

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

Form N-30B-2

April 27, 2012

Table of Contents

Midstream/Energy Fund

KMF Quarterly Report

February 29, 2012

Table of Contents**CONTENTS**

	Page
<u>Management Discussion</u>	1
<u>Schedule of Investments</u>	5
<u>Statement of Assets and Liabilities</u>	9
<u>Statement of Operations</u>	10
<u>Statement of Changes in Net Assets Applicable to Common Stockholders</u>	11
<u>Statement of Cash Flows</u>	12
<u>Financial Highlights</u>	13
<u>Notes to Financial Statements</u>	15
<u>Glossary</u>	29
<u>Information Regarding Changes to Investment Policy</u>	30
<u>Repurchase Disclosure</u>	30

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

Table of Contents**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****MANAGEMENT DISCUSSION****(UNAUDITED)****Fund Overview**

Kayne Anderson Midstream/Energy Fund, Inc. is a non-diversified, closed-end fund. We commenced operations on November 24, 2010. Our shares of common stock are listed on the New York Stock Exchange under the symbol KMF.

Our investment objective is to provide a high level of total return with an emphasis on making quarterly cash distributions to our stockholders. We seek to achieve that investment objective by investing at least 80% of our total assets in the securities of companies in the Midstream/Energy Sector, consisting of (a) Midstream MLPs, (b) Midstream Companies, (c) Other MLPs and (d) Other Energy Companies. We anticipate that the majority of our investments will consist of investments in Midstream MLPs and Midstream Companies. Please see the Glossary on page 29 for description of these investment categories.

As of February 29, 2012, we had total assets of \$873.1 million, net assets applicable to our common stock of \$634.9 million (net assets per share of \$29.18), and 21.8 million shares of common stock outstanding. As of February 29, 2012, we held \$722.1 million in equity investments and \$134.0 million in debt investments.

Recent Events

On March 22, 2012, we completed a private placement with institutional investors of \$50.0 million of senior unsecured notes and \$30.0 million of mandatory redeemable preferred stock. The net proceeds from the offerings were used to repay borrowings under our senior unsecured revolving credit facility (the Credit Facility). Remaining proceeds were used to make new portfolio investments and for general corporate purposes.

Our Top Ten Portfolio Investments as of February 29, 2012

Listed below are our top ten portfolio investments by issuer as of February 29, 2012.

Rank	Holding	Sector	Amount (\$ millions)	Percent of Long-Term Investments
1.	The Williams Companies, Inc.	Midstream Company	\$ 78.8	9.2%
2.	Kinder Morgan Management, LLC	MLP Affiliate	66.0	7.7
3.	Kinder Morgan, Inc.	Midstream Company	50.2	5.9
4.	El Paso Corporation	Midstream Company	43.8	5.1
5.	Enbridge Energy Management, L.L.C.	MLP Affiliate	33.7	3.9
6.	Buckeye Partners, L.P.	Midstream MLP	30.5	3.6
7.	Targa Resources Corp.	Midstream Company	25.7	3.0
8.	Spectra Energy Corp.	Midstream Company	25.7	3.0
9.	Golar LNG Partners LP	Midstream Company	23.9	2.8
10.	ONEOK, Inc.	Midstream Company	22.6	2.6
			\$ 400.9	46.8%

Results of Operations For the Three Months Ended February 29, 2012

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Investment Income. Investment income totaled \$6.0 million and consisted primarily of net dividends and distributions and interest income on our investments. Interest income was \$2.7 million, and we received \$7.1 million of cash dividends and distributions, of which \$3.8 million was treated as return of capital during the quarter. During the quarter, we received \$1.9 million of paid-in-kind dividends, which are not included in investment income, but are reflected as an unrealized gain.

Table of Contents

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

MANAGEMENT DISCUSSION

(UNAUDITED)

Operating Expenses. Operating expenses totaled \$5.1 million, including \$2.5 million of investment management fees, \$1.7 million of interest expense (including non-cash amortization of debt issuance costs of \$0.1 million), and \$0.4 million of other operating expenses. Management fees are calculated based on the average total assets under management. Preferred stock distributions for the quarter were \$0.5 million.

Net Investment Income. Our net investment income totaled \$0.9 million.

Net Realized Losses. We had net realized losses of \$4.4 million, which includes \$0.8 million of net realized gains from option activity.

Net Change in Unrealized Gains. We had a net change in unrealized gains of \$83.2 million. The net change consisted of \$83.1 million of unrealized gains from investments and \$0.1 million of net unrealized gains from option activity.

Net Increase in Net Assets Resulting from Operations. We had an increase in net assets resulting from operations of \$79.7 million. This increase was composed of net investment income of \$0.9 million; net realized losses of \$4.4 million; and net change in unrealized gains of \$83.2 million, as noted above.

Distribution to Common Stockholders

We pay quarterly distributions to our common stockholders, funded in part by net distributable income (NDI) generated from our portfolio investments. NDI is the amount of income received by us from our portfolio investments less operating expenses, subject to certain adjustments as described below. NDI is not a financial measure under the accounting principles generally accepted in the United States of America (GAAP). Refer to the Reconciliation of NDI to GAAP section below for a reconciliation of this measure to our results reported under GAAP.

Income from portfolio investments includes (a) cash dividends and distributions, (b) paid-in-kind dividends received (i.e., stock dividends), (c) interest income from debt securities and commitment fees from private investments in public equity (PIPE investments) and (d) net premiums received from the sale of covered calls.

Operating expenses include (a) investment management fees paid to our investment adviser, (b) other expenses (mostly attributable to fees paid to other service providers) and (c) interest expense and preferred stock distributions.

Table of Contents**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****MANAGEMENT DISCUSSION****(UNAUDITED)****Net Distributable Income (NDI)**

(amounts in millions, except for per share amounts)

	Three Months Ended February 29, 2012
Distributions and Other Income from Investments	
Dividends and Distributions	\$ 7.1
Paid-In-Kind Dividends and Distributions	1.9
Interest and Other Income	2.7
Net Premiums Received from Call Options Written	2.4
 Total Distributions and Other Income from Investments	 14.1
Expenses	
Investment Management Fee, net of Fee Waiver	(2.5)
Other Expenses	(0.4)
 Total Management Fee and Other Expenses	 (2.9)
Interest Expense	(1.6)
Preferred Stock Distributions	(0.5)
 Net Distributable Income (NDI)	 \$ 9.1
 Weighted Shares Outstanding	 21.7
NDI per Weighted Share Outstanding	\$ 0.42
 Distributions paid per Common Share⁽¹⁾	 \$ 0.425

(1) The distribution of \$0.425 per share for the first quarter of fiscal 2012 was paid to common stockholders on April 26, 2012. Payment of future distributions is subject to Board of Directors approval, as well as meeting the covenants of our debt agreements and terms of our preferred stock. In determining our quarterly distribution to common stockholders, our Board of Directors considers a number of factors that include, but are not limited to:

NDI generated in the current quarter;

Expected NDI over the next twelve months, and

Realized and unrealized gains generated by the portfolio.

On March 28, 2012, we declared our quarterly distribution of \$0.425 per common share for the fiscal first quarter for a total of \$9.2 million. The distribution was paid on April 26, 2012 to common stockholders of record on April 20, 2012.

Reconciliation of NDI to GAAP

The difference between distributions and other income from investments in the NDI calculation and total investment income as reported in our Statement of Operations is reconciled as follows:

GAAP recognizes that a significant portion of the cash distributions received from MLPs is characterized as a return of capital and therefore excluded from investment income, whereas the NDI calculation includes the return of capital portion of such distributions.

NDI includes the value of dividends paid-in-kind, whereas such amounts are not included as investment income for GAAP purposes, but rather are recorded as unrealized gains upon receipt.

NDI includes commitment fees from PIPE investments, whereas such amounts are generally not included in investment income for GAAP purposes, but rather are recorded as a reduction to the cost of the investment.

Table of Contents

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

MANAGEMENT DISCUSSION

(UNAUDITED)

Many of our investments in debt securities were purchased at a discount or premium to the par value of such security. When making such investments, we consider the security's yield to maturity, which factors in the impact of such discount (or premium). Interest income reported under GAAP includes the non-cash accretion of the discount (or amortization of the premium) based on the effective interest method. When we calculate interest income for purposes of determining NDI, in order to better reflect the yield to maturity, the accretion of the discount (or amortization of the premium) is calculated on a straight-line basis to the earlier of the expected call date or the maturity date of the debt security.

We may sell covered call option contracts to generate income or to reduce our ownership of certain securities that we hold. In some cases, we are able to repurchase these call option contracts at a price less than the fee that we received, thereby generating a profit. The amount we received from selling call options, less the amount that we pay to repurchase such call option contracts, is included in NDI. For GAAP purposes, premiums received from call option contracts sold is not included in investment income. See Note 2 – Significant Accounting Policies for a full discussion of the GAAP treatment of option contracts.

The treatment of expenses included in NDI also differs from what is reported in the Statement of Operations as follows:

The non-cash amortization or write-offs of capitalized debt issuance costs and preferred stock offering costs related to our financings is included in interest expense and distributions on mandatory redeemable preferred stock for GAAP purposes, but is excluded from our calculation of NDI.

Liquidity and Capital Resources

Total leverage outstanding at February 29, 2012 of \$223.0 million was comprised of \$115.0 million of senior unsecured notes (the Senior Notes), \$35.0 million of mandatory redeemable preferred stock and \$73.0 million outstanding under our Credit Facility. Total leverage represented 26% of total assets at February 29, 2012. As of April, 25, 2012, we had \$42.0 million borrowed under our Credit Facility, and we had \$9.5 million of cash.

The Credit Facility has a \$100.0 million commitment maturing on January 20, 2014. The interest rate may vary between LIBOR plus 1.75% to LIBOR plus 2.25%, depending on our asset coverage ratios. Outstanding loan balances will accrue interest daily at a rate equal to one-month LIBOR plus 1.75%, based on current asset coverage ratios. We will pay a commitment fee of 0.35% per annum on any unused amounts of the Credit Facility. A full copy of the Credit Facility is available on our website www.kaynefunds.com.

At February 29, 2012, our asset coverage ratios under the Investment Company Act of 1940, as amended (the 1940 Act), were 456% and 385% for debt and total leverage (debt plus preferred stock), respectively. We currently target an asset coverage ratio with respect to our debt of 400%, but at times may be above or below our target depending on market conditions.

At February 29, 2012, we had \$115.0 million of Senior Notes outstanding, which mature in 2016 and 2018. As of the same date, we had \$35.0 million of mandatory redeemable preferred stock, which is subject to mandatory redemption in 2018. See Recent Events for an update on our leverage.

Our leverage, at February 29, 2012, consisted of both fixed rate (67%) and floating rate (33%) obligations. At such date, the weighted average interest rate on our leverage was 3.88%.

Table of Contents**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****SCHEDULE OF INVESTMENTS****FEBRUARY 29, 2012****(amounts in 000 s, except number of option contracts)****(UNAUDITED)**

Description	No. of Shares/Units	Value
Long-Term Investments 134.8%		
Equity Investments⁽¹⁾ 113.7%		
United States 111.2%		
Midstream Company⁽²⁾ 53.4%		
Capital Product Partners L.P. ⁽³⁾	1,354	\$ 10,115
CenterPoint Energy, Inc.	637	12,419
El Paso Corporation	1,576	43,829
Golar LNG Partners LP ⁽³⁾	641	23,860
Kinder Morgan, Inc.	1,425	50,213
Kirby Corporation	71	4,899
NiSource Inc.	125	3,000
ONEOK, Inc. ⁽⁴⁾	273	22,581
Spectra Energy Corp.	819	25,694
Sunoco, Inc. ⁽⁴⁾	414	16,000
Targa Resources Corp. ⁽⁴⁾	578	25,702
Teekay Offshore Partners L.P. ⁽³⁾	734	21,563
The Williams Companies, Inc. ⁽⁴⁾	2,639	78,846
		338,721
Midstream MLP⁽²⁾⁽⁵⁾⁽⁶⁾ 48.2%		
Buckeye Partners, L.P.	248	14,851
Buckeye Partners, L.P. Class B Units ⁽⁷⁾⁽⁸⁾	288	15,694
Chesapeake Midstream Partners, L.P.	222	6,326
Crestwood Midstream Partners LP	182	5,243
Crestwood Midstream Partners LP Class C Units ⁽⁷⁾⁽⁸⁾	175	4,614
DCP Midstream Partners, LP ⁽⁴⁾	165	8,030
Enbridge Energy Management, L.L.C. ⁽⁸⁾⁽⁹⁾	997	33,671
Energy Transfer Equity, L.P.	287	12,461
Energy Transfer Partners, L.P. ⁽⁴⁾	384	18,179
Enterprise Products Partners L.P. ⁽⁴⁾	61	3,186
Exterran Partners, L.P.	387	9,141
Global Partners LP	351	7,717
Inergy Midstream, L.P.	211	4,471
Kinder Morgan Management, LLC ⁽⁴⁾⁽⁸⁾⁽⁹⁾	823	66,018
MarkWest Energy Partners, L.P. ⁽⁴⁾	96	5,724
Niska Gas Storage Partners LLC	28	261
NuStar Energy L.P.	24	1,447
PAA Natural Gas Storage, L.P.	703	13,491
Penn Virginia Resource Partners, L.P.	387	9,663
Plains All American GP LLC Unregistered ⁽⁴⁾⁽⁹⁾⁽¹⁰⁾	7	13,635
Plains All American Pipeline, L.P. ⁽¹⁰⁾	198	16,371

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Regency Energy Partners L.P.	740	19,597
Targa Resources Partners L.P. ⁽⁴⁾	126	5,373
TC PipeLines, LP	77	3,582
Teekay LNG Partners L.P.	71	2,775
Tesoro Logistics LP	128	4,661

306,182

See accompanying notes to financial statements.

Table of Contents**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****SCHEDULE OF INVESTMENTS****FEBRUARY 29, 2012****(amounts in 000 s, except number of option contracts)****(UNAUDITED)**

Description	No. of Shares/Units	Value
Other Energy 6.0%		
Chesapeake Granite Wash Trust ⁽¹¹⁾	9	\$ 247
Enduro Royalty Trust	2	50
OGE Energy Corp.	388	20,352
PPL Corporation 9.50% Preferred Shares ⁽²⁾	155	8,519
SandRidge Permian Trust ⁽¹¹⁾	278	6,736
SunCoke Energy, Inc. ⁽¹³⁾	63	905
The Southern Company	32	1,419
		38,228
Other 1.9%		
Navios Maritime Partners L.P. ⁽³⁾	538	8,616
Seaspan Corporation 9.50% Preferred Shares	134	3,646
		12,262
Other MLP⁽⁶⁾ 1.7%		
Alliance Holdings GP, L.P.	13	669
BreitBurn Energy Partners L.P.	197	3,719
Inergy, L.P.	362	6,324
		10,712
Total United States (Cost \$587,221)		706,105
Canada 2.5%		
Midstream Company⁽²⁾ 2.5%		
Keyera Corp.	59	2,508
Pembina Pipeline Corporation	223	6,312
Provident Energy Ltd.	253	7,180
Total Canada (Cost \$13,857)		16,000
Total Equity Investments (Cost \$601,078)		722,105
	Interest Rate	Maturity Date
Debt Instruments 21.1%		Principal Amount
United States 17.9%		
Upstream 7.8%		

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Antero Resources LLC	9.375%	12/1/17	\$ 250	276
Carrizo Oil & Gas, Inc.	8.625	10/15/18	14,835	15,503
Chaparral Energy, Inc.	9.875	10/1/20	5,500	6,215
Chaparral Energy, Inc.	8.250	9/1/21	500	558
Clayton Williams Energy Inc.	7.750	4/1/19	10,496	10,549
Comstock Resources, Inc.	7.750	4/1/19	5,000	4,650
Kodiak Oil & Gas Corp.	8.125	12/1/19	750	803
Laredo Petroleum, Inc.	9.500	2/15/19	1,500	1,661
Petroleum Development Corporation	12.000	2/15/18	8,750	9,581
				49,796

See accompanying notes to financial statements.

Table of Contents**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****SCHEDULE OF INVESTMENTS****FEBRUARY 29, 2012****(amounts in 000 s, except number of option contracts)****(UNAUDITED)**

Description	Interest Rate	Maturity Date	Principal Amount	Value
Other 4.0%				
Navios Maritime Holdings Inc.	8.125%	2/15/19	\$ 10,000	\$ 8,100
PBF Holding Company LLC	8.250	2/15/20	17,250	17,336
				25,436
Midstream⁽²⁾ 3.5%				
Crestwood Holdings Partners, LLC	(14)	10/1/16	5,951	6,070
Navios Maritime Acquisition Corporation	8.625	11/1/17	7,945	6,654
Teekay Corporation	8.500	1/15/20	9,325	9,581
				22,305
Coal 2.6%				
Foresight Energy LLC	9.625	8/15/17	15,233	16,299
Total United States (Cost \$115,446)				113,836
Canada 3.2%				
Upstream 3.2%				
Lone Pine Resources Inc.	10.375	2/15/17	750	788
Paramount Resources Ltd.	8.250	12/13/17	(15) ¹	7,620
Southern Pacific Resource Corp.	(16)	1/15/16	11,489	11,719
Total Canada (Cost \$19,293)				20,127
Total Debt Investments (Cost \$134,739)				133,963
Total Long-Term Investments (Cost \$735,817)				856,068
			No. of Contracts	
Liabilities				
Call Option Contracts Written⁽¹³⁾				
Midstream Company				
ONEOK, Inc., call options expiring 4/20/12 @ \$82.50			(1,000)	(222)
ONEOK, Inc., call options expiring 4/20/12 @ \$85.00			(450)	(47)
Sunoco, Inc., call options expiring 3/16/12 @ \$40.00			(650)	(18)
Targa Resources Corp., call options expiring 3/16/12 @ \$43.00			(400)	(74)
Targa Resources Corp., call options expiring 3/16/12 @ \$48.00			(50)	(3)
The Williams Companies, Inc., call options expiring 4/20/12 @ \$29.00			(2,800)	(370)

(734)

Midstream MLP

DCP Midstream Partners, LP, call options expiring 3/16/12 @ \$50.00	(200)	(4)
Energy Transfer Partners, L.P., call options expiring 3/16/12 @ \$47.50	(1,000)	(51)
Enterprise Products Partners L.P., call options expiring 3/16/12 @ \$50.00	(550)	(115)
Kinder Morgan Management, LLC, call options expiring 3/16/12 @ \$80.00	(520)	(29)
MarkWest Energy Partners, L.P., call options expiring 3/16/12 @ \$57.50	(250)	(68)
MarkWest Energy Partners, L.P., call options expiring 3/16/12 @ \$60.00	(250)	(16)
Targa Resources Partners L.P., call options expiring 3/16/12 @ \$41.00	(600)	(102)

(385)

Total Call Option Contracts Written (Premiums Received \$937)

(1,119)

See accompanying notes to financial statements.

Table of Contents**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****SCHEDULE OF INVESTMENTS****FEBRUARY 29, 2012****(amounts in 000 s, except number of option contracts)****(UNAUDITED)**

Description	Value
Revolving Credit Facility	\$ (73,000)
Senior Unsecured Notes	(115,000)
Mandatory Redeemable Preferred Stock at Liquidation Value	(35,000)
Other Liabilities	(14,078)
Total Liabilities	(238,197)
Other Assets	17,036
Total Liabilities in Excess of Other Assets	(221,161)
Net Assets Applicable to Common Stockholders	\$ 634,907

- (1) Unless otherwise noted, equity investments are common units/common shares.
- (2) Securities are categorized as Midstream if they are Midstream Companies or Midstream MLPs as defined in the Glossary.
- (3) This company is structured like an MLP but is not treated as a publicly-traded partnership for RIC qualification purposes.
- (4) Security or a portion thereof is segregated as collateral on option contracts written.
- (5) Includes limited liability companies.
- (6) Unless otherwise noted, securities are treated as a publicly-traded partnership for regulated investment company (RIC) qualification purposes. To qualify as a RIC for tax purposes, the Fund may directly invest up to 25% of its total assets in equity and debt securities of entities treated as publicly traded partnerships. The Fund had less than 25% of its total assets invested in publicly traded partnerships at February 29, 2012. It is the Fund's intention to be treated as a RIC for tax purposes.
- (7) Fair valued securities, restricted from public sale. See Notes 2, 3 and 7 in Notes to Financial Statements.
- (8) Distributions are paid-in-kind.

- (9) Security is not treated as a publicly-traded partnership for RIC qualification purposes.
- (10) The Fund believes that it is an affiliate of Plains All American GP LLC and Plains All American Pipeline, L.P. See Note 6 Agreements and Affiliations.
- (11) Security is treated as a publicly-traded partnership for RIC qualification purposes.
- (12) Security is mandatorily convertible to common shares of PPL Corporation and consists of a purchase contract for a beneficial ownership interest in PPL Capital Funding, Inc. s 4.625% junior subordinated notes and a quarterly payment of 4.875% per annum of the \$50 per share stated amount of the security.
- (13) Security is non-income producing.
- (14) Floating rate first lien senior secured term loan. Security pays interest at a rate of LIBOR + 850 basis points with a 2% LIBOR floor (10.50% as of February 29, 2012).
- (15) Principal amount is 7,250 Canadian dollars.
- (16) Floating rate second lien senior secured term loan. Security pays interest at base rate + 750 basis points (10.75% as of February 29, 2012).

See accompanying notes to financial statements.

Table of Contents**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****STATEMENT OF ASSETS AND LIABILITIES****FEBRUARY 29, 2012****(amounts in 000 s, except share and per share amounts)****(UNAUDITED)****ASSETS**

Investments, at fair value:	
Non-affiliated (Cost \$714,166)	\$ 826,062
Affiliated (Cost \$21,651)	30,006
Total investments (Cost \$735,817)	856,068
Cash	11,151
Deposits with brokers	314
Receivable for securities sold	650
Interest, dividends and distributions receivable (Cost \$2,917)	2,920
Deferred debt issuance and preferred stock offering costs and other assets	2,001
Total Assets	873,104

LIABILITIES

Revolving credit facility	73,000
Payable for securities purchased	9,783
Investment management fee payable	829
Call option contracts written (Premiums received \$937)	1,119
Accrued directors' fees and expenses	48
Accrued expenses and other liabilities	3,418
Senior unsecured notes	115,000
Mandatory redeemable preferred stock, \$25.00 liquidation value per share (1,400,000 shares issued and outstanding)	35,000
Total Liabilities	238,197

NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS \$ 634,907**NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS CONSIST OF**

Common stock, \$0.001 par value (21,755,773 shares issued and outstanding and 198,600,000 shares authorized)	\$ 22
Paid-in capital	508,800
Accumulated net investment income less distributions not treated as tax return of capital	4,163
Accumulated net realized gains	1,874
Net unrealized gains	120,048

NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS \$ 634,907**NET ASSET VALUE PER COMMON SHARE** \$ 29.18

See accompanying notes to financial statements.

Table of Contents**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****STATEMENT OF OPERATIONS****FOR THE THREE MONTHS ENDED FEBRUARY 29, 2012****(amounts in 000 s)****(UNAUDITED)****INVESTMENT INCOME****Income**

Dividends and distributions:

Non-affiliated investments \$ 6,735

Affiliated investments 390

Total dividends and distributions (after foreign taxes withheld of \$13) 7,125

Return of capital (3,862)

Net dividends and distributions 3,263

Interest and other income 2,725

Total investment income 5,988

Expenses

Investment management fees 2,493

Professional fees 120

Administration fees 62

Directors' fees and expenses 51

Reports to stockholders 37

Custodian fees 27

Insurance 22

Other expenses 106

Total expenses before interest expense and preferred distributions 2,918

Interest expense and amortization of debt issuance costs 1,742

Distributions on mandatory redeemable preferred stock and amortization of offering costs 484

Total expenses 5,144

Net Investment Income 844**REALIZED AND UNREALIZED GAINS (LOSSES)****Net Realized Gains (Losses)**

Investments non-affiliated (5,127)

Foreign currency transactions (5)

Options 764

Net Realized Loss (4,368)

Net Change in Unrealized Gains (Losses)

Investments non-affiliated 77,482

Investments affiliated 5,677

Foreign currency translations	(24)
Options	100
Net Change in Unrealized Gains	83,235
Net Realized and Unrealized Gains	78,867
NET INCREASE IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM OPERATIONS	\$ 79,711

See accompanying notes to financial statements.

Table of Contents**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****STATEMENT OF CHANGES IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS**

(amounts in 000 s, except share amounts)

	For the Three Months Ended February 29, 2012 (Unaudited)	For the Fiscal Year Ended November 30, 2011
OPERATIONS		
Net investment income	\$ 844	\$ 6,076
Net realized gains (losses)	(4,368)	29,038
Net change in unrealized gains	83,235	37,032
Net Increase in Net Assets Resulting from Operations	79,711	72,146
DIVIDENDS AND DISTRIBUTIONS TO COMMON STOCKHOLDERS⁽¹⁾		
Dividends	⁽²⁾	(25,608) ⁽³⁾
Distributions – return of capital	(9,045) ⁽²⁾	⁽³⁾
Dividends and Distributions to Common Stockholders	(9,045)	(25,608)
CAPITAL STOCK TRANSACTIONS		
Proceeds from issuance of 2,300,000 shares of common stock in connection with exercise of over-allotment option		57,500
Underwriting discounts and offering expenses associated with the issuance of common stock		(2,703)
Issuance of 91,796 and 359,977 shares of common stock from reinvestment of dividends and distributions, respectively	2,197	8,426
Net Increase in Net Assets Applicable to Common Stockholders from Capital Stock Transactions	2,197	63,223
Total Increase in Net Assets Applicable to Common Stockholders	72,863	109,761
NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS		
Beginning of period	562,044	452,283
End of period	\$ 634,907	\$ 562,044

(1) Distributions on the Fund's mandatory redeemable preferred stock are treated as an operating expense under GAAP and are included in the calculation of net investment income. See Note 2 – Significant Accounting Policies. The Fund estimates that the distribution in the amount of \$466 paid to mandatory redeemable preferred stockholders during the three months ended February 29, 2012 will be a dividend (ordinary income). This estimate is based solely on the Fund's operating results during the period and does not reflect the expected result during the fiscal year. The actual characterization of the mandatory redeemable preferred stock distributions made during the period will not be determinable until after the end of the fiscal year when the Fund can determine earnings and profits. Therefore, the characterization may differ from the preliminary estimates. Distributions in the amount of \$1,397 paid to mandatory redeemable preferred stockholders for the fiscal year ended November 30, 2011 were characterized as dividend income. This characterization is based on the Fund's earnings and profits.

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- (2) This is an estimate of the characterization of the distributions paid to common stockholders for the three months ended February 29, 2012 as either a dividend (ordinary income) or distribution (return of capital). This estimate is based solely on the Fund's operating results during the period and does not reflect the expected result during the fiscal year. The actual characterization of the common stock distributions made during the current year will not be determinable until after the end of the fiscal year when the Fund can determine earnings and profits. Therefore, the characterization may differ from the preliminary estimates.

- (3) Distributions paid to common stockholders for the fiscal year ended November 30, 2011 are characterized as dividend income for such holders. This characterization is based on the Fund's earnings and profits.

See accompanying notes to financial statements.

Table of Contents**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****STATEMENT OF CASH FLOWS****FOR THE THREE MONTHS ENDED FEBRUARY 29, 2012****(amounts in 000 s)****(UNAUDITED)**

CASH FLOWS FROM OPERATING ACTIVITIES	
Net increase in net assets resulting from operations	\$ 79,711
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:	
Return of capital distributions	3,862
Net realized losses (excluding foreign currency transactions)	4,363
Net unrealized gains (excluding impact on cash of foreign currency translations)	(83,259)
Amortization of bond premiums, net	25
Purchase of long-term investments	(180,066)
Proceeds from sale of long-term investments	153,920
Increase in deposits with brokers	(64)
Decrease in receivable for securities sold	3,665
Decrease in interest, dividends and distributions receivable	259
Decrease in other assets, net	20
Amortization of deferred debt issuance costs	130
Amortization of mandatory redeemable preferred stock offering costs	18
Increase in payable for securities purchased	2,376
Increase in investment management fee payable	173
Increase in call option contracts written, net	158
Increase in accrued directors' fees and expenses	3
Increase in accrued expenses and other liabilities	1,175
Net Cash Used in Operating Activities	(13,531)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from revolving credit facility	28,000
Cash distributions paid to common stockholders	(6,848)
Net Cash Provided by Financing Activities	21,152
NET INCREASE IN CASH	7,621
CASH BEGINNING OF PERIOD	3,530
CASH END OF PERIOD	\$ 11,151

Supplemental disclosure of cash flow information:

Non-cash financing activities not included herein consist of reinvestment of distributions of \$2,197 pursuant to the Fund's dividend reinvestment plan.

During the three months ended February 29, 2012, interest paid was \$346 and there were no income taxes paid.

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During the three months ended February 29, 2012, the Fund received \$1,948 of paid-in-kind dividends. See Note 2 Significant Accounting Policies.

See accompanying notes to financial statements.

Table of Contents**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****FINANCIAL HIGHLIGHTS**

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

	For the Three Months Ended February 29, 2012 (Unaudited)	For the Fiscal Year Ended November 30, 2011	For the Period November 24, 2010 ⁽¹⁾ Through November 30, 2010
Per Share of Common Stock⁽²⁾			
Net asset value, beginning of period	\$ 25.94	\$ 23.80	\$ 23.83 ⁽³⁾
Net investment income (loss) ⁽⁴⁾	0.04	0.29	(0.02)
Net realized and unrealized gains (losses)	3.63	3.12	(0.01)
Total income (loss) from operations	3.67	3.41	(0.03)
Common dividends ⁽⁵⁾		(1.20)	
Common distributions – return of capital ⁽⁶⁾	(0.42)		
Total dividends and distributions – common	(0.42)	(1.20)	
Effect of shares issued in reinvestment of dividends	(0.01)	(0.04)	
Effect of issuance of common stock		(0.03)	
Net asset value, end of period	\$ 29.18	\$ 25.94	\$ 23.80
Per share market value, end of period	\$ 26.74	\$ 22.46	\$ 25.00
Total investment return based on common stock market value ⁽⁶⁾	21.1% ⁽⁷⁾	(5.5)%	0.0% ⁽⁷⁾
Supplemental Data and Ratios⁽⁸⁾			
Net assets applicable to common stockholders, end of period	\$ 643,952	\$ 562,044	\$ 452,283
Ratio of expenses to average net assets			
Management fees ⁽⁹⁾	1.7%	1.6%	1.3%
Other expenses	0.3	0.3	0.3 ⁽¹⁰⁾
Subtotal	2.0	1.9	1.6
Interest expense and distributions on mandatory redeemable preferred stock ⁽⁴⁾	1.5	1.3	
Management fee waiver		(0.3)	(0.3)
Total expenses	3.5%	2.9%	1.3%
Ratio of net investment income (loss) to average net assets ⁽⁴⁾	0.6%	1.1%	(1.3)% ⁽¹⁰⁾
Net increase (decrease) in net assets applicable to common stockholders resulting from operations to average net assets	13.6% ⁽⁷⁾	13.4%	(0.1)% ⁽⁷⁾
Portfolio turnover rate	19.1% ⁽⁷⁾	74.1%	0.0% ⁽⁷⁾
Average net assets	\$ 584,384	\$ 537,044	\$ 452,775
Senior unsecured notes outstanding, end of period	115,000	115,000	
Revolving credit facility outstanding, end of period	73,000	45,000	
Mandatory redeemable preferred stock, end of period	35,000	35,000	
Average shares of common stock outstanding	21,711,389	21,273,512	19,004,000
Asset coverage of total debt ⁽¹¹⁾	456.3%	473.2%	

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Asset coverage of total leverage (debt and preferred stock) ⁽¹²⁾	384.7%	388.2%
Average amount of borrowings per share of common stock during the period ⁽²⁾	\$ 7.97	\$ 6.50

See accompanying notes to financial statements.

Table of Contents

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

FINANCIAL HIGHLIGHTS

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

- (1) Commencement of operations.
- (2) Based on average shares of common stock outstanding.
- (3) Initial public offering price of \$25.00 per share less underwriting discounts of \$1.125 per share and offering costs of \$0.05 per share.
- (4) Distributions on the Fund's mandatory redeemable preferred stock are treated as an operating expense under GAAP and are included in the calculation of net investment income. See Note 2 Significant Accounting Policies.
- (5) The information presented for the three months ended February 29, 2012 is an estimate of the characterization of the distribution paid and is based on the Fund's operating results during the period. Total distributions paid to common stockholders for the fiscal year ended November 30, 2011 are characterized as dividend income for such holders and are based on the Fund's earnings and profits.
- (6) Total investment return is calculated assuming a purchase of common stock at the market price on the first day and a sale at the current market price on the last day of the period reported. The calculation also assumes reinvestment of distributions at actual prices pursuant to the Fund's dividend reinvestment plan.
- (7) Not annualized.