohua Ku
Chairman of the Board of Directors and Chief Executive Officer

SIGNATURES AND POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Guohua Ku and David Chong as his true and lawful attorneys-in-fact and agents, each acting alone, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement on Form S-3 and any subsequent registration statement the Registrant may hereafter file with the Securities and Exchange Commission pursuant to Rule 462 under the Securities Act to register additional securities in connection with this registration statement, and to file this registration statement, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in order to effectuate the same as fully, to all intents and purposes, as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Gouhua Ku Gouhua Ku	Chairman of the Board of Directors and Chief Executive Officer	May 25, 2011
/s/ David Chong David Chong	Chief Financial Officer and Secretary	May 25, 2011
/s/ Nicholas Shao Nicholas Shao	Director	May 25, 2011
/s/ Lanwei Li Lanwei Li	Director	May 25, 2011
/s/ Dr. Robert Chanson Dr. Robert Chanson	Director	May 25, 2011
/s/ Timothy Driscoll	Director	May 25, 2011

Timothy Driscoll		
/s/ Julian Ha Julian Ha	Director	May 25, 2011
/s/ Sean Shao Sean Shao	Director	May 25, 2011
/s/ Yilin Ma Yilin Ma	Director	May 25, 2011
/s/ Chungui Shi Chungui Shi	Director	May 25, 2011

EXHIBIT INDEX

Exhibit Number	Description
1.1	Form of Underwriting Agreement.*
3.1	Articles of Incorporation (filed as Exhibit 3.05 to the Company' s Form 10-KSB for the fiscal year ended December 31, 2001).
3.2	Fourth Amended and Restated Bylaws (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K dated November 25, 2009).
4.1	Common Stock Specimen (filed as Exhibit 4.1 to the Company's Registration Statement on Form SB-2 dated November 12, 2004; 1934 Act File No. 333-120431).
5.1	Opinion of McKenna Long & Aldridge LLP.**
23.1	Consent of Independent Registered Public Accounting Firm.**
23.2	Consent of McKenna Long & Aldridge LLP (included in legal opinion filed as Exhibit 5.1).
24.1	Powers of Attorney (included on signature page).

*To be filed by an amendment hereto or pursuant to a Current Report on Form 8-K to be incorporated herein by reference.

** Filed herewith