

Kayne Anderson MLP Investment CO

Form 497

June 20, 2007

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**The information in this Prospectus Supplement and the accompanying Base Prospectus is not complete and may be changed. This Prospectus Supplement and the accompanying Base Prospectus are not an offer to sell these securities and they are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

Filed pursuant to Rule 497  
under the Securities Act of 1933,  
as amended, File No. 333-140488

**Subject to Completion, dated June 20, 2007**

**PROSPECTUS SUPPLEMENT**

(To Prospectus Dated April 16, 2007)

**\$185,000,000**

**Auction Rate Senior Notes**

**\$185,000,000 Series F, due           , 2047**

**\$25,000 Denominations**

Kayne Anderson MLP Investment Company is a non-diversified, closed-end management investment company that began investment activities on September 28, 2004. Our investment objective is to obtain a high after-tax total return by investing at least 85% of our net assets plus any borrowings (our total assets ) in energy-related master limited partnerships and their affiliates (collectively, MLPs ), and in other companies that, as their principal business, operate assets used in the gathering, transporting, processing, storing, refining, distributing, mining or marketing natural gas, natural gas liquids (including propane), crude oil, refined petroleum products or coal (collectively with MLPs, Midstream Energy Companies ).

We are offering \$185,000,000 aggregate principal amount of auction rate senior notes Series F ( Series F Notes ) in this Prospectus Supplement. This Prospectus Supplement does not constitute a complete prospectus, but should be read in conjunction with our Base Prospectus dated April 16, 2007, which accompanies this Prospectus Supplement. This Prospectus Supplement does not include all information that you should consider before purchasing any Series F Notes. You should read this Prospectus Supplement and our Base Prospectus before purchasing any Series F Notes.

The Series F Notes offered in this Prospectus Supplement, together with Series A, B, C and E Notes currently outstanding, are referred to as Senior Notes. Individual series of Senior Notes are referred to as a series. Except as otherwise described in this Prospectus Supplement, the terms of this series and all other series are the same.

*(continued on following page)*

**Investing in Series F Notes involves certain risks. See Risk Factors beginning on page 11 of the accompanying Base Prospectus and The Auction Auction Risk beginning on page S-14 of this Prospectus Supplement.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus Supplement is truthful or complete. Any representation to the contrary is a criminal offense.

|  | <b>Per \$25,000<br/>Principal Amount<br/>of<br/>Series F Notes</b> | <b>Total</b>   |
|--|--|----------------|
| Public offering price                  | \$ 25,000  | \$ 185,000,000 |
| Underwriting discounts and commissions | \$ 250   | \$ 1,850,000   |
| Proceeds, before expenses, to us(1)    | \$ 24,750  | \$ 183,150,000 |

(1) We estimate that we will incur approximately \$175,000 in expenses in connection with this offering.

The underwriters expect to deliver the Series F Notes in book-entry form, through the facilities of The Depository Trust Company, to broker-dealers on or about June , 2007.

**Citi** **Merrill Lynch & Co.**

**Stifel Nicolaus**

, 2007

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*(continued from previous page)*

Capitalized terms used but not defined in this Prospectus Supplement shall have the meanings given to such terms in the Third Supplemental Indenture, dated as of June 1, 2007, between us and The Bank of New York Trust Company, N.A., as Trustee, a copy of which is available from us upon request.

We will issue Series F Notes without coupons in \$25,000 denominations and any integral multiple thereof. The principal amount of Series F Notes will be due and payable on [redacted], 2047 (the Stated Maturity). There is no sinking fund with respect to Series F Notes. Series F Notes will be our unsecured obligations and, upon our liquidation, dissolution or winding up, will rank: (1) senior to all of our outstanding common stock and any preferred stock (including the ARP Shares referred to below); (2) on a parity with our obligations to any unsecured creditors and any unsecured senior securities representing our indebtedness, including Series A, B, C and E Notes referred to below, additional Series F Notes and any other series of our auction rate senior notes; and (3) junior to our obligations to any secured creditors, including our obligations under our revolving credit facility. We may redeem Series F Notes prior to their Stated Maturity in certain circumstances described in this Prospectus Supplement.

Holders of Series F Notes will be entitled to receive cash interest payments at an annual rate that may vary for each rate period. The initial rate period is from the issue date through [redacted], 2007. The annual interest rates for the initial rate period will be [redacted]%. For subsequent rate periods, Series F Notes will pay interest at a rate determined by an auction conducted in accordance with the procedures described in this Prospectus Supplement. The initial Auction Date will be [redacted], 2007. Generally, following the initial rate period, each rate period for Series F Notes will be seven (7) days.

Series F Notes will not be listed on any exchange or automated quotation system. Generally, investors only may buy and sell Series F Notes through an order placed at an auction with or through certain broker-dealers or in a secondary market that those broker-dealers may maintain. These broker-dealers are not required to maintain a market in Series F Notes, and a secondary market, in the unlikely event that one develops, may not provide investors with liquidity.

We are managed by KA Fund Advisors, LLC, a subsidiary of Kayne Anderson Capital Advisors, L.P. (together, Kayne Anderson), a leading investor in MLPs. As of May 31, 2007, Kayne Anderson and its affiliates managed approximately \$8.6 billion, including approximately \$4.2 billion in MLPs and other Midstream Energy Companies.

We invest in equity securities of (1) MLPs, including preferred, common and subordinated units and general partner interests, (2) owners of such interests in MLPs, and (3) other Midstream Energy Companies. Additionally, we may invest in debt securities of MLPs and other Midstream Energy Companies. Under normal market conditions, we intend to invest 50% of our total assets in publicly traded securities of MLPs and other Midstream Energy Companies, and may invest up to 50% of our total assets in unregistered or otherwise restricted securities of MLPs and other Midstream Energy Companies, including securities issued by private companies.

This offering is conditioned upon Series F Notes receiving a rating of Aaa from Moody's Investors Service Inc. (Moody's) and AAA from Fitch Ratings (Fitch). Our common stock is traded on the New York Stock Exchange under the symbol KYN.

We issued three series of auction rate senior notes due in 2045, in an aggregate principal amount of \$260 million (Series A, B and C Notes), on March 28, 2005 and one series of auction rate senior notes due in 2045, in an aggregate principal amount of \$60 million (Series E Notes), on December 14, 2005. Series A, B, C and E Notes are rated Aaa and AAA by Moody's and Fitch, respectively. As of May 31, 2007, the aggregate principal amount of Series A, B, C and E Notes represented approximately 14.0% of our total assets. Series A, B, C and E Notes are on a parity with each other. Series A, B, C and E Notes are referred to collectively herein as the Senior Notes. On April 12, 2005, we issued

an aggregate amount of \$75 million of Series D Auction Rate Preferred Stock ( ARP Shares ). The ARP Shares are rated Aa and AA by Moody s and Fitch, respectively. As of May 31, 2007, the aggregate amount of ARP Shares represented approximately 3.3% of our total assets. We may issue additional ARP Shares, Senior Notes or other series of our auction rate preferred stock or auction rate senior notes in the future. The ARP Shares and Senior Notes, as well as any other series of our auction rate preferred stock or auction rate senior notes, are intended to increase funds available for investment. This practice, which is known as leverage, is speculative and involves significant risks.

Series F Notes do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

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**You should rely only on the information contained in this Prospectus Supplement and the accompanying Base Prospectus, which we refer to collectively as the Prospectus. This Prospectus Supplement and the accompanying Base Prospectus set forth concisely the information about us that a prospective investor ought to know before investing. This Prospectus Supplement, which describes the specific terms of this offering, and also adds to and updates information contained in the accompanying Base Prospectus and the documents incorporated by reference in the Base Prospectus. The Base Prospectus gives more general information, some of which may not apply to this offering. If the description of this offering varies between this Prospectus Supplement and the accompanying Base Prospectus, you should rely on the information contained in this Prospectus Supplement; provided that if any statement in one of these documents is inconsistent with a statement in another document having a later date and incorporated by reference into the Base Prospectus or Prospectus Supplement, the statement in the incorporated document having the later date modifies or supersedes the earlier statement. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information contained in or incorporated by reference in this Prospectus Supplement and the accompanying Base Prospectus is accurate only as of the respective dates on their front covers. Our business, financial condition, results of operations and prospects may have changed since that date.**

You should read this Prospectus Supplement and the accompanying Base Prospectus before deciding whether to invest and retain it for future reference. A statement of additional information, dated April 16, 2007 ( SAI ), as supplemented from time to time, containing additional information about us, has been filed with the Securities and Exchange Commission ( SEC ) and is incorporated by reference in its entirety into the Prospectus. You may request a free copy of our stockholder reports and our SAI, the table of contents of which is on page 68 of the accompanying Base Prospectus, by calling (877) 657-3863, or by writing to us. Electronic copies of the Prospectus, our stockholder reports and our SAI are also available on our website (<http://www.kaynemlp.com>). You may also obtain copies of these documents (and other information regarding us) from the SEC's web site (<http://www.sec.gov>).

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**CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS**

This Prospectus Supplement, the accompanying Base Prospectus and the statement of additional information contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements can be identified by the words may, will, intend, expect, estimate, continue, plan, anticipate, and similar terms, or the negative of such terms. Such forward-looking statements may be contained in this Prospectus Supplement as well as in the accompanying Base Prospectus. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect our actual results are the ability of the MLPs and other Midstream Energy Companies in which we invest to achieve their objectives, our ability to source favorable private investments, the timing and amount of distributions and dividends from the MLPs and other Midstream Energy Companies in which we intend to invest, the dependence of our future success on the general economy and its impact on the industries in which we invest and other factors discussed in our periodic filings with the SEC.

Although we believe that the expectations expressed in our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and are subject to inherent risks and uncertainties, such as those disclosed in the Risk Factors section of the Base Prospectus accompanying this Prospectus Supplement. All forward-looking statements contained or incorporated by reference in this Prospectus Supplement or the accompanying Base Prospectus are made as of the date of this Prospectus Supplement or the accompanying Base Prospectus, as the case may be. Except for our ongoing obligations under the federal securities laws, we do not intend, and we undertake no obligation, to update any forward-looking statement. We acknowledge that, notwithstanding the foregoing statements, the safe harbor for forward-looking statements under the Private Securities Litigation Reform Act of 1995 does not apply to investment companies such as us.

Currently known risk factors that could cause actual results to differ materially from our expectations include, but are not limited to, the factors described in the Risk Factors section of the Base Prospectus accompanying this Prospectus Supplement as well as in Auction Risk and Certain Considerations Affecting Auction Rate Securities Existing Holder's Ability to Resell Auction Rate Securities May Be Limited in the section of this Prospectus Supplement entitled The Auction. We urge you to review carefully that section for a more complex discussion of the risks of an investment in our Series F Notes.

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**PROSPECTUS SUPPLEMENT SUMMARY**

*This summary contains basic information about us but does not contain all of the information that is important to your investment decision. You should read this summary together with the more detailed information contained elsewhere in this Prospectus Supplement and accompanying Base Prospectus and in the statement of additional information, especially the information set forth under the heading Risk Factors beginning on page 11 of the accompanying Base Prospectus and Auction Risk and Certain Considerations Affecting Auction Rate Securities Existing Holder's Ability to Resell Auction Rate Securities May Be Limited beginning on pages S-14 and S-18, respectively, of the section of this Prospectus Supplement entitled The Auction.*

**The Company**

Kayne Anderson MLP Investment Company, a Maryland corporation, is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act ). Our investment objective is to obtain a high after-tax total return by investing at least 85% of our total assets in MLPs and other Midstream Energy Companies. We also must comply with the SEC's rule regarding investment company names, which requires us, under normal market conditions, to invest at least 80% of our total assets in MLPs so long as MLP is in our name. Our currently outstanding shares of common stock are listed on the New York Stock Exchange ( NYSE ) under the symbol KYN.

We began investment activities in September 2004 following our initial public offering. After the payment of offering expenses and underwriting discounts, we received approximately \$711 million from the proceeds of the initial public offering and after subsequent exercises by the underwriters of their over allotment option, the aggregate net proceeds were approximately \$786 million. Since that time we have completed the following capital raising transactions: (a) four series of auction rate senior notes in an aggregate principal amount of \$320 million, (b) one series of auction rate preferred stock in an amount of \$75 million, (c) two underwritten public offerings of our common stock for aggregate proceeds after the payment of offering expenses and underwriting discounts of approximately \$205 million, and (d) one direct placement of our common stock to purchasers in a privately negotiated transaction for proceeds after the payment of offering expenses of approximately \$28 million. As of May 31, 2007, we had 42.9 million shares of common stock outstanding, net assets applicable to our common stock of \$1.5 billion and total assets of \$2.3 billion.

**Investment Adviser**

KA Fund Advisors, LLC ( KAFA ) is our investment adviser, responsible for implementing and administering our investment strategy. KAFA is a subsidiary of Kayne Anderson Capital Advisors, L.P. ( KACALP ) and together with KAFA, Kayne Anderson ), a SEC-registered investment adviser. As of May 31, 2007, Kayne Anderson and its affiliates managed approximately \$8.6 billion, including approximately \$4.2 billion in MLPs and other Midstream Energy Companies. Kayne Anderson has invested in MLPs and other Midstream Energy Companies since 1998. We believe that Kayne Anderson has developed an understanding of the MLP market that enables it to identify and take advantage of public MLP investment opportunities. In addition, Kayne Anderson's senior professionals have developed a strong reputation in the energy sector and have many long-term relationships with industry managers, which we believe gives Kayne Anderson an important advantage in sourcing and structuring private investments.

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**The Offering**

|                              |  |
|------------------------------|--|
| Series F Notes offered by us | Series F Notes in an aggregate principal amount of \$185,000,000. Series F Notes will be sold in denominations of \$25,000 and any integral multiple thereof. The Series F Notes are being offered by Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Stifel, Nicolaus & Company, Incorporated. See Underwriting.  |
| Use of proceeds              | We estimate that our net proceeds from this offering after expenses will be approximately \$183.2 million. We intend to use a portion of the net proceeds to retire our short-term debt of approximately \$123.5 million as of June 18, 2007, which we incurred in connection with the acquisition of equity portfolio securities. We intend to invest the remainder of the net proceeds of this offering in accordance with our investment objective as soon as practicable. As of June 20, 2007, we have two pending investments for an aggregate amount of \$45.8 million. We anticipate completing these investments in the next 30 days. See Use of Proceeds and Recent Developments. |
| Trustee                      | The Bank of New York Trust Company, N.A.   |
| Auction Agent                | The Bank of New York   |
| Risk factors                 | See Risk Factors and other information included in the accompanying Base Prospectus, as well as Auction Risk and Certain Considerations Affecting Auction Rate Securities Existing Holder s Ability to Resell Auction Rate Securities May Be Limited under The Auction in this Prospectus Supplement, for a discussion of factors you should carefully consider before deciding to invest in Series F Notes.   |

**Table of Contents****Recent Developments**

On March 19, 2007, we declared a quarterly dividend of \$0.48 per share to common stockholders of record on April 4, 2007, which was paid on April 13, 2007.

On April 23, 2007, we issued 3,600,000 shares of our common stock at a price of \$36.70 per share in a public offering, in which we received \$127,780,200 in net proceeds (before offering expenses and after deducting the underwriting discount). Net proceeds from the offering were used to repay a portion of our borrowings under our revolving credit line.

On May 4, 2007, our Board of Directors accepted the resignation of Terrence J. Quinn from the Board, and elected Michael C. Morgan to serve the remainder of Mr. Quinn's term. Mr. Morgan, who is not an interested person as defined in Section 2(a)(19) of the 1940 Act, was elected by our stockholders to our Board of Directors for a three-year term on June 15, 2007 at our annual meeting of stockholders. The following table sets forth information regarding Mr. Morgan's principal occupation and other affiliations over the past five years. The addresses for all Directors are 1800 Avenue of the Stars, Second Floor Los Angeles, CA 90067 and 717 Texas Avenue, Suite 3100, Houston, Texas 77002. All of our Directors currently serve on the Board of Directors of Kayne Anderson Energy Total Return Fund, Inc., a closed-end investment company registered under the 1940 Act, that is advised by Kayne Anderson.

| <b>Name<br/>(Year Born)</b>      | <b>Position Held<br/>with Registrant</b> | <b>Term of Office/<br/>Time of Service</b>  | <b>Principal Occupations During Past Five Years</b>  | <b>Other Directorships<br/>Held by Director</b>                       |
|----------------------------------|--|---|--|---|
| Michael C. Morgan<br>(born 1968) | Director                                 | 3-year term<br>(until the 2010<br>Annual Meeting<br>of Stockholders)/<br>served since<br>May 2007 | Since 2004, Mr. Morgan has served as President and Chief Executive Officer of Portcullis Partners, LP, a privately owned investment partnership. Since 2003, Mr. Morgan has also served as an Adjunct Professor in the Practice of Management at the Jones Graduate School of Management at Rice University. From 2001 to 2004, Mr. Morgan was President of Kinder Morgan, Inc., an energy transportation and storage company, and of Kinder Morgan Energy Partners, L.P., a publicly traded pipeline limited partnership. | Kayne Anderson Energy Total Return Fund, Inc.;<br>Kinder Morgan, Inc. |

On May 16, 2007, we issued 820,916 shares of our common stock in a privately negotiated direct placement to certain purchasers. Net proceeds (approximately \$28 million after deducting offering expenses) from the offering were used to repay a portion of our borrowings under our revolving credit line.

On May 18, 2007, we entered into an agreement to purchase 0.4 million Common Units and 0.9 million Class D Units from Atlas Energy Resources, LLC at a weighted average price of \$25.00 per unit which constitutes an aggregate purchase price of \$32.7 million. Atlas Energy will use the proceeds from the sale of the Common Units and Class D Units to partially finance the purchase of DTE Oil & Gas Company. The acquisition is expected to close within the next 30 days.

On June 15, 2007, we declared a quarterly dividend of \$0.49 per share to common stockholders of record on July 5, 2007, which will be paid on July 12, 2007.

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On June 19, 2007 we entered into an agreement to purchase \$13.1 million of common units from a publicly traded MLP. We expect to close this transaction in the next 30 days.

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**USE OF PROCEEDS**

We estimate that we will receive net proceeds from this offering of approximately \$183.2 million, after deducting the underwriting discount and our net estimated offering expenses.

We intend to use the net proceeds of this offering to repay the indebtedness owed under our existing secured credit facility. As of June 18, 2007, we had approximately \$123.5 million aggregate principal amount outstanding on our credit facility. Amounts repaid under our credit facility will remain available for future borrowings. Outstanding balances under the credit facility accrue interest at a variable annual rate equal to the one-month LIBOR rate plus 100 basis points on the outstanding balance. As of June 18, 2007, the current rate is 6.32%.

We will invest the remainder of the net proceeds of this offering in accordance with our investment objective as soon as practicable. As of June 20, 2007, we have pending investments in Atlas Energy Resources, LLC for \$32.7 million and a publicly traded MLP for \$13.1 million. We anticipate completing these investments within the next 30 days. See Prospectus Supplement Summary Recent Developments. Until the remaining net proceeds are invested, we anticipate investing such proceeds in short-term securities issued by the U.S. government or its agencies or instrumentalities or in high quality, short-term or long-term debt obligations or money market instruments.

We intend to reborrow under our existing secured credit facility to make investments in portfolio companies in accordance with our investment objective.

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The following table sets forth our capitalization: (i) as of February 28, 2007, (ii) pro forma to reflect (a) the outstanding balance under our secured credit facility as of June 18, 2007, (b) the issuance of 168,885 shares of our common stock on April 13, 2007, pursuant to our automatic dividend reinvestment plan, (c) the issuance of 3,600,000 shares of our common stock on April 23, 2007 in an underwritten public offering, and (d) the issuance of 820,916 shares of our common stock on May 16, 2007 in a direct placement to certain purchasers; and (iii) pro forma as adjusted to give effect to the issuance of the Series F Notes offered by this Prospectus Supplement and accompanying Base Prospectus and the retirement of the outstanding balance under our secured credit facility with a portion of the net proceeds of such offering.

|  | Actual<br>(Unaudited) | Pro Forma<br>(dollars in 000s, except share<br>and per share data)<br>(Unaudited) | Pro Forma<br>As Adjusted<br>(Unaudited) |
|--|-----------------------|---|---|
| Cash and Cash Equivalents  | \$ 1,018              | \$ (1)  | \$ 59,650(1)                            |
| Short-Term Debt:   |                       |   |   |
| Secured credit facility  | \$ 107,000            | \$ 123,500(1)   | \$ (1)                                  |
| Long-Term Debt:  |                       |   |   |
| Senior Notes Series A(2)   | \$ 85,000             | \$ 85,000   | \$ 85,000                               |
| Senior Notes Series B(2)   | 85,000                | 85,000  | 85,000                                  |
| Senior Notes Series C(2)   | 90,000                | 90,000  | 90,000                                  |
| Senior Notes Series E(2)   | 60,000                | 60,000  | 60,000                                  |
| Senior Notes Series F(2)   |                       |   | 185,000                                 |
| Total Debt:  | \$ 427,000            | \$ 443,500  | \$ 505,000                              |
| Preferred Stock:   |                       |   |   |
| Series D Auction Rate Preferred Stock, \$0.001 par value per share, liquidation preference \$25,000 per share (3,000 shares issued and outstanding, 10,000 shares authorized)(2)                     | \$ 75,000             | \$ 75,000   | \$ 75,000                               |
| Common Stockholders Equity:  |                       |   |   |
| Common stock, \$0.001 par value per share, 199,990,000 shares authorized (38,265,172 shares issued and outstanding; 42,854,973 shares issued and outstanding Pro Forma and Pro Forma as Adjusted)(2) | \$ 38                 | \$ 43(3)  | \$ 43(3)                                |
| Paid-in capital  | 916,332               | 1,078,265(4)(5)   | 1,078,265(4)(5)                         |
| Net investment loss, net of income taxes less dividends and distributions  | (175,212)             | (181,008)(5)  | (181,008)(5)                            |
| Accumulated realized gains on investments and interest rate swap contracts, net of income taxes  | 33,912                | 33,912  | 33,912                                  |
| Net unrealized gains on investments, options and interest rate swap contracts, net of income taxes   | 409,954               | 409,954   | 409,954                                 |

|  |              |              |              |
|--|--------------|--------------|--------------|
| Net assets applicable to common stockholders | \$ 1,185,024 | \$ 1,341,166 | \$ 1,341,166 |
|--|--------------|--------------|--------------|

- (1) As described under Use of Proceeds, we intend to use a portion of the net proceeds from this offering to repay the borrowings outstanding under our secured credit facility. Pro Forma and Pro Forma as Adjusted reflect the issuance of 3,600,000 shares of our common stock on April 23, 2007 and the issuance of 820,916 shares of our common stock on May 16, 2007 and the outstanding balance under our credit facility as of June 18, 2007, which was approximately \$123.5 million. As of June 20, 2007 we have pending investments in Atlas Energy Resources, LLC and a publicly traded MLP for \$32.7 million and \$13.1 million, respectively. We anticipate closing these investments within the next 30 days. We intend to reborrow under our credit facility to make investments in portfolio companies in accordance with our investment objective.
- (2) We do not hold any of these outstanding securities for our account.
- (3) Reflects the issuance of 168,885 shares of our common stock on April 13, 2007 pursuant to our automatic dividend reinvestment plan, the issuance of 3,600,000 shares of our common stock (aggregate par value \$4) on April 23, 2007 in an underwritten public offering, and the issuance of 820,916 shares of our common stock (aggregate par value \$1) on May 16, 2007 in a direct placement to certain purchasers.
- (4) Reflects the proceeds of the issuance of shares of common stock offered: (i) on April 23, 2007 (\$127,651), net of \$0.001 par value per share of common stock, the underwriting discount and the net estimated offering costs borne by us, and (ii) on May 16, 2007 (\$28,448), net of \$0.001 par value per share of common stock and the estimated offering costs borne by us.
- (5) Reflects the issuance of our common stock on April 13, 2007 pursuant to our automatic dividend reinvestment plan (\$5,796).



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**ASSET COVERAGE REQUIREMENTS**

This offering is conditioned upon the Series F Notes receiving a rating of Aaa from Moody's Investors Service, Inc. and AAA from Fitch Ratings. The 1940 Act and the Ratings Agencies impose asset coverage requirements which may limit our ability to engage in certain types of transactions and may limit our ability to take certain actions without confirming with the Rating Agencies that such action will not impair the ratings.

We are required to satisfy two separate asset maintenance requirements with respect to outstanding Senior Notes: (1) we must maintain Eligible Assets having an aggregated Discounted Value at least equal to the Senior Notes Basic Maintenance Amount as of each Valuation Date in accordance with guidelines set forth by each Rating Agency; and (2) we must satisfy the 1940 Act Senior Notes Asset Coverage.

The Discount Factors and guidelines for calculating the Discounted Value of our portfolio for purposes of determining whether the Senior Notes Basic Maintenance Amount has been satisfied have been established by Moody's and Fitch in connection with our receipt from Moody's and Fitch of the Aaa and AAA Credit Ratings and the Aaa and AAA Credit Ratings, respectively, with respect to Series A, B, C and E Notes on their original issue dates and with respect to Series F Notes on their Original Issue Date. We estimate that on the Original Issue Date of Series F Notes, the 1940 Act Senior Notes Asset Coverage (as defined herein), based on the composition of our portfolio as of February 28, 2007 (adjusted to reflect: (a) the issuance of 168,885, 3,600,000 and 820,916 shares of our common stock on April 13, 2007, April 23, 2007 and May 16, 2007, respectively; and (b) the outstanding balance under our credit facility as of June 18, 2007), and after giving effect to the issuance of Series F Notes offered by this Prospectus Supplement and accompanying Base Prospectus (\$185,000,000) would be 380%.

The Senior Notes Basic Maintenance Amount is defined in the Rating Agency Guidelines. Each Rating Agency may amend the definition of Senior Notes Basic Maintenance Amount from time to time. A copy of the current Rating Agency Guidelines will be provided to any holder of Senior Notes promptly upon written request by such holder to us at 1800 Avenue of the Stars, Second Floor, Los Angeles, California 90067. See Rating Agency Guidelines in the Prospectus for a more detailed description of our asset maintenance requirements.

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**DESCRIPTION OF SERIES F NOTES**

Senior Notes of each series, including the Series F Notes, will rank on a parity with any other series of Senior Notes as to the payment of interest and distribution of assets upon liquidation. All Senior Notes rank senior to our common and preferred stock as to the payment of interest and distribution of assets upon liquidation. Under the 1940 Act, we may only issue one class of senior securities representing indebtedness.

Series F Notes will be issued by us pursuant to the terms of an Indenture, dated as of March 28, 2005, and a Third Supplemental Indenture (the Supplemental Indenture ), dated as of June , 2007 (referred to herein collectively as the Indenture ), between us and The Bank of New York Trust Company, N.A., as Trustee (the Trustee ). The following summaries of certain significant provisions of the Indenture are not complete and are qualified in their entirety by the provisions of the Indenture, a more detailed summary of which is contained in Appendix A to the SAI, which is on file with the SEC and is incorporated herein by reference. Whenever defined terms are used, but not defined in this Prospectus Supplement, the terms have the meaning given to them in the Supplemental Indenture, a copy of which is available from us upon request.

**General**

Our board of directors (the Board of Directors ) has authorized us to issue notes representing indebtedness pursuant to the term of the Indenture. Currently, the Indenture provides for the issuance of up to \$185,000,000 aggregate principal amount of Series F Notes. The principal amount of Series F Notes are due and payable on , 2047. Series F Notes, when issued and sold pursuant to the terms of the Indenture, will be issued in fully registered form without coupons and in denominations of \$25,000 and any integral multiple thereof, unless otherwise provided in the Indenture. Series F Notes will be our unsecured obligations and, upon our liquidation, dissolution or winding, will rank: (1) senior to our outstanding common stock and any preferred stock, including the ARP Shares; (2) on a parity with any of our unsecured creditors and Series A, B, C and E Notes, any additional Series F Notes and any other series of our auction rate senior notes; and (3) junior to any of our secured creditors. Series F Notes will be subject to optional and mandatory redemption as described below under Redemption, and acceleration of maturity, as described in the accompanying Base Prospectus under Description of Debt Securities Events of Default and Acceleration of Maturity of Debt Securities; Remedies.

In addition to serving as the Trustee, The Bank of New York Trust Company, N.A. will act as the transfer agent, registrar and paying agent for Series F Notes unless or until the Board of Directors resolves to enter into an agreement with another entity.

The Bank of New York, a New York banking corporation, will act as Auction Agent for Series F Notes in connection with the Auction Procedures described below. The Auction Agent generally will serve merely as our agent, acting in accordance with our instructions.

We have the right, to the extent permitted by applicable law, to purchase or otherwise acquire any Series F Notes, so long as we are current in the payment of interest on Series F Notes and on any other notes of us ranking on a parity with Series F Notes with respect to the payment of interest.

Series F Notes have no voting rights, except to the extent required by law or as otherwise provided in the Indenture relating to the acceleration of maturity upon the occurrence and during the continuance of an event of default.

**Securities Depository**

The nominee of the Securities Depository is expected to be the sole holder of record of Series F Notes. Accordingly, each purchaser of Series F Notes must rely on (1) the procedures of the Securities Depository and, if such purchaser is not a member of the Securities Depository, such purchaser's Agent Member, to receive interest payments and notices, and (2) the records of the Securities Depository and, if such purchaser is not a member of the Securities Depository, such purchaser's Agent Member, to evidence its ownership of Series F Notes.

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Beneficial Owners will not receive any certificates representing their ownership interests in Series F Notes. The Depository Trust Company ( DTC ) will initially act as Securities Depository for the Agent Members with respect to Series F Notes.

### **Interest and Rate Periods**

*General.* Series F Notes will bear interest at the Applicable Rate determined as set forth below under Determination of Interest Rate. Interest on Series F Notes shall be payable when due as described below. If we do not pay interest when due, it will trigger an event of default under the Indenture (subject to the cure provisions), and we will be restricted from declaring dividends and making other distributions with respect to our common stock and any preferred stock.

On the Business Day next preceding each Interest Payment Date, we are required to deposit with the Paying Agent sufficient funds for the payment of interest. We do not intend to establish any reserves for the payment of interest.

All moneys paid to the Paying Agent for the payment of interest shall be held in trust for the payment of such interest to the holders. Interest will be paid by the Paying Agent to the holders as their names appear on our securities ledger or securities records, which holder(s) is expected to be the nominee of the Securities Depository. The Securities Depository will credit the accounts of the Agent Members of the Beneficial Owners in accordance with the Securities Depository's normal procedures. The Securities Depository's current procedures provide for it to distribute interest in same-day funds to Agent Members who are, in turn, expected to distribute such interest to the persons for whom they are acting as agents. The Agent Member of a Beneficial Owner will be responsible for holding or disbursing such payments on the applicable Interest Payment Date to such Beneficial Owner in accordance with the instructions of such Beneficial Owner.

Interest in arrears for any past rate period may be subject to a Default Rate of interest (described below) and may be paid at any time, without reference to any regular Interest Payment Date, to the holders as their names appear on our securities ledger or securities records on such date, not exceeding fifteen (15) days preceding the payment date thereof, as may be fixed by the Board of Directors. Any interest payment shall first be credited against the earliest accrued but unpaid interest. No interest will be payable in respect of any payment or payments which may be in arrears. See Default Period below.

The amount of interest payable on each Interest Payment Date of each rate period of less than one year (or in respect of interest on another date in connection with a redemption during such rate period) shall be computed by multiplying the Applicable Rate (or the Default Rate) for such rate period (or a portion thereof) by a fraction, the numerator of which will be the number of days in such rate period (or portion thereof) that such Series F Notes were outstanding and for which the Applicable Rate or the Default Rate was applicable and the denominator of which will be 360, multiplying the amount so obtained by \$25,000, and rounding the amount so obtained to the nearest cent. During any rate period of one year or more, the amount of interest per Series F Note payable on any Interest Payment Date (or in respect of interest on another date in connection with a redemption during such rate period) shall be computed as described in the preceding sentence.

*Determination of Interest Rate.* The interest rate for the initial rate period (*i.e.*, the period from and including the Original Issue Date to and including the initial Auction Date) and the initial Auction Date are set forth on the cover page of the Prospectus Supplement. After the initial rate period, subject to certain exceptions, Series F Notes will bear interest at the Applicable Rate that the Auction Agent advises us has resulted from an auction.

The initial rate period for Series F Notes shall be ( ) days. Rate periods after the initial rate period shall either be Standard Rate Periods or, subject to certain conditions and with notice to holders, Special Rate Periods.

A Special Rate Period will not be effective unless Sufficient Clearing Bids exist at the auction in respect of such Special Rate Period (that is, in general, the aggregate amount of Series F Notes subject to Buy

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Orders by Potential Beneficial Owners is at least equal to the aggregate amount of Series F Notes subject to Sell Orders by existing Beneficial Owners).

Interest will accrue at the Applicable Rate from the Original Issue Date and shall be payable on each Interest Payment Date thereafter. For rate periods of 30 days or less, Interest Payment Dates shall occur on the first Business Day following such rate period and, if greater than 30 days, then on a monthly basis on the first Business Day of each month within such rate period and on the Business Day following the last day of such rate period. Interest will be paid through the Securities Depository on each Interest Payment Date.

Except during a Default Period as described below, the Applicable Rate resulting from an auction will not be greater than the Maximum Rate, which is equal to the applicable percentage of the Reference Rate, subject to upward but not downward adjustment in the discretion of the Board of Directors after consultation with the Broker-Dealers. The applicable percentage will be determined based on the lower of the credit ratings assigned on that date to Series F Notes by Moody's and Fitch, as follows:

| <b>Moody's Credit Rating</b> | <b>Fitch Credit Rating</b> | <b>Applicable Percentage</b> |
|------------------------------|----------------------------|------------------------------|
| Aa3 or above                 | AA- or above               | 200%                         |
| A3 to A1                     | A- to A+                   | 250%                         |
| Baa3 to Baa1                 | BBB- to BBB+               | 275%                         |
| Below Baa3                   | Below BBB-                 | 300%                         |

The Reference Rate is the greater of (1) the applicable AA Composite Commercial Paper Rate (for a rate period of fewer than 184 days) or the applicable Treasury Index Rate (for a rate period of 184 days or more), or (2) the applicable LIBOR. For Standard Rate Periods or less only, the Applicable Rate resulting from an auction will not be less than the Minimum Rate, which is 70% of the applicable AA Composite Commercial Paper Rate. No Minimum Rate is specified for auctions in respect to rate periods of more than the Standard Rate Period.

The Maximum Rate for Series F Notes will apply automatically following an auction for the notes in which Sufficient Clearing Bids have not been made (other than because all Series F Notes were subject to Submitted Hold Orders). If an auction for any subsequent rate period is not held for any reason, including because there is no Auction Agent or Broker-Dealer, then the Interest Rate on Series F Notes for any such rate period shall be the Maximum Rate (except for circumstances in which the Interest Rate is the Default Rate, as described below).

The All Hold Rate will apply automatically following an auction in which all of the outstanding Series F Notes are subject to (or are deemed to be subject to) Submitted Hold Orders. The All Hold Rate is 80% of the applicable AA Composite Commercial Paper Rate.

Prior to each auction, Broker-Dealers will notify Beneficial Owners and the Trustee of the term of the next succeeding rate period as soon as commercially reasonable after the Broker-Dealers have been so advised by us. After each auction, on the Auction Date, Broker-Dealers will notify Beneficial Owners of the Applicable Rate for the next succeeding rate period and of the Auction Date of the next succeeding auction.

*Notification of Rate Period.* We will designate the duration of subsequent rate periods of Series F Notes; provided, however, that no such designation is necessary for a Standard Rate Period and, provided further, that any designation of a Special Rate Period shall be effective only if (1) notice has been given as provided herein, (2) any failure to pay in a timely manner to the Trustee the full amount of any interest on, or the redemption price of, Series F Notes shall have

been cured as provided above, (3) Sufficient Clearing Bids shall have existed in an auction held on the Auction Date immediately preceding the first day of such proposed Special Rate Period, (4) if we shall have mailed a Notice of Redemption with respect to any Series F Notes, the redemption price with respect to such Series F Notes shall have been deposited with the Paying Agent, and (5) we have confirmed that as of the Auction Date next preceding the first day of such Special Rate Period, we have Eligible Assets with an aggregate Discounted Value at least equal to the Series F Notes Basic Maintenance Amount, and we have consulted with the Broker-Dealers and have provided notice of such designation and otherwise complied with the Rating Agency Guidelines.

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*Designation of a Special Rate Period.* If we propose to designate any Special Rate Period, not fewer than 7 (or two Business Days in the event the duration of the rate period prior to such Special Rate Period is fewer than 8 days) nor more than 30 Business Days prior to the first day of such Special Rate Period, notice shall be (1) made by press release and (2) communicated by us by telephonic or other means to the Trustee and the Auction Agent and confirmed in writing promptly thereafter. Each such notice shall state (A) that we propose to exercise our option to designate a succeeding Special Rate Period, specifying the first and last days thereof and (B) that we will by 3:00 p.m., New York City time, on the second Business Day next preceding the first day of such Special Rate Period, notify the Auction Agent and the Trustee, who will promptly notify the Broker-Dealers, of either (x) our determination, subject to certain conditions, to proceed with such Special Rate Period, subject to the terms of any Specific Redemption Provisions, or (y) our determination not to proceed with such Special Rate Period, in which latter event the succeeding rate period shall be a Standard Rate Period.

No later than 3:00 p.m., New York City time, on the second Business Day next preceding the first day of any proposed Special Rate Period, we shall deliver to the Trustee and the Auction Agent, who will promptly deliver to the Broker-Dealers and Existing Holders, either:

- (1) a notice stating (A) that we have determined to designate the next succeeding rate period as a Special Rate Period, specifying the first and last days thereof and (B) the terms of any Specific Redemption Provisions; or
- (2) a notice stating that we have determined not to exercise our option to designate a Special Rate Period.

If we fail to deliver either such notice with respect to any designation of a proposed Special Rate Period to the Auction Agent or we are unable to make the confirmation described above by 3:00 p.m., New York City time, on the second Business Day next preceding the first day of such proposed Special Rate Period, we shall be deemed to have delivered a notice to the Auction Agent with respect to such rate period to the effect set forth in clause (2) above, thereby resulting in a Standard Rate Period.

*Default Period.* Subject to cure provisions, a Default Period with respect to Series F Notes will commence on any date we fail to deposit irrevocably in trust in same-day funds, with the Paying Agent by 3:00 p.m., New York City time,

- (A) the full amount of any accrued interest on Series F Notes payable on the Interest Payment Date (an Interest Default ), or
- (B) the full amount of any redemption price (the Redemption Price ) payable on the date fixed for redemption (the Redemption Date ) (a Redemption Default and together with an Interest Default, hereinafter referred to as Default ).

We shall notify the Auction Agent in writing that a Default Period is in effect. Subject to cure provisions, a Default Period with respect to an Interest Default or a Redemption Default shall end on the Business Day on which, by 3:00 p.m., New York City time, we have deposited irrevocably in trust in same-day funds with the Paying Agent all unpaid interest and any unpaid Redemption Price. In the case of an Interest Default, the Applicable Rate for each rate period commencing during a Default Period will be equal to the Default Rate, and each subsequent rate period commencing after the beginning of a Default Period shall be a Standard Rate Period; provided, however, that the commencement of a Default Period will not by itself cause the commencement of a new rate period.

No auction shall be held during a Default Period with respect to an Interest Default applicable to Series F Notes. No Default Period with respect to an Interest Default or Redemption Default shall be deemed to commence if the amount of any interest or any Redemption Price due (if such default is not solely due to our willful failure) is deposited irrevocably in trust, in same-day funds with the Paying Agent by 3:00 p.m., New York City time within three Business



Days after the applicable Interest Payment Date or Redemption Date, together with an amount equal to the Default Rate applied to the amount of such non-payment

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based on the actual number of days comprising such period divided by 360. The Default Rate shall be equal to the Reference Rate multiplied by three.

### **Redemption**

*Optional Redemption.* To the extent permitted under the 1940 Act and Maryland law, we may redeem Series F Notes having a rate period of one year or less, in whole or in part, out of funds legally available therefor, on the Interest Payment Date upon not less than 15 days and not more than 40 days notice prior to the date fixed for redemption. This optional redemption is not available during the initial rate period or during any period during which we do not otherwise have the option to redeem Series F Notes. The optional redemption price shall equal the aggregate principal amount of Series F Notes to be redeemed, plus an amount equal to accrued interest to the date fixed for redemption. Series F Notes having a rate period of more than one year are redeemable at our option, in whole or in part, out of funds legally available therefor, prior to the end of the relevant rate period, upon not less than 15 days, and not more than 40 days, prior notice, subject to any Specific Redemption Provisions, which may include the payment of a redemption premium determined by the Board of Directors after consultation with the Broker Dealers at the time of the designation of such rate period. We shall not effect any optional redemption unless (1) we have available on the date fixed for redemption Deposit Securities with maturity or tender dates not later than the day preceding the applicable redemption date and having a value not less than the amount (including any applicable premium) due to Holders of Series F Notes by reason of the redemption of such Series F Notes and (2) we would have Eligible Assets with an aggregate Discounted Value at least equal to the Senior Notes Basic Maintenance Amount immediately subsequent to such redemption.

*Mandatory Redemption.* If we fail to maintain Eligible Assets with an aggregate Discounted Value at least equal to the Senior Notes Basic Maintenance Amount as of any Valuation Date or fail to satisfy the 1940 Act Senior Notes Asset Coverage as of the last Business Day of any month, and that failure is not cured within ten Business Days following the Valuation Date in the case of a failure to maintain the Senior Notes Basic Maintenance Amount or on the last Business Day of the following month in the case of a failure to maintain the 1940 Act Senior Notes Asset Coverage as of that last Business Day (each an Asset Coverage Cure Date), Series F Notes will be subject to mandatory redemption out of funds legally available therefor. See Asset Coverage Requirements.

The principal amount of Series F Notes to be redeemed in such circumstances will be equal to the lesser of (1) the minimum principal amount of Series F Notes the redemption of which, if deemed to have occurred immediately prior to the opening of business on the relevant Asset Coverage Cure Date, would result in our having Eligible Assets with an aggregated Discounted Value at least equal to the Senior Notes Basic Maintenance Amount or sufficient to satisfy the 1940 Act Senior Notes Asset Coverage, as the case may be, in either case as of the relevant Asset Coverage Cure Date (provided that, if there is no such minimum principal amount of Series F Notes the redemption of which would have such result, we will redeem all Series F Notes then outstanding), and (2) the maximum principal amount of Series F Notes that can be redeemed out of funds expected to be available therefor on the Mandatory Redemption Date (as defined below) at the Mandatory Redemption Price (as defined below).

Any redemption of less than all of the outstanding Senior Notes will be made from Series F Notes that we designate. We shall designate the principal amount of Series F Notes to be redeemed on a pro rata basis among the Holders in proportion to the principal amount of Series F Notes they hold, by lot or such other method as we deem equitable. We will not make any optional or mandatory redemption of less than all outstanding Series F Notes unless the aggregate principal amount of Series F Notes to be redeemed is equal to \$25,000 or integral multiples thereof. Any redemption of less than all Series F Notes outstanding will be made in such a manner that all Series F Notes outstanding after such redemption are in authorized denominations.

We are required to effect such a mandatory redemption not later than 40 days after the Asset Coverage Cure Date (the Mandatory Redemption Date ), except that if we do not have funds legally available for the redemption of, or we are not otherwise legally permitted to redeem, all of the outstanding Series F Notes which are subject to mandatory redemption, or we otherwise are unable to effect such redemption on or

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prior to such Mandatory Redemption Date, we will redeem those Series F Notes, and other Senior Notes to be redeemed on the earliest practicable date on which we will have such funds available, upon notice to record owners of Series F Notes and the Paying Agent. Our ability to make a mandatory redemption may be limited by the provisions of the 1940 Act or Maryland law. The redemption price per Series F Note in the event of any mandatory redemption will be the principal amount, plus an amount equal to accrued but unpaid interest to the date fixed for redemption, plus (in the case of a rate period of more than one year) a redemption premium, if any, determined by the Board of Directors after consultation with the Broker-Dealers and set forth in any applicable Specific Redemption Provisions (the Mandatory Redemption Price ).

*Redemption Procedure.* Pursuant to Rule 23c-2 under the 1940 Act, we will file a notice of our intention to redeem with the SEC in order to provide at least the minimum notice required by such rule or any successor provision (notice currently must be filed with the SEC generally at least 30 days prior to the redemption date). We will deliver a notice of redemption to the Auction Agent and the Trustee containing the information described below one Business Day prior to the giving of notice to Holders in the case of an optional redemption and on or prior to the 30th day preceding the Mandatory Redemption Date in the case of a mandatory redemption. The Trustee will use its reasonable efforts to provide notice to each Holder of Series F Notes called for redemption by electronic or other reasonable means not later than the close of business on the Business Day immediately following the day on which the Trustee determines the Series F Notes to be redeemed (or, during a Default Period with respect to such Series F Notes, not later than the close of business on the Business Day immediately following the day on which the Trustee receives notice of redemption from us). Such notice will be confirmed promptly by the Trustee in writing not later than the close of business on the third Business Day preceding the redemption date by providing a notice to each Holder of record of Series F Notes called for redemption, the Paying Agent (if different from the Trustee) and the Securities Depository ( Notice of Redemption ). The Notice of Redemption will be addressed to the registered owners of Series F Notes at their addresses appearing on our books or share records. Such notice will set forth (1) the redemption date, (2) the principal amount and identity of Series F Notes to be redeemed, (3) the redemption price (specifying the amount of accrued interest to be included therein and the amount of the redemption premium, if any), (4) that interest on Series F Notes to be redeemed will cease to accrue on such redemption date, and (5) the provision of the Indenture under which redemption shall be made. No defect in the Notice of Redemption or in the transmittal or mailing will affect the validity of the redemption proceedings, except as required by applicable law.

If less than all of the outstanding Series F Notes are redeemed on any date, we will select the amount per Holder to be redeemed on such date on a pro rata basis in proportion to the principal amount of Series F Notes held by such Holder, by lot or by such other method we determine to be fair and equitable, subject to the terms of any Specific Redemption Provisions and subject to maintaining authorized denominations as described above. Series F Notes may be subject to mandatory redemption as described herein notwithstanding the terms of any Specific Redemption Provisions. The Trustee will give notice to the Securities Depository, whose nominee will be the record holder of all Series F Notes, and the Securities Depository will determine Series F Notes to be redeemed from the account of the Agent Member of each Beneficial Owner. Each Agent Member will determine the principal amount of Series F Notes to be redeemed from the account of each Beneficial Owner for which it acts as agent. An Agent Member may select for redemption Series F Notes from the accounts of some Beneficial Owners without selecting for redemption any Series F Notes from the accounts of other Beneficial Owners. In this case, in selecting Series F Notes to be redeemed, the Agent Member will select by lot or other fair and equitable method. Notwithstanding the foregoing, if neither the Securities Depository nor its nominee is the record Beneficial Owner of all Series F Notes, we will select the particular principal amount to be redeemed by lot or by such other method as we deem fair and equitable, as contemplated above.

If Notice of Redemption has been given, then upon the deposit of funds with the Paying Agent sufficient to effect such redemption, interest on such Series F Notes will cease to accrue and such Series F Notes will no longer be deemed to be outstanding for any purpose and all rights of the holder of Series F Notes so called for redemption will cease and

terminate, except the right of the holder of such Series F Notes to receive the redemption price, but without any interest or additional amount. We will be entitled to receive

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from the Paying Agent, promptly after the date fixed for redemption, any cash deposited with the Paying Agent in excess of (1) the aggregate redemption price of Series F Notes called for redemption on such date and (2) such other amounts, if any, to which holders of Series F Notes called for redemption may be entitled. We will be entitled to receive, from time to time after the date fixed for redemption, from the Paying Agent the interest, if any, earned on such funds deposited with the Paying Agent and the owners of Series F Notes so redeemed will have no claim to any such interest. Any funds so deposited which are unclaimed two years after such redemption date will be paid, to the extent permitted by law, by the Paying Agent to us. After such payment, Holders of Series F Notes called for redemption may look only to us for payment.

So long as any Series F Notes are held of record by the nominee of the Securities Depository, the redemption price for those Series F Notes will be paid on the redemption date to the nominee of the Securities Depository. The Securities Depository's normal procedures provide for it to distribute the amount of the redemption price to Agent Members who, in turn, are expected to distribute such funds to the persons for whom they are acting as agent.

Notwithstanding the provisions for redemption described above, no Series F Notes may be redeemed unless all interest in arrears on the outstanding Series F Notes, and any indebtedness of ours ranking on a parity with Series F Notes, have been or are being contemporaneously paid or set aside for payment, except that the foregoing shall not prevent the purchase or acquisition of all the outstanding Series F Notes pursuant to the successful completion of an otherwise lawful purchase or exchange offer made on the same terms to, and accepted by, holders of all outstanding Series F Notes.

Except for the provisions described above, nothing contained in the Indenture limits any legal right of ours to purchase or otherwise acquire Series F Notes outside of an auction at any price, whether higher or lower than the price that would be paid in connection with an optional or mandatory redemption, so long as, at the time of any such purchase, there is no arrearage in the payment of interest on or the mandatory or optional redemption price with respect to, any Series F Notes for which Notice of Redemption has been given, and we are in compliance with the 1940 Act Series F Notes Asset Coverage and have Eligible Assets with an aggregate Discounted Value at least equal to Series F Notes Basic Maintenance Amount after giving effect to such purchase or acquisition on the date thereof. If less than all outstanding Series F Notes are redeemed or otherwise acquired by us, we shall give notice of such transaction to the Trustee, in accordance with the procedures agreed upon by the Board of Directors.

## **Payment Restrictions on Shares**

Under the 1940 Act, we may not declare any dividend on common stock or make any distribution with respect to our common stock and preferred stock or purchase or redeem any common or preferred stock if, at the time of such declaration (and after giving effect thereto), asset coverage with respect to Series F Notes and any other senior securities representing indebtedness (as defined in the 1940 Act), would be less than 300% (or such other percentage as may in the future be specified in or under the 1940 Act as the minimum asset coverage for senior securities representing indebtedness of a closed-end investment company as a condition of declaring distributions, purchases or redemptions of its common or preferred shares). Dividends may be declared upon any preferred stock, however, if Series F Notes and any other senior securities representing indebtedness have an asset coverage of at least 200% at the time of declaration after deducting the amount of such dividend.

Senior securities representing indebtedness generally means any bond, debenture, note or similar obligation or instrument constituting a security (other than shares of beneficial interest) and evidencing indebtedness and could include our obligations under the Senior Notes, our revolving credit facility or any other of our borrowings (collectively referred to as Borrowings). For purposes of determining asset coverage for senior securities representing indebtedness in connection with the payment of dividends or other distributions on or purchases or redemptions of stock, the term senior security does not include any promissory note or other evidence of indebtedness issued in

consideration of any loan, extension or renewal thereof, made by a bank or other person and privately arranged, and not intended to be publicly distributed. The term "senior security" also does not include any such promissory note or other evidence of indebtedness

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in any case where such a loan is for temporary purposes only and in an amount not exceeding 5% of the value of our total assets at the time when the loan is made; a loan is presumed under the 1940 Act to be for temporary purposes if it is repaid within 60 days and is not extended or renewed; otherwise, it is presumed not to be for temporary purposes. For purposes of determining whether the 200% and 300% asset-coverage requirements described above apply in connection with interest payments or distributions on or purchases or redemptions of stock, such asset coverage may be calculated on the basis of values determined as of a time within 48 hours (not including Sundays or holidays) next preceding the time of the applicable determination.

In addition, a declaration of a dividend or other distribution on, or repurchase or redemption of, common or preferred stock is restricted (1) at any time that an event of default under Series F Notes or any other Borrowings has occurred and is continuing; or (2) if, after giving effect to such declaration, we would not have eligible portfolio holdings with an aggregated Discounted Value at least equal to any asset coverage requirements associated with such Series F Notes or other Borrowings; or (3) we have not redeemed the full amount of Series F Notes or other Borrowings, if any, required to be redeemed by any provision for mandatory redemption.

## **THE AUCTIONS**

### **General**

*Auction Agency Agreement.* We have entered into an Auction Agency Agreement (the *Auction Agency Agreement*) with the Auction Agent (currently, The Bank of New York) which provides, among other things, that the Auction Agent will follow the Auction Procedures for purposes of determining the Applicable Rate for Series F Notes so long as the Applicable Rate for Series F Notes is to be based on the results of an auction.

The Auction Agent may terminate the Auction Agency Agreement upon notice to us on a date no earlier than 60 days after the notice or upon notice to us on a date specified by the Auction Agent if we fail to pay the amounts due to the Auction Agent within 30 days of invoice. If the Auction Agent should resign, we will use our best efforts to enter into an agreement with a successor Auction Agent containing substantially the same terms and conditions as the Auction Agency Agreement. We may remove the Auction Agent provided that prior to such removal we have entered into such an agreement with a successor Auction Agent.

### **Auction Risk**

You may not be able to sell your Series F Notes at an auction if the auction fails; that is, if there are more Series F Notes offered for sale than there are buyers for those Series F Notes. Also, if you place hold orders (orders to retain Series F Notes) at an auction only at a specified rate, and that bid rate exceeds the rate set at the auction, you will not retain your Series F Notes. Finally, if you buy Series F Notes or elect to retain Series F Notes without specifying a rate below which you would not wish to buy or continue to hold those Series F Notes, and the auction sets a below-market rate, you may receive a lower rate of return on your Series F Notes than the market rate.

### **Auction Procedures**

Prior to the Submission Deadline on each Auction Date for Series F Notes, each customer of a Broker-Dealer listed on the records of that Broker-Dealer (or, if applicable, the Auction Agent) as a holder thereof (a *Beneficial Owner*) may submit orders with respect to Series F Notes that Broker-Dealer as follows:

Hold Order indicating the *Beneficial Owner*'s desire to hold Series F Notes without regard to the Applicable Rate for the next rate period.



Bid to Sell indicating the Beneficial Owner's desire to sell the principal amount of outstanding Series F Notes, if any, held by such Beneficial Owner if the Applicable Rate for the next

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succeeding rate period shall be less than the rate per annum specified by such Beneficial Owner (also known as a hold at rate order).

**Bid to Purchase** a current Beneficial Owner or a Potential Beneficial Owner may submit bids offering to purchase a certain amount of outstanding Series F Notes if the Applicable Rate determined on the Auction Date is higher than the rate specified in the Bid. A Bid specifying a rate higher than the Maximum Rate on the Auction Date will not be accepted.

**Sell Order** an order by a current Beneficial Owner desire to sell a specified principal amount of Series F Notes, regardless of the Applicable Rate for the upcoming rate period.

Orders submitted (or the failure to submit orders) by Beneficial Owners under certain circumstances will have the effects described below. A Beneficial Owner of Series F Notes that submits a Bid with respect thereto to its Broker-Dealer having a rate higher than the Maximum Rate for Series F Notes on the Auction Date will be treated as having submitted a Sell Order with respect to such Series F Notes. A Beneficial Owner that fails to submit an order with respect to Series F Notes to its Broker-Dealer will be deemed to have submitted a Hold Order with respect to Series F Notes; provided, however, that if a Beneficial Owner fails to submit an order with respect to Series F Notes to its Broker-Dealer for an auction relating to a Special Rate Period of more than twenty-eight (28) days, the Beneficial Owner will be deemed to have submitted a Sell Order with respect to such Series F Notes. A Sell Order constitutes an irrevocable offer to sell Series F Notes subject thereto. A Beneficial Owner that offers to become the Beneficial Owner of additional Series F Notes is, for purposes of such offer, a Potential Beneficial Owner as discussed below.

A customer of a Broker-Dealer that is not a Beneficial Owner of Series F Notes but that wishes to purchase Series F Notes, or that is a Beneficial Owner of Series F Notes that wishes to purchase additional Series F Notes (in each case, a Potential Beneficial Owner ), may submit bids to its Broker-Dealer in which it offers to purchase such principal amount of outstanding Series F Notes specified in such bid if the Applicable Rate therefor determined on such Auction Date shall not be less than the rate specified in such Bid. A Bid placed by a Potential Beneficial Owner of Series F Notes specifying a rate higher than the Maximum Rate for Series F Notes on the Auction Date therefor will not be accepted.

Each Broker-Dealer shall submit in writing, which shall include a writing delivered via e-mail or other electronic means to the Auction Agent, prior to the submission deadline on each Auction Date, all orders for Series F Notes subject to an auction on such Auction Date accepted by such Broker-Dealer, designating itself (unless otherwise permitted by us) as an existing Beneficial Owner in respect of Series F Notes subject to orders submitted or deemed submitted to it by Beneficial Owners and as a Potential Beneficial Owner in respect of Series F Notes subject to orders submitted to it by Potential Beneficial Owners. However, neither we nor the Auction Agent will be responsible for a Broker-Dealer's failure to comply with these procedures. Any order placed with the Auction Agent by a Broker-Dealer as or on behalf of an Existing Beneficial Owner or a Potential Beneficial Owner will be treated in the same manner as an order placed with a Broker-Dealer by a Beneficial Owner or Potential Beneficial Owner. Similarly, any failure by a Broker-Dealer to submit to the Auction Agent an order in respect of Series F Notes held by it or by its customers who are Beneficial Owners will be treated in the same manner as a Beneficial Owner's failure to submit to its Broker-Dealer an order in respect of Series F Notes held by it. A Broker-Dealer also may submit orders to the Auction Agent for its own account as an Existing Beneficial Owner or Potential Beneficial Owner, provided it is not an affiliate of us.

If Sufficient Clearing Bids for Series F Notes exist (that is, the aggregate principal amount of outstanding Series F Notes subject to submitted bids of Potential Beneficial Owners specifying one or more rates between the Minimum Rate (for Standard Rate Periods or shorter periods, only) and the Maximum Rate (for all rate periods) exceeds or is equal to the sum of the aggregate principal amount of outstanding Series F Notes subject to submitted Sell Orders),

the Applicable Rate for the next succeeding rate period will be the lowest rate specified in the submitted bids which, taking into account such rate and all lower rates bid by Broker-Dealers as or on behalf of Existing Beneficial Owners and Potential Beneficial Owners, would result in Existing Beneficial Owners and Potential Beneficial Owners owning the aggregate principal amount of Series F Notes for purchase in the auction. If Sufficient Clearing Bids of Series F Notes do not exist (other than

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because all of the outstanding Series F Notes subject to Submitted Hold Orders), then the Applicable Rate for all Series F Notes for the next succeeding rate period thereof will be equal to the Maximum Rate. In such event, Beneficial Owners that have submitted or are deemed to have submitted Sell Orders may not be able to sell in such auction all aggregate principal amount subject to such Sell Orders. In any particular auction, if all outstanding Series F Notes are the subject of Submitted Hold Orders, the Applicable Rate for such Series F Notes for the next succeeding rate period will be the All Hold Rate (such a situation is called an All Hold Auction ).

The Auction Procedures include a pro rata allocation of Series F Notes for purchase and sale, which may result in an Existing Beneficial Owner continuing to hold or selling, or a Potential Beneficial Owner purchasing, a number of Series F Notes that is less than the number of Series F Notes specified in its order. To the extent the allocation procedures have that result, Broker-Dealers that have designated themselves as Existing Beneficial Owners or Potential Beneficial Owners in respect of customer orders will be required to make appropriate pro rata allocations among their respective customers.

Settlement of purchases and sales will be made on the next Business Day (also an Interest Payment Date) after the Auction Date through the Securities Depository. Purchasers will make payment through their Agent Members in same-day funds to the Securities Depository against delivery to their respective Agent Members. The Securities Depository will make payment to the sellers Agent Members in accordance with the Securities Depository's normal procedures, which now provide for payment against delivery by their Agent Members in same-day funds.

## **Certain Considerations Affecting Auction Rate Securities**

*Role of Broker-Dealers.* Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Stifel, Nicolaus & Company, Incorporated (the Broker-Dealers ) have been appointed by the issuers or obligors of various auction rate securities to serve as a dealer in the auctions for those securities and are paid by the issuers or obligors for their services. The Broker-Dealers receive broker-dealer fees from such issuers or obligors at an agreed upon annual rate that is applied to the principal amount of securities sold or successfully placed through them in such auctions.

The Broker-Dealers are designated in the Broker-Dealer Agreements as the Broker-Dealers to contact Existing Holders and Potential Holders and solicit Bids for Series F Notes. After each auction for Series F Notes the Auction Agent will pay a service charge to each Broker-Dealer. We will provide the Auction Agent with the funds to pay the service charges. The service charge will be in an amount equal to: (i) in the case of any auction immediately preceding a rate period of less than one year, the product of (A) a fraction the numerator of which is the number of days in the rate period (calculated by counting the first day of such rate period but excluding the last day thereof) and the denominator of which is 360, times (B) 1/4 of 1%, times (C) \$25,000, times (D) the sum of the aggregate number of Series F Notes placed by such Broker-Dealer, or (ii) the amount mutually agreed upon by us and the Broker-Dealers in the case of any auction immediately preceding a rate period of one year or longer. For purposes of the preceding sentence, Series F Notes will be placed by a Broker-Dealer if such Series F Notes were (a) the subject of Hold Orders deemed to have been submitted to the Auction Agent by the Broker-Dealer and were acquired by such Broker-Dealer for its own account or were acquired by such Broker-Dealer for its customers who are Beneficial Owners, or (b) the subject of an order submitted by such Broker-Dealer that is (1) a submitted Bid of an Existing Beneficial Owner that resulted in such existing Beneficial Owner continuing to hold such Series F Notes as a result of the auction or (2) a submitted Bid of a Potential Beneficial Owner that resulted in such Potential Beneficial Owner purchasing such Series F Notes as a result of the auction or (3) a valid Hold Order. The Broker-Dealers may share a portion of such service charges with other dealers that submit Orders through it that are filled in the auction.

*Bidding by Broker-Dealers.* A Broker-Dealer is permitted, but not obligated, to submit Orders in auctions for Series F Notes for its own account either as a buyer or seller and routinely does so in the auction rate securities market in its

sole discretion. If the Broker-Dealer submits an Order for its own account, it would have an advantage over other Bidders because a Broker-Dealer would have knowledge of the other

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Orders placed through it in that auction for Series F Notes and thus could determine the rate and size of its Order so as to increase the likelihood that (i) its Order will be accepted in the auction for Series F Notes and (ii) the auction for Series F Notes will clear at a particular rate. For this reason, and because the Broker-Dealers are appointed and paid by us to serve as a Broker-Dealer in the auction for Series F Notes, a Broker-Dealer's interests in serving as a Broker-Dealer in an auction may differ from those of Existing Holders and Potential Holders who participate in auctions for Series F Notes. See [Role of Broker-Dealers](#). A Broker-Dealer would not have knowledge of Orders submitted to the Auction Agent by any other firm that is, or may in the future be, appointed to accept Orders pursuant to a Broker-Dealer Agreement.

The Broker-Dealers are the only Broker-Dealers appointed by us to serve as a Broker-Dealer in the auctions for Series F Notes, and as long as that remains the case, they will be the only Broker-Dealers that submit Orders to the Auction Agent in the auctions for Series F Notes. As a result, in such circumstances, the Broker-Dealers may discern the clearing rate before the Orders are submitted to the Auction Agent and set the clearing rate with their respective Orders.

A Broker-Dealer may place one or more bids in an auction for Series F Notes for its own account to acquire securities for its inventory, to prevent an [Auction Failure](#) (which occurs if there are insufficient clearing bids and results in the auction rate being set at the Maximum Rate) or to prevent an auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for Series F Notes. A Broker-Dealer may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through it. When bidding in an auction for Series F Notes for its own account, a Broker-Dealer also may Bid inside or outside the range of rates that it posts in its [Price Talk](#) (as defined herein). See [Price Talk](#).

A Broker-Dealer also may encourage bidding by others in auctions for Series F Notes, including to prevent an [Auction Failure](#) or to prevent an auction for Series F Notes from clearing at a rate that a Broker-Dealer believes does not reflect the market for Series F Notes. A Broker-Dealer may encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through it.

Bids by a Broker-Dealer or by those it may encourage to place Bids are likely to affect (i) the [Applicable Rate](#) including preventing the [Applicable Rate](#) from being set at the Maximum Rate or otherwise causing Potential Beneficial Owners to receive a lower rate than they might have received had a Broker-Dealer not Bid (or not encouraged others to Bid) and (ii) the allocation of Series F Notes being auctioned, including displacing some Potential Beneficial Owners who may have their Bids rejected or receive fewer Series F Notes than they would have received if a Broker-Dealer had not Bid (or encouraged others to Bid). Because of these practices, the fact that an auction for Series F Notes clears successfully does not mean that an investment in Series F Notes involves no significant liquidity or credit risk. A Broker-Dealer is not obligated to continue to place such Bids (or to continue to encourage other Bidders to do so) in any particular auction for Series F Notes to prevent an [Auction Failure](#) or an auction for Series F Notes from clearing at a rate a Broker-Dealer believes does not reflect the market for Series F Notes. Investors should not assume that a Broker-Dealer will place Bids or encourage others to do so or that [Auction Failures](#) will not occur. Investors should also be aware that Bids by a Broker-Dealer (or by those it may encourage to place Bids) may cause lower [Applicable Rates](#) to occur.

The statements herein regarding Bidding by a Broker-Dealer apply only to a Broker-Dealer's auction desk and any other business units of a Broker-Dealer that are not separated from the auction desk by an information barrier designed to limit inappropriate dissemination of bidding information.

In any particular auction for Series F Notes, if all outstanding Series F Notes are the subject of Submitted Hold Orders, the [Applicable Rate](#) for the next succeeding Auction Period will be the All Hold Rate, which situation is an All Hold Auction. If a Broker-Dealer holds any Series F Notes for its own account on an Auction Date, a

Broker-Dealer may, but is not obligated to submit a Sell Order into the auction for Series F Notes with respect to such Series F Notes, which would prevent that auction for Series F Notes from being an All Hold Auction. A Broker-Dealer may, but is not obligated to, submit Bids for its own account in that same auction for Series F Notes, as set forth above.

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*Price Talk.* Before the start of an auction for Series F Notes, a Broker-Dealer, in its discretion, may make available to its customers who are Existing Holders and Potential Holders a Broker-Dealer's good faith judgment of the range of likely clearing rates for the auction for Series F Notes based on market and other information. This is known as Price Talk. Price Talk is not a guaranty that the Applicable Rate established through the auction for Series F Notes will be within the Price Talk, and Existing Holders and Potential Holders are free to use it or ignore it. A Broker-Dealer occasionally may update and change the Price Talk based on changes in our credit quality or macroeconomic factors that are likely to result in a change in interest rate levels, such as an announcement by the Federal Reserve Board of a change in the Federal Funds rate or an announcement by the Bureau of Labor Statistics of unemployment numbers. Potential Holders should confirm with a Broker-Dealer the manner by which such Broker-Dealer will communicate Price Talk and any changes to Price Talk.

*All-or-Nothing Bids.* The Broker-Dealers will not accept all-or-nothing Bids (*i.e.*, Bids whereby the bidder proposes to reject an allocation smaller than the entire quantity Bid) or any other type of Bid that allows the bidder to avoid Auction Procedures that require the pro rata allocation of Series F Notes where there are not sufficient Sell Orders to fill all Bids at the Winning Bid Rate.

*No Assurances Regarding Auction Outcomes.* The Broker-Dealers provide no assurance as to the outcome of any auction. The Broker-Dealers also do not provide any assurance that any Bid will be successful, in whole or in part, or that the auction for Series F Notes will clear at a rate that a bidder considers acceptable. Bids may be only partially filled, or not filled at all, and the Applicable Rate on any Series F Notes purchased or retained in the auction may be lower than the market rate for similar investments.

The Broker-Dealers will not agree before an auction to buy Series F Notes from, or sell Series F Notes to, a customer after the auction.

*Deadlines.* Each particular auction for Series F Notes has a formal deadline by which all Bids must be submitted by the Broker-Dealers to the Auction Agent. This deadline is called the Submission Deadline. To provide sufficient time to process and submit customer Bids to the Auction Agent before the Submission Deadline, each Broker-Dealer imposes an earlier deadline for all customers, called the Broker-Dealer Deadline, by which bidders must submit Bids to a Broker-Dealer. The Broker-Dealer Deadline is subject to change by a Broker-Dealer. Potential Beneficial Owners should consult with their Broker-Dealer as to its Broker-Dealer Deadline. A Broker-Dealer may allow for correction of clerical errors after the Broker-Dealer Deadline and prior to the Submission Deadline. A Broker-Dealer may submit Bids for its own account at any time until the Submission Deadline and may change Bids it has submitted for its own account at any time until the Submission Deadline.

*Existing Holder's Ability to Resell Auction Rate Securities May Be Limited.* An Existing Holder may sell, transfer or dispose of a Series F Note only: (i) in an auction for Series F Notes, only pursuant to a Bid or Sell Order in accordance with the Auction Procedures, (ii) outside an auction, only to or through a Broker-Dealer, or (iii) by transferring Series F Notes to us or any affiliate; provided, however, that (a) a sale, transfer or other disposition of an aggregate principal amount of Series F Notes from a customer of a Broker-Dealer listed on the records of that Broker-Dealer as the holder of such Series F Notes to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of the foregoing if such Broker-Dealer remains the Existing Beneficial Owner of Series F Notes so sold, transferred or disposed of immediately after such sale, transfer or disposition and (b) in the case of all transfers other than pursuant to auctions, the Broker-Dealer (or other person, if permitted by us) to whom such transfer is made shall advise the Auction Agent of such transfer.

Existing Holders will be able to sell all of the Series F Notes that are the subject of their Submitted Sell Orders only if there are bidders willing to purchase all those Series F Notes in the auction for Series F Notes. If Sufficient Clearing Bids have not been made, Existing Holders that have submitted Sell Orders will not be able to sell in the auction for



Series F Notes all, and may not be able to sell any, of Series F Notes subject to such Submitted Sell Orders. As discussed above (See Bidding by Broker-Dealers ), a Broker-Dealer may submit a Bid in an auction for Series F Notes to avoid an Auction Failure, but it is not obligated to do so. There may not always be enough bidders to prevent an Auction Failure in the absence of bidding by

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a Broker-Dealer in the auction for Series F Notes for its own account or encouraging others to Bid. Therefore, Auction Failures are possible, especially if our credit were to deteriorate, if a market disruption were to occur or if, for any reason, a Broker-Dealer were unable or unwilling to Bid.

Between auctions for Series F Notes, there can be no assurance that a secondary market for Series F Notes will develop or, if it does develop, that it will provide Existing Holders the ability to resell Series F Notes on the terms or at the times desired by an Existing Holder. A Broker-Dealer, in its own discretion, may decide to buy or sell Series F Notes in the secondary market for its own account from or to investors at any time and at any price, including at prices equivalent to, below, or above par for Series F Notes. However, a Broker-Dealer is not obligated to make a market in Series F Notes and may discontinue trading in Series F Notes without notice for any reason at any time. Existing Holders who resell between auctions for Series F Notes may receive an amount less than par, depending on market conditions. We can provide no assurance that any secondary trading market of Series F Notes will provide owners with liquidity of investment. Series F Notes are not listed on any exchange or automated quotation system. Investors who purchase Series F Notes in an auction for Series F Notes for a Special Rate Period should note that, because the interest rate on such Series F Notes will be fixed for the length of such rate period, the value of Series F Notes may fluctuate in response to changes in interest rates, and may be more or less than their original cost if sold on the open market in advance of the next auction for Series F Notes, depending upon market conditions.

If an Existing Holder purchased Series F Notes through a dealer which is not a Broker-Dealer for the securities, such Existing Holder's ability to sell its securities may be affected by the continued ability of its dealer to transact trades for Series F Notes through a Broker-Dealer.

The ability to resell Series F Notes will depend on various factors affecting the market for Series F Notes, including news relating to us, the attractiveness of alternative investments, investor demand for short term securities, the perceived risk of owning Series F Notes (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded Series F Notes (including U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate securities), reactions of market participants to regulatory actions (such as those described in Securities and Exchange Commission Settlements below) or press reports, financial reporting cycles and market conditions generally. Demand for Series F Notes may change without warning, and declines in demand may be short-lived or continue for longer periods.

*Resignation of the Auction Agent or a Broker-Dealer Could Impact the Ability to Hold Auctions.* The Auction Agent Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving us at least 60 days notice and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place. The Broker-Dealer Agreement provides that a Broker-Dealer thereunder may resign upon five days' notice and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any auction period during which there is no duly appointed Auction Agent or Broker-Dealer, it will not be possible to hold auctions for Series F Notes, with the result that the interest rate on Series F Notes will be determined as described in the supplemental indenture.

*Securities and Exchange Commission Settlements.* On May 31, 2006, the SEC announced that it had settled its investigation of 15 firms, including Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the Settling Broker-Dealers), that participate in the auction rate securities market, regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the firms had managed auctions for auction rate securities in which they participated in ways that were not adequately disclosed or that did not conform to disclosed auction procedures. As part of the settlement, the Settling Broker-Dealers agreed to pay a civil penalty. In addition, the Settling Broker-Dealers, without admitting or denying the SEC's allegations, agreed to provide to customers written descriptions of its material auction practices and procedures, and to implement procedures reasonably designed to detect and prevent any failures by that Settling Broker-Dealer to conduct the

auction process in accordance with disclosed procedures. No assurance can be offered as to how the settlement may affect the market for auction rate securities or Series F Notes. The SEC's investigation is continuing as to other entities that participate in the auction rate securities market.

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In addition, on January 9, 2007, the SEC announced that it had settled its investigation of three banks, including The Bank of New York (the Settling Auction Agents), that participate as auction agents in the auction rate securities market, regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the Settling Auction Agents allowed broker-dealers in auctions to submit bids or revise bids after the submission deadlines and allowed broker-dealers to intervene in auctions in ways that affected the rates paid on the auction rate securities. As part of the settlement, the Settling Auction Agents agreed to pay civil penalties. In addition, each Settling Auction Agent, without admitting or denying the SEC's allegations, agreed to provide to broker-dealers and issuers written descriptions of its material auction practices and procedures and to implement procedures reasonably designed to detect and prevent any failures by that Settling Auction Agent to conduct the auction process in accordance with disclosed procedures. No assurance can be offered as to how the settlement may affect the market for auction rate securities or Series F Notes.

## **Additional Information**

*Securities Depository.* DTC will act as the Securities Depository for the Agent Members with respect to Series F Notes. One certificate for Series F Notes will be registered in the name of Cede & Co., as nominee of the Securities Depository. Such certificate will bear a legend to the effect that such certificate is issued subject to the provisions restricting transfers of Series F Notes contained in the Indenture. We also will issue stop-transfer instructions to the transfer agent for Series F Notes. Cede & Co. will be the holder of record of each series of all Senior Notes and beneficial owners of such Series F Notes will not be entitled to receive certificates representing their ownership interest in such Series F Notes.

DTC, a New York-chartered limited purpose trust company, performs services for its participants (including the Agent Members), some of whom (and/or their representatives) own DTC. DTC maintains lists of its participants and will maintain the positions (ownership interests) held by each such participant (the Agent Member) in Series F Notes, whether for its own account or as a nominee for another person.

## **Concerning The Auction Agent**

The Auction Agent is acting as non-fiduciary agent for us in connection with Auctions. In the absence of bad faith or negligence on its part, the Auction Agent will not be liable for any action taken, suffered, or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agency Agreement and will not be liable for any error of judgment made in good faith unless the Auction Agent will have been negligent in ascertaining the pertinent facts.

The Auction Agent may rely upon, as evidence of the identities of the Existing Holders of Series F Notes, the Auction Agent's registry of Existing Holders, the results of auctions and notices from any Broker-Dealer (or other Person, if permitted by us) with respect to transfers described under The Auctions in the Prospectus Supplement and notices from us. The Auction Agent is not required to accept any such notice for an Auction unless it is received by the Auction Agent by 3:00 p.m., New York City time, on the Business Day preceding such auction.

**Table of Contents****UNDERWRITING**

Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Stifel, Nicolaus & Company, Incorporated are acting as the underwriters in this offering. Subject to the terms and conditions stated in the underwriting agreement dated the date of this Prospectus Supplement, each underwriter named below has agreed to purchase, and we have agreed to sell to that underwriter, the principal amount of Series F Notes set forth opposite the underwriter's name.

| <b>Underwriter</b>                                    | <b>Series F<br/>Notes</b> |
|---|---------------------------|
| Citigroup Global Markets Inc.                         | \$ 87,500,000             |
| Merrill Lynch, Pierce, Fenner & Smith<br>Incorporated | 87,500,000                |
| Stifel, Nicolaus & Company, Incorporated              | 10,000,000                |
| Total   | \$ 185,000,000            |

The underwriting agreement provides that the obligations of the underwriters to purchase the Series F Notes included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the Series F Notes if they purchase any of the Series F Notes. Each underwriter or an affiliate thereof intends to participate in future auctions as a Broker-Dealer for the Series F Notes.

After the auction, which includes the newly issued Series F Notes, payment by each purchaser of Series F Notes sold through the auction will be made in accordance with the procedures described under "The Auctions."

The underwriters propose to offer some of the Series F Notes directly to the public at the public offering price set forth on the cover page of this Prospectus Supplement and some of the Series F Notes to dealers at the public offering price less a concession not to exceed % of the principal amount of the Series F Notes. The underwriters may allow, and dealers may reallow, a concession not to exceed % of the principal amount of the Series F Notes on sales to other dealers. Investors must pay for any Series F Notes on or before June , 2007. After the initial offering of the Series F Notes to the public, the representatives may change the public offering price and concessions.

The following table shows the underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering (expressed as a percentage of the principal amount of the Series F Notes).

|                   | <b>Paid by Us</b> |
|-------------------|-------------------|
| Per Series F Note | 1.00%             |

We estimate that we will incur approximately \$175,000 in expenses in connection with this offering. Merrill Lynch, Pierce, Fenner & Smith Incorporated has agreed to reimburse us for certain expenses in connection with the offering.

We and Kayne Anderson have agreed that, for a period of 90 days from the date of this Prospectus Supplement, we and they will not, without the prior written consent of Citigroup Global Markets Inc., on behalf of the underwriters, sell, contract to sell, or otherwise dispose of any of our auction rate senior notes or auction rate preferred stock ( Senior Securities ), or any securities convertible into or exchangeable for Senior Securities or grant any options or warrants to purchase our Senior Securities, other than the sale of Series F Notes to the underwriters pursuant to the underwriting agreement and the issuance and sale of up to \$185,000,000 of other Senior Securities. Citigroup Global Markets Inc., on behalf of the underwriters, in its sole discretion, may release any of the securities subject to this lock-up agreement at any time without notice.

The underwriters and their affiliates have performed investment banking and advisory services for us from time to time for which they have received customary fees and expenses. The underwriters and their

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affiliates may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business. Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated have acted and may act in the future as co-lead managers and joint book-running managers of initial public offerings of other funds managed by Kayne Anderson.

We anticipate that the underwriters may from time to time act as brokers or dealers and receive fees in connection with the execution of our portfolio transactions after the underwriters have ceased to be underwriters and, subject to certain restrictions, each may act as a broker while it is an underwriter. We anticipate that the underwriters or one of their affiliates may from time to time act in auctions as a Broker-Dealer or dealer and receive fees as described under Description of Senior F Notes.

A prospectus in electronic format may be made available by one or more of the underwriters. In those cases, prospective investors may view offering terms online and prospective investors may be allowed to place orders online. The underwriters may agree to allocate a number of Series F Notes for sale to their online brokerage account holders. The underwriters will make such allocations on the same basis as other allocations. In addition, Series F Notes may be sold by the underwriters to securities dealers who resell Series F Notes to online brokerage account holders.

We and Kayne Anderson have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

The respective addresses of the underwriters are: Citigroup Global Markets Inc., 388 Greenwich Street, New York, New York 10013; Merrill Lynch, Pierce, Fenner & Smith Incorporated, 4 World Financial Center, 250 Vesey Street, New York, New York 10080; and Stifel, Nicolaus & Company, Incorporated, 501 North Broadway, St. Louis, Missouri 63102.

As of June 18, 2007, our Independent Directors, excluding Ms. Costin, and their immediate family members do not beneficially own securities in entities directly or indirectly controlling, controlled by, or under common control with, our underwriters. Due to her ownership of securities issued by one of the underwriters in this offering, Ms. Costin is expected to be treated as an interested person of us, as defined in the 1940 Act, during and until the completion of this offering, and, in the future, may be treated as an interested person during subsequent offerings of our securities if the relevant offering is underwritten by the underwriter in which Ms. Costin owns securities.

**LEGAL MATTERS**

Certain legal matters in connection with Series F Notes will be passed upon for us by Paul, Hastings, Janofsky & Walker llp, Los Angeles, California, and for the underwriters by Sidley Austin llp, New York, New York. Paul, Hastings, Janofsky & Walker llp and Sidley Austin llp may rely as to certain matters of Maryland law on the opinion of Venable llp, Baltimore, Maryland.

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**WHERE YOU CAN FIND MORE INFORMATION**

We are subject to the informational requirements of the Exchange Act and the 1940 Act, and are required to file reports, including annual and semi-annual reports, proxy statements and other information with the SEC. We voluntarily file quarterly shareholder reports. Our most recent shareholder report filed with the SEC is for the period ended February 28, 2007. These documents are available on the SEC's EDGAR system and can be inspected and copied for a fee at the SEC's public reference room, 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Additional information about the operation of the public reference room facilities may be obtained by calling the SEC at (202) 551-5850.

This Prospectus Supplement and the accompanying Base Prospectus do not contain all of the information in our registration statement, including amendments, exhibits, and schedules. Statements in this Prospectus Supplement and the accompanying Base Prospectus about the contents of any contract or other document are not necessarily complete and in each instance reference is made 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 this reference. Additional information about us can be found in our Registration Statement (including amendments, exhibits, and schedules) on Form N-2 filed with the SEC. The SEC maintains a web site (<http://www.sec.gov>) that contains our Registration Statement, other documents incorporated by reference, and other information we have filed electronically with the SEC, including proxy statements and reports filed under the Exchange Act.

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**UNAUDITED FINANCIAL STATEMENTS  
AS OF AND FOR THE THREE MONTHS ENDED FEBRUARY 28, 2007**

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**KAYNE ANDERSON MLP INVESTMENT COMPANY**  
**SCHEDULE OF INVESTMENTS**  
**FEBRUARY 28, 2007**  
**(amounts in 000 s)**  
**(UNAUDITED)**

| Description   | No. of<br>Shares/Units | Value     |
|---|------------------------|-----------|
| <b>Long-Term Investments 163.0%</b>                                 |                        |           |
| <b>Equity Investments(a) 163.0%</b>                                 |                        |           |
| <b>Pipeline MLP(b) 134.7%</b>                                       |                        |           |
| Atlas Pipeline Partners, L.P.                                       | 401                    | \$ 19,273 |
| Boardwalk Pipeline Partners, LP                                     | 522                    | 19,146    |
| Buckeye Partners, L.P.  | 157                    | 7,702     |
| Copano Energy, L.L.C.   | 1,959                  | 129,474   |
| Crosstex Energy, L.P.   | 2,586                  | 97,174    |
| Crosstex Energy, L.P. Senior Subordinated Units, Unregistered(c)(d) | 356                    | 11,911    |
| DCP Midstream Partners, LP  | 138                    | 5,103     |
| Duncan Energy Partners L.P.(d)                                      | 124                    | 2,981     |
| Eagle Rock Energy Partners, L.P.                                    | 10                     | 195       |
| Enbridge Energy Management, L.L.C.(e)                               | 399                    | 20,363    |
| Enbridge Energy Partners, L.P.                                      | 1,608                  | 84,924    |
| Energy Transfer Partners, L.P.                                      | 4,262                  | 235,116   |
| Enterprise Products Partners L.P.                                   | 5,359                  | 163,511   |
| Global Partners LP  | 385                    | 11,142    |
| Hiland Partners, LP   | 156                    | 8,483     |
| Holly Energy Partners, L.P.   | 226                    | 10,437    |
| Kinder Morgan Management, LLC(e)                                    | 2,907                  | 145,377   |
| Magellan Midstream Partners, L.P.                                   | 3,920                  | 165,026   |
| MarkWest Energy Partners, L.P.                                      | 908                    | 58,915    |
| Martin Midstream Partners L.P.                                      | 202                    | 7,328     |
| ONEOK Partners, L.P.  | 833                    | 53,951    |
| Plains All American Pipeline, L.P.                                  | 2,547                  | 141,344   |
| Plains All American Pipeline, L.P.(c)                               | 565                    | 31,062    |
| Regency Energy Partners LP  | 663                    | 18,244    |
| Regency Energy Partners LP Unregistered(c)                          | 905                    | 23,680    |
| Sunoco Logistics Partners L.P.                                      | 72                     | 4,039     |
| Targa Resources Partners LP(d)                                      | 380                    | 9,158     |
| TC PipeLines, LP  | 228                    | 8,269     |
| TC PipeLines, LP Unregistered(c)                                    | 868                    | 29,935    |
| TEPPCO Partners, L.P.   | 473                    | 20,233    |
| TransMontaigne Partners L.P.  | 71                     | 2,300     |
| Valero L.P.   | 481                    | 30,296    |
| Williams Partners L.P.  | 224                    | 9,694     |
| Williams Partners L.P. Class B, Unregistered(c)                     | 183                    | 7,556     |

|  |    |           |
|--|----|-----------|
| Williams Partners L.P. Unregistered(c) | 64 | 2,720     |
|  |    | 1,596,062 |

See accompanying notes to financial statements.

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**KAYNE ANDERSON MLP INVESTMENT COMPANY**  
**SCHEDULE OF INVESTMENTS (CONTINUED)**  
**FEBRUARY 28, 2007**  
(amounts in 000 s)  
(UNAUDITED)

| Description   | No. of<br>Shares/Units | Value     |
|---|------------------------|-----------|
| <b>Propane MLP 9.1%</b>                             |                        |           |
| Ferrellgas Partners, L.P.                           | 877                    | \$ 20,149 |
| Inergy, L.P.  | 2,839                  | 88,106    |
|   |                        | 108,255   |
| <b>Shipping MLP 2.0%</b>                            |                        |           |
| K-Sea Transportation Partners L.P.                  | 140                    | 5,518     |
| Teekay LNG Partners L.P.                            | 355                    | 13,064    |
| Teekay Offshore Partners L.P.                       | 173                    | 5,152     |
|   |                        | 23,734    |
| <b>Coal MLP 6.0%</b>                                |                        |           |
| Clearwater Natural Resources, LP Unregistered(c)(f) | 3,889                  | 58,334    |
| Natural Resource Partners L.P. Subordinated Units   | 103                    | 6,511     |
| Penn Virginia Resource Partners, L.P.               | 230                    | 6,227     |
|   |                        | 71,072    |
| <b>Upstream MLP(b) 1.6%</b>                         |                        |           |
| Atlas Energy Resources, LLC                         | 209                    | 5,089     |
| BreitBurn Energy Partners L.P.                      | 97                     | 2,677     |
| Constellation Energy Partners LLC                   | 215                    | 6,114     |
| Legacy Reserves LP(d)                               | 193                    | 4,671     |
|   |                        | 18,551    |
| <b>MLP Affiliates 6.8%</b>                          |                        |           |
| Atlas Pipeline Holdings, L.P.                       | 73                     | 1,868     |
| Buckeye GP Holdings L.P.                            | 290                    | 5,614     |
| Crosstex Energy, Inc.                               | 209                    | 6,784     |
| Energy Transfer Equity, L.P.                        | 237                    | 7,970     |
| Energy Transfer Equity, L.P. Unregistered(c)        | 365                    | 12,057    |
| Hiland Holdings GP, LP                              | 161                    | 4,576     |
| Kinder Morgan, Inc.                                 | 187                    | 19,724    |
| Magellan Midstream Holdings, L.P.                   | 259                    | 6,325     |
| MarkWest Hydrocarbon, Inc.                          | 249                    | 15,607    |

See accompanying notes to financial statements.

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**KAYNE ANDERSON MLP INVESTMENT COMPANY**  
**SCHEDULE OF INVESTMENTS (CONTINUED)**  
**FEBRUARY 28, 2007**  
(amounts in 000 s, except number of option contracts written)  
(UNAUDITED)

| Description   | No. of<br>Shares/Units | Value     |
|---|------------------------|-----------|
| <b>Other MLP 2.8%</b>                                 |                        |           |
| Calumet Specialty Products Partners, L.P.             | 559                    | \$ 22,986 |
| Universal Compression Partners, L.P.                  | 356                    | 10,584    |
|   |                        | 33,570    |
| <b>Total Long-Term Investments (Cost \$1,283,574)</b> |                        | 1,931,769 |

|  | Interest<br>Rate | Maturity<br>Date |           |
|--|------------------|------------------|-----------|
| <b>Short-Term Investment 0.1%</b>  |                  |                  |           |
| <b>Repurchase Agreement 0.1%</b>   |                  |                  |           |
| Bear, Stearns & Co. Inc. (Agreement dated 2/28/07 to be repurchased at \$1,018), collateralized by \$1,049 in U.S. Treasury Bond Strips (Cost \$1,018) | 5.270%           | 3/01/07          | 1,018     |
| <b>Total Investments 163.1% (Cost \$1,284,592)</b>   |                  |                  | 1,932,787 |

|   | No. of<br>Contracts |           |
|---|---------------------|-----------|
| <b>Liabilities</b>  |                     |           |
| <b>Option Contracts Written(g)</b>  |                     |           |
| <b>MLP Affiliate</b>  |                     |           |
| Kinder Morgan Inc., call option expiring 3/17/07 @ \$105.00 (Premiums received \$115) | 1,000               | (125)     |
| <b>Auction Rate Senior Notes</b>  |                     | (320,000) |
| <b>Deferred Taxes</b>   |                     | (238,513) |
| <b>Revolving Credit Line</b>  |                     | (107,000) |
| <b>Other Liabilities</b>  |                     | (20,982)  |
| <b>Unrealized Depreciation on Interest Rate Swap Contracts</b>                        |                     | (317)     |
| <b>Total Liabilities</b>  |                     | (686,937) |

|  |              |
|--|--------------|
| <b>Unrealized Appreciation on Interest Rate Swap Contracts</b> | 2,993        |
| <b>Income Tax Receivable</b>                                   | 2,448        |
| <b>Other Assets</b>  | 8,733        |
| <b>Total Liabilities in Excess of Other Assets</b>             | (672,763)    |
| <b>Preferred Stock at Redemption Value</b>                     | (75,000)     |
| <b>Net Assets Applicable to Common Stockholders</b>            | \$ 1,185,024 |

See accompanying notes to financial statements.

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**KAYNE ANDERSON MLP INVESTMENT COMPANY  
SCHEDULE OF INVESTMENTS (CONCLUDED)  
FEBRUARY 28, 2007  
(amounts in 000 )  
(UNAUDITED)**

- (a) Unless otherwise noted, equity investments are common units/common shares.
- (b) Includes Limited Liability Companies.
- (c) Fair valued securities, restricted from public sale (See Notes 2 and 6).
- (d) Security is currently not paying cash distributions but is expected to pay cash distributions or convert to securities which pay cash distributions within the next 12 months.
- (e) Distributions are paid in-kind.
- (f) Clearwater Natural Resources, LP is a privately-held MLP that the Company believes is a controlled affiliate. (See Note 4.B).
- (g) Security is non-income producing.

See accompanying notes to financial statements.

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**Table of Contents****KAYNE ANDERSON MLP INVESTMENT COMPANY****STATEMENT OF ASSETS AND LIABILITIES****FEBRUARY 28, 2007****(amounts in 000 s, except share and per share amounts)****(UNAUDITED)****ASSETS**

|  |                  |
|--|------------------|
| Investments at fair value, non-controlled (Cost \$1,210,596) | \$ 1,873,435     |
| Investment at fair value, controlled (Cost \$72,978)         | 58,334           |
| Repurchase agreement (Cost \$1,018)                          | 1,018            |
| <b>Total investments (Cost \$1,284,592)</b>                  | <b>1,932,787</b> |
| Deposits with brokers  | 719              |
| Receivable for securities sold                               | 4,034            |
| Interest, dividends and distributions receivable             | 20               |
| Income tax receivable  | 2,448            |
| Deferred debt issuance costs and other, net                  | 3,960            |
| Unrealized appreciation on interest rate swap contracts      | 2,993            |
| <b>Total Assets</b>  | <b>1,946,961</b> |

**LIABILITIES**

|   |                |
|---|----------------|
| Revolving credit line   | 107,000        |
| Payable for securities purchased                              | 12,147         |
| Investment management fee payable                             | 6,788          |
| Call options written, at fair value (premiums received \$115) | 125            |
| Accrued directors fees and expenses                           | 50             |
| Accrued expenses and other liabilities                        | 1,997          |
| Deferred tax liability  | 238,513        |
| Unrealized depreciation on interest rate swap contracts       | 317            |
| <b>Total Liabilities before Senior Notes</b>                  | <b>366,937</b> |

## Auction Rate Senior Notes:

|                                 |                |
|---------------------------------|----------------|
| Series A, due April 3, 2045     | 85,000         |
| Series B, due April 5, 2045     | 85,000         |
| Series C, due March 31, 2045    | 90,000         |
| Series E, due December 21, 2045 | 60,000         |
| <b>Total Senior Notes</b>       | <b>320,000</b> |

**Total Liabilities**

686,937

**PREFERRED STOCK**

|  |        |
|--|--------|
| \$25,000 liquidation value per share applicable to 3,000 outstanding shares (10,000 shares authorized) | 75,000 |
|--|--------|

|  |                     |
|--|---------------------|
| <b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b>  | \$ 1,185,024        |
| <b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS CONSIST OF</b>   |                     |
| Common stock, \$0.001 par value (38,265,172 shares issued and outstanding,<br>199,990,000 shares authorized) | \$ 38               |
| Paid-in capital  | 916,332             |
| Net investment loss, net of income taxes less dividends and distributions                                    | (175,212)           |
| Accumulated realized gains on investments and interest rate swap contracts, net of income<br>taxes           | 33,912              |
| Net unrealized gains on investments, options and interest rate swap contracts, net of income<br>taxes        | 409,954             |
| <b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b>  | <b>\$ 1,185,024</b> |
| <b>NET ASSET VALUE PER COMMON SHARE</b>  | <b>\$30.97</b>      |

See accompanying notes to financial statements.

**Table of Contents****KAYNE ANDERSON MLP INVESTMENT COMPANY****STATEMENT OF OPERATIONS  
FOR THE THREE MONTHS ENDED FEBRUARY 28, 2007****(amounts in 000 s)****(UNAUDITED)****INVESTMENT INCOME****Income**

|                                 |           |
|---------------------------------|-----------|
| Dividends and distributions     | \$ 23,428 |
| Return of capital               | (20,839)  |
| Net dividends and distributions | 2,589     |
| Interest and other fees         | 16        |
| Total Investment Income         | 2,605     |

**Expenses**

|  |        |
|--|--------|
| Investment management fees   | 6,789  |
| Administration fees  | 208    |
| Professional fees  | 177    |
| Reports to stockholders  | 52     |
| Custodian fees   | 51     |
| Directors' fees  | 50     |
| Insurance  | 42     |
| Other expenses   | 124    |
| Total Expenses Before Interest Expense, Auction Agent Fees and Taxes | 7,493  |
| Interest expense   | 5,302  |
| Auction agent fees   | 248    |
| Total Expenses Before Taxes  | 13,043 |

|   |                 |
|---|-----------------|
| <b>Net Investment Loss Before Taxes</b> | <b>(10,438)</b> |
| Deferred tax benefit                    | 3,862           |

|                            |                |
|----------------------------|----------------|
| <b>Net Investment Loss</b> | <b>(6,576)</b> |
|----------------------------|----------------|

**REALIZED AND UNREALIZED GAINS/(LOSSES)****Net Realized Gains/(Losses)**

|  |         |
|--|---------|
| Investments                              | 8,450   |
| Payments on interest rate swap contracts | 603     |
| Deferred tax expense                     | (3,350) |
| Net Realized Gains                       | 5,703   |

**Net Change in Unrealized Gains/(Losses)**

|             |         |
|-------------|---------|
| Investments | 139,435 |
|-------------|---------|

|   |                  |
|---|------------------|
| Options   | (10)             |
| Interest rate swap contracts  | 354              |
| Deferred tax expense  | (44,125)         |
| Net Change in Unrealized Gains  | 95,654           |
| <b>Net Realized and Unrealized Gains</b>  | <b>101,357</b>   |
| <b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>                                       | <b>94,781</b>    |
| <b>DIVIDENDS TO PREFERRED STOCKHOLDERS</b>  | <b>(977)</b>     |
| <b>NET INCREASE IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS<br/>RESULTING FROM OPERATIONS</b> | <b>\$ 93,804</b> |

See accompanying notes to financial statements.

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

|   | <b>For the Three<br/>Months Ended<br/>February 28, 2007<br/>(Unaudited)</b> | <b>For the Fiscal<br/>Year Ended<br/>November 30, 2006</b> |
|---|---|--|
| <b>OPERATIONS</b>   |   |  |
| Net investment loss   | \$ (6,576)  | \$ (23,356)  |
| Net realized gains  | 5,703   | 14,152   |
| Net change in unrealized gains  | 95,654  | 226,725  |
| <b>Net Increase in Net Assets Resulting from Operations</b>   | <b>94,781</b>   | <b>217,521</b>   |
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS</b>  |   |  |
| Distributions return of capital   | (977) <sup>(1)</sup>  | (3,732) <sup>(2)</sup>                                     |
| <b>DISTRIBUTIONS TO COMMON STOCKHOLDERS</b>   |   |  |
| Distributions return of capital   | (17,890) <sup>(1)</sup>   | (65,492) <sup>(2)</sup>                                    |
| <b>CAPITAL STOCK TRANSACTIONS</b>   |   |  |
| Issuance of 200,336 and 889,285 shares of common stock from reinvestment of distributions, respectively | 5,718   | 23,005   |
| <b>Total Increase in Net Assets Applicable to Common Stockholders</b>                                   | <b>81,632</b>   | <b>171,302</b>   |
| <b>NET ASSETS</b>   |   |  |
| Beginning of period   | 1,103,392   | 932,090  |
| End of period   | \$ 1,185,024  | \$ 1,103,392   |

(1) The information presented in each of these items is a current estimate of the characterization of a portion of the total dividends paid to preferred stockholders and common stockholders for the three months ended February 28, 2007 as either a dividend (ordinary income) or a distribution (return of capital). This estimate is based on the Company's operating results during the period.

(2) The information presented in each of these items is a characterization of a portion of the total dividends paid to preferred stockholders and common stockholders for the fiscal year ended November 30, 2006 as either a dividend (ordinary income) or a distribution (return of capital). This characterization is based on the Company's earnings and profits.

See accompanying notes to financial statements.

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**KAYNE ANDERSON MLP INVESTMENT COMPANY**

**STATEMENT OF CASH FLOWS**

**FOR THE THREE MONTHS ENDED FEBRUARY 28, 2007**

**(amounts in 000 s)**

**(UNAUDITED)**

**CASH FLOWS FROM OPERATING ACTIVITIES**

|   |                 |
|---|-----------------|
| Net increase in net assets resulting from operations  | \$ 94,781       |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities: |                 |
| Purchase of investments   | (116,107)       |
| Proceeds from sale of investments   | 21,649          |
| Purchase of short-term investments, net   | (69)            |
| Realized gains  | (9,053)         |
| Return of capital distributions   | 20,839          |
| Unrealized gains on investments and interest rate swap contracts  | (139,789)       |
| Increase in deposits with brokers   | (601)           |
| Increase in receivable for securities sold  | (358)           |
| Decrease in interest, dividend and distributions receivables  | 586             |
| Increase in income tax receivable   | (339)           |
| Decrease in deferred debt issuance costs and other  | 4               |
| Increase in payable for securities purchased  | 10,658          |
| Decrease in investment management fee payable   | (3,507)         |
| Increase in option contracts written  | 125             |
| Decrease in accrued directors' fees and expenses  | (2)             |
| Increase in accrued expenses and other liabilities  | 719             |
| Increase in deferred tax liability  | 43,613          |
| <b>Net Cash Used in Operating Activities</b>  | <b>(76,851)</b> |

**CASH FLOWS FROM FINANCING ACTIVITIES**

|   |          |
|---|----------|
| Proceeds from revolving credit line               | 90,000   |
| Cash distributions paid to preferred stockholders | (977)    |
| Cash distributions paid to common stockholders    | (12,172) |

**Net Cash Provided by Financing Activities** 76,851

**NET DECREASE IN CASH****CASH BEGINNING OF PERIOD****CASH END OF PERIOD**

\$

Supplemental disclosure of cash flow information:

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Noncash financing activities not included herein consist of reinvestment of distributions of \$5,718 pursuant to the Company's dividend reinvestment plan.

During the three months ended February 28, 2007, federal and state taxes paid were \$339 and interest paid was \$4,342.

See accompanying notes to financial statements.

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Table of Contents**KAYNE ANDERSON MLP INVESTMENT COMPANY****FINANCIAL HIGHLIGHTS**  
(amounts in 000 s, except per share amounts)

|   | <b>For the Three<br/>Months<br/>Ended<br/>February 28,<br/>2007<br/><br/>(Unaudited)</b> | <b>For the Fiscal Year Ended<br/><br/>November 30,</b> |                       | <b>For the<br/>Period<br/>September 28,<br/><br/>2004<sup>(1)</sup><br/><br/>through<br/>November 30,<br/>2004</b> |
|---|--|--|-----------------------|--|
|   |  | <b>2006</b>  | <b>2005</b>           |  |
| <b>Per Share of Common Stock</b>  |  |  |                       |  |
| Net asset value, beginning of period  | \$ 28.99   | \$ 25.07   | \$ 23.91              | \$ 23.70 <sup>(2)</sup>  |
| <b>Income from Operations<sup>(3)</sup></b>   |  |  |                       |  |
| Net investment income/(loss)  | (0.17)   | (0.62)   | (0.17)                | 0.02   |
| Net realized and unrealized gain on<br>investments, securities sold short,<br>options and interest rate swap<br>contracts | 2.65   | 6.39   | 2.80                  | 0.19   |
| Total income from investment<br>operations  | 2.48   | 5.77   | 2.63                  | 0.21   |
| <b>Dividends/Distributions Preferred<br/>Stockholders<sup>(3)</sup></b>   |  |  |                       |  |
| Dividends   | <sup>(4)</sup>   | <sup>(5)</sup>   | (0.05) <sup>(5)</sup> |  |
| Distributions   | (0.03) <sup>(4)</sup>  | (0.10) <sup>(5)</sup>                                  | <sup>(5)</sup>        |  |
| Total dividends/distributions<br>Preferred Stockholders   | (0.03)   | (0.10)   | (0.05)                |  |
| <b>Dividends/Distributions Common<br/>Stockholders</b>  |  |  |                       |  |
| Dividends   | <sup>(4)</sup>   | <sup>(5)</sup>   | (0.13) <sup>(5)</sup> |  |
| Distributions   | (0.47) <sup>(4)</sup>  | (1.75) <sup>(5)</sup>                                  | (1.37) <sup>(5)</sup> |  |
| Total dividends/distributions<br>Common Stockholders  | (0.47)   | (1.75)   | (1.50)                |  |
| <b>Capital Stock Transactions<sup>(3)</sup></b>   |  |  |                       |  |
| Underwriting discounts and offering<br>costs on the issuance of preferred   |  |  | (0.03)                |  |

|   |    |                       |    |                       |    |                       |    |                       |
|---|----|-----------------------|----|-----------------------|----|-----------------------|----|-----------------------|
| stock   |    |                       |    |                       |    |                       |    |                       |
| Secondary issuance of common stock, net of underwriting discounts and offering costs                |    |                       |    | 0.11                  |    |                       |    |                       |
| Total capital stock transactions  |    |                       |    | 0.08                  |    |                       |    |                       |
| Net asset value, end of period  | \$ | 30.97                 | \$ | 28.99                 | \$ | 25.07                 | \$ | 23.91                 |
| Market value per share of common stock, end of period   | \$ | 32.91                 | \$ | 31.39                 | \$ | 24.33                 | \$ | 24.90                 |
| Total investment return based on common stock market value <sup>(6)</sup>                           |    | 6.57%                 |    | 37.93%                |    | 3.66%                 |    | (0.40)%               |
| <b>Supplemental Data and Ratios<sup>(7)</sup></b>   |    |                       |    |                       |    |                       |    |                       |
| Net assets applicable to common stockholders, end of period   | \$ | 1,185,024             | \$ | 1,103,392             | \$ | 932,090               | \$ | 792,836               |
| Ratio of expenses to average net assets, including current and deferred income tax expense          |    | 20.44% <sup>(8)</sup> |    | 18.85% <sup>(8)</sup> |    | 8.73% <sup>(8)</sup>  |    | 4.73% <sup>(8)</sup>  |
| Ratio of expenses to average net assets, excluding current and deferred income taxes                |    | 4.70% <sup>(8)</sup>  |    | 5.10% <sup>(8)</sup>  |    | 2.32% <sup>(8)</sup>  |    | 1.20% <sup>(8)</sup>  |
| Ratio of expenses, excluding taxes and non-recurring organizational expenses, to average net assets |    | 4.70%                 |    | 5.10%                 |    | 2.32%                 |    | 1.08%                 |
| Ratio of expenses, excluding taxes and interest expenses, to average net assets                     |    | 2.70%                 |    | 3.42%                 |    | 1.52%                 |    |                       |
| Ratio of net investment income/(loss) to average net assets   |    | (2.37)%               |    | (2.37)%               |    | (0.68)%               |    | 0.50%                 |
| Net increase in net assets to common stockholders resulting from operations to average net assets   |    | 33.83%                |    | 21.66%                |    | 10.09%                |    | 5.30%                 |
| Portfolio turnover rate   |    | 1.19% <sup>(9)</sup>  |    | 9.95% <sup>(9)</sup>  |    | 25.59% <sup>(9)</sup> |    | 11.78% <sup>(9)</sup> |
| Auction Rate Senior Notes outstanding, end of period  | \$ | 320,000               | \$ | 320,000               | \$ | 260,000               |    |                       |
| Auction Rate Preferred Stock, end of period   | \$ | 75,000                | \$ | 75,000                | \$ | 75,000                |    |                       |
| Asset coverage of Auction Rate Senior Notes   |    | 493.76%               |    | 468.25%               |    | 487.34%               |    |                       |
| Asset coverage of Auction Rate Preferred Stock  |    | 400.01%               |    | 379.34%               |    | 378.24%               |    |                       |
| Average amount of borrowings outstanding per share of common stock during the period                | \$ | 8.36 <sup>(3)</sup>   | \$ | 8.53 <sup>(3)</sup>   | \$ | 5.57 <sup>(3)</sup>   |    |                       |

See accompanying notes to financial statements.



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**KAYNE ANDERSON MLP INVESTMENT COMPANY**

**FINANCIAL HIGHLIGHTS (CONCLUDED)**  
**(amounts in 000 s, except share and per share amounts)**

- (1) Commencement of operations.
- (2) Initial public offering price of \$25.00 per share less underwriting discounts of \$1.25 per share and offering costs of \$0.05 per share.
- (3) Based on average shares of common stock outstanding of 38,171,682; 37,638,314; 34,077,731 and 33,165,900, for the three months ended February 28, 2007, fiscal year ended November 30, 2006, the fiscal year ended November 30, 2005 and the period September 28, 2004 through November 30, 2004, respectively.
- (4) The information presented in each of these items is a current estimate of the characterization of a portion of the total dividends paid to preferred stockholders and common stockholders for the three months ended February 28, 2007 as either a dividend (ordinary income) or a distribution (return of capital). This estimate is based on the Company's operating results during the period.
- (5) The information presented in each of these items is a characterization of a portion of the total dividends paid to preferred stockholders and common stockholders for the fiscal years ended November 30, 2006 and November 30, 2005 as either a dividend (ordinary income) or a distribution (return of capital). This characterization is based on the Company's earnings and profits.
- (6) Not annualized for the three months ended February 28, 2007 and the period September 28, 2004 through November 30, 2004. Total investment return is calculated assuming a purchase of common stock at the market price on the first day and a sale at the current market price on the last day of the period reported. The calculation also assumes reinvestment of dividends, if any, at actual prices pursuant to the Company's dividend reinvestment plan.
- (7) Unless otherwise noted, ratios are annualized for periods of less than one full year.
- (8) For the three months ended February 28, 2007, the Company's deferred tax benefit was \$3,862 and deferred tax expense was \$47,475. For the fiscal year ended November 30, 2006, the Company's current tax benefit was \$65 and deferred tax expense was \$135,738. For the fiscal year ended November 30, 2005, its current tax expense was \$3,669 and deferred tax expense was \$52,179. For the period September 28, 2004 through November 30, 2004, its current income tax expense was \$763 and deferred tax expense was \$3,755.
- (9) Amount not annualized for the three months ended February 28, 2007 and the period September 28, 2004 through November 30, 2004. For the three months ended February 28, 2007, and fiscal years ended November 30, 2006 and November 30, 2005, and the period September 28, 2004 through November 30, 2004, calculated based on the sales of \$21,649; \$144,884; \$263,296 and \$16,880, respectively of long-term investments dividend by the average long-term investment balance of \$1,817,282; \$1,456,695; \$1,029,035 and \$143,328, respectively.

See accompanying notes to financial statements.



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**KAYNE ANDERSON MLP INVESTMENT COMPANY**

**NOTES TO FINANCIAL STATEMENTS**

**FEBRUARY 28, 2007**

**(amounts in 000 s, except share and per share amounts)  
(UNAUDITED)**

**1. Organization**

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

**2. Significant Accounting Policies**

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

*B. Calculation of Net Asset Value* The Fund determines its net asset value as of the close of regular session trading on the NYSE (normally 4:00 p.m. Eastern time) no less frequently than the last business day of each month, and makes its net asset value available for publication monthly. Net asset value is computed by dividing the value of the Company's assets (including accrued interest and dividends), less all of its liabilities (including accrued expenses, dividends payable, current and deferred and other accrued income taxes, and any borrowings) and the liquidation value of any outstanding preferred stock, by the total number of common shares outstanding.

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

Equity securities traded in the over-the-counter market, but excluding securities admitted to trading on the NASDAQ, are valued at the closing bid prices. Fixed income securities with a remaining maturity of 60 days or more are valued by the Company using a pricing service. Fixed income securities maturing within 60 days will be valued on an amortized cost basis.

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

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**KAYNE ANDERSON MLP INVESTMENT COMPANY**

**NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**

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

***Investment Team Valuation.*** The applicable investments are initially valued by KA Fund Advisors, LLC ( Kayne Anderson or the Adviser ) investment professionals responsible for the portfolio investments;

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

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

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

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

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

At February 28, 2007, the Company held 15.0% of its net assets applicable to common stockholders (9.1% of total assets) in securities valued at fair value as determined pursuant to procedures adopted by the Board of Directors, with an aggregate cost of \$177,784 and fair value of \$177,255. Although these securities may be resold in privately negotiated transactions (subject to certain lock-up restrictions), these values may differ from the values that would have been used had a ready market for these securities existed, and the differences could be material.

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



In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. SFAS No. 157 applies to fair value measurements already required

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**KAYNE ANDERSON MLP INVESTMENT COMPANY**

**NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**

or permitted by existing standards. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The changes to current generally accepted accounting principles from the application of this Statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. As of February 28, 2007, the Company does not believe the adoption of SFAS No. 157 will impact the financial statement amounts, however, additional disclosures may be required about the inputs used to develop the measurements and the effect of certain of the measurements on changes in net assets for the period.

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

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

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

The Company may also sell short against the box (*i.e.*, the Company enters into a short sale as described above while holding an offsetting long position in the security which it sold short). If the Company enters into a short sale against the box, the Company segregates an equivalent amount of securities owned as collateral while the short sale is outstanding. At February 28, 2007, the Company had no open short sales.

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

G. *Security Transactions and Investment Income* Security transactions are accounted for on the date the securities are purchased or sold (trade date). Realized gains and losses are reported on an identified cost basis. Dividend and distribution income is recorded on the ex-dividend date. Distributions received from

**Table of Contents****KAYNE ANDERSON MLP INVESTMENT COMPANY****NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**

the Company's investments in MLPs generally are comprised of income and return of capital. For the three months ended February 28, 2007, the Company estimated that 90% of the MLP distributions received would be treated as a return of capital. The Company recorded as return of capital the amount of \$20,839 of dividends and distributions received from MLPs. The return of capital of \$20,839, resulted in an equivalent reduction in the cost basis of the associated MLP investments. Net Realized Gains and Net Change in Unrealized Gains in the accompanying Statement of Operations were increased by \$809 and \$20,030, respectively, attributable to the recording of such dividends and distributions as reductions in the cost basis of investments. The Company records investment income and return of capital based on estimates made at the time such distributions are received. Such estimates are based on historical information available from each MLP and other industry sources. These estimates may subsequently be revised based on information received from MLPs after their tax reporting periods are concluded. Interest income is recognized on the accrual basis, including amortization of premiums and accretion of discounts.

H. *Dividends and Distributions to Stockholders* Dividends to common stockholders are recorded on the ex-dividend date. The character of dividends made during the year may differ from their ultimate characterization for federal income tax purposes. Distributions to stockholders of the Company's Auction Rate Preferred Stock, Series D are accrued on a daily basis and are determined as described in Note 11 Preferred Stock. The Company's dividends will be comprised of return of capital and ordinary income, which is based on the earnings and profits of the Company. The Company is unable to make final determinations as to the character of the dividend until after the end of the calendar year. The Company informed its common stockholders in January 2007 of the character of dividends paid during fiscal year 2006. Prospectively, the Company will inform its common stockholders of the character of dividends during that fiscal year in January following such fiscal year.

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

J. *Federal and State Income Taxation* The Company, as a corporation, is obligated to pay federal and state income tax on its taxable income. The Company invests its assets primarily in MLPs, which generally are treated as partnerships for federal income tax purposes. As a limited partner in the MLPs, the Company includes its allocable share of the MLP's taxable income in computing its own taxable income. Deferred income taxes reflect (i) taxes on unrealized gains/(losses), which are attributable to the temporary difference between fair market value and book basis and (ii) the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. To the extent the Company has a net deferred tax asset, a valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred income tax asset will not be realized. Future realization of deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character in either the carryback or carryforward period under the tax law.

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

In June 2006, the Financial Accounting Standards Board ( FASB) issued FASB Interpretation 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes. This standard defines the threshold for recognizing the benefits of tax-return positions in the financial statements as more-likely-than-not to be sustained by the taxing authority and requires measurement of a tax position meeting the more-likely-than-not criterion, based

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**KAYNE ANDERSON MLP INVESTMENT COMPANY**

**NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**

on the largest benefit that is more than 50 percent likely to be realized. FIN 48 is effective as of the beginning of the first fiscal year beginning after December 15, 2006. At adoption, companies must adjust their financial statements to reflect only those tax positions that are more-likely-than-not to be sustained as of the adoption date. As of February 28, 2007, the company has not evaluated the impact that will result from adopting FIN 48.

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

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

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

**3. Concentration of Risk**

The Company's investment objective is to seek a high level of total return with an emphasis on current income paid to its stockholders. Under normal circumstances, the Company intends to invest at least 85% of its total assets in securities of MLPs and other Midstream Energy Companies, and to invest at least 80% of its total assets in MLPs, which are subject to certain risks, such as supply and demand risk, depletion and exploration risk, commodity pricing risk, acquisition risk, and the risk associated with the hazards inherent in midstream energy industry activities. A substantial portion of the cash flow received by the Company is derived from investment in equity securities of MLPs. The amount of cash that an MLP has available for distributions and the tax character of such distributions are dependent upon the amount of cash generated by the MLP's operations. The Company may invest up to 15% of its total assets in any single issuer and a decline in value of the securities of such an issuer could significantly impact the net asset value of the Company. The Company may invest up to 20% of its total assets in debt securities, which may include below investment grade securities. The Company may, for defensive purposes, temporarily invest all or a significant portion of its assets in investment grade securities, short-term debt securities and cash or cash equivalents. To the extent the Company uses this strategy, it may not achieve its investment objectives.



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**KAYNE ANDERSON MLP INVESTMENT COMPANY**

**NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**

**4. Agreements and Affiliations**

*A. Investment Management Agreement* The Company has entered into an investment management agreement with Kayne Anderson under which the Adviser, subject to the overall supervision of the Company's Board of Directors, manages the day-to-day operations of, and provides investment advisory services to, the Company. For providing these services, the Adviser receives a management fee from the Company.

On December 12, 2006, the Company held a special meeting of stockholders at which stockholders approved a new investment management agreement. As a result of the vote on this matter, the new investment management agreement replaced the previous performance-based fee structure with a fixed investment management fee at an annual rate of 1.375% of average total assets.

Pursuant to the previous investment management agreement, which was in effect through December 11, 2006, the Company agreed to pay Kayne Anderson Capital Advisors, L.P., the Adviser's parent company and the Company's former adviser, a basic management fee at an annual rate of 1.75% of the Company's average total assets, adjusting 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 exceeded or trailed the Company's Benchmark over the same period. The Company's Benchmark was the total return (capital appreciation and reinvested dividends) of the Standard & Poor's 400 Utilities Index plus 600 basis points (6.00%). The basic management fee and the performance fee adjustment were calculated and paid quarterly, using a rolling 12-month performance period.

During the period December 1, 2006 through December 11, 2006, the Company paid and accrued management fees at an annual rate of 2.75% of average total assets based on the Company's investment performance. During the remainder of the three months ended February 28, 2007, the Company paid and accrued management fees at an annual rate of 1.375% of average total assets.

For purposes of calculating the management fee, the Company's total assets are equal to the Company's 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.

*B. Portfolio Companies* From time to time, the Company may control or may be an affiliate of one or more portfolio companies, each as defined in the 1940 Act. In general, under the 1940 Act, the Company would control a portfolio company if the Company owned 25% or more of its outstanding voting securities and would be an affiliate of a portfolio company if the Company owned 5% or more of its outstanding voting securities. The 1940 Act contains prohibitions and restrictions relating to transactions between investment companies and their affiliates (including the Company's investment adviser), principal underwriters and affiliates of those affiliates or underwriters.



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

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**Table of Contents****KAYNE ANDERSON MLP INVESTMENT COMPANY****NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**

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

At February 28, 2007, the Company held approximately 42.5% of the partnership interests of Clearwater Natural Resources, LP ( Clearwater ). The Company's Chief Executive Officer serves as a director on the board of the general partner of Clearwater. The Company may be deemed to control and be an affiliate of Clearwater, each as defined in the Investment Company Act of 1940 (the 1940 Act ), because the Company has an economic interest in Clearwater of size that may give it the power to exercise a controlling influence over Clearwater, notwithstanding the limited scope and character of the rights of such securities that the Company holds, which power effectively makes such securities the equivalent of voting securities. Based on the totality of the facts and circumstances as they exist as of February 28, 2007, the Company believes that it controls and is an affiliate of Clearwater. During the period there were no purchases or sales of this security.

*C. Other Affiliations* For the three months ended February 28, 2007, KA Associates, Inc., an affiliate of Kayne Anderson, earned approximately \$1 in brokerage commissions from portfolio transactions executed on behalf of the Company.

**5. Income Taxes**

Deferred income taxes reflect (i) taxes on unrealized gains/(losses), which are attributable to the difference between fair market value and book basis and (ii) the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Components of the Company's deferred tax assets and liabilities as of February 28, 2007 are as follows:

|   |            |
|---|------------|
| Deferred tax assets:                      |            |
| Organizational costs                      | \$ (30)    |
| Net operating loss carryforwards          | (20,209)   |
| Deferred tax liabilities:                 |            |
| Unrealized gains on investment securities | 257,766    |
| Other                                     | 986        |
| Total net deferred tax liability          | \$ 238,513 |

At February 28, 2007, the Company did not record a valuation allowance against its deferred tax assets.



**Table of Contents****KAYNE ANDERSON MLP INVESTMENT COMPANY****NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**

At February 28, 2007, the cost basis of investments for Federal income tax purposes was \$1,236,124 and the cash received on option contracts written was \$115. The cost basis of investments includes a \$48,468 reduction in basis attributable to the Company's portion of the allocated losses from its MLP investments. At February 28, 2007, gross unrealized appreciation and depreciation of investments for Federal income tax purposes were as follows:

|   |            |
|---|------------|
| Gross unrealized appreciation of investments (including options)        | \$ 708,637 |
| Gross unrealized depreciation of investments (including options)        | (11,984)   |
| Net unrealized appreciation before tax and interest rate swap contracts | 696,653    |
| Unrealized appreciation on interest rate swap contracts                 | 2,676      |
| Net unrealized appreciation before tax                                  | \$ 699,329 |
| Net unrealized appreciation after tax                                   | \$ 440,577 |

For the three months ended February 28, 2007, the components of income tax expense include \$48,438 and \$2,768 for deferred federal income taxes and state income taxes (net of the federal tax benefit), respectively. Income tax expense also includes a \$7,593 benefit related to certain state tax changes which impacted the Company's deferred tax liabilities on its net unrealized gains. Total income taxes have been computed by applying the Federal statutory income tax rate plus a blended state income tax rate totaling 37.0% to net investment income and realized and unrealized gains on investments before taxes.

**6. Restricted Securities**

From time to time certain of the Company's investments are restricted as to resale. Such restricted investments are valued in accordance with procedures established by the board of directors and more fully described in Note 2 Significant Accounting Policies. The table below shows the number of shares/units held, the acquisition date, purchase price, aggregate cost, and fair value as of February 28, 2007, value per share/unit of such security, percent of net assets applicable to common stockholders and percent of total assets which the security comprises:

| Investment                               | Security                    | Number<br>of<br>Units | Acquisition<br>Date | Purchase<br>Price | Cost      | Fair<br>Value | Value<br>Per<br>Unit | Percent<br>of<br>Net<br>Assets <sup>(1)</sup> | Percent<br>of<br>Total<br>Assets |
|--|-----------------------------|-----------------------|---------------------|-------------------|-----------|---------------|----------------------|---|----------------------------------|
| Clearwater<br>Natural<br>Resources, L.P. | Common Units <sup>(2)</sup> | 3,889                 | (3)                 | \$ 77,855         | \$ 72,978 | \$ 58,334     | \$ 15.00             | 4.9%  |                                  |